COURSE BOOK



## Intercultural Management

DLMINTIM01\_E



Learning Objectives

##### Introduction 9



Globalization has had a profound impact on the business world, encouraging businesses to venture into new markets across the globe. This has created the challenge of adjusting busi- ness models to enable effective operation in an intercultural environment. Intercultural Management will explore the major developments and concepts that organizations need to consider in an international environment, and determine which core competencies an effec- tive international company needs to possess, including the consideration of the different lay- ers of organizational and national culture. By the end of this course, you will understand how intercultural management has emerged as a distinct discipline within business management thinking and how that thinking has changed over time.

You will then examine a number of aspects of management, including the importance of diversity management in both a local and international setting, and the differences in man- agement and leadership styles in different cultural settings. The reconciliation of dilemmas and conﬂicts that arise due to intercultural differences is also addressed as a management challenge. The focus will then switch to the speciﬁc business functions of strategy, marketing, and human resources, examining the key challenges in each area for decision-making in the intercultural business setting. You will then examine a number of other key competencies that need to be addressed in an intercultural environment. Using the examples of Germany, the US, and China, you will examine how the cultural differences explored in the course then manifest themselves in the experiences of doing business in these important trading nations.

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# Unit 1

## Fundamentals and Classiﬁcation of Intercultural Management

#### STUDY GOALS

On completion of this unit, you will be able to …

… classify intercultural management as an independent discipline in the ﬁeld of business administration.

… explain the aims, objectives, and main themes of intercultural management.

… apply cultural concepts and dimensions as a guideline for intercultural understanding.

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1. Fundamentals and Classiﬁcation of Inter- cultural Management

### Case Study

The US giant Walmart entered the German market in 1997 with the purchase of *Wert- kauf* (for approximately €715 million) and *Interspar* (for approximately €690 million) (Dawson, 2009), conﬁdent in its ability to replicate the low price, high service retail model so successfully implemented in its home country. Employees in Germany were expected to follow the same working practices as their American counterparts, adopt- ing English as the corporate language for communication, taking part in the daily moti- vational ritual of chanting the company name before opening the store, and greeting customers with a smile every ten feet in the store (Pearson, 2018). Clark (2006) reported that “the world’s largest retailer, Walmart, has made a rare admission of failure by sell- ing its hypermarket chain in Germany at a loss of $1bn (£530m) after failing to convert the country’s shoppers and regulators to its low-price, American-style trading” (para. 1).

Walmart had withdrawn from the market in South Korea only two months earlier (Clark, 2006), and has since experienced problems in expanding into the UK (Gray & Eley, 2020) and Chinese retail markets (Jacobs, 2018). Michael Duke, vice chairman of Walmart Stores, said that it had “become increasingly clear that in Germanyʼs business environ- ment it would be difﬁcult for us to obtain the scale and results we desire” (as cited in Clark, 2006, para. 4). Consider the following questions:

* + Why might the Walmart retail model have failed in Germany, despite its success in the US?
  + Why might German employees be reluctant to adopt the same working practices as their US counterparts?
  + What should Walmart have considered, prior to entry into the German market?

### Intercultural Management as an Independent Discipline in Business Administration

Globalization, the increasing integration of countries resulting from the global move- ment and interchange of goods, people, and money, has had a profound impact on the business world, causing a fundamental shift in the global economy over the last 30 years. The removal of barriers to trade, the vastly improved world of communications and technology, improved supply chain and distribution opportunities, saturated domestic markets, and aggressive corporate growth strategies have encouraged busi- nesses to venture into new markets around the globe.

In 1980, **emerging markets** accounted for 21 percent of food and beverages sales, 14 percent of electronics sales, and 11 percent of motor vehicle sales. By 2015, these ﬁg- ures had grown to 53 percent, 56 percent, and 42 percent, respectively (Dobbs et al., 2015). According to a 2016 McKinsey report, between 1990 and 2014, the total value of the global ﬂow of goods, services, and ﬁnance increased from $5 to $30 trillion, an increase from around 24 percent to 39 percent of the world’s gross domestic product

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(GDP) (Manyika et al., 2016). During the same period, the number of international tourist arrivals increased from 435 million to 1.1 billion. Although the ﬂow of international trade and ﬁnance resulting from globalization appears to have stabilized in more recent times, the internet now provides the platform for a new era of global growth, enabling businesses and individuals to connect seamlessly across the globe.

###### The Culture-Free Hypothesis

As a result of globalization and the growth of international business activity, busi- nesses sought to cater to the new challenges and turned to traditional business man- agement theory to provide them with an initial framework to follow. In the 1970s and 1980s, businesses adhered to existing business models and approaches, following a “narrow and often arrogant perspective,” which Prahalad and Lieberthal (2003) descri- bed as “corporate imperialism.” This approach believes that they could expand and integrate into overseas environments by continuing to focus on business-speciﬁc con- cepts, such as economic factors, efﬁciency and productivity, growth strategies, techno- logical innovation, company size, distribution channels, product development, and other traditional concepts. These factors were signiﬁcant in determining the most appropriate structure for a domestic business; it was assumed that when a company ventured abroad in search of growth opportunities, it could take its existing business model with it and expect this to work in any setting. New markets were merely seen as targets that would be hungry for Western products and services, and welcome the resulting jobs and development opportunities.

The failure of Walmart to successfully integrate their existing business model into the German market in the early 2000s (Dawson, 2009) is an example of a large business failing to take note of the local cultural idiosyncrasies and practices of a target country. Alongside strategic errors and poor acquisitions, Walmart failed to understand and adapt to local customer requirements, traditional German management styles, and the cultural peculiarities of the German workforce and employee relations (Engelen & Tho- len, 2014). Walmart’s problems abroad are not limited to Germany. Their exit from the South Korean market and, more recently, the UK market, coupled with the ongoing chal- lenges of adapting to the cultural particulars of the Chinese market, have revealed the pitfalls of trying to implement an established American business model, without any adaptations for the local culture, norms, and values.

The well-documented inability of Starbucks, another American retail corporation, to break into the Australian market is another example of an business assuming that their domestic model of doing business would roll out seamlessly in another country. But despite the assumed cultural synergies between the US and Australia, Starbucks failed to understand and cater for the speciﬁc coffee-drinking customs and expectations in Australian communities. Despite being a successful coffee shop operator in North America, Starbucks failed to understand the cultural signiﬁcance of the coffee shop as a community meeting place in Australian towns (Mourdoukoutas, 2018).

Emerging market

An emerging market is one of the eco- nomic markets of the newly industrial- izing nations, such as China, India, Bra- zil, and Russia.

There are a multitude of examples of failures in product development, marketing, and advertising resulting from a lack of simple cultural awareness and care. For example, both American soft drink giants Coca-Cola and Pepsi experienced embarrassing mis- takes in the Chinese market. The former launched itself with a Chinese phrase that sounded like Coca-Cola, but unfortunately translated literally as “bite the wax tadpole.” Pepsi introduced the new slogan “brings you back to life” which was translated literally into Chinese as “brings your ancestors back to life.” The American fast-food giant KFC’s slogan “ﬁnger-lickin’ good” was launched with the Chinese translation “eat your ﬁngers off” (Morrison, 2004).

Globalization and the growth of international markets had, therefore, revealed signiﬁ- cant inadequacies in the culture-free management approaches. It became clear that greater sensitivity toward cultural inﬂuences and cultural differences was an essential requirement for businesses, if they wanted to successfully move into new markets and locations. Existing traditional business management theory and practice needed to become culturally sensitive.

###### Emergence of Intercultural Management

Intercultural management has since emerged as a distinct discipline within the busi- ness management environment. Businesses have become aware that a lack of sensitiv- ity toward cultural differences and cultural inﬂuences limits the effectiveness of man- agement approaches across the globe. This awareness has seen increasing demand for managers and leaders who possess global mindsets and are capable of leading across cultures, with greater attention being paid to the importance of cultural considerations in management activities.

Intercultural management is now considered a distinct discipline by several research dedicated journals. Pre-existing business journals and periodicals include regular cov- erage of intercultural management issues and practices. Business schools incorporate intercultural management as a key unit in an MBA and business study programs, reﬂecting the notion that cross-cultural competencies are no longer viewed as an addi- tional perk or “dish on the side” for professionals who will need to be able to work effectively across cultural and national boundaries (Trompenaars & Hampden-Turner, 2012). It is acknowledged that culture permeates all aspects of business relationships and injects meaning into all aspects of the business organization.

Intercultural management has grown to provide a framework for businesses to better manage the challenges brought when working across cultures. It also provides busi- nesses with a new perspective, whereby managing across cultures is not just perceived as a problem or difﬁculty to be tackled. Rather, by taking an intercultural approach and embracing diversity, companies can discover growth and development opportunities that have previously gone unnoticed.

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###### Challenges of Intercultural Management

Despite the growth of intercultural management, there remains a signiﬁcant shortage of skilled professionals who can navigate the complexities of working with other nations. Intercultural management embraces all topics and themes that seek to understand national and local culture as a variable of relevance to business management. This ﬁeld is faced with the daunting challenge that there are multiple deﬁnitions, many dif- ferent layers, and no single, easy “methodology” for culture that can be applied in all situations. Management approaches need to be ﬂexible and adaptable based on a pre- cise analysis of a speciﬁc cultural framework or context, acknowledging that what works in one culture may not work in another.

Intercultural management needs to be added as a further layer to the existing compe- tencies of business management, enhancing (not replacing) existing approaches. The core managerial competences (e.g., planning, organizing, coordinating, controlling, directing, and leading) do not go away. Instead, they need to be supplemented with the additional layer of multicultural competence that provides intercultural understanding and works effectively across cultures. The effective global manager will be equipped with integrated management and cross-cultural skills (Steers et al., 2016).

Treating cultural competence as a separate entity, rather than absorbing it into the existing managerial competences required by business, can lead to a lack of authentic- ity in dealing with culture and often results in stereotyping. Stereotyping is a natural, often unconscious, process that results from our own cultural environment. In a busi- ness environment, it can have a signiﬁcant negative impact. Since stereotyping is often based on prejudice and a lack of real knowledge and understanding, it is unlikely to promote effective communication and working relationships. Sweeney and McFarlin (2015) produced a list of attributes that the successful international manager will need to possess. They should

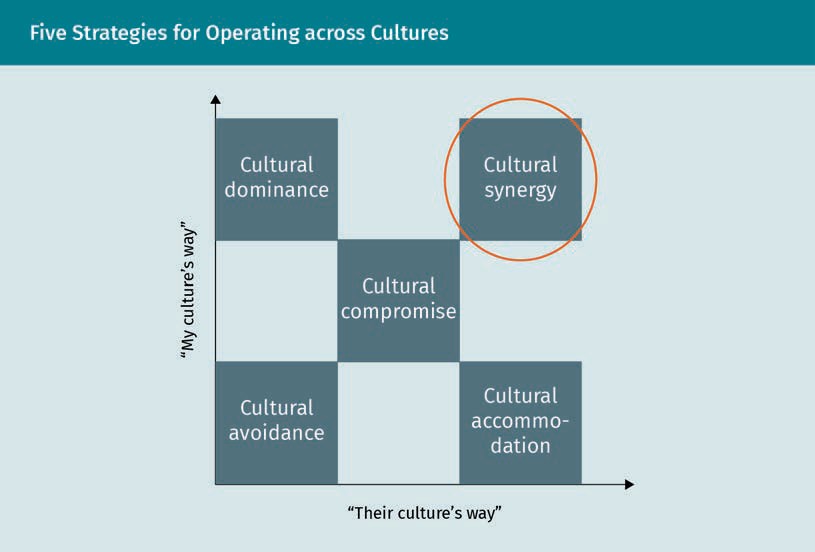
* have experience of multiple cultures and value ethnic differences and diversity.
* value and exhibit teamwork and the ability to share information.
* act globally where possible, while adapting and reﬁning aspects for local markets where appropriate.
* give control to on-site management and seek out their guidance and ideas.
* understand that cultural adaptation should be embraced and encouraged in order for the business to succeed in an unpredictable and constantly changing world.
* provide appropriate contracts, rewards, recognition, and remuneration to employees in every location.

The challenge of the discipline of intercultural management is to enable managers and organizations to develop these characteristics. To do this, intercultural management does the following (Browaeys & Price, 2019):

* + studies the behavior of people in countries and organizations around the globe.
  + trains people to work in organizations with employees and stakeholders from multi- ple cultures.
  + handles organizational problems that arise from the interaction of organizational members with stakeholders from multiple cultures.

Synergy This is the coopera- tion of two or more organizations to cre- ate a combined effect greater than the sum of the parts.

Having developed these characteristics, a further objective of intercultural manage- ment is to help organizations reach a stage of cultural **synergy**. The most effective global organizations are those that promote and encourage teamwork, collaboration, and cooperation across cultural boundaries within the organization. Cultural synergy is the approach that brings together different cultures, capitalizes on their differences, increases effectiveness, and creates a competitive advantage. While cultural synergy is the ability of an organization to reconcile “my cultureʼs way” and “their cultureʼs way,” there are ﬁve other outcomes when operating across cultures (Adler, as cited in Harris, 2004).



The ﬁve outcomes when operating across cultures are as follows:

1. Cultural dominance. One organization occupies a more dominant position than the other, and therefore dominates the cultural relationship, usually by continuing to follow their home culture. This is a feature of the earlier approaches to globaliza- tion, where companies believed that their way of doing things was the only way (because it worked at home).
2. Cultural accommodation. Companies enter a market and imitate the host culture in order to blend in. This is the opposite of cultural dominance.

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1. Cultural compromise. This is a combination of the ﬁrst two approaches, with both sides conceding some aspect of their cultural behavior to enable successful collab- oration.
2. Cultural avoidance. This is an approach whereby people from different cultures ignore cultural components, working and managing as if no culture conﬂicts exist, usually to avoid embarrassment or tension.
3. Cultural synergy. This is an approach that develops new solutions based on respect for all cultures involved, which increases the opportunities to operate effectively across cultures, building competitive advantage rather than cultural advantage.

Intercultural management and cultural competence is far more than a series of learned skills, tools, and techniques. Rather, it is the accumulation of knowledge, understand- ing, insight, and lived experiences that have been acquired over time and across multi- ple environments that combine to create cultural competence.

### Important Cultural Concepts as the Basis for Intercultural Management

Clearly, the concept of culture plays a signiﬁcant role in the success or failure of busi- nesses in an international setting. The ability to be sensitive and adapt to cultural dif- ferences across countries is a prerequisite for any business seeking to extend its activi- ties outside of its local **comfort zone**. This task is especially challenging because intercultural management needs to cater to a wide variety of cultural concepts. There are a multiplicity of deﬁnitions and descriptions of the notion of culture, different lev- els of culture, and a wide range of dimensions against which it can be observed or measured. In the 1960s, in fact, Kroeber and Kluckhohn collected over 160 different def- initions of the concept of culture (as cited in Engelen & Tholen, 2014).

The United Nations Educational, Scientiﬁc, and Cultural Organization (UNESCO) Univer- sal Declaration of Cultural Diversity suggests that “culture should be regarded as the set of distinctive spiritual, material, intellectual, and emotional features of society or a social group [that] encompasses ... art and literature, lifestyles, ways of living together, value systems, traditions, and beliefs” (UNESCO, 2001, para. 1). However, this deﬁnition is so wide that it is difﬁcult to use in a business context.

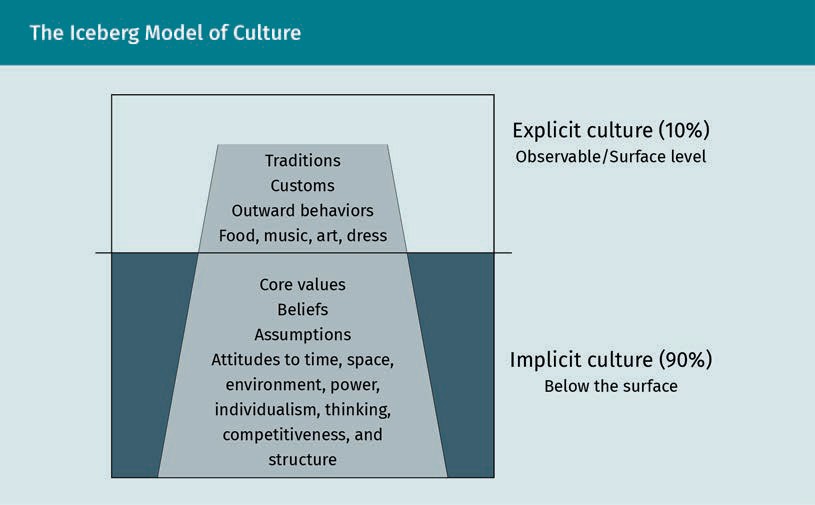
Engelen and Tholen’s (2014) description of culture is more useful within the context of intercultural management. Theirs describes culture as any of the following:

* the basic assumptions and values that control the behavior of individuals and which are visible in artifacts and products
* a group level concept that does not necessarily determine the behavior of all indi- viduals in a culture to the same extent
* a mean or typical value from which single individuals can deviate
* something distinguishable according to geographical or national boundaries

Comfort zone

A situation where one feels safe or at ease, often yielding barely acceptable results, is referred to as being one’s com- fort zone.

One common misconception about culture is that it can be simpliﬁed to visible or ster- eotypical characteristics, such as the buildings, fashions, food, religious practices, national ceremonies, holidays, music, and sport encountered in a cultural setting. How- ever, these attributes only make up a small part of the notion of culture, and the larger parts of culture are far more difﬁcult to see and understand. The iceberg model is often used to represent culture. The visible part of the iceberg represents the superﬁcial, visi- ble representations of culture that can be seen and experienced ﬁrst-hand. Lying beneath the surface of water is a much larger portion of the iceberg, representing the non-visible patterns of norms, values, and beliefs that have formed and shaped a cul- ture over a long period of time. Because this portion cannot be seen, it has to be infer- red, and is therefore, the most problematic part of intercultural management.



###### Classic Approaches to Culture

Traditional approaches to the study of culture originated from the study of societies in anthropology and the social sciences. But cultural theory in sociology, psychology, and economics has, for the most part, failed to agree on a single uniform deﬁnition for the concept of culture, due to varying contexts.

Culture as communication

In his book, *The Silent Language*, anthropologist Edward T. Hall (1959) ﬁrst presented the idea that, unlike the universal rules and principles of the scientiﬁc disciplines, each culture operates according to its own internal rules and principles, some written and some unwritten. Much of human behavior was determined outside the realms of awareness, instead, taking the form of a “silent language” that shaped human behavior. He likened culture to a form of computer program that guides the behavior and atti- tudes of people in their everyday life.

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Hall focused his subsequent studies on communication as the key concept through which culture was reﬂected, stating that “culture is communication and communication is culture” (Hall, 1959, p. 186). In later years, he developed the idea of high-context and low-context cultures, where context represents a continuum, which shows the extent to which messages in a culture are communicated using differing degrees of explicit ver- bal communication or non-verbal mechanisms. Each culture and language could be placed somewhere on a spectrum from high- to low-context culture.

High-context cultures are typically groups of people (nations, regional communities, organizations, or other cultural groupings) who tend to use less direct communication, with more meaning inherent in the use of indirect messages. These groups tend to be more closely-knit, valuing personal relationships and the ability to communicate, with- out needing explicit and direct communication. Examples include Asian cultures, such as those found in China, Korea, and Japan.

Low-context cultures require more direct communication in order to properly under- stand a given message. These groups tend to be less closely-knit, with fewer shared inherent cues, requiring more explicit and direct communication to clarify context and meaning. Examples include European cultures, such as those found in Germany and Switzerland.

Values orientation model

While Hall (1959) was focusing on communication as the critical context for culture, Kluckhohn and Strodtbeck (1961) were taking a values-oriented approach to the deﬁni- tion, positing that culture is embedded in the norms and values held by the collective. Using evidence collected from Western European and American cultures, they produced a comparative model that presented a concept of culture that could be described along the following ﬁve value dimensions or concerns:

1. Human nature. What is the nature of people themselves, and what are their inher- ent values of good and bad? For example, in some societies, the basic assumption is that all people are inherently good, while in others the assumption might be that people are inherently bad and therefore must be controlled or punished.
2. Nature. What is the relationship between people and the world around them? For example, in some cultures, nature is revered, and people accept that their lives are subject to fate, based on the uncontrollable forces of the natural world around them. In contrast, other cultures view the role of people as being to control, exploit, and manipulate the natural world for their beneﬁt.
3. Other people. What is the relationship that people have with people and the society around them? For example, in some cultures, the prevalent belief is that people exist in a hierarchy where some are born to lead, and others must follow. In other cultures, democracy rules and all people are viewed as fundamentally equal, with equal rights.
4. Doing and being. How do people perceive and understand the essence of their being and what they do? For example, in some cultures, it is enough to just “be” and there is no inherent pressure to achieve in order to view life as worthwhile. In other cultures, however, people need to work hard to earn their future rewards and to make their life worthy.
5. Time. What relationship do people have with the notion of time? For example, in some cultures, people revere the past, believe that it is important to learn from his- tory, and uphold tradition. In other cultures, however, the focus is on creating a bet- ter future through planning and the setting of goals.

Kluckhohn and Strodtbeck (1961) claimed that all societies could be observed and measured across these ﬁve value dimensions, providing a way to understand, analyze, and compare cultural differences across groups. This initial piece of work laid the foun- dations for the Value Orientation Method (VOM), which has since been used by many academics and practitioners in the research, management, and resolution of cross-cul- tural differences.

###### Modern Approaches to Culture

Empirical methods Methods of investi- gation that rely on experiment and sys- tematic observation are called empirical

methods.

Recently, the focus has shifted toward the development of more empirical methods, seeking to measure and classify different cultures across multiple cultural dimensions. The work of Hofstede, Trompenaars, and the Global Leadership and Organizational Behavior Effectiveness Research (GLOBE) project, which speciﬁcally examine the impact of cultural values in the workplace, have been particularly signiﬁcant. Each of these research-based programs have contributed major empirical evidence to describe and categorize cross-cultural differences across a number of dimensions of culture, provid- ing an essential contribution to the development of the discipline of intercultural man- agement. As a result, businesses have been able to take a more structured and empiri- cal approach to identifying and managing the cultural differences and characteristics of their organization, and the business environment in which they operate.

Hofstede’s model of culture

Hofstede (1980) refers to culture as “the collective programming of the mind which dis- tinguishes the members of one human group from another” (p. 25). These mental pro- grams are the systems by which a culture organizes its values, beliefs, and behaviors. Culture is just one of the three levels on which an individual’s mental programs exist, the others being human nature and personality.

Human nature is innate and is in everyone when they are born, irrespective of their background. Our innate ability to feel emotions such as happiness, sadness, love, and hate, and our basic need for food, warmth, clothing, and shelter are all characteristics of human nature. Everybody, irrespective of culture, is born with these mental programs in place. Personality is the level relating to the mental programming of each individual. Personality is a hybrid mental program, being partly innate or inherited. It is partly developed through personal experiences, especially during the early years of life.

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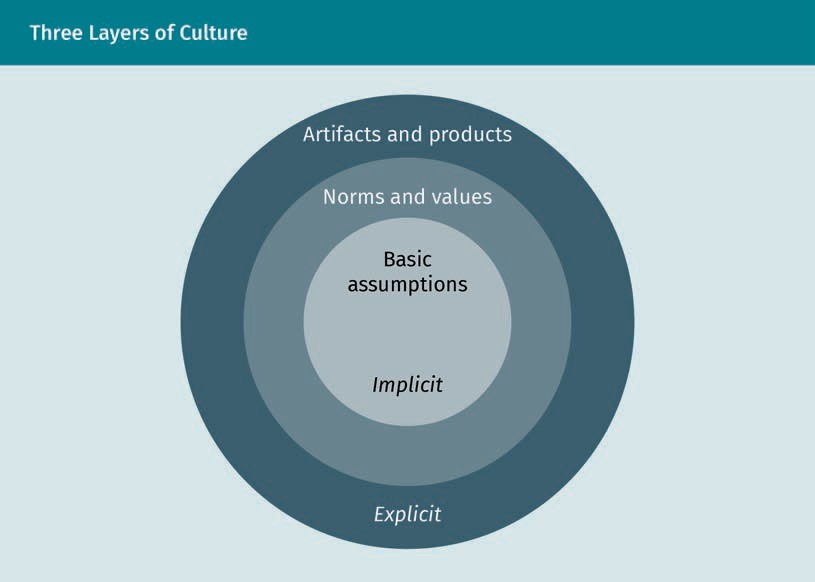
Culture lies somewhere between human nature and personality. It is the collectively programmed component of the mind, resulting from membership and participation in a particular society. The cultural level pertains to particular groups of individuals and is not shared with those from outside of that group.

The notion that people are programmed implies that culture is a system of values and beliefs that is not innate, but which is taught and learned by the members of a culture to create a shared foundation. Culture, according to Hofstede (1980), is passed from one generation to another, during the early socialization phase of childhood. Hofstede is clear that there is no useful notion of superior or inferior culture. Rather, culture should be seen as a relative concept, whereby cultural groups are just different, rather than hierarchical or measurable in the sense of their worth or value. Unlike business models, which indicate best practices and optimum structures, there is no best practice for culture in which one set of norms, values, and perceptions is superior to the rest (Browaeys & Price, 2019).

Trompenaars’s model of culture

Trompenaars and Hampden-Turner (2012) examined the way that culture impacts busi- ness organizations and claim that each society attributes its own functional and social goals or values to that world. Businesses, the world of work, the market, products, and services, are not viewed uniformly across nations, but rather on the basis of what they mean to people in their own culture. As they say, “culture is like gravity: You do not experience it until you jump six feet into the air” (p. 12).

Trompenaars and Hampden-Turner (2012) refer to layers of culture, likening culture to an onion. To understand culture in its entirety, the onion has to be opened, layer by layer. But these layers do not exist independently of each other, instead they are inter- active and complementary in nature.



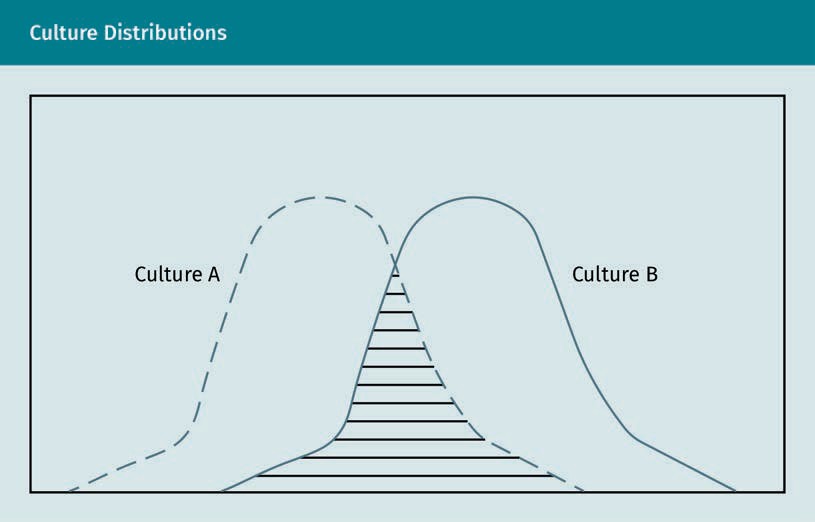
The outer layer is comprised of the visible manifestations of culture, otherwise referred to as “artifacts and products,” the explicit or concrete products or features of a culture. Monuments, food, language, and music are all symbolic of the culture that lies within.

