Why Organizations Need and Should Value Cross Cultural Competence

Together we can help transform the global economy into a global community.
— Robert Alan Silverstein¹

Introduction

In this section, you will shift the conversation about cross cultural competence from a personal focus to an organizational one, guiding your participants in understanding its role and value in the global multinational arena. Through case study, dialogue, and reflection, you will facilitate discussion about organizational roles, culture clash, environmental trends, and the often untapped value of cross cultural competence in terms of reducing costs and creating wealth.

In addition to orienting workshop participants to the topics in this chapter by drawing upon the facts and ideas we will present in the narrative sections, we suggest you implement this two-hour workshop module using the following

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series of activities. The purpose of each exercise and tools for getting the most out of it will appear in sequence:

- Handout: An American Adventure in Malaysia\(^2\) (30 minutes)
- Dialogue: Culture Clash (20 minutes)
- Dialogue: Why We Need Cross Cultural Competence (30–40 minutes)
- Dialogue: Developing the Business Case for Cross Cultural Competence (30–40 minutes)

Our experience indicates that by this point people in your workshop have begun to get to know each other. They have introduced themselves, reflected on the array of music you furnished, started sharing their thoughts on the topic of diversity, and sought solutions to the first case study in Chapter 3. They have looked at their own mind-sets and begun to develop insights for studying culture and optimizing change. They have made a commitment to develop cross cultural competence. This is quite a distance to have traveled in a short amount of time. If you can devote a little time to reviewing these accomplishments before you deliver the material in this chapter, beginning with the following icebreaker, participants will be able to appreciate how far they have already come. This icebreaker may be used to jumpstart this chapter; it offers the participants another cross cultural experience that helps them to step back and look at some of the practical needs and benefits involved with increasing cross cultural competence in the workplace.

Icebreaker: A Mini-Case Study — An American Adventure in Malaysia (30 minutes)

**Purpose**: To experience the impacts of cultural differences, cultural perceptions, and business roles in developing relationships while conducting business in an unfamiliar culture

- Ask the participants to read the case study and then divide into groups of five or six people to discuss the following questions. Distribute flip chart paper so that each group may summarize their talking points.
- Why were the Americans disappointed? What relationships had they expected to create with the Malaysians? Why did they have these expectations?
- How could they have protected themselves against this disappointment?
- How would you respond to the younger brother’s announcement — assuming that you still want to collaborate?
- What implications does this case have for cross cultural and international management?
- Step back from the case and examine the cultural makeup of your group. How did culture influence your discussion or the comments of different group members?
- Go around the room and ask each group to summarize its discussion, drawing attention to similarities and differences.
- Gently pull apart any cultural influences found in the discussions, using humor and insight to summarize patterns and discrepancies.
An American team was negotiating in Kuala Lumpur (KL), trying to set up a deal with a Chinese family business in Malaysia. The company was informally structured, and the organizational chart they were shown was obviously inaccurate. For instance, the second son was titled “Finance Manager” but spent most of his time in marketing. Finance was the responsibility of a sister-in-law whose name did not appear on the chart. Nevertheless, the president of the company, first son of the late founder, impressed his visitors with his obvious sincerity and determination to reach a deal. After only three days, an informal agreement was reached, and the young man announced that after sorting out a few last details, he would sign the deal, probably within the next 24 hours.

The Americans congratulated themselves on concluding the deal so rapidly and on saving the high costs associated with staying longer in KL. They looked forward to the opportunity to discuss further collaboration. But over the next two days, they heard nothing from the young president. Numerous telephone calls failed to reach him.

Then, on the sixth day, the younger brother showed up and said that he greatly regretted that no deal could be made. Their widowed 83-year-old mother had refused to give her eldest son permission to sign the contract. The Americans had neither seen nor had heard of the lady before this time, and they discovered that she held no office in the company. Yet her position in the family translated into absolute authority to veto the company’s direction and its associated business decisions.

Now you can broaden the conversation with a wider-ranging discussion of culture clash.

Culture Clash

Based on our experience in working with people and organizations around the world, traveling thousands of miles, and living in both our home and global communities, we’ve come to one very simple yet profound conclusion: people are similar to and very different from one another.
We are all human beings who seek the same basic human values, ranging from self-direction, pleasure, and stimulation to power, security, conformity, and benevolence (Schwartz, 1992). We are also raised in a dizzying variety of cultures and families. We work in different systems and organizations and don’t even realize how much these differences drive our perceptions, our decision making, and our business dealings. At best, we connect. At worst, our best intentions are marred by culture clash. And culture clash is costly.