The middle layer consists of the norms (the mutual sense of what is right and wrong) and values (the mutual deﬁnition of what is good and bad) of a culture. Norms provide people with a sense of what normal behavior is, while values give a sense of what behavior should be aimed for or aspired to.

The core of the onion represents the aspects of culture that are more difﬁcult to iden- tify, consisting of unexamined beliefs and cultural notions of which the person is only partially or occasionally aware. These are aspects of culture that have developed over a long period and are unconsciously adopted without question, within a particular cul- tural setting.

Trompenaars and Hampden-Turner (2012) uses the analogy of culture as a normal dis- tribution to illustrate the idea that not everyone within a culture shares the same lay- ers of artifacts, norms and values, and core assumptions.

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In this example, culture A and culture B are compared, with the shaded region illustrat- ing the degree of cultural overlap. The diagram also indicates that the normal or aver- age behaviors (the middle portion of their distributions) are different in the two cul- tures. Where the two cultures have signiﬁcantly different distributions, the comparison tends to focus on these differences at the extremes or tails of the distribution, leading to cultural stereotyping that emphasizes and exaggerates differences.

Trompenaars’s (1980) model of culture acknowledges that culture exists at many differ- ent levels: a national and regional level, an organizational level, and a functional level within the organization. What distinguishes one culture from another is the way it decides to tackle problems or dilemmas, which can be classiﬁed under the three head- ings of people’s relationships with other people, the passage of time, and the environ- ment or nature. Based on these different layers and levels of culture, Trompenaars developed seven cultural dimensions. He showed that it is possible for a culture to assign completely different meanings and assumptions to the very same dimensions experienced in the very same organization, but in a different location.

The GLOBE project

In the early 1990s, the Global Leadership and Organizational Behavior Effectiveness (GLOBE) project was set up as a large-scale study of cultural, leadership, and organiza- tional practices. The concept of culture adopted by the project refers to “a set of parameters of collectives that differentiate each collective in a meaningful way, with a focus on the ‘sharedness’ of cultural indicators among members of the collective” (GLOBE Project, 2020, para. 2). The GLOBE project deﬁnes culture as “shared motives, values, beliefs, identities, and interpretations or meanings of signiﬁcant events that result from common experiences of members of collectives that are transmitted across generations” (para. 3).

Quantitative research methodolo-

gies These use objective measurement and numerical methods to make sense of a

set of data.

A project team of 170 researchers across 62 countries built on this deﬁnition, and on the earlier ﬁndings of Hofstede, to identify nine cultural dimensions. The GLOBE project measured and validated scores for each of these nine culture dimensions for particular countries and clusters of countries. They used quantitative research methodologies to identify the following ten geographical clusters, around which similarities of these cul- tural dimensions appeared to exist (Deresky, 2017):

1. Anglo cultures, e.g., England, the US, Australia, Canada, and Ireland
2. Arab cultures, e.g., Saudi Arabia, Algeria, Qatar, Morocco, and Egypt
3. Confucian Asia, e.g., China, Japan, South Korea, Hong Kong, and Singapore
4. Eastern Europe, e.g., Russia, Hungary, Poland, Romania, and Greece
5. Germanic Europe, e.g., Germany, the Netherlands, Belgium, Switzerland, and Austria
6. Latin America, e.g., Brazil, Argentina, Mexico, Costa Rica, and Ecuador
7. Latin Europe, e.g., Italy, Portugal, Spain, France, and Switzerland (French/Italian)
8. Nordic Europe, e.g., Sweden, Denmark, Norway, and Finland
9. Southern Asia, e.g., India, Pakistan, Indonesia, the Philippines, and Turkey
10. Sub-Saharan Africa, e.g., Namibia, Zambia, Zimbabwe, and Nigeria

They were also able to identify the levels of relationship between various cultural dimensions and identify where particular dimensions appeared to have a signiﬁcant impact on factors, such as economic success or societal development. As with the work of Hofstede and Trompenaars, the project is a signiﬁcant piece of empirical research that continues to seek to understand and verify cultural differences in a business set- ting across societies.

### Important Cultural Dimensions as the Basis for Intercultural Understanding

The three examples of modern approaches to culture and their associated cultural models have identiﬁed a number of cultural value dimensions that provide the basis for intercultural understanding. Businesses can seek to observe, measure, and manage these interrelated dimensions as a key component of intercultural management in the business setting.

###### Hofstede’s Five Value Dimensions

In his role as founder of the HR research department at IBM in the mid-1960s, Hofstede carried out an extensive survey-based study of the cultural differences observed among 117,000 employees across the large number of different worldwide locations of the company. He applied the same cultural attitudes survey to employees in over 50 countries and three regions resulting in an extensive database of cross-cultural values (Browaeys & Price, 2019).

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Using factor analysis to identify patterns and correlations in this huge dataset, Hof- stede was initially able to identify four dimensions against which a culture could be measured or observed. These were subsequently reﬁned further, resulting in Hofstede’s ﬁve value dimensions for culture. These dimensions of culture are applicable at a national level, whereby different nations or societies have established a range of differ- ent cultural responses to the same set of dilemmas or challenges. Browaeys and Price (2019) summarize these dimensions with the following characteristics: power distance index, individualism versus collectivism, uncertainty avoidance, masculinity versus fem- ininity, and long-term versus short-term orientation (Confucian dynamism).

Power distance index (PDI) is the extent to which people view the appropriate distribu- tion of power within a society or group and the extent to which it is considered prefera- ble that power be exercised from a central location, rather than on a local level.

|  |  |
| --- | --- |
| Power Distance Index | |
| Low-power distance | High-power distance |
| * Inequality is minimized because it causes others to be exploited. * Hierarchical structures are only used if convenient. * Superiors and subordinates are all the same. * No status symbols exist, and every- body is treated the same. * Subordinates are consulted. * Individuality is respected. * Management is exercised through resourceful democracy. * Examples: Austria, Canada, Denmark, Israel, and the Netherlands | * Inequality is inevitable: each per- son’s place is based on merit. * Hierarchical structures are a reﬂec- tion of valid, natural differences. * Superiors and subordinates are dif- ferent types of people. * Power-holders are entitled to status symbols and prestige. * Subordinates are instructed. * Authority is respected. * Management is exercised through benevolent autocracy. * Examples: China, Colombia, India, Malaysia, and Mexico |

Individualism versus collectivism (IDV) is the tendency of people to look after them- selves (individualism), versus the tendency to feel part of a group (collectivism).

|  |  |
| --- | --- |
| Collectivism versus Individualism | |
| Collectivism | Individualism |
| * A “we” mindset is most prevalent. * The social group offers a source of identity. * Decisions are made according to the needs of the group. * Relationships are more important than tasks. * Group membership and success are important. * Values differ according to the group (particularism). * Examples: Brazil, China, Greece, India, Japan, Mexico, Scandinavia, and Singapore | * An “I” mindset is most prevalent. * One’s identity is derived from one’s self. * Decisions are made according to the needs of the individual. * Tasks are more important than rela- tionships. * Individual initiative and achieve- ment are important. * Value standards apply to all (univer- salism). * Examples: Australia, Canada, Eng- land, France, Germany, the Nether- lands, New Zealand, and the US |

Uncertainty avoidance (UAI) is the extent to which people avoid or embrace ambiguity in their life and social situations.

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|  |  |
| --- | --- |
| Uncertainty Avoidance | |
| High uncertainty avoidance | Low uncertainty avoidance |
| * Uncertainty is a threat that should be minimized. * Deviant persons or beliefs are not tolerated. * Predictability and clarity are prefer- red. * Security is a concern. * Change is resisted. * Things are better when there are formal rules and regulations. * Consensus is preferred over conﬂict. * Expert knowledge is respected and followed. * Working hard is a natural virtue. * Examples: Argentina, Belgium, Chile, Greece, and Peru | * Uncertainty is accepted as a natural feature of life. * Deviant persons or beliefs are accepted as non-threatening. * Ambiguity is accepted. * Taking risks is acceptable. * Innovation is tolerated. * Things are better when there are few rules and regulations. * Competition or conﬂict is positive. * Common sense is respected and fol- lowed. * Working hard is not, in itself, a vir- tue. * Examples: Denmark, Hong Kong, Ire- land, Jamaica, and Singapore |

Masculinity versus femininity (MAS) is the extent to which the pursuit of success (mas- culine) or the quality of life and a caring approach (feminine) is valued.

|  |  |
| --- | --- |
| Masculinity versus Femininity | |
| Masculine | Feminine |
| * Gender roles are distinct. * The male role is assertive; the female role is nurturing. * Competitive and performance orien- ted. * Wealth acquisition is prioritized. * Life is centered on work and motiva- ted by ambition. * Support is provided for those who succeed. * The focus is on independence. * The management style is decisive and assertive. * Examples: Colombia, Hungary, Italy, Japan, and Mexico | * Gender roles are ﬂuid. * Both male and female roles are nur- turing, cooperative, and environ- mentally aware. * Quality of life is prioritized and motivated by service. * Work is secondary to a good quality of life. * Support is provided to those less fortunate. * The focus is on interdependence. * The management style is intuitive and consensus-based. * Examples: Costa Rica, Denmark, the Netherlands, Norway, and Sweden |

Long-term versus short-term orientation (Confucian dynamism) is the extent to which people either live in the present or have a longer-term perspective of time.

|  |  |
| --- | --- |
| Long-Term versus Short-Term Orientation (Confucian Dynamism) | |
| Long-term orientation | Short-term orientation |
| * Accountability and self-discipline are highly valued. * Lifelong personal relationships are built and highly valued. * Social and economic inequality are generally not tolerated. * The future market position is con- sidered to be important. * Managers and employees have the same aims. * Examples: China, Hong Kong, Japan, and Korea | * Achievement and self-determination are highly valued. * Relationships are created depending on the needs of the business. * Rewards are given on the basis of merit and ability. * Short-term proﬁts are considered to be important. * Managers and employees have dif- ferent mindsets. * Examples: Belgium, the UK, the Phil- ippines, and Russia |

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###### Trompenaars’s Value Dimensions

Over ten years, Trompenaars and Hampden-Turner (2012) collected data from over 46,000 managers across 40 different countries for a range of cultural characteristics. Through this research, they conﬁrmed and extended the cultural concepts originally identiﬁed by Hofstede, differentiating between cultures based on their positioning against the following seven dimensions:

* + 1. Universalism versus particularism is the extent to which rules and conventions are important, compared to cultures that place importance on individual relationships, where different rules can be applied.

|  |  |
| --- | --- |
| Universalism versus Particularism | |
| Universalism | Particularism |
| * Everyone is equal. Everyone has equal opportunities and status. * One set of universal rules applies to all. | * Everyone is different, special, and unique. Differences are celebrated. * Every moment and experience is special or unique. |

* + 1. Individualism versus communitarianism is the extent to which working on one’s own to fulﬁll singular goals and personal responsibility is more important than working collectively toward shared goals.

|  |  |
| --- | --- |
| Individualism versus Communitarianism | |
| Individualism | Communitarianism |
| * Competition, self-reliance, per- sonal growth, and self-fulﬁllment are valued. | * Cooperation, social concern, public service, and societal legacy are val- ued. |

* + 1. Speciﬁc versus diffuse is the extent to which people separate their personal lives from their professional working lives, and where the strength and intimacy of rela- tionships also differs.

|  |  |
| --- | --- |
| Speciﬁc versus Diffuse | |
| Speciﬁc | Diffuse |
| * A clear distinction exists between one’s work and private life. * At work, people tend to have a small set of close and intimate relationships. * One’s social life tends to be large and open. * Direct communication is used. | * There is little distinction between one’s work and private life. * One’s private life often involves many people. * Communication is indirect. * Statements cannot always be understood literally. |

* + 1. Neutral versus affective is the extent to which emotions are kept hidden and under control rather than being openly visible and shared, even in the workplace.

|  |  |
| --- | --- |
| Neutral versus Affective | |
| Neutral | Affective |
| * Individuals are emotionally con- trolled and present a serious demeanor. * Non-verbal communication occurs. * Physical contact is avoided and generous personal space is prefer- red. | * Individuals express emotions and present a humorous demeanor. * Verbal communication occurs con- stantly. * Physical contact is accepted and less personal space is required. |

Ascription This is the arbitrary attribution of status, based on a personal characteristic rather than achievement.

* + 1. Achievement versus ascription is the extent to which status is earned through knowledge, skills, and achievement, rather than being **ascribed** based on social sta- tus.

|  |  |
| --- | --- |
| Achievement versus Ascription | |
| Achievement | Ascription |
| * Status is awarded based on to ach- ievements. | * Status is derived from one’s social status and age. |

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* + 1. Sequential time versus synchronous time is the extent to which efﬁciency and sequential completion of tasks are valued (because time is expensive and valuable), compared to cultures that prefer completing tasks concurrently, and which are more ﬂexible in terms of planning, punctuality, and deadlines.

|  |  |
| --- | --- |
| Sequential Time versus Synchronous Time | |
| Sequential | Synchronous |
| * Achieving targets, punctuality, and getting things done in the right order are important. | * The timing and order of events is ﬂuid; deadlines are not set in stone. |

* + 1. Internal direction versus external direction is the extent to which people either believe they control their own environment and where winning is important, or that they must work with the environment and relationships in order to achieve goals.

|  |  |
| --- | --- |
| Internal Direction versus External Direction | |
| Internal | External |
| * Each person is in control of their own destiny; control of the envi- ronment is important. | * One’s future lies in the hands of fate and one’s position in the wider world; therefore, working with the environment is important. |

###### Value Dimensions of the GLOBE Project

The GLOBE project identiﬁed the following nine cultural dimensions:

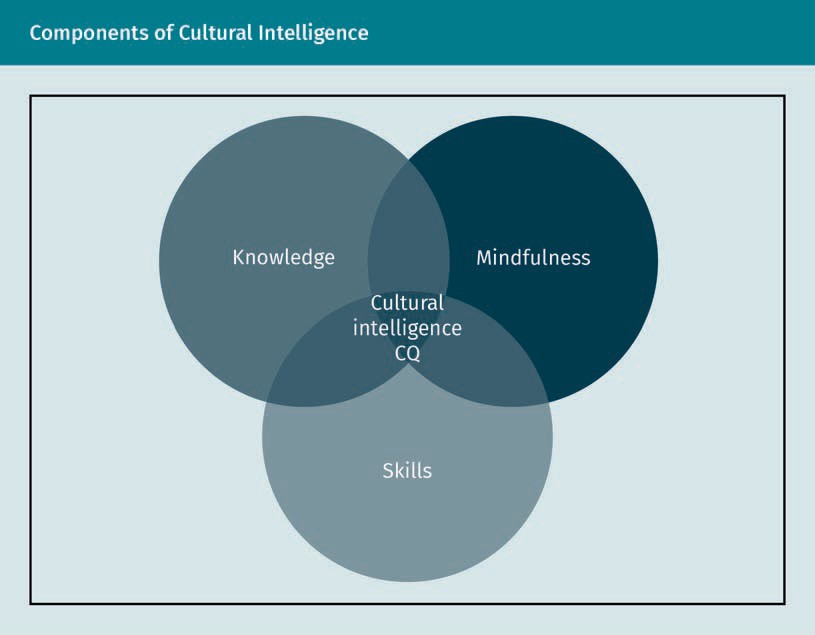
1. Uncertainty avoidance, the extent to which people rely on social norms, rules, and procedures to cope with uncertainty
2. Assertiveness, the extent to which people are willing to demonstrate their self-conﬁ- dence and to assert their own opinions
3. Gender differentiation, the extent to which gender differences and inequality are present in a group
4. Performance orientation, the extent to which performance and improvement are valued and rewarded in a group
5. Humane orientation, the extent to which humane characteristics, such as kindness, fairness, and generosity, are valued in a group
6. In-group collectivism, the extent to which people are proud, committed, and loyal to groups or organizations
7. Institutional collectivism, the extent to which people value collective action and the sharing and fair distribution of resources among the members of a group
8. Power distance, the extent to which people in a group accept differences in status, authority, and power
9. Future orientation, the extent to which people have a future-oriented approach to time through planning and delayed gratiﬁcation.

###### Cultural Intelligence

The emergence of intercultural management as a distinct discipline, and the deﬁnition of speciﬁc dimensions of culture, has enabled business leaders to be more adaptable and to show cultural sensitivity toward different the cultures within which they operate. Consequently, there is now a demand for businesspeople to display attributes of cul- tural intelligence (CQ), deﬁned as “an outsider’s seemingly natural ability to interpret someone’s unfamiliar and ambiguous gestures the way that person’s compatriots would” (Earley & Mosakowski, 2004, para. 3). Thomas and Inkson (2017) describe cultural intelligence as consisting of three components:

1. Knowing what culture is, how cultures vary, and how behavior is impacted by culture (knowledge)
2. Being able to read situations in a reﬂective and creative manner (mindfulness)
3. Being able to combine knowledge and mindfulness to develop cross-cultural skills, competences, and behaviors that are appropriate in different intercultural settings (skills).

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Cultural intelligence, as depicted in the Venn Diagram above, is achieved when these three components work together in an integrated and iterative manner. Each new inter- cultural challenge builds upon the knowledge, mindfulness, and skills accumulated before it, and contributes to further intercultural understanding in situations encoun- tered thereafter.

Summary

Globalization has had a profound impact on the business world. Initial approaches to the challenges of international business in the 1970s and 1980s assumed that business models and approaches that worked in the domestic environment would work anywhere in the world. Failures revealed that such approaches lacked cultural awareness. As a result of these experiences, intercultural management emerged as a distinct discipline within the business management environment.

Businesses have moved away from the dominating and accommodating approaches, while shifting focus toward cultural synergy, and developing new solu- tions based on respect for all cultures involved, thus increasing the opportunities to operate effectively across cultures and to build competitive advantage, rather than cultural advantage. The challenge of catering to the wide variety of cultural concepts has led to the development of approaches to better describe and articu- late the notion of culture. Early approaches emerged from anthropology that identi-

ﬁed communication as the key concept through which culture is reﬂected. These were followed by a series of studies based on more empirical research and classiﬁ- cation, resulting in the models of culture by Hofstede and Trompenaars, and the results of the GLOBE project.



# Unit 2

## Role and Importance of Intercultural Management for Companies

#### STUDY GOALS

On completion of this unit, you will be able to …

… identify key international developments and contexts within which businesses operate.

… explain the relationship between national culture and corporate culture.

… assess the core cultural competencies required by a business when operating globally.

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1. Role and Importance of Intercultural Man- agement for Companies

### Case Study

In 2014, Russia attempted to annex Crimea, the southern province of Ukraine (Lederer, 2021), leading to a ﬂurry of uncertainty within the realms of international politics and business. As a result of the aggression, the US declared a number of sanctions against Russia (Masters, 2019). Russia responded in kind, and the US later made it clear that these sanctions would remain in place as long as the aggression continued (Lederer, 2021). By 2020, the situation appeared to have worsened. Rodney Hunter, a US political coordinator, clariﬁed the Biden administrationʼs position when he said that “the United States reafﬁrms its unwavering commitment to Ukraine’s sovereignty and territorial integrity” (as cited in Lederer, 2021, para. 7); he further alleged that Russia had stepped up “its oppression of any dissent to its brutal occupation of Crimea” (para. 7).

These events had a number of signiﬁcant effects on the world of international busi- ness, including the withdrawal of European and US businesses from Russia, a currency crisis for the rouble (Deresky, 2017), and mutual sanctions. Companies that did business with or had operations in Russia or Ukraine were forced to quickly consider and respond to the risks and potential consequences of this signiﬁcant world event. Con- sider the following questions:

* + What impact might the annexation of Crimea have had on European and American companies operating in Russia and the Ukraine?
  + What impact might the annexation of Crimea have had on European and American companies with supply chain links to Russia and the Ukraine?
  + What impact might the depreciation of the value of the rouble have had on compa- nies doing business in Russia or with Russian companies?

### International Developments and Contexts for Enterprises

Intercultural management has added the understanding of cultural considerations to the long list of other societal factors that a business needs to respond to when operat- ing in the global business environment. Managers need to apply a global perspective to all facets in order to meet the challenges of the ever-changing, increasingly interde- pendent, and multicultural environment in which they now perform. Deresky (2017) highlights the signiﬁcant inﬂuence that developments and world events have on inter- national management. These events and situations can affect each aspect of interna- tional business, from strategy development, to implementation, to the daily functioning of business.

Role and Importance of Intercultural Management for Companies

###### Key Factors to Consider in the Global Business Environment

There are, however, several key factors around which these “ongoing developments” tend to occur (Deresky, 2017). At a macro-level, businesses need to be familiar with, and monitor, a number of global trends and ensure that they are considered during the strategy and planning activities of the business.

Globalization and global trends

Over the last 50 years, globalization has had a profound impact on business activity. The nature of global change and the rate at which it is occurring has also changed dra- matically. Today, business, politics, economics, trade, ﬁnance, and society now make up an interdependent set of globally linked phenomena that bind most of the world together to form the global economy or marketplace.

Summarizing the work of Bisson et al., Deresky (2017) identiﬁes ﬁve important global trends that businesses need to consider as globalization becomes a mature and embedded feature of the business environment:

1. Emerging markets. The balance of growth has changed, meaning that emerging mar- kets (and the middle-class consumers in those areas) are now experiencing more rapid growth than the developed nations.
2. Productivity and consumption. The pressure is on businesses in developed nations to become even more productive and increase consumption levels further in order to continue to keep their economies active and stimulated.
3. Interconnectivity. The ever-increasing levels of global interconnectivity, which are enabled through technology innovation, are resulting in greater opportunities and greater competition across the globe.
4. Natural resources. There is an increasing disparity between supply and demand for the Earth’s natural resources, combined with increased pressure for businesses to be environmentally and ecologically responsible.
5. Governmental challenges. There are difﬁculties faced by competing governments in formulating policies to ensure economic growth and stability.

While globalization has previously provided huge growth opportunities for businesses originating from the developed western economies, the less developed nations are becoming increasingly active, signiﬁcant participants in the global economy. There have been major increases in economic growth rates in the BRIC nations (Brazil, Russia, India, and China), and more recently in the emerging MINT nations (Mexico, Indonesia, Nigeria, and Turkey), described by Fareed Zakaria as “the rise of the rest—the rest of the world” (as cited in Deresky, 2017, p. 28).

###### Political Environment

Political events around the world, such as the Arab Spring in 2011 and the Russian intervention in Ukraine in 2014, can have an immediate and signiﬁcant impact on the business environment. A survey carried out by Aon Risk Solutions (as cited in Deresky,

2017) in 211 countries or regions indicated that the level of political risk is rising and that companies need to manage that risk proactively. Deresky (2017) identiﬁes the fol- lowing seven typical political risk events that a business needs to consider:

* 1. Expropriation. Corporate assets are claimed or seized by a government without appropriate compensation.
  2. Forced sale. Assets or equity are required to be sold to host-country nationals at a rate below a fair value.
  3. Discriminatory treatment. Laws and regulations are applied to foreign businesses in an unfair manner.
  4. Barriers to repatriation of funds. Companies are unable to move proﬁts or equity out of a country.
  5. Loss of technology or other intellectual property. Patents, trademarks, or trade names are lost to the government of a country.
  6. Management interference. Government or other ofﬁcial bodies interfere in decision- making processes within private businesses.
  7. Dishonesty. Government ofﬁcials act in a dishonest manner, such as cancelling or altering contractual agreements, extortion, and bribery demands.

It has become essential for companies to carry out regular political risk assessments in order to expedite their risk exposure and minimize their potential ﬁnancial losses when conducting business overseas.

###### Economic Environment

A countryʼs conomic stability and sustainability is linked to its political situation. Tradi- tionally, the more economically developed nations have tended to be more economi- cally stable, while less developed nations have presented a greater ﬁnancial risk that companies have had to mitigate.

Deresky (2017) states that a company or its subsidiary may typically experience ﬁnan- cial challenges in a speciﬁc country in two situations. Firstly, a government may abruptly change its domestic monetary or ﬁscal policies; secondly, a government may decide to change its foreign investment policies. These situations may make it difﬁcult for a company to repatriate funds back to the parent nation or expose the company to signiﬁcant exposure to foreign exchange risks, depending on the change in the strength of the currencies involved.

###### Legal Environment

A business operating in other countries needs to ensure that it is compliant with the legal and regulatory systems it encounters in each of these countries. This environment is made up of the many regulations and laws applicable in a country in which a busi- ness operates, as well as the local interpretation and attitude toward compliance. Fail- ure to comply or understand the nuances of a particular legal environment can be expensive, either through broken contractual agreements or unwanted litigation.

Role and Importance of Intercultural Management for Companies

Deresky (2017) describes the legal environments across the world as being derived from three core legal systems:

1. Common law, also known as judge-made law. This is a system seen in the US and most countries with a history of English colonialism, where previous legal decisions act as a precedent for the current interpretation of the law.
2. Civil law. This is a system seen in most of Europe and in Japan, where the law is comprised of a comprehensive set of rules and regulations, and legal processes are based on their interpretation.
3. Islamic law. This is a system seen in Islamic countries, where laws and conventions governing all aspects of life are based on religious beliefs, usually in combination with common or civil law systems.

In addition to legal systems, countries across the globe have different approaches to trade regulation. Some countries have difﬁcult and complex restrictions, such as trade barriers, tariffs, and quotas, to limit imports and to protect their own companies, industries, and economy (e.g., Japan). Similarly, the tax regime in a country can have a profound impact on the viability and proﬁtability of a location for an overseas com- pany. Moreover, there is a great variety in the level of government intervention in both regulatory and business environments, which can impact the level of freedom a com- pany will have in that country, because of government ownership, involvement in key industries, government policies, or requirements aimed speciﬁcally at foreign compa- nies.

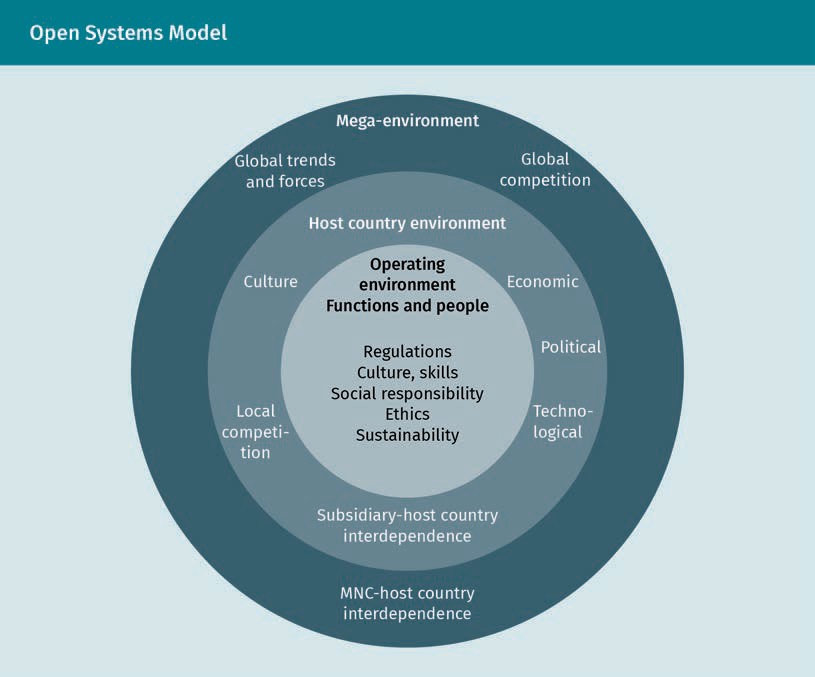
###### Technological Environment

The rapid developments and continuing innovations in technology, information, and connectivity have had a huge impact on the global business environment. Geographical borders are increasingly rendered meaningless, as both consumers and businesses operate across borders with just a click of a button. With this, cultural differences and barriers have eroded as a new sense of globalism and global culture has emerged, par- ticularly among younger generations. Businesses must consider the role of technology and information when operating in the global environment, thinking one or more steps ahead so as not to fall behind in the realms of technology and innovation.

While the political, economic, and legal environments remain relatively stable, despite being punctuated by crises or incidents, the technological environment undergoes con- stant change and evolution. The international manager needs to continually assess the situation and adapt to the demands and opportunities presented by technological innovation; they must know how best to implement change across the globe, remem- bering that the capabilities, skills, infrastructures, expectations, and culture of each participating nation are not the same.

###### Contextual Intelligence

The international manager is faced with the challenge of processing a large number of factors when making decisions on a local, country, and global level. Political, economic, legal, technological, and cultural factors, combined with the latest trends and innova- tions, present a complicated web of factors to be considered, as summarized in the open systems model below.



Acknowledging that business managers must consider these many factors and layers when adapting to different business environments across the globe, Khanna (2014) developed the idea of contextual intelligence. Adapting to an environment where con- cepts such as values or motivations might be different requires leaders to consider a whole range of factors, not just the cultural dimensions. These might include economic and political factors, organizational characteristics, physical geography, levels of educa- tion, language differences, and cultural norms and values. What is important is that the global manager understands the context.

Contextual intelligence requires “the ability to understand the limits of our knowledge and to adapt that knowledge to an environment different from the one in which it was developed” (Khanna, 2014, p. 60). Knowing and understanding how a business operates

Role and Importance of Intercultural Management for Companies

and performs effectively in one country is no guarantee that the same approach will be effective in another country. Khanna (2014) offers the following hints for developing contextual intelligence:

* Research the institutional context in the country, highlighting unfamiliar phenom- ena.
* Do not assume that your mental models and assumptions apply. Accept that differ- ent mindsets exist.
* Be prepared to experiment with new models and frameworks, and be prepared to change them if they don’t work.
* While many general principles will apply everywhere, accept that many speciﬁc dimensions will not.
* The pace of change and the target future differ between nations.
* Information should be collected by companies themselves, rather than relying on external market research.
* Institutional change cannot be rushed, and patience is required.

### Connection between National Culture and Corporate Culture

The response to the challenges of operating in a global environment is encapsulated in the way a business organizes itself (organizational structure) and in its set of values, norms, and expectations (corporate culture). As Steers et al. (2016) state, “If manage- ment structures are the ﬁngerprints of an organization, then corporate cultures are their personalities” (pp. 110—111). Both organizational structure and corporate culture may adapt to, and seek to replicate, national cultures, or they may fully or partially reject them. As organizations have adapted to the challenges of globalization, there has been a signiﬁcant evolution in both corporate cultures and the types of organizational structures employed.

###### Corporate Culture

There are numerous deﬁnitions of the term “corporate culture,” and a wide range of models used to analyze and assess it. At its broadest, corporate culture refers to the way things are done in an organization, reﬂected in the shared values, norms, beliefs, and attitudes of the people within that organization, and inﬂuencing the way in which people interact with internal and external stakeholders. Business management theo- rists identify and classify different types of corporate culture in a variety of ways. The seminal work of Charles Handy (1976) identiﬁed the following four broad categories of corporate culture:

Autocratic A leadership style in which one leader has absolute power is called autocratic.

1. Power culture. Power is concentrated at the core of the organization, reﬂected in an **autocratic** leadership style and a hierarchical structure. Handy likened this structure to a spider’s web, with the powerful spider at the center, and the net having little role or purpose without the spider.
2. Role culture. Often viewed as the bureaucratic style, this culture is burdened by rules and has little incentive for creativity, with power and responsibilities reﬂected by position in the well-deﬁned, tall hierarchical structure of the organization. Handy likened this structure to a large building, being sturdy and reliable, but unable to react or move ﬂexibly.
3. Task culture. Groups and teams are encouraged to solve tasks or work on projects together. Such organizations are often organized around a matrix structure, encour- aging creativity and empowering individuals. Handy likened this culture to the image of a net, strengthened by its many strands.
4. Person culture. This is a less formal culture in which individuals are focused on their own tasks and projects, there is little emphasis on team or group collaboration, and there may be conﬂict between individual and corporate objectives. Handy likened this culture to a constellation of stars, where each participant is a separate entity operating on their own.

In addition, many theorists have identiﬁed a further important category.

1. Entrepreneurial culture. In this ﬂexible culture, innovation and success are rewarded and failure is tolerated as a given, due to the nature of risk-taking and entrepre- neurship.

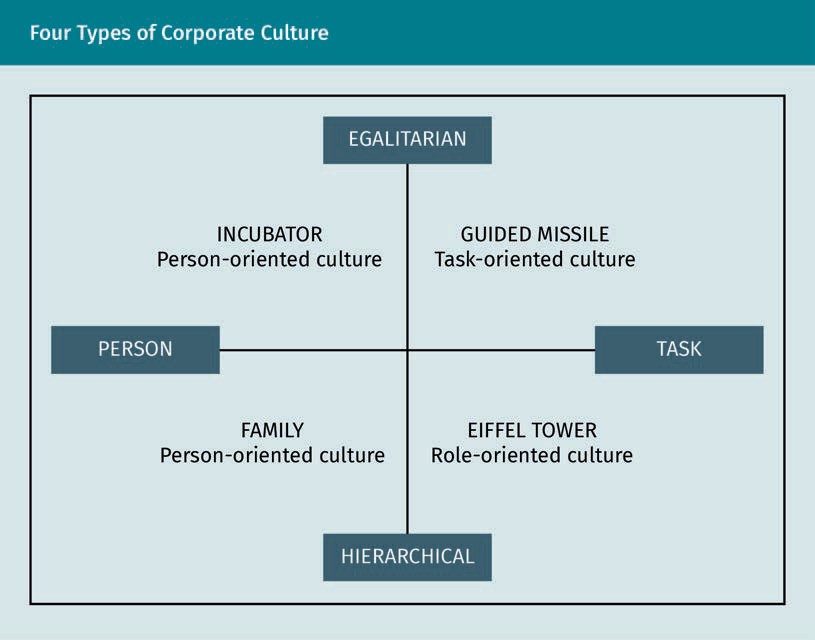
It is widely acknowledged that different organizations have distinct corporate cultures, typically inﬂuenced by their business environment and the national culture within which they operate. The corporate culture of a car manufacturing company, for exam- ple, will likely be different to that observed in an advertising agency. But it is also highly likely that the corporate culture of a car manufacturing company in one nation will be different to that of a similar car manufacturing company in another nation.

###### Corporate and National Culture

Unsurprisingly, in most countries, corporate culture is closely linked to national culture. Building on the cultural dimensions of Hofstede and Trompenaars, a large study of 8,841 managers and employees in organizations across 43 countries showed consis- tency between the measures of national cultures and the measures exhibited within organizations in those nations (Smith et al., 1996).

When an organization is created, the individuals involved will call upon the norms, val- ues, and beliefs with which they are familiar, and which originate from their national culture and its value dimensions. Trompenaars and Hampden-Turner (2012), in examin- ing how corporate culture is shaped by both the business environment and the cultural characteristics of leaders and employees, identify three aspects that are important in determining the culture of an organization: 1) the relationship between employees and their organization, 2) the system of authority deﬁning hierarchy and power; and 3) the attitude of employees toward the purpose, goals, and future of their organization, and their place within that framework.

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Trompenaars and Hampden-Turner (2012) examined corporate culture along the two dimensions of equality versus hierarchy, and orientation to the person versus orienta- tion to the task, resulting in the following four types of corporate culture:

* 1. The family is a culture that is both personal, based on close relationships, and hier- archical, showing respect and deference to the leadership (the head of the house- hold), resulting in a power-oriented culture that largely resembles the home envi- ronment.
  2. The Eiffel Tower is a hierarchical culture with a bureaucratic division of labor, being “steep, symmetrical, narrow at the top and broad at the base, stable, rigid and robust” (Trompenaars & Hampden-Turner, 2012, p. 204), like the Eiffel Tower. The hierarchy is signiﬁcant because each layer is responsible for binding together the lower levels, and each participant is aware of their position, and to which role they are subordinate (irrespective of who performs that role).
  3. The guided missile is an egalitarian culture, but still impersonal and task-oriented. Trompenaars likened this model to the Eiffel Tower in ﬂight (i.e., like a guided mis- sile). Oriented toward task completion, usually undertaken by teams or project groups, roles and responsibilities are generally ﬂuid, and the focus is on getting the job done, whatever it takes. Group members are valued based on their contributions

to the group’s mission or target. Change is a constant feature, and the target often moves or changes. Motivation and reward tend to originate from the commitment to the ﬁnal target.

* 1. The incubator is a culture based on the premise that the fulﬁllment and expression of individuals is more important than the organization. The purpose of the organiza- tion is to free people from routine activities so that they can express themselves in creative and innovative activities. The culture is both egalitarian and personal, with minimal structure and hierarchy. Loyalty to the organization is rare, with employees often “incubating” before they move on, undermining the organization.

Despite the value of categorizing corporate cultures in this way, there is a risk of stereo- typing, and this is a simpliﬁed model of what is an extremely complex concept (Trom- penaars & Hampden-Turner, 2012). In reality, culture types are mixed or overlapping: one culture may dominate, or a variety of culture types may be displayed. Despite the limitations, it is clear that some corporate cultures may work well in one environment but be completely ineffective in another.

###### Organizational Structure and National Culture

An organizational structure is the way a business chooses to organize itself in order to most effectively carry out its functions and activities. It is often easy to see the local culture reﬂected in the organizational structure of a business, as the chosen structure will tend to embody the norms, values, and expectations of the culture within which it operates. Models of organizational structure have developed over time in response to changes in the business setting and the inﬂuence of cultural differences. The choice of organizational structure is inﬂuenced by a range of factors, including the size of the company, the nature of the business environment, the internal and external require- ments of the company, and the environment in which it operates. Multinational organi- zations need to take into account the geographical distribution and structure of the business, as well as the different national contexts in which they operate, and this often introduces the need for increased coordination and communication functions to ensure effective integration. They must also ensure that there is an appropriate level of cultural ﬁt between the corporate culture and the national cultures within which they operate.

Fatehi (as cited in Browaeys & Price, 2019) identiﬁes the following ﬁve common organi- zational structures:

1. A geographical structure is organized around geographical regions (countries or continents), with devolved regional management reporting to a central head ofﬁce, where strategic planning and overall operational management for the company is carried out.
2. A functional structure is organized around business functions (e.g., marketing, ﬁnance, human resources, operations), with each function head reporting to the chief executive.

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1. A product structure is organized around product lines into product divisions, each responsible for carrying out its own core business functions (e.g., marketing, ﬁnance, HR, operations).
2. A mixed structure is organized as a combination of geographical, functional, and product structures, so that the most appropriate combination (e.g., products within regions, functions within product, regions within functions) can be employed. This model is typically utilized by multinational companies because it allows the geo- graphical element to be structured into the organization in the most appropriate way.
3. A matrix structure is organized according to a matrix of reporting lines, rather than the traditional hierarchical structure. It is particularly effective where a business uti- lizes functional and project structures, but is often complicated to manage.

The way that a business chooses to organize itself will reﬂect its overall strategy for operating in an international environment and will need to be ﬂexible as the organiza- tion expands across markets, borders, and cultures. The organization will also need to remain sensitive to the need for economies of scale, alongside globalization. This means being able to change the organizational structure over time, considering any inefﬁciencies, conﬂicts, communication issues, and unclear or overlapping responsibili- ties that arise during the expansion of the business (Deresky, 2016).

### Entrepreneurial Core Competencies for Successful Intercultural Management

Gaining competitive advantage in the marketplace is traditionally achieved through mastery of a number of interrelated and critical building blocks—clear and achievable business strategies, products and services that meet customer needs, effective sales and marketing approaches, efﬁcient supply chains and logistics networks, use of cut- ting-edge technology, and robust ﬁnancial management approaches. These combine with the layers of human resources management, leadership styles, and corporate cul- ture to create the essence of the business and its core competencies.

The challenge for businesses operating in a global environment is that these essential building blocks cannot be considered in isolation from the cultural context. In the global marketplace, each of these building blocks is suffused with a variety of intercul- tural inﬂuences, which may well compromise the effectiveness of previous approaches when compared to the local or domestic environment from which they originated.

###### Intercultural Core Competencies

Gaining mastery over the range of intercultural competencies required to be effective in the global market is a tall order for the business organization and its management. Identifying, understanding, and adapting to the various dimensions of culture, develop- ing and acting with cultural and contextual intelligence, while building on the essential tenets of good business management practices presents the global manager with an

unenviable juggling act. Intercultural competence needs to be developed at all levels of the organization. Vennapoosa (2012) suggests that the acquisition of intercultural com- petence should start at the highest level of the organization (through its vision, mis- sion, values, and strategy), the operational level, and the level of the individual employee.

###### Cultural Skills at the Strategic Level

On an organizational level, companies that wish to operate in the global marketplace need to employ intercultural competence when setting their future direction, whether this be in the deﬁnition of their corporate mission, vision, and value statements, or via the aims, objectives, strategies, and tactics utilized. Intercultural competence encour- ages the implementation of proactive strategies in their attempts to establish a global presence, rather than being reactive to the challenges or threats that are encountered.

Ethnocentricity The belief that a dominant ethnic group is superior to other ethnic groups.

In a study of the intercultural competencies required at the top of a organization, Gib- son (2015) carried out interviews with the CEOs of 28 global businesses, testing the hypothesis that “**ethnocentricity** rolls downhill.” The results showed that intercultural competencies do have an impact on the CEO’s ability to make an impact on the corpo- rate objectives. Gibson identiﬁed ﬁve areas of intercultural competence, which appeared to have the most signiﬁcant impact on the success (or failure) of the CEO to meet their objectives. These are as follows (Gibson, 2015):

1. Cultural self-awareness, being aware of one’s own cultural identity and the inﬂuence this has on the perception of other cultures in the business setting
2. Cultural sensory perception, being aware of situations in which cultural differences are signiﬁcant and are having an inﬂuence on the business
3. Open-mindedness, being able to avoid cultural bias and accept the potential valid- ity of different types of behavior, thinking, and philosophies across the business environment
4. Global perspective, being able to see the business as truly global or international, rather than as primarily a domestic entity that also operates in other countries
5. Adaptability, being able to modify strategy, communication, and behavior as appro- priate, according to the particular cultural circumstances

Gibson (2015) identiﬁed the greatest challenge for CEOs as being managing and moti- vating teams of managers from diverse cultural backgrounds, requiring them to change their own leadership approaches to adapt to the different cultural needs and experien- ces of those they employ.

###### Cultural Skills at the Operational Level

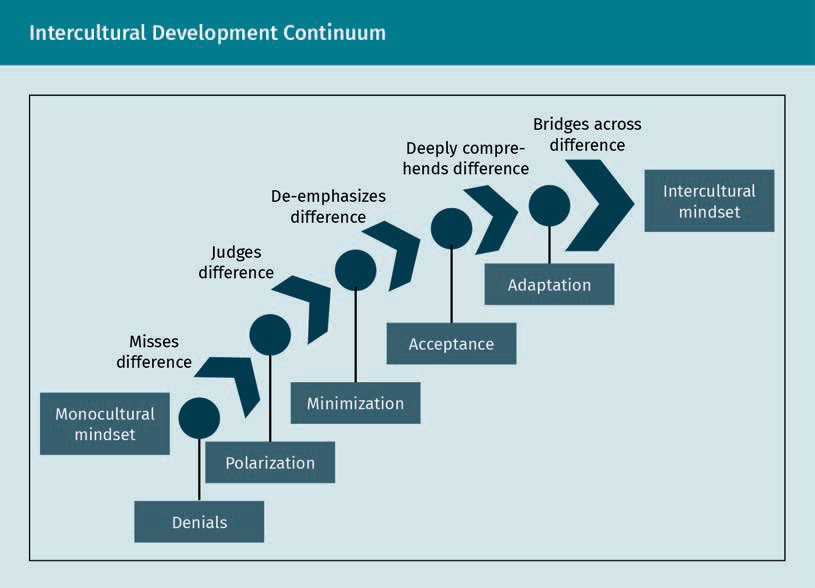
Developing appropriate cultural skills on the management and employee levels within the global organization is a challenge that many organizations are now addressing directly. IBM (the organization in which Hofstede carried out his original research to identify his ﬁve dimensions of culture) provides all of its employees with access to its

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“country navigator,” a guide to cultural characteristics and differences across the globe, on the company intranet. It also provides rigorous in-house training on cultural differ- ences for all its employees. Global consulting ﬁrm Accenture provides in-house training on intercultural competence, including exposure to the Accenture Culture Index, which describes differences in business culture and environments in different parts of the world (Mithel, 2012).

The Intercultural Development Inventory ([IDI], 2021), a company providing services to develop intercultural competences and solutions to intercultural conﬂicts, has devel- oped a set of skills arranged along a continuum that portray the changes in mindset that the global manager and employee need to adopt, to reach a fully adapted intercul- tural mindset. Companies use the Intercultural Development Inventory, based on a 50- question survey, to assess intercultural competence. As a result of the responses given, companies can identify where on the continuum an employee or manager currently lies. The continuum is comprised of the following ﬁve stages, each of which requires speciﬁc competencies to be acquired and implemented:

* 1. Denial is characterized by disinterest in, and avoidance of, other cultures. Broad stereotypes and cultural generalizations, normally associated with members of dominant cultures, are common. Organizations in denial usually take little notice of cultural differences.
  2. Polarization is characterized by viewing cultural differences as a threat to the way things are done in the domestic culture, creating an “us and them” style mentality, and contributing to the perception that cultural diversity is an uncomfortable issue.
  3. Minimization is characterized by transitioning toward an acceptance and adaption approach to cultural differences, usually focusing on similarities between cultures, but often alienating those from less dominant cultures.
  4. Acceptance is characterized by recognizing and accepting both commonalities and differences between cultures, and much self-reﬂection takes place in the attempt to accept values and norms that are alien to the domestic culture.
  5. Adaptation is characterized as a signiﬁcant shift in mindset, both in cultural per- spectives and behavior, so that the individual is well-equipped to cater to cultural differences and commonalities via a range of techniques and mental frameworks.



Summary

Global organizations need to address the challenge of acquiring intercultural com- petence within a wider context that includes a multiplicity of demands and require- ments, as the global business environment constantly changes around it. Globaliza- tion and the emergence of new markets, combined with constant changes in the political, legal, technological, and economic environments, means that the organi- zation confronts many trends and developments that a business needs to consider. No single solution can help an organization tackle every development in the global business environment. For this reason, contextual intelligence, the ability to accept that our own knowledge and assumptions are limited and that we need to under- stand and adapt to the context in which our business is operating, has become a prerequisite for the successful global manager.

The way a business decides its organizational structure and its values, norms, and expectations (its corporate culture) encapsulate their response to the challenges of operating in a global environment. Both organizational structure and corporate cul- ture may adapt to, replicate, or reject national cultures. As organizations have adap- ted to the challenges of globalization, there has been a signiﬁcant evolution in both corporate cultures and the types of organizational structures employed.

Role and Importance of Intercultural Management for Companies

Gaining mastery over the range of intercultural competencies required to be effec- tive in this global setting is a signiﬁcant challenge for the business organization and its management. To be effective, intercultural competence needs to start at the top, through strategy and senior leadership, so that ethnocentricity does not “roll down the hill.”



# Unit 3

## Diversity Management in Intercultural Management

#### STUDY GOALS

On completion of this unit, you will be able to …

… place the management of diversity within an intercultural context.

… distinguish between leadership styles appropriate for individualistic and collectivist cultures.

… recognize the different cultural approaches to the management of dilemmas and conﬂicts.

DL-E-DLMINTIM01\_E-U03

1. Diversity Management in Intercultural Management

### Case Study

In January 2011, the American subsidiary of the Japanese multinational company, Tosh- iba, was the subject of a much-publicized class action (representing approximately 8,000 female employees), accusing it of systemic discrimination against women in the workplace. Bray (2011) explains, “electronics maker Toshiba Corp.ʼs US business is facing a $100 million lawsuit for alleged ʻsystemicʼ discrimination against its female employ- ees over pay and promotions” (para. 1). Allegations included unequal salaries being paid for equivalent work, men being unfairly favored for promotions, inconsistent application of policies and procedures on the basis of gender, unsatisfactory investiga- tions into allegations of sexual discrimination, and career advancement being based on familiarity within groups of male managers, rather than ability (Bray, 2011). Given that the top managers in all of the US subsidiaries of Toshiba at that time were Japanese (McFarlin & Sweeney, 2017), we might ask the following:

* + What role might Japanese culture have had on the assumptions being made about the role of women in the workplace?
  + How can attitudinal differences, which arise out of various cultural norms, be man- aged across different countries?
  + How can a company change the cultural mindset of managers and employees toward diversity in the workplace?

### Working with Diversity in Companies

Established cultural models are being adapted to suit today’s social climate. Awareness of issues, such as inequality of opportunity, is becoming commonplace, and many organizations are attempting to implement policies that promote equitable treatment, particularly among disadvantaged groups.

In the world of business, the management of diversity has evolved over time. Initially, companies simply reacted to changes in their legal obligations, implementing new poli- cies as required. More recently, however, diversity management has become a key instrument within the business organization that seeks to proactively harness the diversity of the workforce for the beneﬁt of the company. This is consistent with the increasing focus on ethical business practices and the promotion of corporate social responsibility.

Nevertheless, like the wider society within which they operate, companies still have a considerable distance to travel before they can claim to be fully embracing the concept of diversity. Few organizations have yet to fully beneﬁt from diversity management as a truly strategic objective, embedded within the corporate culture, and providing compet- itive advantage.

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###### Dimensions of Diversity Management

The management of diversity has become a high-proﬁle issue and a signiﬁcant chal- lenge for companies, especially those operating in a multinational context. Companies, being part of both local and global culture, have needed to adapt to reﬂect changes in societal values and opinions. These changes, and the elements within them, have dif- fered in scale and scope from one nation to another, but the common themes are a shift toward recognition of and respect for diversity, and the increasing provision of equality of opportunity.

The concept of diversity covers a wide range of societal issues, and they are not uni- form across all nations. But, in general, respecting diversity means recognizing, appreci- ating, and treating all people equitably, irrespective of gender, religion, ethnicity, sexual orientation, age, disabilities, and lifestyles or life situations.

These dimensions are viewed and valued differently in different cultures, leading to dif- ferences in hierarchical structures and the treatment of individuals. This has impacted the level of social inﬂuence and access to social resources that an individual has had in a particular society (Eine Welt der Vielfalt, n.d.). Culture is a signiﬁcant factor in the discussion of diversity. On the one hand, it is a further dimension against which people are judged or unfairly treated within a society, for example, someone from another cul- ture might be treated differently, especially in situations where they are viewed with suspicion or distrust. On the other hand, culture plays a key role in determining soci- etal values and attitudes toward the dimensions of diversity. One’s culture plays a large part in determining attitudes toward gender roles, race, tolerance of other religions, and many other facets of life. As such, culture can be viewed as both a “perpetrator” and a “victim” in the societal power relations that are at the heart of diversity.

###### Signiﬁcance of Diversity Management for Intercultural Management

In the context of intercultural management, matters of diversity are further complicated by the fact that the concept of diversity is not viewed or treated in the same way across all cultures. When operating across multiple cultures, companies need to be aware of differences in cultural attitudes toward diversity. Corporate values must reﬂect inclu- sion and equality of opportunity in a way that is compatible with local cultural norms. There is a ﬁne balance to be struck.

McFarlin and Sweeney (2017) discuss, as an example, the attitudes toward gender equality in different countries. In the US, almost half of all professional and managerial positions are now held by female employees. This compares to just over 15 percent in Japan, which is a reﬂection of the traditional view that women are subordinate to men, especially in the world of work. Despite introducing gender discrimination legislation in 1986, Japan has struggled to make progress in changing attitudes toward gender roles (McFarlin & Sweeney, 2017). Former Prime Minister Shinzō Abe, a strong advocate for women’s rights, himself appointed four female cabinet members, stated that the main obstacle lay in the fact that the attitude toward gender roles is “something that is,

unwittingly, ﬁrmly ingrained within us” (McFarlin & Sweeney, 2017, p. 198). The $100 mil- lion lawsuit against the US subsidiaries of the Japanese multinational, Toshiba, for the discriminatory treatment of women in the workplace is, perhaps, a reﬂection of Japa- nese management not taking American gender equality legislation sufﬁciently seri- ously.

The level of progress in terms of gender equality varies signiﬁcantly across the globe, and multinational companies need to be aware of the national context within which their business is operating. The World Economic Forum’s Global Gender Gap Report 2020 highlights that there is no nation on the Earth that has yet reached a state of gen- der parity (i.e., equal treatment and opportunity for all genders) (World Economic Forum, 2021). The number of women occupying senior private and public sector man- agement roles has increased to 36 percent, but the gender gap is still signiﬁcant and there are very few countries close to gender parity. The nations are ranked according to their level of gender parity, with 1.0 representing the highest possible score (parity). None of the top 15 nations in terms of gender equality in the workplace can be classed as major trading nations. The US is 26th (0.756), Germany is 48th (0.723), the UK is 58th (0.702), and France is 65th (0.691). The emerging growth economies of the BRIC nations rank as follows: Russia is 32nd (0.749), Brazil is 89th (0.653), China is 91st (0.653), and India is 149th (0.354). At the current range of change, the World Economic Forum (WEF) estimates that it will take over 250 years to close the gender gap in relation to eco- nomic participation and opportunity.

Intercultural management means businesses having to address the dual challenges of cross-national diversity (the integration of employees from both the parent nation and the countries within which it operates) and intra-national diversity (the diverse groups with whom employees interact in a particular country). For example, Europe has seen a signiﬁcant increase in the number of disparate and diverse immigrant groups settling in the member countries and, therefore, entering the local workplace (McFarlin & Swee- ney, 2017).

In response to this challenge, many companies have modiﬁed their corporate values and objectives to embrace diversity. They have implemented human resources systems, policies, and procedures that address the local legal requirements around diversity and equal opportunities. Communication has been adapted to ensure sensitive treatment of diversity-related issues within the company, and in their interactions with the out- side world, both locally and across different cultural environments.