Take a look at some recent statements:

- According to a US State Department report (2010), “Ignorance of foreign languages and cultures costs US companies over fifty billion dollars a year in lost sales. … And they are still paying the price in Iraq or in Afghanistan.”

- In Global Smarts, Hodge (2000) cites a Los Angeles Times article about the merger of Daimler-Benz and Chrysler Corporation, which noted that cultural tensions were the main cause of failed cross-border joint ventures. Additionally, Daimler’s own extensive premerger research suggested that 70 percent of cross-border mergers failed within the first three years.

- Hodge (2000) also writes that according to Fortune magazine, a majority of CEOs and senior executives state they need more strongly globally minded leaders to strengthen their firms’ competitiveness, yet they are poor at cultivating the necessary skills. In a study of 1500 executives from global firms that assessed performance in 34 areas essential to global competitiveness, executives rated their performance to cultivate a global mind-set at 34th out of the 34 dimensions.

Research shows that a majority of big mergers and acquisitions fail, and this failure occurs in many ways: the stock prices of the acquiring firms tend to fall slightly when the mergers are announced; the acquired firms are often sold off; and the profitability of the acquired firm after the merger is often low (relative to comparable firms that have not merged). But another major reason for failure is culture clash. Culture clash increases conflict between members of both firms.

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3. See Weber and Camerer (2003), Ravenscraft and Scherer (1987); same is mentioned in several places in Weber (2012).
involved in the merger, which reduces productivity. Conflict may arise in both big and small ways, such as management styles, views on pay scales and expenses, the perceived role of the dominating firm, the perceived performance and behavior of the “other” firm, and disappointment in the mergers’ results (Weber & Camerer, 2003). A highly regarded consulting firm conducted a survey of 123 firms from around the world in a variety of industries into the reasons why so many of their merger and acquisition deals failed to meet expectations (Hewitt, 2011). Of the top 10 factors of deal failure, “cultural integration issues” (i.e., “culture clash”) was identified as the second most important direct driver. Sixty percent of the respondents also indicated that unsuccessful cultural integration led to delayed deal integration and implementation, which was identified as the primary direct driver of deal failure. Interestingly enough, even though firms said that they recognized that cultural integration was valuable to successfully finalizing a merger, almost 60 percent of those surveyed indicated that they didn’t have a strategy for assessing and integrating culture during the due diligence process!

Even when firms are experiencing such a high level of failed mergers and acquisitions, they still must continue to implement global strategies. They cannot, for example, homogenize their brand strategies — creating a one-size-fits-all approach that disregards the differences among customers. Instead, they must develop global brands that embrace the diversity of individuals, communities, and cultures (Hollis, 2010).

Let’s take a look at the Daimler—Chrysler merger. Before the merger, both companies were performing well. In fact, Chrysler was the best-performing car company in America. People in both organizations expected that this would be a merger of equals, and that both companies would positively gain from the other’s strengths and capabilities. After the fact, however, the stock price fell by half its post-merger high, Chrysler fell from its profitable stance and lost money, and thousands of layoffs ensued.4 Studies show that in most mergers, the larger or acquiring partner simply attempts to impose its corporate culture on the other partner. What’s also interesting is that people often attribute the decrease in performance to members of the other company rather than to the difficulties created by the conflicting culture. Furthermore, culture clash increases personal costs in terms of employee stress, feelings of vulnerability, and fear that the employee’s own culture may disappear with the event.

Now we invite you to use the preceding material to jump into a discussion of culture clash that includes examples workshop participants themselves will identify and explore.

**DIALOGUE**

**Culture Clash (20 minutes)**

**Purpose**: To enable participants to recognize the impact of culture clash in business, social, and personal situations

Prepare for this dialogue by creating a flipchart or PowerPoint slide that displays the culture clash quotes cited in the narrative. Review the material in this section on culture clash. Then, facilitate a dialogue using the following questions:

- Where have you seen either a national or organizational culture clash occur?
- What was its impact?
- What were its costs?
- What was done to address it?
- What could have been done differently to turn it into something positive?

Your participants have now had two opportunities to consider and discuss the implications of cross cultural differences: a case study you have provided and a dialogue inviting conversation about their own observations. Next you will guide them in considering global cross cultural trends at a macro level, the importance of cultural competence in light of these shifts, and the implications for participants and their organizations.