In terms of the culture iceberg, these actions represent visible aspects of a cultural response to diversity—they are observable artefacts that provide evidence of a change in attitudes and approaches to diversity management within the organization. Far more problematic are the non-visible aspects of the culture iceberg, because these require an authentic change in mindset in order to modify deep-seated cultural norms and val- ues within the organization and the local environment. As with the other aspects of an intercultural mindset, businesses are now faced with the challenge of achieving syner- gistic multiculturalism within the organization.

Diversity Management in Intercultural Management

###### Beneﬁts of Diversity Management

Many organizations have adopted diversity management processes and procedures to comply with local regulations and requirements on equal opportunities and fair treat- ment of employees. Merely recognizing diversity to be compliant fails to realize the real beneﬁts that authentic diversity management can offer a business.

Innovation and creativity

As people of different backgrounds and cultures work together, each with different per- spectives and ideas for developing solutions, the potential for increased creativity and innovation develops. According to Hewlett et al. (2013) “companies whose leaders exhibit at least three inherent and three acquired diversity traits [are deﬁned] as [...] companies with 2-D diversity [and] out-innovate and out-perform others ... [e.g.,] are 45% likelier to report that their ﬁrm’s market share grew ... and 70% likelier to report ... a new market” (para. 3—4). Indeed, diversity in the workplace is a driver for both inno- vation and market growth.

Employee engagement and productivity

A number of studies have shown that organizations that take diversity seriously in the workplace have the most engaged employees. Anand (2013) refers to three employee surveys measuring employee engagement. In the ﬁrst survey, carried out by TowersPer- rin, the results showed that highly engaged workers perform 20 percent better and are almost 90 percent less likely to want to leave their workplace. A similar study by the Hay Group indicated that engaged workers perform over 40 percent better than disen- gaged counterparts. This is reiterated by the results of Deloitte’s (2018) Global Human Capital Trends report that showed, in the preceding three years, the importance employees placed on a diverse and inclusive workplace increased by 74 percent. Such a workplace leads to an increased sense of belonging, providing the ability to work and innovate with colleagues who have a range of backgrounds and life experiences. Employees, driven less by monetary rewards, increasingly want to work for companies that value everybody and encourage the development of a diverse and inclusive envi- ronment, all of which are key characteristics of the emerging trend that requires a com- pany to also be a social enterprise (Deloitte, 2018).

Cultural awareness

An organization that more clearly resembles the diversity of the customers that it is attempting to serve will have a better chance of fully understanding the customers’ needs. The different cultural characteristics of a particular location are best served by managers and employees who have a close cultural afﬁnity with that location.

Marketing opportunities

Potential customers (and, indeed, employees) are increasingly interested in companies that represent diversity. Many companies now ensure that their promotional materials show a diverse range of ages, ethnicities, and abilities. Companies also promote their own diversity, as illustrated in Lufthansa’s tweet celebrating the diverse backgrounds of their employees: “*Pﬁati, merhaba, ciao, Γειά σоυ, Hoi*! Over 100 nationalities are repre- sented amongst the Lufthansa Group staff in Germany” (Lufthansa, 2017).

Attracting talent

In the increasingly competitive quest to recruit the best talent into the organization, it is important to be seen to be promoting diversity in the workplace; this is now a signiﬁ- cant factor for candidates when evaluating potential employees and employment opportunities. New hires must also be in tune with cultural differences and familiar with diversity management concerns because these attributes are fundamental to the development of truly synergistic multiculturalism.

###### Challenges of Diversity Management

Achieving a state of synergistic multiculturalism, and promoting, supporting, and build- ing upon the positive beneﬁts of cultural differences and diversity across the organiza- tion presents a series of signiﬁcant challenges at all levels within the multinational business.

Leadership

The drive for change needs to come from the top of the organization, through the com- pany’s corporate mission, vision, and values, and the senior leadership that seeks to implement these statements.

Parochialism A limited or narrow outlook, especially focused on a local area, is called paro-

chialism.

According to McFarlin and Sweeney (2017), the evidence indicates that very few corpo- rate executives are proactively managing and leading diversity in the organization. At best, diversity management is seen as the responsibility of the human resources func- tion. Research involving 150 multinational companies found that around 90 percent of the 4,000 executives included in the study were not adequately promoting diversity. Of most importance to the CEO was being seen to be compliant with regulatory require- ments imposed from outside the organization, rather than looking to transform the cul- ture within the organization. They state further that it was far more common for busi- ness leaders to adopt **parochialism** or ethnocentrism (i.e., the belief that their culture is better than another) as their default approaches to tackling diversity.

Hiring and promotion practices

Organizations are faced with the challenge of the “exclusion-inclusion paradox” (Daub- ner-Siva et al., 2017) when attempting to balance diversity management with talent management. This occurs when organizations are faced with providing opportunities for all employees regardless of their backgrounds, while being able to select the most tal- ented individuals when ﬁlling important positions. Veering too much toward diversity in hiring and promotion decisions can lead to accusations of positive discrimination within the organization. Insufﬁcient consideration of diversity can lead to accusations of inequality of opportunity and favoritism within the organization. The challenge is for organizations to ﬁnd the right balance to manage the paradox, so that both diversity and talent management can co-exist in a way that enhances the business and creates a competitive edge.

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Diversity training

Although businesses have made signiﬁcant efforts to educate and train their staff in diversity and cultural awareness, the results of this training can often be counterpro- ductive. This is largely because, like intercultural awareness in general, it cannot easily be taught, and training courses tend to focus on controlling or changing management behaviors rather than instigating an authentic change in mindset. This approach, if anything, tends to provoke bias and cause a negative reaction toward management rather than improving the situation. More effective programs focus less on control and procedure and more on encouraging positive engagement with diversity and increased contact with others (Dobbin & Kalev, 2016). In more recent follow-up research, Dobbin and Kalev (2020) suggest that a limited number of systemic changes, such as targeted recruitment, diversity taskforces, mentoring schemes, and voluntary (rather than com- pulsory) skills training can make a much more signiﬁcant contribution to promoting workplace diversity and equality of opportunity than traditional instructional training courses.

Alienation of workers

Despite the best intentions of an organization to understand and manage differences in cultural dimensions across the global organization, including the management of diversity, there is a signiﬁcant challenge to avoid alienating the very people that these intentions set out to protect. Some individuals working at the middle and lower levels of an organization can perceive themselves as weak or unimportant, and therefore alienated from the corporate environment. Such feelings can be reinforced by being the beneﬁciary of “charitable” initiatives and seemingly inauthentic gestures, which only provide the illusion of being valued and provided with equal opportunity.

Diversity management is a challenge to the organization because, like intercultural awareness, it cannot easily be taught or learned, and even less so can it be imposed on someone through directives or regulations. Diversity management is an evolutionary process that takes time and perseverance, and which can only be effective when it is authentic and lived on a day-to-day basis within the organization.

### Management Styles in Individualistic and Collectivist Cultures

The discipline of business management abounds with hundreds, if not thousands, of books and articles about management and leadership. For some theorists, manage- ment and leadership styles are viewed as separate entities, while others view them as two sides to the same coin. Whatever view is held, it is certainly the case that there is no single approach to either management or leadership that is guaranteed to be effec- tive in all situations. This is true in the domestic setting, but it is especially clear that the challenges of management and leadership are further ampliﬁed when operating in a multicultural setting. The scope of management responsibility can vary from leading a diverse, multicultural workforce in a domestic setting to an overseas unit as an expa- triate manager. Each demands management and leadership sensibilities that are appropriate to the context and environment.

###### Global Management and Leadership Styles

Managing in an international context requires leaders to be responsive to the cultural context in which they are operating, understanding what leadership style best ﬁts the local culture, and how best to inﬂuence the performance of people in that culture. McFarlin and Sweeney (2017) provide a summary of leadership attributes (based on the ﬁndings of the Global Leadership and Organizational Behavior Effectiveness Research (GLOBE) project) and how they are interpreted across different cultures, illustrated in the table below.

|  |  |  |
| --- | --- | --- |
| Attitudes to Leadership Attributes | | |
| Viewed positively across all cultures | Viewed differently across cultures | Viewed negatively across all cultures |
| * Decisiveness * Positivity * Integrity * Communication skills * Honesty * Intelligence * Trustworthiness | * Ambition * Enthusiasm * Being logical * Sensitivity * Risk-taking * Individualism | * Being a dictator * Being egocentric * Showing irritation * Ruthlessness |

Decisiveness, honesty, and positivity are leadership attributes that appear to be uni- formly valued across cultures. Other attributes, such as being autocratic, ambitious, or ruthless are not valued equally across cultures. Even where an attribute (e.g., being supportive) is generally viewed positively, it may still be interpreted or expressed differ- ently depending on the cultural setting. For example, an American manager (typically individualistic) may demonstrate being supportive by listening to the ideas of employ- ees, while a Japanese manager (typically collectivist) might show their support by spending time with their employees as a group.

Cultural expectations of leadership are a “moving target,” and something that might have been appropriate ﬁve years ago may no longer be appropriate or desirable, creat- ing yet another challenge. McFarlin and Sweeney (2017) cite the examples of cultural change in the former Eastern Bloc countries (e.g., Poland, Romania, Czech Republic) and South Korea, whereby the leadership styles in these countries have become increasingly aligned with Western leadership styles.

Western management theory has traditionally distinguished between two styles of leadership behavior: task oriented and relationship oriented. Task orientation requires leaders with technical knowledge, who can assist with planning, determining proce- dures, setting goals, and providing information. A relationship orientation requires a

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manager who has strong personnel management skills, who can encourage, empathize with, and coach employees. These managers often show concern for their employees’ general well-being, but leadership styles are no longer limited to those evident in tra- ditional western economies. McFarlin and Sweeney (2017) describe a number of alter- native leadership behaviors emerging from other parts of the globe. For example, the challenging environment faced in India, where old and new create something of a cul- ture clash, has led to the emergence of an employee-focused leadership style based on nurturing, which combines empathy and employee well-being with the need to get the job done. They also describe the Japanese example where management tends to com- bine both performance leadership (focus on problem-solving and group motivation) and maintenance leadership (focus on good working relations within the group). These behaviors differ from the Western implementation because of where they ﬁt within the Japanese cultural context.

While there is no universal approach for leadership among diverse cultures, Thomas and Inkson (2017) present a number of important factors that the culturally intelligent leader should consider when operating in a different cultural setting. These are as fol- lows:

* The effectiveness of leadership is based on the perception of followers. When a per- son is perceived to be a leader, they will be followed and be given the appropriate authority, respect, and power.
* Followers look to their leader to embody the vision for the group and should be able to communicate and organize with this vision in mind.
* Although elements of task and relationship orientation are present across all cul- tures, the ways these manifest through leader and follower behavior will differ from one culture to another.
* The importance placed on each of these leadership dimensions will vary, depending on the cultural context.
* Attempting to copy leadership styles from a culture may not produce the intended result because followers may view it as being inauthentic or even offensive.

###### Individualistic versus Collectivist Cultures

A number of attempts have been made to provide a framework for managers to deter- mine the most appropriate leadership style for a given cultural setting. These models use the dimensions of culture formulated by Trompenaars, Hofstede, and the GLOBE study to give guidelines for matching leadership styles and different dimensions of cul- ture. Of course, these can only be a guide. The leader still needs to use cultural and contextual intelligence to determine the appropriate leadership response in the spe- ciﬁc cultural situation.

McFarlin and Sweeney (2017) describe the following four leadership styles and attempt to determine the best ﬁt for different cultural value dimensions:

* + 1. Directive. Leadership is based on rules and procedures that employees must follow.
    2. Participative. Leadership is based on participation of and consultation with employ- ees, so that they are actively involved in making decisions.
    3. Supportive. Leadership is based on building positive relationships with employees, primarily by showing concern for their well-being and needs.
    4. Achievement-oriented. Leadership is based on setting ambitious targets and goals to motivate employees to be more productive and effective.

Path-goal approach

A path-goal approach to leader- ship is where the leader adopts behaviors best suited to the needs of employees and the working environ-

ment.

They describe a **path-goal approach** whereby the manager should adopt the appropri- ate leadership style for the given circumstances (both business and cultural), with the primary dimension being the distinction between individualistic and collectivist cul- tures.

|  |  |  |
| --- | --- | --- |
| Leadership Styles: Individualism versus Collectivism | | |
| Individualism-Collecti- vism | Most suitable leadership style(s) | Example |
| Collectivist | Directive, supportive | Taiwan |
| Individualist | Participative | Denmark |
| Medium-individualist | Participative | Argentina |

McFarlin and Sweeney (2017) also summarize best ﬁt leadership styles against the power distance dimension of culture, that is, the extent to which members of the group accept or expect that power is equally or unequally distributed.

|  |  |  |
| --- | --- | --- |
| Leadership Styles: Power Distance | | |
| Power distance | Most suitable leadership style(s) | Example |
| Small distance | Participative | Sweden |
| Large distance | Directive | France |
| Medium distance | Supportive, participative | The US |

The power distance dimension determines how power is reﬂected within an organiza- tion, and how this is interpreted in different parts of the world. In low power distance, **egalitarian** cultures, such as Denmark, the Netherlands, Sweden, and Australia, the

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leader is seen as a coach or facilitator, and communication is free and multi-direc- tional. In contrast, in high power distance, hierarchical cultures, such as China, India, Japan, Korea, Nigeria, and Saudi Arabia, the leader is the authority and has high status, working and communicating according to a multi-layered and ﬁxed hierarchy (Meyer, 2016).

McFarlin and Sweeney (2017) also summarize best ﬁt leadership styles against the uncertainty avoidance dimension of culture.

|  |  |  |
| --- | --- | --- |
| Leadership Styles: Uncertainty Avoidance | | |
| Uncertainty avoidance | Most suitable leadership style(s) | Example |
| Strong avoidance | Directive | Greece |
| Weak avoidance | Participative, achieve- ment-oriented | England |
| Medium avoidance | Participative, achieve- ment-oriented | Germany |

### Reconciliation of Cultural Dilemmas

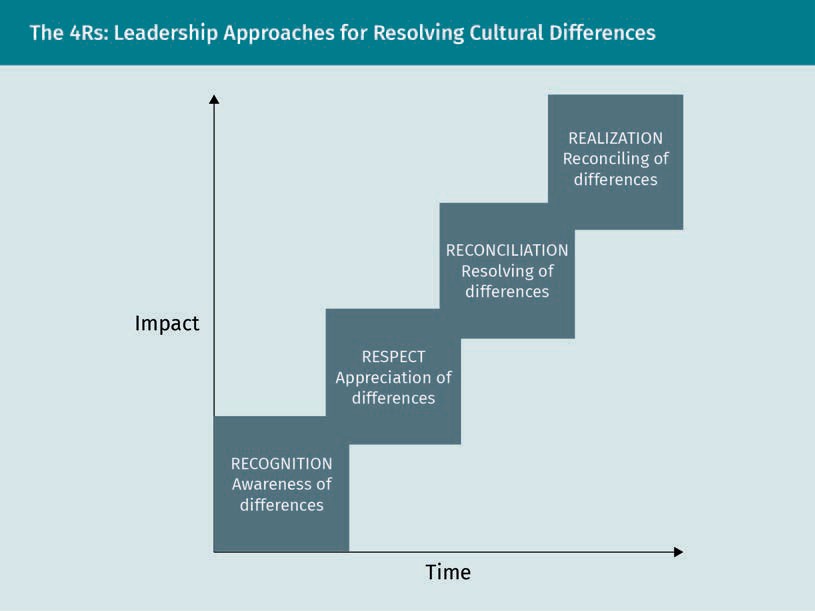
Problem-solving, decision-making, conﬂict resolution, and tackling dilemmas are all constant features of the business setting. Even within a single cultural environment, a business is tasked with resolving dilemmas arising from different perspectives in all aspects of the operation, from strategy to day-to-day operational issues. These arise from the differing ideas and interests of the individuals, teams, projects, business func- tions, locations, and stakeholder groups that make up the complex business environ- ment.

Tackling and reconciling dilemmas is further complicated by cultural differences. Cul- ture affects how individuals perceive dilemmas, problems, and conﬂicts. It also affects how individuals approach reconciling and resolving these issues, and how they go about planning for future risks or problems. In an intercultural setting, it may be the cultural differences themselves that are the root cause of the problem or dilemma.

An organization is unlikely to be able to adapt immediately to the dilemmas and differ- ences it faces in a multicultural operating environment. Trompenaars and Hampden- Turner (2012) propose four stages (“the 4 Rs”) through which good leadership needs to evolve in order to achieve intercultural competence. Of these four stages, the ﬁrst two steps require the organization to become aware of and appreciate cultural differences.

Egalitarian

This is the principle that all people are equal and deserve equality of treatment and opportunity.



Recognition

Initially, the organization needs to become fully aware of the existence of cultural dif- ferences. This is not always a simple task, because differences and dilemmas are not always a direct result of culture, and different cultural inﬂuences can exist at a range of levels, e.g., national, functional, or organizational. Cultural differences can also manifest in a number of ways, from management and leadership styles to communication and attitudes to teamwork. In recognizing that there is a difference, it is also essential to be clear as to what the dilemma or difﬁculty is that this difference creates.

Trompenaars and Hampden-Turner (2012) provide the example of an American CEO meeting with a Japanese delegation and, as is customary, exchanging business cards at the start of the meeting. At a particularly stressful point in the negotiation, the Ameri- can CEO began rolling up and ﬁddling with the card given to him by the Japanese presi- dent. This caused great offence and the meeting had to be brought to a halt. A lack of awareness of cultural difference can have hugely negative consequences.

At a minimum, business leaders need to be given sufﬁcient training in the process of acquiring cultural awareness and the recognition of cultural differences. This training needs to avoid reinforcing cultural stereotypes and focus on raising awareness of the risks associated with perceiving the statements and actions of others, through one’s own cultural lens.

Diversity Management in Intercultural Management

Respect

Once a leader has become aware of the different mental cultural programs that people from different cultures use to process their surroundings, it is possible to move on and grow to respect and appreciate these differences in values and behaviors. This process, again, needs to avoid the pitfall of stereotyping and also the tendency to ascribe a judgement as to which cultural response is better or worse. The end goal is to create a genuine respect for the differences that exist, acknowledging that they are different, but equally valid, ways to go about doing things.

Trompenaars and Hampden-Turner (2012) give the example of a European manager vis- iting a potential Korean supplier, who, at the ﬁrst meeting, gave him an expensive pen as a gift. The European manager, sensitive to the potential for bribery, politely refused the gift. At the next meeting, the Korean supplier gave him a more expensive gift of a stereo system, which he again refused. Finally, on the third meeting, having been offered an even more expensive gift, the European manager became aware of the cul- tural differences that were at play. This was not an attempt at bribery, but an attempt to build their business relationship, and his refusals had been interpreted by his Korean counterpart as meaning that the gifts were not good enough. Awareness and appreciation of cultural differences such as these can alleviate negative consequences and also avoid judgements being made about other cultural conventions.

Reconciliation

Once the business leader is able to understand and respect the mental processes and behaviors driven by their own and other people’s cultural backgrounds, they are more likely to be able to resolve those cultural differences through reconciliation. Integrating differences means that an organization can potentially beneﬁt from the integration of the strengths of both cultural positions.

Trompenaars and Hampden-Turner (2012) give the example of a company from the Netherlands, oriented toward innovation, partnering with a Belgian company, oriented toward its prestigious tradition. The difference between their achievement and ascrip- tion orientations could have been the source of dilemma and conﬂict. However, through reconciliation, they worked to create a reputation founded on both innovation and quality, which was a win-win solution that ﬁtted both companies.

Realization and rooting

The ﬁnal stage in the transformation of intercultural competence arises when the proc- ess of reconciliatory practice is ﬁrmly established and structured in such a way that it becomes standard operating practice. The team culture is transformed, so that it can operate effectively across all cultures. Critical to this success is the idea that the proc- ess is continuous and iterative, and that it is often necessary to go back a step in the process in order to gain better understanding.

When reconciling different cultural perspectives, the organization needs to continually navigate around cultural differences in what Trompenaars and Hampden-Turner (2012) refer to as the “inﬁnity loop for innovation.” Innovation is the ability to reconcile crea- tivity and adaptation as the organization navigates around this inﬁnity loop.

Tackling dilemmas arising from cultural differences through an iterative process of rec- onciliation provides a different approach to problem-solving and issue resolution. In the same way that establishing cultural synergy has the potential to create competitive advantage for an organization, using a reconciliation approach to resolve cultural dilemmas presents opportunities for innovation through harnessing adaptation and creativity together.

Summary

In the world of business, the management of diversity has evolved over time and become a key consideration. Business organizations increasingly seek to harness the diversity of the workforce for the beneﬁt of the company. This is consistent with the increasing focus on ethical business practices and the promotion of corporate social responsibility.

Companies, being part of both local and global culture, have needed to adapt to reﬂect changes in societal values and opinions. These changes, and the elements within them, have differed in scale and scope from one nation to another, but the common thread is a shift toward recognition and respect toward diversity and dif- ferences, and to the increasing provision of equality of opportunity for all.

Approaches to diversity reﬂect the cultural setting within which the organization ﬁnds itself and, indeed, cultural differences themselves are a key component of diversity management.

The challenge of management and leadership is intensiﬁed for businesses operat- ing in an international, multicultural setting. Management and leadership styles need to be appropriate to the context and environment. In particular, the differen- ces between individualistic and collectivist cultures demand different styles of leadership in order to meet the needs and expectations of employees. Leadership style also varies with the culture value dimensions of power distance and uncer- tainty avoidance, but these value dimensions can only act as a guide. The leader still needs to use cultural and contextual intelligence to determine the appropriate leadership response in any given situation.

When it comes to managing dilemmas and conﬂict within an intercultural setting, a similar level of cultural and contextual intelligence is required to determine the appropriate response. Tackling dilemmas, which arise from cultural differences, through an iterative process of reconciliation appears to provide a more effective approach to problem-solving and issue resolution when compared to the old-fash- ioned approaches. In the same way that establishing cultural synergy has the potential to create competitive advantage for an organization, using a reconciliation approach to resolve cultural dilemmas presents opportunities for innovation, through harnessing adaptation and creativity.



# Unit 4

## Entrepreneurial Decision-Making Dimensions of Intercultural Management

#### STUDY GOALS

On completion of this unit, you will be able to …

… apply the formulation and implementation of strategy within an intercultural context.

… identify the impact of culture on marketing strategy and the components of the marketing mix.

… recognize the impact of culture on approaches to human resource management (HRM).

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1. Entrepreneurial Decision-Making Dimen- sions of Intercultural Management

### Case Study

ACE Software are a highly successful software development company based in England. They write software for clients who require virtual reality software applications and have produced several best-selling games, which they market and sell in stores and online. Since their formation eight years ago, they have grown to over 100 software designers, developers, and testing analysts located in their expensive, but now over- crowded, London ofﬁce space.

Sensing the opportunity to grow the business to meet ever-increasing demands from overseas, and to take pressure away from the London operation, the company’s founder Tim Simpson is examining the possibility of creating a software development capability in Bangalore, India, where he has heard that well-qualiﬁed and relatively affordable IT expertise is available. He is also considering a possible second European operation based in southern Germany, close to a technical university where there is access to well-qualiﬁed young professionals. He understands that these recruits will expect to be well paid.

Tim is a young entrepreneur who set up the company from scratch. He has very little experience working outside of the UK market. Given the risks involved in any interna- tional expansion he should consider the following:

* + What are the strategic implications of making such a move at this stage in the development of the company? How might Tim need to adjust the business strategy? How might having new Indian or German managers and employees impact the for- mulation and implementation of that strategy?
  + What adjustments might Tim need to make to the way the company carries out its marketing, if it is planning to sell into markets outside of the UK?
  + What issues might the small human resources (HR) department have to consider when opening a German or Indian subsidiary ofﬁce?

### Strategy

Business strategy This is the setting of long-term plans of action for the whole organization, consis- tent with the busi- ness vision, mission,

and aims.

**Business strategy** is inevitably shaped by cultural considerations. Igor Ansoff, consid- ered by many to be the founder of strategic management, describes strategy as “a deci- sion that runs relations between the enterprise and the environment” (as cited in Isac & Remes, 2018, p. 76). At a domestic level, business strategy needs to be consistent with both the internal corporate culture and the external national culture that make up the environment in which the business operates. For international companies for whom operating in the global market has become essential, strategic planning must now con- sider the wider international environment in all its manifestations. Internally, business strategy must be consistent with international corporate culture, so that management and employees across international boundaries have a clear, shared understanding of what the company is all about and what it is trying to achieve in the short-, medium-,

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and long-term. Externally, the business strategy must make sense to all the external stakeholders of the company: customers, suppliers, distributors, regulators, govern- ments, communities, competitors, and interest groups. Each of these stakeholder groups will differ, depending on the cultural context from which they originate. Since both the current activities and the future direction of the company will stem from its overall business strategy, it is essential that senior management both formulate and implement strategy in a way that is meaningful across all the constituent cultures that make up the company, its stakeholders, and its environment.

###### Culture and Strategy

In many respects, the distinction between culture and strategy is unclear. This is because culture itself can be viewed as the strategic framework that a society uses to tackle the problems and dilemmas it faces. Schneider et al. (as cited in Isac & Remes, 2018) deﬁne culture as “the solution to problems of external adaptation and internal integration” (p. 77) and argue that it is equally applicable when attempting to deﬁne the meaning of strategy. Trompenaars (1996) deﬁnes strategy as “a systematic way of acting on the environment” (p. 52). Thus, the process of strategy deﬁnition must be closely linked to the cultural context in which it takes place.

Strategy is another way in which people seek to address dilemmas in a cultural setting and is another process that is embedded with cultural considerations. This is counter to traditional approaches to strategy and planning, which have tended to adopt a cul- ture-free approach. When assessing the impact of culture, it is essential to consider the multiple dynamics of culture that interact in the formulation and implementation of strategy, especially in a multinational company operating across different geographical regions. Internal culture, encapsulated in the vision and mission of the organization, drives the key components of strategy. The participants in the strategy deﬁnition proc- ess will depend on the corporate culture, encapsulated in the leadership, decision- making processes, and organizational structure of the company.

To be effective, strategy needs to be credible, understandable, and motivational to all employees, whatever their location or cultural background. It also needs to make sense to all external stakeholders of the organization who will each have their own cultural context. Moreover, strategy needs to be feasible within the cultural setting of target countries. The political and regulatory setting of individual countries is the embodi- ment of the cultural values of the nation expressed for the economy and the commer- cial environment. National governments have a major inﬂuence in shaping the culture of the workplace through speciﬁc legislation, incentives, and barriers, and provide a framework within which multinational ﬁrms must operate, both domestically and abroad.

The close links between culture and strategy have had a signiﬁcant impact on the choices made by companies in their expansion activities overseas. Cultural distance has an impact on the choice of new markets, with the closest ﬁt cultures frequently being the ﬁrst destinations for overseas expansion. These represent lower levels of risk and enable familiar methods to be used for breaking into a new market. However, com-

panies have had to be more culturally adaptive and aware when reacting to the chang- ing global marketplace and venturing into culturally distinct markets, especially those in the emerging economies.

Each of the different value dimensions of culture identiﬁed by Hofstede, Trompenaars, and the GLOBE Project (Trompenaars & Hampden-Turner, 2012). present aspects of cul- ture that may have a signiﬁcant impact on the success or failure of business strategy in an intercultural setting. For example, the ﬁve value dimensions identiﬁed by Hofstede (1980) will each have an impact on the way strategy is deﬁned and in the way that the strategy is ultimately implemented:

1. Power distance index (PDI). The extent to which people view the appropriate distri- bution of power within a society or group will inﬂuence how strategy is developed and agreed and who is involved in that strategy development process. The content of strategy will also differ depending on the cultural norms associated with the dis- tribution of power.
2. Individualism versus collectivism (IDV). The tendency of people to look after them- selves (individualism) versus the tendency to feel part of a group (collectivism) will have an inﬂuence on the types of strategic goals deﬁned by an organization, from the setting of aggressive, competitive targets to strategic goals for the general bene- ﬁt of society.
3. Uncertainty avoidance (UAI). The extent to which people avoid or embrace ambigu- ity in their life and social situations will inﬂuence the level of rigor, planning, detail, and risk management built into the strategy deﬁnition process and the strategic goals themselves.
4. Masculinity versus femininity (MAS). The extent to which the pursuit of success (masculine) or the quality of life and a caring approach (feminine) is valued will have an impact on the nature of the strategic goals being set.
5. Long-term versus short-term orientation (Confucian dynamism). The way that peo- ple view their relationship to time will have an impact on the short- or long-term nature of strategic goals and the timeframe in which they need to be delivered.

###### Culture and Strategy Formulation

How an organization sets about formulating strategy will reﬂect the cultural context in which strategy formulation is taking place. This will impact who is involved in setting the strategy, the approach to deﬁning and agreeing that strategy, the time taken to for- mulate strategy, and the types of strategic goals that will be produced. This reﬂects the manner in which culture impacts the leadership and decision-making functions of an organization. For example, a German or Swedish organization might take a lot of time to produce precise, detailed statements of strategy. An English organization might involve a wider circle of experts in formulating strategy. An American organization might pro- duce strategy statements very quickly and then be prepared to modify them on an iter- ative basis as time progresses. Of course, setting strategic goals for products and serv- ices will be signiﬁcantly inﬂuenced by the customer preferences in their particular cultural setting (Tayeb, as cited in Isac & Remes, 2018).

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Schneider (as cited in Isac & Remes, 2018) produced a comparative model that contras- ted the likely strategy formulation approaches that might be adopted in two different cultural settings (presented below). He described the approaches likely to be followed in cultures with high and low scores on the value dimensions of individualism, uncer- tainty avoidance, and power distance.

Model one: High individualism, uncertainty avoidance, and power distance Organizations measuring high on these three cultural dimensions seek to reduce uncertainty and increase control, as reﬂected in the hierarchical nature of the organiza- tion and decision-making process. This results in a systematic approach to strategy, using analysis and focused research, quantitative methods, and the use of expert knowledge. The decision-making processes required to formulate strategy reﬂect the top-down power structure so that strategy is the domain of the most senior levels in the organization. Strategy is about formulation of tasks that can be achieved with cer- tainty and are relatively short-term in perspective. Validation of strategy is based on what has happened previously or what is enshrined in the rule-set of the organization and its bureaucracy.

Model two: Low individualism, uncertainty avoidance, and power distance Organizations that are at the other end of the scale on these three culture dimensions adopt a quite different approach to strategy formulation. These organizations have a greater tolerance for uncertainty or ambiguity, with a more reactive approach to plan- ning and change. Their greater focus on the group and comparative lack of hierarchy means that a consensus-based approach to strategy is possible. Decisions are based less on rigorous analysis and more on intuition, monitoring, and personal experience. The resulting strategy tends to have a longer-term focus without detailed speciﬁcation of tasks and is likely to be more people-oriented than results-based.

Of course, most organizations do not occupy positions at the extremes of the cultural scales, so their approach to strategy formulation is likely to fall between these two models. International organizations seeking to formulate strategy across geographical boundaries will ﬁnd this easier when other regions in the organization occupy a similar position on the scale. Where there is a clear discrepancy, as in the example of the failed merger of Daimler Chrysler (Watkins, 2007), the clash of national cultures (e.g., German versus American) makes the approach to the formulation of strategy, like all other leadership and decision-making processes, extremely challenging and often impossible to reconcile.

###### Culture and Strategy Implementation

Cultural differences do not just impact the manner in which strategy is formulated by an organization in the strategic planning process. There are frequently signiﬁcant dif- ferences in the nature of the resulting strategies that then need to be implemented across the organization. Strategy represents the way in which the organization seeks to meet its vision and mission in the real-world environment, and these corporate vision and mission statements will be impacted by the cultural context.

This distinction is most clearly visible when comparing the types of strategic goals orig- inating from Western and Eastern cultures. Typically, Western strategic goals focus on competitive, ambitious, quantiﬁable, and measurable goals (being the biggest, the best, the leader, exceeding the growth target, etc.). These strategies are based on rational thinking and the solving of speciﬁc problems in a ﬁxed period of time in the competi- tive environment (Isac & Remes, 2018). Eastern cultures tend to take a more pragmatic approach to strategy, rooted in their Confucian philosophy. Nonaka and Zhu (as cited in Isac and Remes, 2018) describe pragmatic and holistic thinking rooted in more spiritual and emotional thinking, the search for interconnectedness, and a longer-term progres- sive journey to a future state.

Kono and Clegg (as cited in Isac & Remes, 2018) produced a comparison of the charac- teristics of corporate strategies originating from the US and Japan to illustrate this cul- tural difference between West and East. The traditional American strategy focuses on a short-term proﬁt orientation resulting from lower levels of investment. This includes competitive relationships with suppliers and distribution channels to drive down costs in order to increase short-term proﬁtability. Volume of production, economies of scale, reduction in overheads, mass sales, and the development of competitive market posi- tioning are all components of the likely strategic goals. Competition even exists within the organization itself, with potential conﬂict arising between the development, pro- duction, marketing, and sales functions.

Just in time This production strategy aims for continuous material and information ﬂows along the sup-

ply chain.

Lean production This production strategy aims to minimize waste and increase quality.

In contrast, the characteristics of competitive strategies originating from Japan were likely to be long-term in perspective. Long-term growth, facilitated by investment in people and research and development, and the forging of positive relationships with suppliers and distributors (to enable **just in time** (JIT) systems and **lean production**), were a common feature. In the competitive arena, Japanese companies viewed the quality of both their product and their relationship with their customers as the avenue to competitive success.

This difference in approach to competitive strategy creates potential challenges when that strategy needs to be implemented across geographical boundaries. For example, the American giant Walmart, with a distinct strategy focusing on low costs and high vol- umes, is likely to face cultural resistance in the Asian market from all stakeholders. Low cost is seen as a reﬂection of quality and commitment to the customer, so what works strategically in North America may not be a close cultural ﬁt in China. Similarly, a Toyota or Honda car production plant in North America may experience resistance when implementing lean production methods and a Japanese corporate culture.

###### Approaches to Strategy in an Intercultural Context

Different multinational companies have adopted a variety of approaches to business strategy in response to the challenges of globalization. According to Ghemawat (2011), for many businesses and management theorists, the response to globalization has been to conceive of a business environment that is now free from geographic bounda- ries. It consists of a single global market, with no limits to supply chains and distribu- tion channels across borders. Corporate strategy has aimed to promote a uniform

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approach to meeting strategic goals across the globe. However, Ghemawat argues that this approach has been shown to be fallible and unrealistic, and that, in fact, most companies are still deeply entrenched within their own domestic culture. Even more importantly, the stakeholders of a company are especially rooted in their own domestic setting.

Ghemawat (2011) describes this state as World 3.0, “a world that is neither a world of distinct nation-states (World 1.0) nor the stateless ideal (World 2.0) that seems implicit in the strategies of so many companies” (para. 10). He states that it is absolutely possi- ble to have a global strategy and approach, but that this needs to be based not on the elimination of differences between nations, but rather a better understanding of peo- ple, cultures, and locations. This means ﬁrst being very clear about the core values and roots of the organization, and then being able to recognize both similarities and differ- ences in the different regions of the globe. Understanding similarities and recognizing differences enables an organization to modify their approach in a culturally appropri- ate way.

Ghemawat (2011) had previously identiﬁed three approaches that companies can take to be competitive across borders. His “AAA strategies” of adaptation, aggregation, and arbitrage are described as follows:

1. Adaptation (attempting to adapt and adjust to local differences and to be respon- sive to local needs and demands)
2. Aggregation (looking to overcome differences between local cultures and environ- ments, in order to gain greater economies of scale and broaden the scope and reach of the company)
3. Arbitrage (seeking to take advantage of differences between locations to harness positives attributes in speciﬁc regions (e.g., cheap labor, low costs, and speciﬁc expertise) to increase reach and proﬁtability)

Despite having advocated an arbitrage approach to globalization (i.e., exploiting differ- ences) in his earlier work (Ghemawat, 2007), he modiﬁed his position to recommend that companies focus on a strategy of adaptation. This change in stance arises from the response of people around the globe toward globalization and international compa- nies. He cites the following key reasons for an adaptive approach:

* protectionism. Where companies show respect for differences, the receiving nations are less likely to be protectionist and are more likely to remove barriers to entry or competition.
* reputation. When exploiting differences, multinational companies have appeared to be greedy and disrespectful of the environments in which they operate. An adaptive approach creates respect and sensitivity to the different operating environments, and therefore has a positive impact on corporate reputation.
* growth opportunities. Most signiﬁcantly, being adaptive means companies are better positioned to be able to thrive in previously difﬁcult new markets, particularly the emerging markets where traditional approaches to globalization have been espe- cially misplaced.

In contrast to the culturally imperialist manner in which companies previously tackled the challenge of operating in a multinational, intercultural environment, corporate strategy now needs to be more selective and focus on those regions and cultures where an adaptive approach that respects the people, culture, and business stakehold- ers involved, will yield positive outcomes.

### Marketing

Marketing plays the pivotal role in an organization of bringing together the business and its customers. It seeks to identify and satisfy the needs of consumers by ﬁnding the right combination of products and pricing at the right time and in the right place, while also ensuring proﬁtability for the company. At the heart of the marketing activity is a clear understanding of the customer and the market in which they are a partici- pant. The increasing impact of globalization on products, capital, and labor has created both challenge and opportunity in international marketing. Selling products and serv- ices in locations outside of the original domestic market has required businesses to adapt traditional marketing strategies to enter new markets and provide products that satisfy the needs of consumers from a wide range of national cultural contexts.

In line with overall corporate strategy, marketing strategies and approaches need to be tailored to ﬁt the overall global aspirations of the organization, while being relevant and meaningful to the customer groups in all the target markets. These strategies can vary, from the creation of global brands that are uniform across markets (e.g., Coca- Cola), to products that need very little modiﬁcation because of their characteristics (e.g., pharmaceuticals), to products that are tailored to the local characteristics of par- ticular markets. Choice of strategy will often depend on the importance of overseas markets to the business. Companies where the domestic market is still the dominant revenue source are unlikely to modify a successful formula to cater for a smaller export market. Companies with truly global aspirations, on the other hand, need to view their domestic market as just another market that needs to be satisﬁed as part of a truly global marketing strategy.

###### Marketing Strategies in an International Context

Companies have adopted a number of approaches to marketing in an international context. The appropriate approach depends on a wide range of factors, including the type of product, the global reach and aspirations of the company, the target customer groups, and the cultural similarities or differences evident in the target markets. Your- Target (2020) identify four distinct international marketing strategies that have been employed by companies as they have extended into overseas markets.

Strategy one: International strategy

This is perhaps the most common approach to international marketing, especially when a business is entering new foreign markets for the ﬁrst time. It consists of export- ing products and services without moving the company location from the domestic set-

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ting, so there is no need to invest in employees or facilities overseas. The business is likely to continue to have the domestic market as its primary focus, with foreign mar- kets as an add-on.

The main challenges of this approach consist in creating a sales network to cover new locations and a distribution channel that ensures effective logistics processing, as well as ensuring compliance with any regulations or restrictions in the new market. This approach, often referred to as an exporting strategy, suits smaller companies, espe- cially where the product needs little modiﬁcation to be offered in a new market (e.g., local specialty products such as food or wine).

Strategy two: Multi-domestic strategy

This approach consists of a company creating a physical presence in the target over- seas market and using this as a means of modifying products or services to meet the speciﬁc needs of the local market. Marketing and promotional strategies are also adjusted to the new cultural setting (norms, values, expectations, and traditions) so that they are appropriate for and effective in the target market.

While the main company headquarters might remain in the original domestic location, the company is likely to set up a network of regional or local headquarters through which the relationship with customers in new overseas markets can be more effectively managed. This approach is a good ﬁt for larger companies in industries such as food and drink, where the product can be easily modiﬁed, re-packaged, and marketed to meet local needs. Nestlé is a good example of a global organization that tailors its products for the local setting and creates sales and marketing strategies that are adap- ted to meet the characteristics of each of these markets (YourTarget, 2020).

Strategy three: Global strategy

Companies that follow a global business strategy treat the globe as one single market. Products and services are offered with very little local modiﬁcation, branding is global, and the aim is to reach as many consumers with as little additional cost as possible. Of course, there is sometimes a need to make minor adjustments to product offerings (e.g., a fast-food chain adding or removing menu items to suit local tastes) but these are minimized in order to maximize economies of scale (YourTarget, 2020). Typically, there will be a head ofﬁce for the company (usually in the original domestic location), but this will be at the center of a network of regional operations across the globe.

Strategy four: Transnational strategy

A transnational strategy is a hybrid model that mixes components of multi-domestic and global strategies. In this model, the company creates a transnational product or service that is sold in all locations, without any modiﬁcation, across the globe. The way in which the product is packaged and marketed may differ across locations.

The company typically operates from a single headquarters (usually in the original domestic location) but will operate a network of overseas operations to produce and distribute the product. Marketing and research and development (R&D) services may also be carried out in local markets. Coca-Cola is an example of a transnational com-

pany. The product is the same everywhere (except for wording on the packaging) with a global branding approach, so that the Coca-Cola experience is uniform across all loca- tions (YourTarget, 2020).

###### Impact of Culture on the Marketing Mix

The marketing strategy of a business plays a critical role in its likely success or failure. Effective marketing means creating a marketing mix: the four Ps of product, price, pro- motion, and place. This mix should be closely aligned with corporate strategy, resonate with the characteristics of new and existing customers and markets, and be appropri- ate for the particular stage in the product life cycle. An effective marketing mix is a coherent, integrated approach to the way that a product or set of products is presented to the outside world.

In a local setting, the marketing mix is created within the context of local cultural norms, values, and expectations, with speciﬁc adjustments made to appeal to particu- lar market segments or target customer groups. It can be developed under the umbrella of corporate branding that provides a framework for the marketing mix of speciﬁc products. The marketing mix will have been modiﬁed and updated with the growth and establishment of the product in the domestic market.

When a company decides to expand into foreign markets, it faces the challenge of adjusting the marketing mix so that it is appropriate for the cultural setting of that new market. Business management literature is littered with examples of culture fails in the marketing mix of companies entering foreign markets. For example, Walmart’s difﬁcul- ties in entering the Chinese market have largely been due to a failure to cater for the tastes and expectations of the Chinese consumer in terms of products, pricing, and promotion (Jacobs, 2018). Failure to get the marketing mix right in a new location, either through a lack of cultural awareness or through the assumption that the existing mar- keting mix will work anywhere, can have serious implications for the success of the new venture.

Product

The starting point for the marketing mix is to have a product that meets the current or future needs of the consumer in the target market. If the product fails to meet a need, then it will not be successful. This means businesses need to closely examine the cul- tural norms and values of the target market and make adjustments to the product offering where there is a potential discrepancy. Only when a match has been found between a target market and a product can the rest of the marketing mix be estab- lished.

Oreos are an example of a product range that has been successfully modiﬁed for a tar- get market in China. When launched there in its original format in 1996, the product failed to make an impact and was on the verge of being withdrawn by manufacturer Kraft. After research into Chinese consumer preferences, however, Kraft changed the

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recipe for Oreos to reduce the sweetness, produced smaller, less expensive packs, cre- ated Oreo rectangular wafers and straws rather than cookies, and even produced a green tea ﬂavor ﬁlling (Smith, 2012).

The case of General Motors in Japan provides a contrasting example (Ferris, 2019). Although Japan is the world’s third largest car market, General Motors sold only 700 cars to Japan in 2018. Although this is partially due to trade restrictions on imports, in greater part, this is because of the lack of ﬁt between the American product and the needs of the Japanese market. Japanese consumers believe that American cars are poor quality and unreliable. They also do not want to drive large American cars in a country where space is at a premium and where 40 percent of the cars on the road are smaller Kei cars, which are built for ease of parking and maneuvering in busy cities. According to Ferris (2019), American car companies have failed to create or adjust their products to be a good ﬁt with Japanese consumer demands.

Price

Pricing is a complex variable in the marketing mix because it must balance the cultural expectations of the target market with the economic realities of exchange rate ﬂuctua- tions, oil prices, tariffs and taxes, labor costs, distribution costs, and the ﬂuctuating price and availability of raw materials. A product being launched into a new market needs to be priced so that it is proﬁtable in the context of the economic environment in which it is being offered. Pricing is the one aspect of the marketing mix that has a direct impact on the company’s revenue stream, so getting the price right is extremely important. In an international environment, pricing is likely to vary from market to mar- ket because of the differences in manufacturing costs, distribution costs, advertising and promotional costs, market conditions, standards of living, competitor pricing, and regulatory/tax implications. Of course, the price also needs to be consistent with the expectations of the target customer and the rest of the marketing mix.

A product is often priced so that it is too expensive in the target market. When McDo- nald’s opened its ﬁrst fast-food franchise in Moscow in 1990, the price of a Big Mac meal represented half a day’s wage for the average customer, making it the most expensive fast-food restaurant in the world. Prices have since fallen dramatically so that their prices in Moscow are now among the cheapest in the world (Cordell, 2020). Interestingly, however, low pricing can also represent a poor cultural ﬁt. Part of Wal- mart’s failure in Japan can be attributed to the low-price mantra of the company, because Japanese consumers associated low prices with low quality (Jacobs, 2018).

Promotion

In the local domestic market, promotional activities, such as advertising and public relations, can be carried out without too much fear of cultural misunderstanding (although companies still do make mistakes and errors of judgement where there is a diversity of cultures within their local market). In an international setting, promotional tactics and the appropriate mix of promotional elements need to be determined based on the best ﬁt with the characteristics of the target market and its cultural characteris- tics.

Promotional campaigns need to take into account a wide range of cultural factors—lan- guage, beliefs, attitudes, knowledge, ethnicity, religion, and even colors or symbols—so that there is a close ﬁt along each of the cultural value dimensions. Multinational com- panies, such as the global bank HSBC, have harnessed the power of cultural differences as a key feature in their promotional campaigns (SchoolTube, 2019). Other companies, such as Apple (Danova, 2018) and Toyota (Bhasin, 2018), have devised global promo- tional campaigns but have modiﬁed these subtly for each local market, retaining the power of the global brand combined with local imagery or characters.

There are, however, countless examples of promotional mistakes made by global com- panies. These vary from simple translation errors (e.g., KFC’s “Finger Lickin’ Good” slo- gan translated into Chinese as “Eat Your Fingers Off”) (Stampler, 2012) to examples of deeper cultural misunderstanding. Proctor and Gamble, for example, promoted its soap Camay in Japan with an advertisement that showed a man walking into the bathroom while his wife took a bath. The target audience, Japanese women, found the ad offen- sive since the invasion of a woman’s privacy is seen as disrespectful and bad manners in their culture (Wooten, 2011).

The promotional message that is most likely to be effective in a particular market needs to resonate closely with the cultural value dimensions of that environment. Par- ticular care needs to be taken with promotional campaigns in an international setting, because this is the part of the marketing mix that is reaching out to the consumer. Even unintentional cultural mistakes or misjudgments can be damaging to reputation, credi- bility, and market share. At the very least, promotional campaigns should be market- tested in some way before they are launched for a wider audience.

Placement

Placement is the part of the marketing mix that determines how and where a product is to be made available to the target customer, taking into account the speciﬁc market- place, consumer habits, competition, and knowledge of which locations are most effec- tive in a particular market. Clearly, luxury brands need to ensure that they are placed in appropriate consumer outlets that are consistent with their quality image, in the same way that discount brands need to be available in the appropriate retail settings. Star- bucks experienced problems in the Australian market by locating outlets in retail malls, when coffee drinkers actually preferred to visit their local coffee store (Turner, 2018). The use of e-commerce as a distribution channel has provided a further component of placement that international businesses need to consider in the marketing mix. The internet marketplace and online retail channels in one country do not necessarily rep- licate themselves in another location.

###### Localization versus Standardization

Branding is an important component of the marketing approach, providing an overall, recognizable “personality” for a set of products. The international company needs to decide whether a global brand is more effective than using different branding strat- egies for different groups of country markets (Broeways & Price, 2019). The approach to adapting and marketing products to meet the needs of customers in different locations

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is as much about localization as it is about globalization or standardization. To be attracted to a particular product, customers need to be able to identify with it in some way. This might be because it ﬁts comfortably within their national culture (local iden- tity) but, equally, it might be attractive because it exposes them to something new or different from outside of their cultural setting (**exoticism**). This latter trend has been exacerbated by the increase in the levels of international travel and tourism. For exam- ple, Chinese consumers are increasingly attracted to Western luxury goods, clothing, shoes, food, and health products (Broeways & Price, 2019).

Marketers can usefully cluster countries or customers into groups based around mean- ingful cultural characteristics. These clusters can be based around geographical prox- imity, where two or more countries share similar cultural dispositions toward a particu- lar product. Alternatively, clustering might be based around market segments (e.g., age, gender, educational attainment, or income) that share a similar cultural disposition. An example here might be individuals aged between 15 and 20 who originate from such culturally diverse regions as the US, Europe, and Japan, but who have high levels of cul- tural afﬁnity. In both cases, it is possible to standardize products because the target market segments share a similar cultural environment. This trend toward greater uni- formity in consumer preferences and behavior (especially in younger age groups) is increasingly important (Usunier & Lee, as cited in Broeways & Price, 2019).

Some global brands adopt a standardized approach to all aspects of the marketing mix. This is a viable approach where the product has a distinct niche (e.g., luxury brands such as Cartier or Rolex) or where the product is linked with a particular source loca- tion (e.g., Rioja wine, French brandy). In some cases, a company will localize the market- ing strategy completely to meet the needs of each target market. The appropriate approach—standardization, localization, or **glocalization**—is usually determined as a result of a thorough analysis of the target markets via market research.

###### Market Research

Traditionally, marketing activities are underpinned by market research that helps to better understand consumer opinions and motivations about products, buying behav- ior, and trends in the market. It would appear sensible, therefore, for the international marketing function to undertake regular and signiﬁcant market research to better explore cultural differences across markets. This assists in helping the company deter- mine the appropriate levels of standardization or localization that are required. It would also help to avoid some of the cultural mistakes or misunderstandings that reg- ularly occur in international promotional campaigns.

However, in addition to the cost and complexity involved, Welford et al. (as cited in Broeways & Price, 2019) identiﬁed a number of further challenges in carrying out mean- ingful market research. These challenges often result from the very same cultural dif- ferences that the research itself is aiming to better understand. These are as follows:

Exoticism

This is the quality of something being unusual or special because it is from another country.

Glocalization This term is used

when a globally pro- duced item is adjus- ted to meet local demands.

* + language barriers. Both translation and the meaning ascribed to particular words make comparison of responses problematic, because there is no guarantee that respondents have answered the same question.
  + sensitivity of questioning. Depending on the cultural setting, respondents are more or less likely to reveal particular types of information about themselves.
  + research techniques. Some research methods (in-depth interviews, focus groups) emanate from cultures where individuals are willing to talk openly and honestly, even about personal matters. These methods do not travel to other cultures where such openness is not a feature.
  + cultural differences. Again, the way people live, think, and behave differs according to the cultural setting, so any research that is based on one culture is unlikely to be consistent with every other cultural setting.
  + suspicion. Different cultures have varying levels of suspicion about what the infor- mation they give is being used for and may be unwilling to participate.
  + statistical comparisons. Data collected in different locations may not always be comparable because the collection methods and classiﬁcations made are often dif- ferent.
  + fragmentation. Where organizations carry out autonomous research in different regions, it may be impossible to bring the results together because of different col- lection methods and approaches.

### Human Resources Management

Human resource management (HRM) is the strategic approach taken by a company to manage its employees so that they help the organization meet its strategic objectives and create a competitive advantage. The responsibilities of HRM are both short- and long-term in perspective, and span all aspects of employee management. HRM over- sees the life cycle of an employee within the company, including recruitment, training, appraisal, rewards, promotion, dismissal, and redundancy. It ensures that these are car- ried out within the regulatory framework of the country of operation, in accordance with company policies and procedures. HRM can also play a signiﬁcant part in the building and maintenance of organizational culture, employee motivation, and staff well-being.

Laissez-faire In this leadership style, employees are given freedom to determine tasks and make decisions.

Given that HRM is the employee-facing function of the business, it is no surprise that national culture has a signiﬁcant impact on the way that function is implemented and carried out. National culture expectations combine with the culture of the organization to create the corporate approach to employee management. Even within the same cul- ture, two organizations can adopt quite different approaches to the management of their people. Compare the open, *laissez-faire* employee-management approach taken by Google with the stiff, bureaucratic, rules-driven approach taken by a US government agency.

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When a company steps out of its local setting and embarks on an international strat- egy, HRM is faced with the challenge of adding new layers of cultural complexity to the already complex mix. This challenge becomes increasingly complex as every new loca- tion (and its management and employees) is added to the portfolio of people overseen by the human resources (HR) function.

###### HRM in International Management

As companies become more international, and eventually global, the context, role, and nature of HRM changes and broadens. International Human Resources Management (IHRM) requires “the management of employees across countries and hence across dif- ferent systems for organizing business in general and human resources in particular” (Ferner, as cited in Browaeys & Price, 2019, p. 272). HRM needs to consider a variety of issues as the organization extends its operations into new locations. All these consider- ations need to be made in the context of both the company’s strategy and approach to internationalization, and in the cultural requirements of the new locations. The range of issues to consider are described below.

Regulation

Company employment practices need to be compliant with whatever the new local reg- ulatory and legal environment demands. A US-based company venturing into a German market needs to ensure compliance with the more rigorous employment laws that exist to protect employee rights.

Organizational structure

How a company implements its HRM strategy will need to go hand-in-hand with how it decides to structure the new international organization. This might result in a central- ized HR function, or the function might be carried out independently in each location. In either case, or in any hybrid model, the resulting HR function needs to be able to provide a coherent, consistent, and effective approach to the management of employ- ees.

Reward systems

HRM needs to be able to implement and manage systems for remuneration and reward that are consistent with corporate culture, policies, and expectations but which are also appropriate to the local environment. Minimum wage requirements, where they are in place, need to be adhered to and cultural expectations about how employees are rewarded need to be met. The drivers that motivate employees will likely differ from one country to another, with remuneration playing a different role in employee motiva- tion, depending on the location and the nature of the work being carried out.