**Why We Need Cultural Competence**

We all know what’s happening as we go about doing business or even simply living in our world today: the world is flattening, shrinking, connecting, and integrating, with more and more cultures intersecting through everyday transactions,
communication, and knowledge sharing. In your own mind, envision a picture of a globe colorfully displaying the interconnected flags of the world — a rich mosaic of stripes and solids, symbols and shapes that represents the vast array of values and cultures that make up our world. Now, more than ever, organizations are faced with the goal of “doing business” in multiple cultural environments, where people and their ability to communicate and build relationships are at the heart of the business. Our suppliers and competitors are transitioning to partners. Our customers purchase products and services through relationships that are both face to face and virtual in nature. Our teams comprise a mixture of languages, colors, genders, ages, and experiences. In such environments, all managers, leaders, and employees are called upon to be fully present, nonjudgmental, and participative in creating value for all the organization’s stakeholders. (Stakeholders are the groups of people with whom the company must engage or who will impact the creation and delivery of value and wealth in their “ecosystem,” including shareholders, customers, employees, suppliers, partners, and the greater society or community.)

Thus cultural competence is a necessary capability for managers, leaders, and, in fact, all employees who work in all organizational types. This is true whether companies are large or small, whether they compete and cooperate in one industry or across many, and whether they operate in a single geographic location or several around the world.

Numerous environmental forces are increasing the pace, scope, space, and demands of management and business and increasing the need for cross cultural understanding in organizations. The biggest issue is probably globalization, where people and organizations from various cultures are working together in a global marketplace as the world becomes a small village. Let’s face it: the pace of globalization has only increased over many years, fueled by changes such as the implementation of NAFTA, the alignment of Europe in the EU, the breaking up of the Soviet Union, the accession of China into the World Trade Organization, the renewed interest in expanding NAFTA to other countries in Latin America, and even the rise of terrorism. Globalization has driven companies to use global and international strategies to compete and cooperate in order to increase profits, market share, and share price. Companies are looking for multinational markets in which to develop, manufacture, and sell their products. They are looking for new sources of raw materials, parts, and components. They are also looking for globally located talent, local expertise, and the human resources needed to create and innovate in a richly complex and diverse economic marketplace.
Because of globalization (and as an effect of it), firms are also looking for new, more cost-effective locations for R&D, manufacturing, and assembly locations. New business partnerships are forming between companies and people of different cultural backgrounds in order to enter new markets, understand local customers, leverage the benefits of regional clusters, and compete.

To look more closely at some of these influences:

The formation of the European Union has created a need for understanding the various cultures of its member countries and equipping millions of people with the skills needed to work and communicate effectively across cultural differences.

The war against terrorism and fanaticism has incited culture clash the world over, creating a dire need for effective cultural understanding and communication.

The emergence of new economic giants like the BRICS countries (Brazil, Russia, China, India, and recently South Africa) along with the MINT countries (Mexico, Indonesia, Nigeria, and Turkey) has increased the need for cross cultural training for all professionals — employees, government workers and officials, NGOs, and consultants — who work with people from these different cultures.

Global outsourcing has risen as a strategic alternative for many companies around the world, increasing the need for cross cultural understanding on the part of all involved, on all sides of negotiation and partnership.

Furthermore, most companies are marketing and selling to an increasingly diverse set of customers; their products must appeal to all sorts of different cultural tastes. With more and more companies offering service- and knowledge-based solutions, such solutions and all value-based services must be sensitive to cultural differences. Leaders, managers, and HR departments are learning how to hire, develop, manage, and lead globally based workforces — with many individual employees being multicultural in background because of growing levels of migration and multicultural partnering. This cultural smorgasbord of people places new demands on the leadership teams and human resource specialists who must create successful cross cultural working environments and organizational cultures.

To reemphasize the point, these trends are found in every kind of organization that competes in an increasingly global marketplace: global organizations (those organizations that have located different functions in different parts of the world); startups — small and midsize organizations, whether Web-based or “brick and mortar”; nongovernmental organizations and governmental institutions; and social enterprises and social funding companies. Growth is no longer obtained through finding local face-to-face customers but through social media, open platforms, and technology-based relationships. Furthermore, companies deal with the
vastly complex issues of migration, human resource development, demographic shifts, energy and natural environment changes, and social issues such as poverty, education, and freedom — all of which have cross cultural impacts, implications, and effects.

Now it's time to explore the environmental forces that are impacting industries and organizations and that are motivating people to develop cross cultural competence.