Employee representation

Organizations need to understand and accommodate the different levels and roles of employee representation (e.g., trade union, works council) in new locations. Making changes in areas such as the organizational structure, job descriptions, **remuneration**,

Remuneration

The ﬁnancial reward received for work is called remuneration.

working conditions, or contracts may be possible without consultation or approval in some locations, but in other locations (e.g., Germany, France) there are strict protocols for the involvement of workers’ representatives in any major decisions or changes.

Recruitment practices

Local practices for hiring staff may not be transferrable to other locations. Different countries have different levels of regulation in place that inﬂuence how employment processes must be carried out. In some countries, hiring people can be done on the basis of personal contact and informal networks. In other locations, formal procedures and requirements need to be followed in order to comply with local employment regu- lations.

Diversity

The HRM function plays a key role in ensuring the effective management of diversity in the workplace. While there may be a corporate standard in place for ensuring equality of opportunity and treatment of all employees, the local attitudes and expectations may be somewhat different. There may be different legal regulations in place that regu- late how companies are expected to comply with local diversity expectations and requirements, or there may simply be none.

Culture

All of the factors above are inﬂuenced by the national cultural settings in which the company is operating. HRM alone is not responsible for creating or managing organiza- tional culture, but it does play a critical role in ensuring that management (and employees) are prepared for cultural differences, either through providing training, expatriate assignments, or recruitment of suitably qualiﬁed staff with intercultural experience.

This list of considerations appears somewhat daunting. The manner in which an organ- ization tackles them will vary, depending on the role that HRM already has within the organization and the local cultural setting in which it has previously been operating.

###### HRM across Cultures

The cultural value dimensions of Trompenaars, Hofstede, and the GLOBE project impact all aspects of the international business environment and its stakeholders, but they particularly inﬂuence the work-related attitudes, norms, expectations, and values that have an impact on the management of employees in an international setting. Broeways and Price (2019) identify ﬁve key elements of these culture value dimensions that have a particular inﬂuence of the HRM task in an international setting.

Power and authority

Depending on the attitudes to power and authority in the local culture, there will be a different level of tolerance toward inequality in the workplace. In some cultures, employees will expect to be involved in decision-making and in shaping the way their careers, employment conditions, and opportunities are managed. Where employees are

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in a culture that tolerates higher levels of inequality, they are more likely to expect top- down decision-making and are less likely to want to challenge any of the changes or decisions made by management.

Ambiguity and risk

In some cultures, employees value the level of autonomy, freedom, and independence they are given in carrying out their role. Employees enjoy working in an atmosphere of ambiguity and are willing to take risks. In other cultures, however, employees have a lower tolerance for ambiguity and risk, will look to management to make decisions on their behalf, and will be less likely to work outside of the clearly-deﬁned scope of their job description.

Trust

Different cultures bring with them different levels of interpersonal trust between man- agement and employees. In some cultures, managers may not trust the ability or inten- tion of their employees. Employees may be wary of dealing with management. In other cultures, however, the relationship between management and employees may be built around trust and conﬁdence, and employees may be encouraged to show initiative and make decisions for themselves.

Individualism versus collectivism

In individualistic cultures, the employee and the workplace are linked together through their contractual relationship, and this relationship is distinct from the employee’s pri- vate life. In collectivist cultures, the workplace is often seen as an extension of family life, the relationship with management is based more on loyalty and commitment than a contract, and the company often plays a role in protecting the well-being of employ- ees in a wider sense.

Leadership

Different cultures respond to different leadership styles. Leadership in one culture may be most effective when it is task-related and autocratic in style. In another culture, employee-related leadership that is paternalistic in style might be a better ﬁt. Other cultures may respond better to a laissez-faire style of leadership that gives autonomy and independence to the employee.

HRM practices, themselves, have emerged and developed in different ways, depending on their original cultural setting. As Browaeys and Price (2019) note, even the concept of human resource management is itself a culture-based construction. Emerging from the US in the 1960s, traditional textbook HRM “best-practices” reﬂect the model of employee management that ﬁts best with American cultural norms and values. With employees being a key asset to the organization, they needed to be managed effec- tively and provided with the knowledge and skills that would be required in order to gain competitive advantage.

Communal and Brewster (as cited in Browaeys & Price, 2019) describe how this created the American model of HRM, based around private enterprise, the formalization of process and procedure, management freedom and autonomy, and little intervention from the government. Attitudes toward employee representation through trade unions

were often hostile. They compare this model with the HRM model that has since emerged in the European Union, despite cultural differences between member states. In Europe, HRM fulﬁlls more of a set of responsibilities toward the employee in how they are managed and organized. Diversity is likely to be seen as having a positive, qualitative impact, and the involvement of workersʼ representatives is widely recog- nized and supported. European HRM functions also need to cater for the greater impact of rules and regulations that need to be followed around employment practices.

In Asia-Paciﬁc cultures, the emergence of HRM has been less uniform and homogene- ous (Rowley, as cited in Browaeys & Price, 2019), even for companies within the same country. Some companies have introduced traditional, hierarchical models; some have implemented market-oriented practices with performance-based reward systems; and some have created hybrid models where performance-based reward is limited only to certain functions (e.g., sales). According to Rowley, there is no evidence of a move toward a single HRM-model that mirrors the European experience.

Browaeys and Price (2019) suggest that in the instance of HRM, the application of the value dimensions of culture is somewhat problematic. This is because the complexity of the HR problem is not driven by cultural variables alone but is also reﬂected in the economic tradition and development of the country and in how the systems of busi- ness have evolved over time in that location.

###### Approaches to HRM in an International Environment

Companies have taken a variety of approaches in trying to best adapt themselves to meet the human resources challenges of an international operation. Tayeb (as cited in Browaeys & Price, 2019) identiﬁes three factors (which are ﬂuid and change over time) that companies need to consider in determining their HRM approach:

1. The social, political and cultural environment of the locations in which the parent company is seeking to operate;
2. The preferred ways of operating in that location (from the perspective of the subsid- iary); and
3. The corporate HRM strategy of the parent company.

Tayeb (as cited in Browaeys & Price, 2019) goes on to present four strategic options that a parent company can take in its approach to HRM:

1. Ethnocentric. The parent company ignores the local culture and operating environ- ment and implements the company’s domestic HRM approach across all its interna- tional subsidiaries.
2. Polycentric. The parent company takes into account the different culture and oper- ating environment experienced by employees in other locations and modiﬁes the HRM approach to better suit local needs and preferences.

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1. Global. The parent company acknowledges that being global is different and seeks to create a new organizational culture based on strong cultural synergy by imple- menting a new global HRM function across the company.
2. Hybrid. The parent company takes into account the various cultural and environ- mental characteristics by implementing different HRM approaches for each of its subsidiaries.

Although companies have tended toward the approach of attempting to transplant their corporate HRM strategies across all locations, evidence suggests that this is rarely successful (Browaeys & Price, 2019). For example, Japanese companies attempting to export lean production and management methods to Western cultures, such as the UK, found that they had to make adjustments in order to make these effective. According to Elger and Smith (as cited in Browaeys & Price, 2019), there is more evidence of a hybrid- ization approach when implementing HRM strategies.

McSweeney et al. (as cited in Browaeys & Price, 2019) reject the idea of a convergence of HRM through the implementation of global HR approaches, simply because there are so many sources of diversity in local cultures that make this approach difﬁcult. In real- ity, companies are faced with a mixture of inﬂuences, bringing together universal and local practices, international and local competition, and corporate and local cultures. The result is most likely to be a complicated interplay of international and local forces that together converge and diverge. The HRM challenge is to be able to understand, react to, and manage this complex task.

Summary

When a business decides to expand its operation into the international arena, the focus is initially on market opportunity, increasing revenue and proﬁt, achieving economies of scale, and achieving competitive advantage. However, the realities of operating in new cultural settings bring a number of key challenges to the core business functions of strategy formulation and implementation, marketing, and human resources management.

The way in which an organization sets about formulating strategy is a reﬂection of the cultural context within which that strategy formulation is taking place. This will impact who is involved in setting the strategy, the approach to deﬁning and agree- ing to that strategy, the time taken to formulate strategy, and the types of strategic goals that will be produced. When operating in an international environment with multiple locations, cultural sensitivity is required to ensure that the resulting cor- porate strategy is relevant, meaningful, and appropriate to all management and employees in all locations.

Marketing products in multiple international locations creates both opportunity and challenge. The marketing strategy needs to be adjusted to ensure that the needs and expectations of customers in all locations can be met. This means care- fully considering the marketing mix (four Ps) and making adjustments to ensure that the marketing message is appropriate within the targeted cultural setting.

Human resources management (HRM) plays a critical role in ensuring that the employees of the company are managed in a manner that is consistent with corpo- rate values, policies, and procedures, while also meeting local regulatory require- ments, cultural expectations, and interfaces with employee representative bod-

ies. Culture plays a signiﬁcant role in the relationship an employee expects to have with their place of work, and the HRM challenge is to ensure that these expecta- tions are met across all operating locations.



# Unit 5

## Focal Points of Intercultural Management

#### STUDY GOALS

On completion of this unit, you will be able to…

… recognize the importance of corporate governance in international management.

… distinguish between styles of communication in different cultures.

… identify the challenges of managing intercultural teams.

DL-E-DLMINTIM01\_E-U05

1. Focal Points of Intercultural Management

### Case Study

Rainbow Fashions is a German company based in Leipzig that produces a range of nov- elty T-shirts aimed at the youth market. These are then sold in fashion stores through- out Europe, including Germany, France, Italy, and Spain. To reduce the cost of produc- tion, the company has outsourced its production to a company in Bangladesh. This has reduced costs signiﬁcantly with no reduction in product quality. However, Rainbow Fashions has learned that one of the factories is using child labor. Worried by the potential impact on their reputation, Rainbow Fashions are considering their future options:

* + cancel their relationship with the supplier completely;
  + insist that the use of child labor ceases immediately, or else the contract with the supplier will be terminated; or
  + turn a blind eye to the supplier’s working practices, since they are not the responsi- bility of Rainbow Fashions.

The production manager visits the supplier in Bangladesh. They discover that the use of child labor, while contrary to the ethical values of Rainbow Fashions, provides an alternative for many young and vulnerable children in the city. The money they earn is an essential part of their family’s income. Based on their ﬁndings, the production man- ager is faced with the following difﬁcult ethical questions:

* + What will the impact be on Rainbow Fashions’ reputation if the use of child labor in their production process becomes publicly known?
  + Will terminating the contract with their supplier be in the best interests of the chil- dren currently being employed?
  + What, if anything, should Rainbow Fashions do now?

### Intercultural Management and Corporate Governance

Corporate governance is a broad topic that covers all areas of how companies are gov- erned so that they are managed efﬁciently and effectively, in keeping with the goals and objectives of the business and interests of the internal and external stakeholders of the company. According to Angela Guerria, Secretary-General of the Organization for Economic Cooperation and Development (OECD), the purpose of good corporate gover- nance is to “help build an environment of trust, transparency and accountability neces- sary for fostering long-term investment, ﬁnancial stability and business integrity, thereby supporting stronger growth and more inclusive societies” (OECD, 2015, p. 7). In many cases, the principles of corporate governance are set down in laws, standards, and expectations that make them legally binding and mandatory in a particular country or region. Corporate governance standards may also be established by the particular industry or business sector within which a company operates. In addition, companies

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often set down their own principles for corporate governance that are consistent with their overall goals and objectives and reﬂect the norms and values of the organization itself.

Corporate governance principles include the following practices: communication, open- ness and transparency, the availability of information, controls, systems and proce- dures for the management of risks and compliance, deﬁnition of structures and pro- cesses for meeting the business objectives, mechanisms for stakeholder involvement, reward and evaluation of senior management, diversity management, corporate social responsibility (CSR), and business ethics. As Nadaf and Navi (2017) state, “a company without a system of corporate governance is often regarded as a body without a soul or conscience” (p. 67). The resulting corporate governance structure will likely consist of a broad range of internal and external controls and procedures that reﬂect how the busi- ness wants to run and how it wants to be perceived.

Naturally, whether internally or externally applied, corporate governance standards and principles often closely align with the cultural context in which they operate. For this reason, corporate governance will likely differ from one country to another depending on cultural characteristics. This creates a signiﬁcant challenge for the multinational organization where stakeholders exist across different cultural settings, each with their own different set of expectations for corporate governance standards.

###### Corporate Governance and Culture

The principles of corporate governance are frequently an artifact of the national culture in which they operate; thus, it is highly likely that expectations and standards will vary from one country to another. Traditionally, there have been different general approaches applied toward corporate governance. The traditional Anglo-American approach can be described as the “shareholder approach” where the key relationship with shareholders lies at the heart of corporate governance standards. Here, corporate governance has accountability as its primary focus, seeking to minimize risks to share- holders and provide management with the opportunities to develop the company so that shareholders can beneﬁt from business success and proﬁt maximization (Strange et al., 2009).

Elsewhere, the focus has tended to be toward the relationship between the company and the society within which it operates. This is described as a “stakeholder approach,” whereby the relationships with internal and external stakeholders lie at the heart of corporate governance good practices (Siriu, 2018). Increasingly, this stakeholder approach has embraced the principles of CSR and honest, ethical business practices. But, in many cases, countries and companies operate without any clear system of cor- porate governance, leaving businesses open to the risks of scandal, malpractice, and unethical practices.

When operating across borders, a business needs to be aware of these differences in corporate governance norms in different locations. These norms are often encapsula- ted in national codes of conduct or guidelines that companies operating in that coun-

try are expected to follow, especially if they wish to be credible with stakeholders and investors in that location. Indeed, restrictive corporate governance expectations may act as a barrier to entry to or investment in a particular country because they are so different to those experienced in the domestic location. On the other hand, a lack of corporate governance standards in a particular location can leave an organization open to the risk of corporate scandal and signiﬁcant reputational risk.

In Germany, for example, a strong corporate governance code of conduct was estab- lished in 2002 to provide companies operating therein with a set of expectations and guidelines that should be followed. Although this code is not mandatory or legally binding, it is prudent for companies wishing to operate in the German business envi- ronment to follow these guidelines. Businesses are expected to operate according to the highest principles of business ethics, honesty, and transparency (Strange et al., 2009).

In contrast, Nadaf and Navi (2017) describe a series of corporate scandals in India, resulting from a lack of credible corporate governance, that have damaged both the reputation of the Indian economy and many companies operating within it. The schol- ars provide an extensive list of scandals involving companies, such as Satyam Com- puter Services who falsiﬁed accounts, the Unit Trust of India (UTI) investment collapse, the major stock market frauds committed by well-known business ﬁgures, and scandals including the Indian Premier League (IPL) and the Commonwealth Games (CWG), as examples of a lack of a corporate governance culture in Indian business.

According to the McKinsey Global Institute (as cited in Doh et al., 2016), the growth of multinational companies originating from emerging and developing countries will be hugely signiﬁcant, rising from just ﬁve percent of Fortune Global 500 companies in 2000 to nearly 50 percent by the year 2025. With this signiﬁcant growth comes the increasing demand for businesses in developing economies to demonstrate globally acceptable standards of corporate governance, business ethics, and corporate social responsibility. Without them, it is difﬁcult for businesses to gain credibility with potential customers, business partners, suppliers, investors, and other stakeholders from more developed countries with expectations of more stringent standards of business behavior.

###### Business Ethics and Culture

The combination of business ethics and corporate governance makes a signiﬁcant con- tribution to a business and how it decides to function. Corporate governance is a set of standards and guidelines that a business implements to represent, protect, and inform the various stakeholders of a company. Business ethics, in turn, provide the norms, val- ues, and ethical principles that the business intends to follow in pursuing its business interests and in following these standards and guidelines. The two are inextricably linked, because the governance standards and guidelines are likely to be a formaliza- tion of many of the ethical values of the company and its leadership.

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McFarlin and Sweeney (2017) encapsulate the difﬁculties associated with business eth- ics in the international business environment, stating that “many people feel that the concept of business ethics is about as murky as it gets when borders are crossed” (p. 335). What is viewed as ethical business practice in one cultural setting may not be seen in the same way in another. Cultural norms and values inﬂuence ethical behavior across all dimensions, including bribery and corruption, the poor treatment and exploi- tation of the workforce, and the respect paid to the local environment, sustainability, and pollution. In response to this dilemma, McFarlin and Sweeney (2017) present two broad perspectives on how ethics are approached in the business setting: universalism and cultural relativism.

Universalism

The universalist approach argues that there are certain behaviors and approaches that every culture believes to be wrong, and which should be universally avoided, including such things as cruelty to others, stealing, bribery, and corruption. For this reason, a uni- versalistic approach implies the feasibility of implementing a set of universal, global guidelines for ethical behavior in business. Entities such as the United Nations, the OECD, the European Union, and the US each have sets of guidelines or standards cover- ing ethical topics such as human rights, free speech, equal opportunities, corruption, and workersʼ rights.

The United Nations Global Compact (UNGC) was set up in the year 2000 by a combina- tion of governments, companies, academics, and workers’ organizations involved in international commerce. The UNGC is now endorsed by over 13,000 partners across 170 countries, including some of the world’s largest multinational companies (e.g., Coca- Cola, Starbucks), and consists of ten principles for ethical behavior (McFarlin & Swee- ney, 2017).

Although the UNGC website seeks to clarify and elaborate on these ten principles, dif- ferences in cultural interpretation still cause difﬁculties with such a universalistic approach. For example, agreeing on what decent working conditions are, what corrup- tion is, what abuse of human rights is, or what cooperation with the government really means, are all subject to local norms, values, and interpretations. Additionally, the ten principles are a guideline, but are not enforceable or mandatory in any jurisdiction. This means that countries and companies, even if they have become members of the UNGC, can choose which of these ethical obligations to adopt and which to ignore.

|  |  |  |
| --- | --- | --- |
| The Ten Principles of the United Nations Global Compact | | |
| Human rights | 1. | “Businesses should support and respect the protection of internationally proclaimed human rights; and” |
|  | 2. | “make sure that they are not complicit in human rights abuses.” |

|  |  |  |
| --- | --- | --- |
| The Ten Principles of the United Nations Global Compact | | |
| Labor | 3. | “Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;” |
|  | 4. | “the elimination of all forms of forced and compulsory labour;” |
|  | 5. | “the effective abolition of child labour; and” |
|  | 6. | “the elimination of discrimination in respect of employ- ment and occupation.” |
| Environment | 7. | “Businesses should support a precautionary approach to environmental challenges;” |
|  | 8. | “undertake initiatives to promote greater environmental responsibility; and” |
|  | 9. | “encourage the development and diffusion of environ- mentally friendly technologies.” |
| Anti-corruption | 10. | “Businesses should work against corruption in all its forms, including extortion and bribery.” |

When in Rome This expression refers to following local customs when visiting a foreign

place.

Cultural relativism

Because of these inherent difﬁculties in the interpretation of universalistic guidelines across cultures, McFarlin and Sweeney (2017) point to the emergence of an alternative approach to business ethics: cultural relativism. Here, the deﬁnition of what is ethical is determined by the local culture, regulations, and business practices. McFarlin and Sweeney (2017) describe this as the “**when in Rome**” approach, where local ethical standards are adopted out of respect for the local operating culture. This means that paying the occasional bribe or following other local, possibly unseemly working practi- ces can be justiﬁed in the context of local expectations. McFarlin and Sweeney con- clude that both approaches are problematic and plausible, and continue to exist despite the growth of international business. Even where countries share similar approaches (e.g., the US and China tend toward universalism), there can still be signiﬁ- cant differences in behaviors in speciﬁc business areas, e.g., marketing ethics.

It is likely that most companies adopt an approach to business ethics that sits some- where between these two different approaches. Enderle (2014) provides an alternative approach by examining three different levels at which business ethics can be applied or analyzed across boundaries and borders: micro (individual business participants),

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meso (business organizations), and macro (economic systems). Cutting across these three levels, he identiﬁes a set of international dimensions or borders across which these levels need to be resolved or managed.



These international dimensions indicate the signiﬁcance of the type of international relationship and the permeability of the borders involved when applying business eth- ics, and offer a middle ground between the two extremes of universalism and cultural relativism presented by McFarlin and Sweeney (2017).

Foreign country type

Here, each country is viewed as being different, borders are viewed as being impermea- ble in both directions, and the company adapts to the ethical standards of the foreign country (“ethical relativism”), often out of respect for the values and traditions of that country. This mirrors the cultural relativism approach presented by McFarlin and Swee- ney (2017).

Empire type

International relations can be viewed as an expansion of domestic relations into other countries without the need for signiﬁcant change. Enderle (2014) describes this rela- tionship as ‘‘ethical imperialism’’ since ethical standards are based on values and norms seen in the home country and imposed on the receiving country without modiﬁ- cation. A typical example is the relationship between Great Britain and its colonies (e.g., India) stemming back to the days of British imperialism and colonialism, where ethical standards are still largely inherited from that time.

Interconnection type

International and domestic relations are different but inextricably linked so that the distinction between national and international relations becaomes blurred. Enderle (2014) describes this as an ‘‘ethics of reciprocity’’ where ethical standards originate from both sides in order to gain mutual advantage. He cites the example of the rela- tionship between member states and the European Union as an example.

Globalization type

Here, international relations take on an importance that renders national borders as almost meaningless or irrelevant. Enderle (2014) cites the emergence of truly global issues, such as global climate change, as examples that transcend national borders. These international issues are bound together by ‘‘universal ethics.’’ As Enderle (2014) states, “the relevant ethical standards apply to all actors on the planet Earth regardless of their different local traditions and cultures” (p. 726). This approach mirrors the uni- versalism approach presented by McFarlin and Sweeney (2017).

Whichever of these four approaches outlined above is applied, there are clearly differ- ences in attitudes toward business ethics depending on culture and nationality. It is also possible that even apparently similar attitudes toward business ethics will stem from a different moral position or reasoning. Indeed, McFarlin and Sweeney (2017) cite examples of research that showed that US managers viewed issues, such as employee theft and other personnel dilemmas, differently from managers in Germany and Aus- tria. American managers view the individual as being the primary source of ethical val- ues, whereas in Germany and Austria, ethical values are seen in the context of the rela- tionship between the business and the local context. To the authors, it appeared that American managers were more concerned by ethical issues than equivalent managers from Germany.

Transparency International (2017), a global coalition against corruption, deﬁne corrup- tion as paying a bribe to gain access to public services within the last 12 months. In their survey of over 160,000 people across the world, they found that one in four busi- nesspeople across the globe had fulﬁlled this deﬁnition of corruption. Comparing dif- ferent regions, the variations in corruption ranged signiﬁcantly from an average of nine percent in Europe to 30 percent in the Middle East, North Africa, and the Common- wealth of Independent States. Moreover, the variation within each of these regions was even more signiﬁcant, with some countries reporting no bribery at all (e.g., United King- dom), and others reporting a bribery rate in excess of 75 percent (e.g., Yemen). The emerging BRIC nations showed the following results: Brazil (11 percent), Russia (34 per- cent), India (69 percent), and China (26 percent). Undoubtedly, the prominence and acceptability of bribery and the level of corruption varies signiﬁcantly according to cul- ture and location.

Whatever the cultural context, the failure to follow any sort of ethical standards or code of conduct across the multinational organization can expose a company to signiﬁcant reputational risk. In the 1990s, Nike was on the receiving end of intense media scrutiny and criticism for its failure to adhere to its own codes of ethics. The use of child labor, clear evidence of poor working conditions, low wages, and the willingness to allow local working practices and regulations to be followed across their extensive network of con-

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tract suppliers and producers, had a signiﬁcant detrimental effect on Nike’s corporate image (McFarlin & Sweeney, 2017). Nike has had to work hard to restore credibility over the last 25 years, putting pressure on suppliers to adopt better working practices and being more open and transparent in disclosing its network of suppliers. Despite Nike’s support for ethical and moral campaigns as part of its global marketing strategy, the company is still under continual ethical scrutiny. For example, an article in *The Wash- ington Post* highlighted the use of forced labor of Uighur Muslim minorities in manu- facturing in the Xinjiang region of China (Fiﬁeld, 2020).

Businesses are often torn between the conﬂicting demands of achieving economies of scale and reducing costs while following ethical business practices. If a network of sup- pliers in a developing country is able to produce goods at a substantially lower cost than in the home location, the multinational business may need to be prepared to turn a blind eye to worker safety and welfare to achieve these savings. Where a company outsources production and operations to third party suppliers, should it take responsi- bility for overseeing and policing the conduct of those suppliers?

Deresky (2017) describes the highly publicized case of the Tazreen Fashions Factory in Bangladesh, which was destroyed by ﬁre in November 2012, resulting in the death of over 1,100 workers. The factory was a supplier to large US multinationals, such as Sears and Walmart, who claimed no responsibility for the factory owner’s negligence on the basis that they did not know the factory was producing goods for them. A series of other serious ﬁres in Bangladeshi factories, culminating in the death of over 1,200 workers in the collapse of a Dhaka factory, led to Bangladesh being suspended from the US’s preferential trade program. They also brought the issue of ethical business practices and corporate responsibility ﬁrmly into the public view, pressuring multina- tional companies into taking a more proactive involvement in their networks of out- sourced suppliers in developing countries. However, this has failed to eradicate the problem, as Bangladesh is now the world’s second largest exporter of fashion garments with low wages, poor working conditions, and no worker representation (Deresky, 2017).

Any business operating across international locations is faced with ethical dilemmas based on the conﬂicting demands of business interests (increasing proﬁtability, driving down costs, expanding global reach) and being seen to be doing the right thing. Dere- sky (2017) provides a set of guidelines for managers faced with such ethical dilemmas to assist in making the right decision:

* Ensure that the laws of neither the home nor host countries are being broken.
* Ensure compliance with the appropriate code of conduct that covers social respon- sibility and ethical behavior.
* Ensure compliance with the company’s own ethical standards and principles.
* If these three steps still fail to provide clear guidance, consider the rights of the var- ious stakeholders involved and assess the level of harm versus beneﬁt that a deci- sion might cause, both in the short-term and the long-term.
* Make a decision that is consistent with your own conscience and ethical values, so that you are able to stand by the decision.

###### Corporate Social Responsibility and Culture

The competing forces of universalism and cultural relativism that inﬂuence business ethics across the globe can make decision-making problematic at a company level. Adopting a relativistic approach might mean a company endorsing poor working condi- tions in one country that would be viewed as unethical in their local environment. The payment of bribes in one location might simply be illegal in the local environment. Alternatively, applying a universalistic approach to business ethics does not guarantee that the same principles will be followed in every location in the same way.

Companies are increasingly embracing the concept of CSR as a means of empowering themselves to be ethical and socially responsible, working to a set of self-imposed and self-regulated standards and guidelines for business practices that help to overcome some of these dilemmas presented by cultural differences across locations. CSR is expressed through the goals of the organization and reﬂects the ethical and moral position of the company in carrying out its business objectives.