**DIALOGUE**

*Why We Need Cross Cultural Competence*

*(30—40 minutes)*

**Purpose:** To identify the current environmental forces that are affecting industries and organizations and that motivate the need to develop cross cultural competence

This dialogue helps participants develop awareness of the profound need for cross cultural skills development by engaging them in a discussion about environmental trends and globalization. You’ll ask them to assess the impact of environmental trends on their personal and professional lives and organizations and encourage them to explore the powerful impact of blind spots on performance and change.

*Prepare for this discussion by developing* a flip chart with the six different categories of environmental forces (economic, social, political, legal, technological, and demographic) all industries and organizations face. Lead the dialogue by following these steps:

- Highlight a few examples of these forces, or changes that are occurring in different industries and organizations today.
- Introduce the group to the concept of globalization by raising a few questions: What is globalization? How does it affect how you and your organization do business today? What is it changing? What does it demand?
- Tease out the impacts of globalization that are provided in this section.

*(Continued)*
• Continue to examine other economic, social, political, legal, technological, and demographic forces occurring in the world, using examples from this section to seed the conversation.

• Supplement the participants’ list of forces with those reviewed in the material above.

• Once you have collected the list of trends, ask participants to select some of the strongest ones and examine them in greater depth with the following questions:
  □ How does this trend impact you personally?
  □ How does — or will — this trend impact your organization?
  □ How does it impact the structure of teams and the work that teams do in your organization?
  □ How does this trend specifically drive, or motivate, the need for cross cultural skills?
  □ In what ways will the development of cross cultural skills help you and your organization better handle this trend or issue?

• Ask a couple questions about blind spots. (Here, it may be helpful to provide a personal example of when you worked either in or with a company that was not aware of a major trend or shift, and how it affected the firm and its people.)

  □ What trends have you not noticed, or are ignoring, in your organization?
  □ Why is this happening?
  □ What is the impact of this behavior on your firm’s performance levels? Organizational culture? Ability to change?

Why Value Cross Cultural Competence?
The Business Case for Cross Cultural Competence

By examining the trends in the previous section, your participants should be starting to see the depth and breadth of change affecting their organizations, teams, and professional lives. The next thing to ask is, What kinds of value will people and organizations gain — in terms of reducing costs and increasing financial, social, and human wealth — when they increase their level of cross cultural competence? What is the business case for acquiring these skills?

We have already stated that people and organizations need cross cultural capabilities and experiences in order to successfully conduct global business, and some of the reasons why. Now let’s look at just two interesting relevant trends:

• *Expatriate placements are up.* A study of 700 companies worldwide in sectors such as energy, engineering, financial services, manufacturing, mining, retail trade, and telecommunications show that more than 70 percent of them planned to increase short-term expatriate assignments in 2013 consultancy (major destinations for expatriate assignments included Australia, Brazil, China, the United States, and the United Kingdom) (Maurer, 2013).

• *Global business travel is up.* After the worldwide global recession, new opportunities are opening up that require global business travel. In fact, U.S. spending on business travel rose 4.5 percent in 2013 from 2012, with travel spending stabilizing after a year rocked by worldwide economic and political uncertainty. Furthermore, global business travel in 2014 was up nearly 7% over 2013 levels, bolstered by growth in China; it is expected to lay the foundation for 8.6 percent growth in 2015, followed by 7.1 percent, 6.9 percent, and 6.4 percent in 2016, 2017, and 2018, respectively (GBTA, 2014). And it's growing faster in the BRIC countries than in developed countries (GBTA, 2013).

What’s interesting to note, however, is that the two main causes of international business failure are a high failure rate for expatriates and the inability of headquarters managers to appreciate the cultural challenges of doing business overseas (Johnson, Lenartowicz, & Apud, 2006).

*We can project that the need for cross cultural competence is only going to increase!*
Specific Benefits of Cross Cultural Competence

So what are some of the benefits of cross cultural competence? Here are a few that experts in the field have noted (Betancourt, Green, & Carrillo, 2002; Cox & Blake, 1991; Hampden-Turner & Trompenaars, 2000; Schweiger, Ridley, & Marini, 1992):

- Being aware of how languages express differences in perceptions of time, space, material possessions, friendship, and business agreements will enhance cross cultural communication, help avoid misunderstandings, and help managers conduct business overseas, build relationships, and complete deals.

- Building trust can improve cross cultural negotiation as parties are better able to freely share information about interests and goals.

- Reconciling cultural differences can cause whole organizations to grow healthier, wealthier, and wiser.