A company embracing CSR is expected to have a stance on a wide range of societal issues, including poverty, equal opportunities, the environment, social inequality, employee safety and well-being, corruption, and sustainability. Typically, CSR is classi- ﬁed according to four categories (Stobierski, 2021):

Philanthropic Being philanthropic means promoting the well-being of others through benevolent acts or

giving.

1. Environmental responsibility, the belief that the company should behave in a responsible way toward the environment
2. Ethical responsibility, the belief that the company should operate in a fair, honest, and ethical manner toward all its stakeholders across all locations
3. **Philanthropic** responsibility, the belief that the company should contribute to the well-being and improvement of the wider society through charitable giving or com- munity initiatives
4. Economic responsibility, the belief that the company should act with economic bal- ance, not solely to maximize proﬁt, but also to enable the other three aspects of CSR to be realized

There is increasing pressure on companies to display CSR and, according to McFarlin and Sweeney (2017), management attitudes toward CSR have changed signiﬁcantly in recent times. They cite a survey of over 1,000 international executives where 60 percent of respondents now believed that CSR was a high priority, compared to only 35 percent in an earlier survey. CSR was seen by respondents as an essential cost and conse- quence of doing business, helping their company to improve decision-making pro- cesses, and thereby contributing to an improvement in their reputation in the market.

In addition to promoting social responsibility in the way that business is conducted, CSR has also yielded competitive beneﬁts for those companies that have adopted it, as identiﬁed by Weber (as cited in Deresky, 2016). These beneﬁts are as follows:

* increased ability to access ﬁnance and capital;
* ability to obtain operating licenses;

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* + increase in revenue and proﬁtability;
  + decrease in costs;
  + reduced risk;
  + brand value increase;
  + consumer appeal and retention improved;
  + reputation enhanced; and
  + improvement in staff morale, retention, and ability to recruit.

However, the rise in corporate social responsibility has been met with a rise in cynicism about its authenticity. Certainly, multinational companies can claim to have made sig- niﬁcant contributions to the social and economic development of less developed coun- tries, but this has often been a byproduct of their primary pursuit of proﬁt and reduced costs rather than a replacement. Critics state that companies are left with no choice in the modern world but to follow CSR in order to be accepted by social commentators, stakeholders, potential investors, non-governmental organizations or **NGOs**, and social media. Following a CSR agenda does not appear to be having a detrimental effect on levels of proﬁtability.

Perhaps the largest challenge of a CSR agenda is the seemingly simple task of deter- mining the right thing to do from an ethical point of view. For example, McFarlin and Sweeney (2017) describe, how in Apartheid-era South Africa, many multinational corpo- rations withdrew their operations from the country in reaction to the repressive and unethical regime. However, many other companies argued that by divesting in South Africa, they would cause far more damage (in terms of jobs, inequality, and security) to those people whom such sanctions were meant to protect. By remaining present in South Africa, these companies believed they would have a greater ability to inﬂuence the behavior and reform of the country’s regime. According to McFarlin and Sweeney (2017), both arguments have their merits.

###### Creating Shared Value (CSV)

According to Porter and Kramer (as cited in Deresky, 2016), the existing idea of CSR is limited because it views corporate responsibilities to the wider society as lying outside of the business itself. CSR concerns itself primarily with issues of legal compliance, codes of conduct, and reputational protection, which, in themselves, cannot signiﬁ- cantly enhance value creation and competitiveness. As an alternative, they promote the idea of Creating Shared Value (CSV), which views the future success of the company as working in combination with the social and economic development of the locations in which it operates. CSV “leverages the unique resources and expertise of the company to create economic value by creating social value” (Porter & Kramer, as cited in Deresky, 2016, p. 67). They cite Nestlé, Google, and Intel as companies who have created shared value by “reconceiving products and markets; redeﬁning productivity in the value chain; and enabling local cluster development” (p. 68). Nestlé further clariﬁes this approach by stating a clear business case for a CSV approach “sustainably delivering on share- holder expectations while helping to address global societal challenges. When we ach- ieve this, we become a force for good that enhances the quality of life for everyone” (Nestlé, 2021, para. 2).

NGO

A non-governmental organization is a legally constituted organization that operates independ- ently of any govern- ment.

The Nestlé business case is underpinned by a detailed approach of ten components. Some of these include: “Taking care of our people; Putting our values at the heart of what we do … Collaborating for major change … Aligning our commitments and ambi- tions with the UN Sustainable Development Goals” (Nestlé, 2021, para. 3). Nestlé has moved on from the position of CSR, where it needed to be seen to be responding to external pressures and circumstances, to a position of CSV, where both internal inter- ests and societal or community interests and initiatives are integrated into corporate objectives, strategy, and the business model.

### Intercultural Communication

Intercultural communication is what happens when individuals or groups from differ- ent cultures interact with each other, bringing their culture’s way of thinking and living into the interaction. Browaeys and Price (2019) describe it as “a fabric created by the individuals or groups from different cultures and woven from the perceptions they have of each other, ... the values, codes, lifestyles and thought processes belonging to their respective cultures,” i.e., a “fabric of relations” (p. 354). Communication contains a message or content. In an intercultural context, what is of particular importance is the nature of the interaction between the participants and the way in which they interpret the combination of content, situation, and the interaction itself. This interpretation is driven by the cultural norms, values, and expectations of each participant; thus, culture becomes a central part of the network of relations that makes up the experience of communication.

###### Business Communication across Cultures

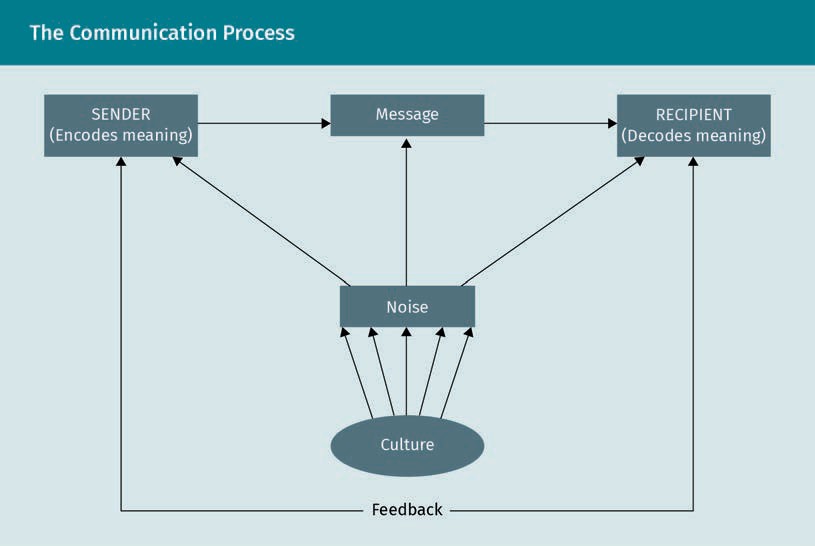
Communication, and how it is interpreted, is heavily inﬂuenced by the situational con- text. Different cultures will ascribe different expectations and meanings to different communication contexts. Being aware of the situational context allows the participant to more easily predict and interpret the nature and meaning of communication. For example, the communication conventions experienced in a church will be very different to those experienced at a football game, a court of law, or a business meeting. Culture provides the context and all of the norms, values, expectations, conventions, and sym- bols to make sense of communication in a particular situation.

The business context is one such situational context in which participants from differ- ent cultures apply their own customs. This means that participants originating from dif- ferent cultural backgrounds are likely to ascribe different interpretations to the same shared communication event. These interpretations are further complicated in a busi- ness setting because communication will also be impacted by the culture of the organ- ization itself.

Communication in the intercultural business context can take a variety of forms, with the traditional forms of written and spoken communication now being extended through the increasing use of electronic communication media. The ability to commu-

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nicate effectively is a key component of the intercultural management role and can have a signiﬁcant impact on both the success of international business activities and the management of a culturally diverse set of employees. It is essential, therefore, that the recipient of a particular communication interprets it as closely as possible to the way in which it was intended by the sender.



Unfortunately, this business communication process contains numerous points at which its original meaning or intent can become distorted. This process of distortion is often referred to as “noise.” This noise occurs as participants “ﬁlter, or selectively understand, messages consistent with their own expectations and perceptions of real- ity and their values and norms of behavior” (Deresky, 2017, p. 151). Naturally, the greater the differences between the cultures involved, the more likely that the meaning and intent of the communication will be misunderstood or misinterpreted. Intercultural managers, therefore, need to be aware of **cultural noise** to optimize communication and reduce misunderstanding.

###### Written Communication

A large amount of business communication continues to be carried out through the written media. Although there is less cultural noise to be found in the written form (because the interaction between sender and recipient in the dialogue is not an itera- tive and multi-faceted, sensory experience like face-to-face, verbal communication), there can still be considerable differences in the cultural expectations that surround written communication. A range of cultural variables inﬂuence the effectiveness of writ- ten communication.

Cultural noise This term refers to

the various cultural factors that are likely to impact the effec- tiveness of commu- nication.

Nuanced Communication is nuanced when it is characterized by dif- ferent shades or lev- els of meaning or

expression.

Language

An obvious obstacle to mutual understanding is the choice of language to be used in written communication. Where the recipient receives communication that is not in their primary language, there is the risk of misunderstanding and misinterpretation. This can vary from a lack of awareness of subtle, **nuanced**, informal language to the difﬁculties in understanding highly technical or specialized language. Where a participant is forced to communicate in writing this language, their ability to express exactly what they want to say, in the manner in which they wish to say it, is immediately restricted.

Status of written documents

Different cultures have different attitudes to the status of written communication. For example, in Western cultures, such as the US, Germany, and the UK, conﬁrming details in writing is seen as an important stage in the business relationship. Written contracts are seen as binding and are often expressed in detail to ensure there is no lack of understanding. Written agreements are referred to regularly in the business relation- ship. In other cultures (e.g., the Middle East, Latin America, and Asia), written agree- ments are seen as secondary to the relationship that has been built through personal contact. Written documents and contracts are viewed either as a starting point or as having ﬂexibility to be changed later. The point in the relationship when written docu- mentation is introduced may also vary across cultures. In Germany, producing detailed documentation at an early stage in the business process is a sign of professionalism, credibility, and rigor. In other cultures, (e.g., Asian) this is not as important as building the relationship at the early stages (Hooker, 2012).

Level of detail

Edward T. Hall’s (1976) identiﬁcation of low- and high-context cultures provides a clear distinction between the levels of detail that different cultures expect to see in written communication. In low-context cultures (typically Western cultures, such as the US, Ger- many, the UK, Canada, Australia, and much of the rest of Europe), written communica- tion is expected to provide full details. Businesses in this context abound with formal documentation, employee memos, policy manuals, and templates (e.g., contracts, holi- day request forms, and user guides). Written documentation goes hand-in-hand with the procedures and processes that are expected to be followed in the work setting. In high-context cultures, on the other hand, written correspondence is less prevalent and more is left out, with far more detail and content left to the discretion of the partici- pants and the personal relationships they share (Hooker, 2012).

Local standards

Doing business in an overseas location requires compliance with or an understanding of local documentary standards. The style in which a contract or agreement may need to be written in order to meet local legal requirements or conventions can differ signiﬁ- cantly. The local conventions for business salutations, titles, acceptable style, and pre- sentation are likely to be different.

The scope of written communication has been extended in recent years as the impact of electronic written media continues to transform business communication. The use of electronic media has gone hand-in-hand with globalization and the removal of barriers and borders. Using the internet as a communication medium has opened up the possi-

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bilities for enhanced and easier communication with internal and external stakehold- ers, as well as providing a platform for e-commerce and cross-border trade. In many cases, the use of electronic media has replaced traditional forms of written (and spo- ken) communication, blurring the rules and conventions for communication that previ- ously existed.

Email has largely replaced traditional written media as the primary mechanism for writ- ten business communication, providing enhanced efﬁciency and convenience. Text messaging and social media are also increasingly used in a business setting, both internally and externally. But the same issues arise with potential for intercultural mis- understanding and cultural noise, especially since electronic media are mistakenly per- ceived as conforming to global standards that are devoid of any cultural connotations. Cultural context has a profound impact on the interpretation of choice of language, lev- els of formality, salutations, and levels of detail, and these factors are equally as important and inﬂuential when using electronic media as other means of communica- tion.

###### Verbal Communication

Where communication takes place in a face-to-face setting, the potential for cultural noise to interfere with understanding and interpretation is signiﬁcantly increased. In addition to the message or content of the meeting, the situation, context, and human interaction add to the layers of complexity that are interpreted through the cultural lens of each of the participants.

Conventions for the ﬁrst meeting

Expectations for what happens at the beginning of an encounter are shaped by cultural norms and values. Browaeys and Price (2019) describe a hypothetical ﬁrst meeting between an American and a German manager, where the American manager aims to forge a friendly, informal, open relationship, while the German manager is cautious and reserved about giving too much away until respective positions and credentials have been established. Meeting with Japanese representatives requires a sensitivity about appropriate formality and deference to position or seniority, which may be counter to a Western approach which strives to “**break the ice**,” establishing informal communica- tion through the use of ﬁrst names and light-hearted small talk.

Language

Where participants do not share the same primary language, language differences can be overcome using an interpreter, the primary language of one of the participants, or a common language. In all three cases, the barrier of language will increase the level of cultural noise. An interpreter may be unable to successfully translate the subtleties and nuances of each side of the conversation. They may themselves become the focus of the conversation and act as a barrier to the forging of a relationship between the par- ticipants. Using one participantʼs primary language creates difﬁculties for the other party, establishing a power dynamic in the meeting because of different levels of lin-

Break the ice

The expression is used for doing or saying something to take the stress or tension out of a sit- uation.

guistic ability and understanding. Adopting a common language (e.g., English) creates barriers to all parties, tending toward superﬁciality in conversation and an inability for participants to assert personality and cultural identity (Browaeys & Price, 2019).

Conversation

Depending on the context and the attendees of a meeting, participants from different cultures will have different expectations of how the discussion should proceed. Some participants will expect an informal conversation where interruption is acceptable. Oth- ers may expect participants to take turns to speak. Some participants (e.g., Nordic and Scandinavian) may value silence and pauses as times to think and evaluate while oth- ers may ﬁnd silence uncomfortable and seek to ﬁll any pauses (e.g., American). Some participants may feel that they need to make an impression and be assertive; others may feel the need to negotiate and compromise (Browaeys & Price, 2019).

Questions

Direct questioning can be seen as threatening or conversely as a sign of weakness or lack of knowledge. Deresky (2017) gives an example of a German manager asking an Indian colleague the question “What can be done to make sure this project is ﬁnished on time?” The German manager sees this as empowering the Indian colleague, giving them the opportunity to take responsibility and have input to the problem-solving process. The Indian manager, on the other hand, is expecting to be given instructions and perceives the question as a sign that the German manager does not know what to do and is not credible as a boss.

Small talk Informal, polite dis- cussion about unim- portant or trivial things is referred to

as small talk.

Public and private

In some cultures, participants are comfortable to talk about any subject, happy to reveal aspects of their personal life, or disclose their own personal thoughts. In other cultures, there is a clear delineation between personal and public life, so participants are reluctant to reveal their personal thoughts or feelings. Molinsky and Hahn (2015) describe a situation where an American working in Germany experienced difﬁculties in forging relationships with their new work colleagues, who were unresponsive to their **small talk** and interest in their personal lives. They were unaware that their attempts at getting to know colleagues was perceived as obtrusive and aggressive, and that work relationships take longer to form in a German work environment.

These variables focus purely on the response to the communication process that takes place during an encounter between persons from different cultural contexts. These dif- ﬁculties are further intensiﬁed by the different cultural responses to and interpreta- tions of the actual content and objectives of the meeting or encounter.

###### Non-Verbal Communication

A signiﬁcant amount of cultural noise is contributed by differences in the non-verbal communication mechanisms adopted by participants from different cultures. Encoun- ters between two or more participants always include a level of “meta-communication,” which is the additional communication signals contained in, e.g., tone of voice, physical signals, body language, physical proximity, and other attitudes or expressions, which

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combine to give further meaning to the communication. These aspects of meta-com- munication are inﬂuenced by the cultural background of the participant in a number of ways.

Body language

The manner in which people sit and hold their body posture during an encounter can send signals to the recipient that are interpreted through their own cultural assump- tions. Sitting forward in one’s seat can be judged as being aggressive in some cultures, while other cultures would view this as showing interest and engagement.

Facial expressions

Although there are a number of universal expressions to indicate emotions, such as happiness or fear, the cause of these expressions might be different depending on cul- tural context. There are a further set of facial expressions that are speciﬁc to particular cultures. The interpretation of facial expressions, such as a smile, can also differ according to culture. Browaeys and Price (2019), for example, describe how a smile in Russia can often have negative connotations, indicating that the recipient of the smile is foolish. Differences also exist in the extent to which people hold eye contact or avert another’s gaze, depending on their culture. How this is perceived by the recipient also differs according to cultural context.

Gestures

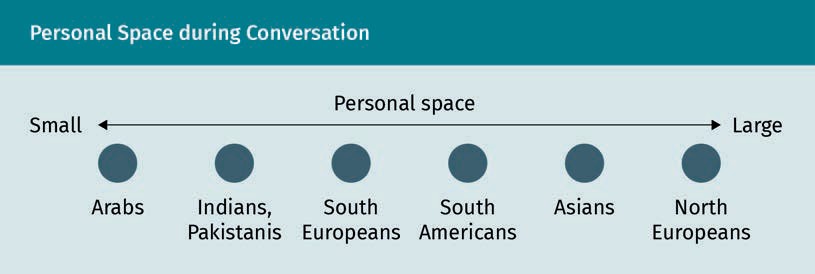
In many situations where the spoken word alone does not fully capture a person’s feel- ings or emotions, gestures are frequently used to reinforce or amplify meaning. Bro- waeys and Price (2019) compare an animated French speaker using a range of gestures with the upper part of their body to the Dutch speaker using very few gestures and lim- iting their movement to just the arms. Extreme use of gestures can be both irritating and cause anxiety to persons from less expressive cultures. Misunderstanding can also arise when gestures have different meanings in different cultures. For example, the thumbs up gesture is a positive, approving signal in most cultures; in Bangladesh, it is seen as an insulting gesture. Likewise, nodding one’s head can mean yes or no, depending on culture.

Silence

In Western culture, a short period of silence may be acceptable to mark a pause in pro- ceedings, but these pauses rarely last long. In others, such as Thailand and other Asian countries, silence is valued as a sign of respect and modesty and is preferred to unnec- essary verbalization (Browaeys & Price, 2019).

Proxemics

The way in which people perceive their own personal space varies between cultures and can be the cause of discomfort or misunderstanding when different cultures come into contact. Browaeys and Price (2019) give the example of the different expectations of personal space between Americans and those from the Middle East. Some Americans may feel uncomfortable when an Arab sits close during conversation and give less per- sonal space than is usual for Americans. They illustrate this personal space continuum, pictured below.



Physical contact is also viewed differently between cultures. In Italy, hugging and kiss- ing on both cheeks is a common business greeting. Shaking hands is common in most countries. But in traditional conservative nations, such as African and Arab countries, it would be unacceptable to greet the opposite sex by either shaking hands or hugging (Browaeys & Price, 2019).

###### High-Context versus Low-Context Communication

Differences in norms, values, and expectations relating to communication tend to cor- relate with many of the dimensions of culture identiﬁed by Hofstede and Trompenaars. Of particular signiﬁcance appears to be the contrast in communication mechanisms between high-context and low-context cultures. High-context cultures, such as those found in the Middle East, Asia, Africa, and some of the Mediterranean countries, are characterized by not explicitly showing or expressing thoughts and feelings. In commu- nication, it is normal to have to interpret meaning and intention from an understand- ing of the context, surroundings, and people involved. This means that people originat- ing from high-context cultures tend not to need to communicate everything in the explicit, spoken (or written) message. Most of the information is provided by the physi- cal context or is internalized within the person themselves. Both parties in the commu- nication are involved: The speaker expects the recipient to elicit the meaning of the communication based on the relationship and the context and situation in which the communication is taking place (Deresky, 2017).

In contrast, people from low-context cultures, such as those found in Germany, the US, and Scandinavia, require communication to be much more speciﬁc and explicit. Inten- tions, feelings, and thoughts are stated explicitly in the communication, and it is expec- ted that all the required information will be provided. Knowledge of the context, sur- roundings, or relationship are not required because the information communicated provides this detail. Typically, they will transmit their thinking and planning in an explicit, direct style, and will expect other participants to do the same. Everything that needs to be included to ensure understanding is contained in the communication (Deresky, 2017).

The differences between high- and low-context cultures create the potential for signiﬁ- cant communication difﬁculties when representatives of both are involved in business interactions. Deresky (2017) describes the scenario where a German and an Arab might

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face difﬁculties in negotiation because the German expects detailed information prior to making any business decision, while an Arab will use their knowledge and experi- ence of the participants involved as the basis for their decision-making.

The potential for misunderstanding, frustration, and breakdown of trust is signiﬁcant. Participants from low-context cultures are likely to be frustrated by the lack of detail provided by high-context participants, viewing their counterparts as “secretive, sneaky, and mysterious” (Deresky, 2017, p. 166). Participants from high-context cultures, on the other hand, will likely be frustrated by the lack of understanding of mood, gesture, and situation shown by low-context participants, viewing their counterparts as “too talka- tive, obvious, and redundant” (p. 166).



###### Misunderstandings and Conﬂicts in Intercultural Communication

Barna (1994) developed a framework for describing the sources of misunderstandings and conﬂict in intercultural communication that identiﬁed the following six stumbling blocks that create barriers to understanding:

1. Assumption of similarities is the natural tendency for individuals to believe that everyone else shares the same views on how to behave and what to think, and to think negatively of someone who does not share our assumptions.
2. Language differences is the assumption that if one’s language is being spoken that everybody else understands it in the same way, even if it is not their primary lan- guage. Misunderstandings due to language difﬁculties are often assumed to be because of other differences.
3. Nonverbal misinterpretation is the misunderstanding of someone’s intent or mean- ing as a result of non-verbal signs, such as body language, appearance, or gestures.
4. Preconceptions and stereotypes is the tendency to make assumptions about peo- ple as a result of preconceived notions and stereotypes, which can then lead to dis- crimination, bias, or misunderstanding.
5. Tendency to evaluate is the habit of judging other people’s behavior or thinking according to one’s own set of cultural values, rather than considering why differen- ces might be a result of cultural differences. This links with the concept of ethno- centrism that judges one’s own culture as the accepted norm.
6. High anxiety is the state that arises when an individual encounters a situation where a different cultural perspective is prevalent, and they are unsure about how to behave or react.

The intercultural manager needs to be sensitive to these six sources of misunderstand- ing when communicating with people from different cultures. Cultural and contextual intelligence are essential pre-requisites for effective communication in an intercultural context.

### Intercultural Teamwork

Businesses continue to attach ever increasing importance to working in groups or teams. Management theory describes the power and potential of the team being capa- ble of exceeding the sum of the individual members that make up the group. Effective groupwork and teamwork is promoted as having a signiﬁcant positive impact on pro- ductivity, performance, and innovation, as well as providing employees with a greater sense of belonging, improved job satisfaction, loyalty, and morale. The ability to work well in teams is seen as a key personal attribute that is required when recruiting new professionals into a company.

Teams can take a number of forms, and the characteristics, expectations, and behaviors of participants can differ. Thomas and Inkson (2017) differentiate between three differ- ent types of work grouping, each with their own *modus operandi*:

1. Crews share the same work environment or leadership, but work relatively inde- pendently of each other.
2. Teams work in a collaborative manner, each integrating their specialist skills or knowledge into a speciﬁc process.
3. Task forces tackle a speciﬁc project or solve a speciﬁc problem for a speciﬁc period of time.

Focal Points of Intercultural Management

However, even in a homogeneous environment, where all members of the group origi- nate from the same cultural setting, there are signiﬁcant challenges for management in ensuring that all groups are effective. The diversity of group members, with different knowledge, experience, expectations, and personality, creates a melting pot from which problems can arise. According to J. Richard Hackman (as cited in Couto, 2009), the research shows that teams frequently underperform because of the challenges of moti- vation and coordination that make group collaboration ineffective.

When the additional complexity of group members originating from different cultural backgrounds is added to this **melting pot**, the challenge of effective intercultural team- work can be profound.

###### Introduction to Intercultural Teamwork

Even in a domestic setting, diversity and multicultural issues present a key challenge in the management of teams. This challenge is further intensiﬁed when working in an international setting where teams are made up of participants originating from differ- ent countries, each with their own cultural needs and perspectives. The makeup of a multinational team and its elements of diversity create obstacles to performance, through difﬁculties in communication, team cohesion, decision-making, leadership, and motivation. It is essential, therefore, that the international manager is sensitive to these challenges and does not make the assumption that differences will automatically disappear with time.

Intercultural teamwork needs to be viewed as something of a long-term investment when compared to working in homogeneous teams. According to McFarlin and Sweeney (2017), homogeneous teams outperform intercultural teams in the early stages of their formation. However, evidence suggests that diverse teams outperform other teams over time because of the diversity in perspectives, knowledge, innovation, and behaviors (McFarlin & Sweeney, 2017).

###### Challenges of Intercultural Teamwork

A clear understanding of the dynamics of teams and how different cultures can impact the effectiveness of group work is essential in addressing the challenges of intercul- tural teamwork. McFarlin and Sweeney (2017) identify ﬁve broad areas that need to be addressed when managing intercultural teams and propose approaches for tackling them.

Decision-making

Difﬁculties can arise in teams where people have cultural norms and values that are different or are in conﬂict. This manifests itself in the decision-making process where different team members may have different perspectives on the process. McFarlin and Sweeney (2017) cite the example of Americans who, being individualistic, want deci- sions to be made quickly, with the ability to modify them later, so that rapid progress can be made, and time can be used efﬁciently. On the other hand, team members from

Melting pot

A melting pot refers to a situation where different people or ideas are mixed together.

collectivist cultures, such as Japan and Korea, may wish to ensure that sufﬁcient time is spent gaining input from all colleagues in order to gain consensus before a decision. A German team member will expect to be provided with all the supporting details and background information before making a decision. The result of such differences in approach can be destructive, causing team members to become frustrated and in con- ﬂict with each other, all contributing to the decreased effectiveness of the team.

McFarlin and Sweeney (2017) propose the approach of adaptation as being the most suitable method of tackling decision-making problems, especially where there is some awareness amongst the team of their cultural differences in approach. The authors give the hypothetical example of an American-Japanese team, where always making deci- sions quickly would be difﬁcult for the Japanese, while wasting time gaining group con- sensus over every decision would be intensely frustrating for the Americans. An adap- tive approach would lead to compromise, whereby moving quickly might be the best approach in some cases, but a consensus-based approach might be more productive in others.

Hierarchy

In a multicultural team there are frequently differences in perspective over status and hierarchy within the team related to the power-distance dimension of culture. Team members from low power-distance cultures (e.g., Australia, the UK) expect everybody in the team to be treated as equals, while those from higher power-distance cultures (e.g., Korea, Japan) may be more comfortable when there is a clearly deﬁned hierarchy and where they can defer to those who have more status. Such a clash of expectations over hierarchy can be destructive to the effectiveness of the team, resulting in anger and embarrassment, and the loss of credibility for some members of the team. McFarlin and Sweeney (2017) describe how Australian colleagues might see the Korean colleague’s deference to status as a sign of weakness or indecision.