- Reducing the level of emotional hangovers — strong feelings arising from cultural biases and prejudices (unrelated to negotiation themselves) — can lead to better judgments and better deals, as the negotiator’s judgment is not distorted. On the other hand, culturally based snap judgments can erode trust and weaken one’s ability to get the most from a relationship.

- Improving cultural competence has been found to reduce ethnic and racial disparities in delivering health care.

- Improving levels of cultural awareness spells the difference between surviving and perishing in the new global economy.

- Being able to open up to new ideas, being optimistic, and appreciating cultural differences are important elements in successfully communicating, building teams, and negotiating in cross cultural environments.

- Reconciling values that are in conflict between people of different cultural backgrounds has led to wealth creation.

- Integrating instead of further polarizing the values that differ between cultures allows managers to make better business decisions.

- Managing cultural diversity can provide competitive advantage by reducing the cost of integrating the workforce (e.g., women and racially different
workers); improving company reputation and winning the competition for the best personnel; improving the ability to market to subpopulations within domestic operations; improving the level of creativity; improving decision making through widening the range of perspectives and more thoroughly analyzing issues; and creating greater flexibility to react to environmental changes.

- Valuing differences as a companywide capability may lead to enabling all employees to “do the right thing” as empowered managers and leaders empower others across the organization.

- Managing cultural diversity allows firms conducting mergers and acquisitions to more successfully integrate the companies’ cultures, management systems and processes, and organizational structures.

Now it’s time for your participants to closely examine cross cultural situations in which they have been involved — both those that succeeded and those that failed — in order to more deeply understand the value of global competence in organizations.

DIALOGUE

Developing the Business Case for Cross Cultural Competence (30–40 minutes)

**Purpose:** To develop an understanding of the business case for cross cultural competence, identifying potential cost-creating, risk-creating, and wealth-creating impacts of cross cultural competence in organizations

In this discussion, you will expose the participants to the facts presented in this section. You will prod them to think about their experiences in doing global business, identifying their successes and failures. Conduct this dialogue using the following instructions:

- Begin by reviewing the content in this workshop element, asking participants for their initial reaction to some of the facts you have presented and contributing their own knowledge. Contribute your own as well.
Divide the participants into working groups of three or four people. Ask them to reflect on their experiences in doing global business (within any type of organization), when they have communicated with, negotiated with, or established relationships or partnerships with people who were culturally different or organizations that were located in another part of the world. Ask the group to discuss the following questions:

- What cross cultural activity have you either been part of or witnessed? (You may prod them with the following ideas: entering a new market; developing a new partnership; targeting a new customer or client base; obtaining resources; expanding a sales, manufacturing or R&D site; sourcing financing; or relocating personnel.)
- What differences in organizational or national culture did you perceive in this situation?
- Did foreign travel occur as a part of this activity? If so, to where?
- Was the activity successfully completed or not? Why?

Next ask the participants to identify an organizational activity that they deemed “a success.” (It can be the same activity or another one.) Have them jot down notes responding to the following questions for each situation, and then discuss as a group:

- Why was the activity a success?
- What management skills were used to aid its success?
- How did the people involved handle cross cultural differences?
- How did they address any conflicts, threats, or problems arising from cross cultural differences?
- How did this activity help create financial, social, and/or human wealth for your organization and/or its people? Did it help them improve competitive advantage?

Lead a group discussion of their shared stories, summarizing key points on a flip chart.
Ask participants to pick another cross cultural organizational activity that they would call a “failure” (or that at least taught them a lot of lessons!).

- What went wrong?
- What were the costs to the organization and/or individual people?
- If the organization had been skilled in cross cultural management or competence, what do you think people would have done differently?

Lead the group to list key sources of wealth-creating value attained by organizations from the development of cross cultural skills (include areas of financial, social, and human wealth).

Lead the group in listing key sources of cost- and risk-creating impacts to organizations because they did not have enough experience or skills in cross cultural management. Think about the different stakeholders and people involved in the activity — those who worked in different functional areas or those who played different roles in the situation or organization.

Conclusion

During this module, you have helped participants understand why organizations need to develop cross cultural competence. You have challenged them with their second case study and have asked them to reflect on past culture clashes so they remember the personal discomfort that accompanies them. The participants have a strong sense of the complexity of the forces changing the global business environment today, and the range of benefits, or wealth-creating advantages, of cross cultural competence. Additionally, they have begun to recognize why some cross cultural business activities succeed and others fail. Now they are ready to dive into the core aspects of the Cross Cultural Competence model that are central to your workshop design.