McFarlin and Sweeney (2017) propose the approach of management intervention as being the most suitable method of tackling issues relating to hierarchy. In these situa- tions, where teamwork has broken down and there is negativity and conﬂict within the group, it is appropriate for management to intervene and to give guidance and direc- tion on how to proceed. While being a short-term measure, because the ultimate goal is for teams to be able to solve their own problems and issues, swift intervention pre- vents problems getting out of control and helps to develop new values and norms within the team as a result of having resolved the problem. The authors give the hypo- thetical example of a newly constructed team of Australian and Malaysian marketing professionals. Where conﬂict arises because of differences in power distance, the man- ager might intervene and bring the team together to reiterate that they were all on the same team because of their capabilities as marketing professionals. Discussion and concern over status and rank in the organization should be ignored and the team should assume no differences in status, position, or power while working together as a group.

Focal Points of Intercultural Management

Communication

Where teams are made up of persons from low- and high-context cultures, there are likely to be difﬁculties arising from different styles and expectations for communication within the group. In low-context cultures (e.g., Germany), participants expect to use and hear direct and precise views, opinions, and feedback. In high-context cultures (e.g., Indonesia), where there is a greater focus on collectivism and the group, communica- tion is likely to be less direct or precise with messages being delivered implicitly rather than explicitly. Such a clash of communication styles is likely to result in frustration and potential conﬂict. The German team member will be irritated and confused by the lack of clear and precise information being provided by Indonesian colleagues. The Indonesian team member may react negatively to direct and speciﬁc feedback, feeling threatened, blamed, and embarrassed by the confrontational nature of the communi- cation.

McFarlin and Sweeney (2017) propose the approach of structural intervention as being the most suitable method of tackling issues relating to explicit versus implicit commu- nication styles. In this approach, the manager makes changes to the way the team works or is structured in order to minimize the impact of conﬂicts or tensions arising from communication differences. They give the example of creating subgroups to work on speciﬁc tasks or solve particular issues that cannot be tackled by the group in its entirety. This needs to be done sensitively so as not to exacerbate the issue by creating isolation or the forming of groups within the larger group.

Language barriers

An obvious source of potential difﬁculty lies in the different language capabilities of the members of the team and the operating language. Those members of the team who are less ﬂuent in the operating language are likely to feel alienated, frustrated, and incompetent because they are less able to impart their knowledge or opinions on the rest of the group. Debray and Spencer-Oatey (2019) examined the impact of language deﬁciencies on participant positioning. Often, they found that the least proﬁcient speaker was perceived as different, difﬁcult, unwilling to speak, and even incompetent. Their language difﬁculties were often overlooked as a reason for lack of engagement. Eventually, less proﬁcient speakers become marginalized in team interactions, such as group meetings, and effectively silenced. When the less proﬁcient speaker did attempt to contribute, their efforts were often either ignored or treated with little interest. Even when their knowledge was critical to the success of the group, they were passed over for roles and responsibilities. In other words, the marginalization of team members goes beyond their difﬁculties with the operating language of the group.

McFarlin and Sweeney (2017) propose an exit approach as being the most suitable method of tackling issues relating to language barriers. If team members have become marginalized and are unable to play a signiﬁcant role in the team, exacerbated by the frustration and perceptions of other team members, there may be no other viable option than to remove those members from the team. This is not an easy situation for the manager, but the impact of having team members who cannot participate fully and have negative experiences within the group is ultimately detrimental to the effective- ness of the team.

Social loaﬁng

Social loaﬁng (sometimes referred to as the Ringelmann effect) is the term used to describe the phenomenon where group work is sometimes poorly executed because individual team members put in less effort or commitment to the endeavors of the group than if they were working on their own. The belief is that the group will somehow compensate for the lack of their individual effort: The work will get done by the group, so the individual does not need to worry about it. Social loaﬁng is linked to the level of commitment or investment that individuals have to the group and to the task in hand (Caffrey, 2018).

The extent to which social loaﬁng is a potential issue for teams is linked to cultural perspectives about working in groups or teams. McFarlin and Sweeney (2017) report that studies in the US reveal that people are generally less productive when they are working in a group than if they are working alone. This resonates with the idea of the US being an individualistic culture. But, collectivist cultures, such as Japan, do not appear to have such a signiﬁcant issue with social loaﬁng, although there are differen- ces depending on the nature of the group involved. While Japanese workers tend to function better in groups than on their own, performance is markedly better when working in “in-groups” (those to which the worker feels higher levels of attachment) than in “out-groups” (groups which feel less important, and which have lower levels of attachment).

The incidence of social loaﬁng is an important issue for intercultural teamwork, espe- cially since it is often difﬁcult to distinguish from a number of the other issues descri- bed above. McFarlin and Sweeney (2017) suggest, as a starting point, that any team members originating from collectivist cultures need to be organized around existing in- groups, to beneﬁt from already existing attachments and commitments. For partici- pants originating from individualistic cultures, the issue is more challenging, although experience with working in teams in countries continues to be more common.

###### Effective Management of Intercultural Teams

In a multinational working environment, managers need to be able to respond effec- tively to the challenges of managing the intercultural team. While this response can be reactive, dealing with problems or issues as they arise, it is prudent to consider poten- tial issues when considering the formation of teams and their participants. McFarlin and Sweeney (2017) provide a number of guidelines for the formation and management of intercultural teams.

People

Consider carefully the makeup of the team, selecting people who, in addition to the appropriate skills and abilities, show cultural intelligence, bringing a sensitivity to diversity and different perspectives to the team.

Focal Points of Intercultural Management

Cultural differences

Make differences in culture a feature of the team that people are encouraged to embrace and appreciate. Support the team on their journey to greater cultural under- standing, being open and transparent about how cultural differences can beneﬁt the team.

Vision and mission

Spend time clarifying the vision and mission of the team before the team begins to operate. This means that any previous discrepancies in understanding or expectations resulting from cultural background can be minimized.

Power and status

Be especially sensitive to different perspectives toward power and hierarchy on the team. This means avoiding the creation of power and status gaps or overlaps on the team. This is especially important if there is representation from the parent company in the team, which can create an imbalance of power or deferment from others that reduces the effectiveness, contribution, and creativity of the team.

Feedback

Overcome the difﬁculty that intercultural teams have in agreeing because of their dif- ferent frames of references and evaluation criteria by providing regular feedback to the team and individuals on it. The aim is to create a shared set of criteria and perspec- tives for making decisions, considering ideas, and being innovative.

Training

Often where there is a perceived problem or challenge ahead, the management response is to hold trainings. While intercultural and diversity training might be of ben- eﬁt, the response to training and the person giving the training will also vary depend- ing on the cultural perspectives of the person being trained. Krawczyk-Bryłka (2016) describes the importance of building trust as a critical factor in the effectiveness of intercultural teams. She identiﬁes ten dimensions of trust, split up into short-term and long-term categories. Short-term dimensions are based on initial impressions and impacting initial levels of trust:

1. Competence. This is the conﬁdence in the knowledge, skills, and abilities of the other members of the group.
2. Openness. This is the conﬁdence that all information will be shared in an open and proactive manner.
3. Integrity. This is the conﬁdence that each of the people in the team will fulﬁll their responsibilities and commitments and operate with integrity and reliability.
4. Reciprocity. This is the conﬁdence that others have the same levels of trust in us as we have in them.

Long-term dimensions involve deeper levels of trust built up over time as a result of positive experiences in the team. These beliefs are as follows:

* 1. Compatibility. Everyone in the group is working to the same set of objectives and has the same underlying set of values and criteria for reaching them.
  2. Goodwill. Everyone in the team cares about each other’s needs, issues, problems, or emotions.
  3. Predictability. Everyone in the team can be relied on because their behavior is con- sistent and adheres to a known set of principles of values.
  4. Well-being. Everyone in the team is secure and safe, and there is no need to be afraid of anybody else in the group.
  5. Inclusion. Everyone in the team is equal and is treated equally, and everyone is important in order for the team to complete its objectives.
  6. Accessibility. Personal relations can be built with any other members of the team and everyone is comfortable sharing personal information with others.

The manager can be proactive in ensuring that the short-term trust needs of the team are put in place as far as is possible before the team begins to function. However, the longer term, deeper elements of trust are largely built up by the team themselves as they experience working together.

This list mirrors the ﬁndings of research into the development of intercultural compe- tence indicating the relatively minimal impact of training people in advance. Rather, intercultural competence develops as a result of participating in intercultural interac- tion itself (Bartel-Radic, 2006). Intercultural teams effectively become communities of practice that develop the competencies required to make themselves effective. Both the positive and negative experiences of working in an intercultural team contribute to the development of intercultural competence.

Neeley (2014) discusses the manager role in the development of intercultural teams and intercultural competence, describing the manager as both an instructor (mentor, coach, or teacher) and a facilitator to promote intercultural awareness and understand- ing in the team. As a facilitator, the manager serves as a “cultural broker or intermedi- ary“ (para. 8), helping team members to interpret differences and resolve misunder- standings, acting as an intermediary to enable team members to develop their intercultural understanding and competence.

Summary

The combination of business ethics and corporate governance makes a signiﬁcant contribution to a business and how it decides to function. Corporate governance represents a set of standards and guidelines that a business implements in order to protect and inform the various stakeholders of a company. Business ethics, in turn, provide the norms, values, and ethical principles that the business intends to follow in pursuing its business interests. Both closely align with the cultural context in which they operate and differ from one country to another, depending on cul- tural characteristics. Traditionally, two approaches are followed: cultural universal- ism and cultural relativism.

Focal Points of Intercultural Management

Business communication is heavily inﬂuenced by the situational context, with dif- ferent cultures ascribing different expectations, norms, and meanings to different communication contexts. The greater the differences between the cultures involved, the more likely that the meaning and intent of the communication will be misun- derstood or misinterpreted. Intercultural managers, therefore, need to be aware of “cultural noise” in order to optimize communication and reduce misunderstanding.

The challenge of managing teams is signiﬁcant when working in an international setting where teams are made up of participants, with their own cultural needs and perspectives. The makeup of a multinational team and its elements of diversity cre- ate obstacles to performance, through difﬁculties in communication, team cohe- sion, decision-making, leadership, and motivation. It is essential, therefore, that the international manager is sensitive to these challenges and does not make the assumption that differences will automatically disappear eventually. Instead, the manager needs to serve as a broker, helping team members to interpret differences and resolve misunderstandings, and acting as an intermediary to enable team members to develop their intercultural understanding and competence.



# Unit 6

## Intercultural Management in Selected Countries

#### STUDY GOALS

On completion of this unit, you will be able to …

… recognize the characteristics of doing business in Germany.

… recognize the characteristics of doing business in the US.

… recognize the characteristics of doing business in China.

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1. Intercultural Management in Selected Countries

### Case Study

Charlotte Patel is a newly promoted product manager at a large multinational pharma- ceuticals company based outside of London, England. She has been given responsibility for the global launch of a new skin treatment product and has been tasked with visiting the subsidiary ofﬁces in Germany, the US, and China to discuss the appropriate imple- mentation plans for each country. This will be Charlotte’s ﬁrst major overseas visit in her new role as product manager. She has never conducted business in these countries before, and as a newcomer to the company, she has few contacts in these locations. She speaks a little French and has no language skills in German or Mandarin.

Understandably nervous about the challenge ahead, Charlotte sits down at her desk to prepare for her trip and for her ﬁrst meetings with her overseas counterparts. Her boss has mentioned that she needs to be sensitive to the cultural differences she is likely to encounter. Charlotte considers the following:

* + What are the key differences in business culture that she is likely to encounter in each of the three countries?
  + How will her presence as a female product manager be received in each of the three countries?
  + Should she bring a gift with her? If so, what?

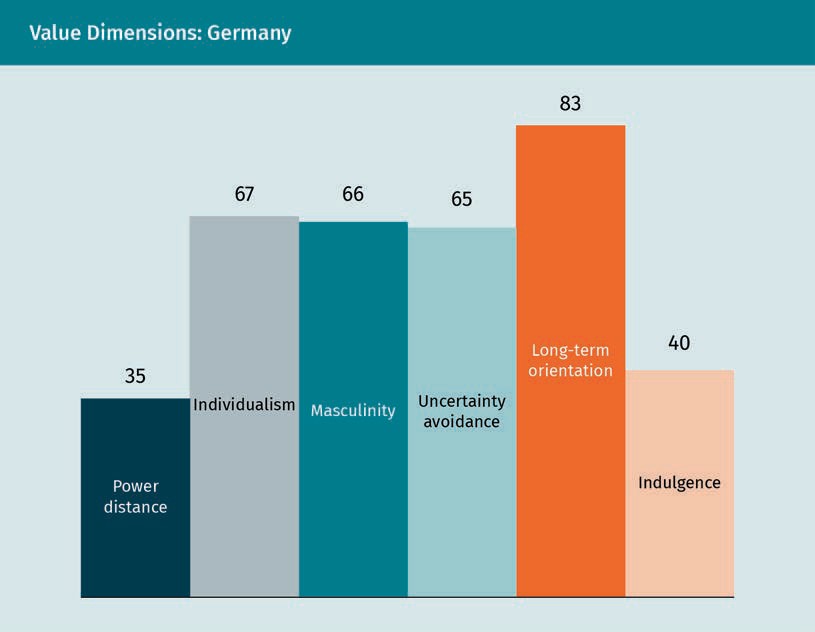
### Germany

Germany has enjoyed remarkable success as a business force in the global economy over the last 50 years. As Europe’s most populated (82 million people) and most indus- trialized nation, Germany has emerged as Europe’s leading economy, as well as the driving political force behind the European Union. Germany is one of the most success- ful economies on the international stage (it is in the top three trading nations), with 50 percent of its annual GDP generated through exports (KPMG, 2021). This success has been achieved largely on Germany’s own terms, with little evidence of the country hav- ing followed the business management theories and practices of the US or UK. This means that doing business in Germany requires an understanding of the speciﬁc cul- tural characteristics that underpin the German business environment.

###### Dimensions of Culture

The website Hofstede Insights (n.d.) provides a summary of Germany’s scores on Hof- stede’s six dimensions of culture. These provide a useful starting point for an under- standing of German business culture, especially when used in a comparative manner against other cultures. These scores are, of course, generalizations and do not reﬂect the variation observed within the country itself.

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|  |  |  |
| --- | --- | --- |
| Hofstede’s Value Dimensions—Germany | | |
| Dimension | Score | Description |
| Power distance | 35 | * Among the lower power distance countries, reﬂec- ted in the nature of society as being largely decen- tralized. * Management needs to consider the right of workers to participate and to be involved in decision-mak- ing. * Respect for expertise and knowledge, rather than leadership through control. |
| Individualism | 67 | * An individualistic society, with a strong belief in self-improvement and self-actualization. * Duty and responsibility are important, as reﬂected in employment contracts. * Communication is direct. |

|  |  |  |
| --- | --- | --- |
| Dimension | Score | Description |
| Masculinity | 66 | * A masculine society in which performance is impor- tant from an early age, and where individuals gain self-esteem from their achievements, often reﬂec- ted in status symbols, such as cars, jewelry, clothing, and devices. |
| Uncer- tainty avoid- ance | 65 | * Avoids uncertainty, and prefers logical, deductive reasoning. * Reﬂected in the need for detailed, well-thought-out proposals and decision-making, and respect for expertise. |
| Long-term ori- entation | 83 | * A pragmatic country where situation, context, and time, rather than history, are important in decision- making. * Detailed decision-making, the propensity to save, and a determination to achieve the ﬁnal result. |
| Indulgence | 40 | * Restrained in nature, work comes ﬁrst, and self- indulgence is frowned upon. * Social norms have a strong inﬂuence. * Tend toward negativity or cynicism. |

###### Business Organizations

Supervisory board This group of indi- viduals is selected by shareholders to represent their inter- ests in the gover- nance of the com- pany and to hire key

executives.

The top levels of German organizations tend to concentrate power and inﬂuence among a relatively small number of individuals through the **supervisory** and manage- ment boards. However, beneath board levels, the well-deﬁned roles and responsibili- ties of individuals within a rigid hierarchy tend to deﬁne their relative level of inﬂuence within the business organization. German business organizations tend to be character- ized by a formal structure that is governed by clearly deﬁned and well-understood pro- cesses, procedures, and regulations. This means that everybody knows their place and what is expected of them to achieve their individual and collective objectives. This rigidity, however, can lead to inﬂexibility and the inability to react or adapt quickly to change (Global Business Culture, n.d.-b).

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###### Management and Leadership

The low power distance score for Germany indicates that knowledge, expertise, and qualiﬁcations are the most highly valued professional attributes, so management and leadership roles tend to lie in the hands of technical experts (e.g., engineers) rather than management generalists or legal and accountancy professionals. Staff respond best to leadership based on their respect for the technical ability of the leader, inﬂu- encing the extent to which employees are willing to cooperate. Less technically compe- tent management can experience difﬁculties when employees feel they are not quali- ﬁed to lead. Education is valued highly as a mark of expertise and Germans are positive about revealing their qualiﬁcations and any professional titles (e.g., Doctor) they pos- sess. Employees are unlikely to contradict their superior in public, out of deference to their technical expertise.

Management expects their employees to be competent, professional, and hard-work- ing. These attributes are usually the key factors considered when appraising the per- formance of staff, rather than the wider set of soft skills often valued in the US and UK performance management systems. The relationship between management and staff can be perceived as somewhat formal, cold, and impersonal; close, personal relation- ships are an exception. German staff do not expect to be micro-managed, preferring instead to be allowed to be able to carry out and complete their tasks without undue intervention. Responsibility is largely delegated by the manager to the member of staff who has the most appropriate technical expertise for the given task. Instructions need to be clear, exact, and devoid of any ambiguity.

German management and leadership positions tend still to be dominated by men, with progress in gender equality falling somewhat behind the progress seen in other Euro- pean nations. This is perhaps a reﬂection of the preference for leaders having high lev- els of technical expertise and the accompanying shortfall in the number of females studying these subjects at university. However, Germany is making some progress in closing the gender inequality gap, and European regulations on gender equality in the workplace are likely to support continued progress in this area (Global Business Cul- ture, n.d.-b).

###### Communication

As indicated in Hofstede’s (1980) six dimensions of culture, the combination of low power distance and high uncertainty avoidance has clear implications for effective communication in the German business setting. The German persona is often stereoty- ped as lacking in any sense of humor. This is not the case; rather, Germans are sensi- tive to the right time and place for the use of humor. In a business setting, communica- tion is seen as a serious matter and is business-like in style. In a social setting, Germans have a very keen and distinct sense of humor. Germans are often perceived as being somewhat cold and devoid of emotion. However, this is because visible signs of emotion, such as anger, impatience, or frustration, are seen as signs of being unprofes- sional or of being weak and are therefore to be avoided. Communication style in Ger-

many can often be misinterpreted as blunt, arrogant, and even rude, because Germans prefer a direct and precise mode of communication based on facts and relevant infor- mation rather than emotion, vagueness, or opinion. Such a direct approach to commu- nication is perceived as business-like and respectful because it is focused on deter- mining the best solution rather than meeting an individual agenda or need. The expectation is that everything that is written or said can be trusted and veriﬁed. Ger- mans appreciate being given information in writing and view this as more trustworthy or reliable than information transmitted verbally. Important communication should always be conﬁrmed in writing so that it is put on record (Global Business Culture, n.d.- b).

###### Decision-Making

Low power distance and high uncertainty avoidance mean that decisions are made in Germany with the input of all the interested parties and based on full disclosure of information required. Germans can feel uncomfortable with ambiguity or uncertainty. This can make decision-making a long, drawn-out process with Germans rarely willing to go forward with a decision that is based on a whim or intuition. However, once a decision is made, the group will move forward with commitment to reaching that objec- tive, even if they disagreed with the original decision.

When preparing to make decisions, Germans will carry out fact-ﬁnding and research in advance so that they already have a clear picture of the best approach before any deci- sion-making meeting. It is important that they are given the opportunity to articulate their perspective, supported by information that they have researched and prepared in advance. Being put on the spot for a quick or immediate response is not something that is welcomed by the German participant (Global Business Culture, n.d.-b).

###### Meetings

The need to be aware of all the facts and pertinent information means that Germans will typically attend meetings fully prepared and ready to discuss their position with full supporting evidence. When being provided with information or being given a pre- sentation in a business meeting, attendees will expect to see full detail and evidence if they are to give that information any kind of credibility.

German meetings often include a large number of attendees because it is important that the appropriate specialists from every impacted area have been able to give their input. Deference is given in meetings to the expert on a particular topic. Discussion and debate, in keeping with German communication style, is often direct and strong rather than diplomatic, to the extent that it can be misinterpreted by outsiders as confronta- tional or argumentative. The concept of compromise is not necessarily welcomed because it implies uncertainty, weakness, or a lack of a clear decision. Meetings are not the forum to discover personal opinions or emotions. These are best discovered on a one-to-one basis outside of the meeting, in an informal setting. Because time is pre-

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cious, it is imperative to be punctual to meetings so as not to waste any of the valuable time of other participants. It is also important not to waste time in the meeting with irrelevant discussion or small talk (Global Business Culture, n.d.-b).

###### Teamwork

The concept of the team as a group collective is not consistent with the individualistic characteristic of German culture. Rather, teams are better viewed as the grouping of individuals, each with their own speciﬁc skills, area of expertise and roles, who each work for a speciﬁc leader in meeting the speciﬁc team objectives. The manager of the team is responsible for leading the team toward the objective, but is not expected to intrude on the technical ability of the employee when performing their individual tasks.

This approach works well when teams are constructed within speciﬁc functional areas or departments, but it can create difﬁculties or misunderstandings when team mem- bers originate from different departments. In these circumstances, the employee may experience a conﬂict with their position in their departmental hierarchy and the nor- mal rules and conventions of working, and may feel the need to defer back to their superiors back in their original department or function. This is because each depart- ment in an organizational hierarchy wishes to protect its own power base, so any rele- vant information is expected to go through that department (not via a single person in isolation) (Global Business Culture, n.d.-b).

###### Business Etiquette

There are a number of useful guidelines for some of the more speciﬁc aspects of busi- ness culture in Germany.

Dress code

German business attire tends to be smart but not overly formal, with business suits rel- atively uncommon. Men tend to wear sports jacket and trousers, with shirt and tie restricted to more formal business situations. Women tend to wear smart casual attire. In some circumstances, business attire is even less formal with the wearing of jeans. In whatever circumstance, however, Germans take pride in dressing well (Passport to Trade 2.0, n.d.).

Introductions

A short and ﬁrm handshake is the normal form of greeting when meeting a German for the ﬁrst time in the business setting. Eye contact is also expected. Given the German pride in education and qualiﬁcations, it is customary to refer to them with their correct academic salutation (e.g., Doctor) as a mark of respect (Kwintessential, n.d.).

Business entertaining

Most business entertaining takes place at lunchtime at a restaurant or in the company cafeteria, because Germans place a clear distinction between their work and home lives. It is rare to be invited to a business associate’s home for dinner. The host for lunch is expected to pay for the meal. Conversation is expected to cover a mixture of business and non work-related subjects (Global Business Culture, n.d.-b).

Language

Germans expect to conduct business in German in their own country. Where necessary, German professionals can conduct business in English, especially if conducting busi- ness abroad, although as many as 65 percent of German employees indicate that they have little or no knowledge of English. Managers are likely to be more proﬁcient in Eng- lish than other employees, but it cannot be taken for granted that Germans will be comfortable participating in business communication and meetings in English (Expan- sion.eco, n.d.).

Gifts

Germans follow similar conventions for gifts as the rest of Europe, where it is relatively uncommon in a business context. Business meetings tend to focus on the business subject-matter and less on relationship building, including the giving of gifts. On social occasions, however, gifts may be appropriate but the expectation is that they are not excessive or overly personal. The nature of the gift must not be misconstrued as con- stituting a favor or bribe to do business. It is the convention that gifts are opened immediately when they have been received (Passport to Trade 2.0, n.d.).

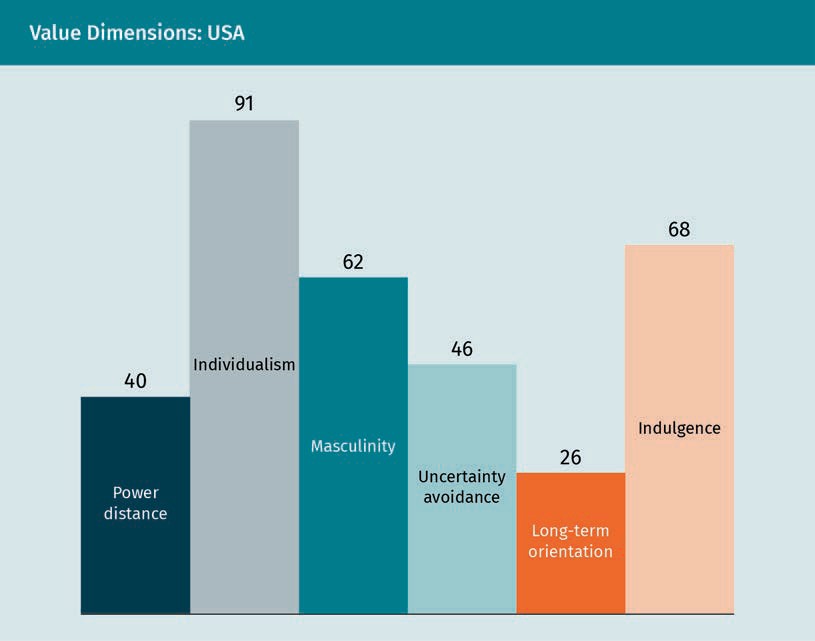
### The United States

The US remains the world’s largest economy with extensive multinational links with other trading nations, including Europe and the emerging economic nations. With a population of over 320 million, the US exerts considerable inﬂuence over consumer wants and needs, both at home and across the globe. Much of evolving business man- agement theory, promoting a scientiﬁc approach to business practices, emanates from the US business schools. The search for better ways of doing things has created a con- stantly changing business environment, with a need for businesses to continually adjust and adapt to new methods and practices.

###### Dimensions of Culture

Hofstede Insights (n.d.) provides a summary of this country’s scores on Hofstede’s six dimensions of culture.

Intercultural Management in Selected Countries



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| --- | --- | --- |
| Hofstedeʼs Value Dimensions—USA | | |
| Dimen- sion | Scor | e Description |
| Power dis- tance | 40 | * A relatively low score implying lower power distance, reﬂect- ing the ideal of justice and equality for all. * Hierarchy and structure are only implemented if they serve a purpose. * Management and employees communicate openly with each other. |
| Indi- vidual- ism | 91 | * An individualistic society, with an emphasis on the Ameri- can dream, whereby everybody can achieve, and progres- sion is based on merit. * People are expected to be able to look after themselves and not rely on others for support. |

|  |  |  |
| --- | --- | --- |
| Dimen- sion | Scor | e Description |
| Mascu- linity | 62 | * A masculine society where achievement and winning are important, and individuals are keen to show off their achieve- ments. * Competition and confrontation are seen as positive and likely to bring out the best in people. |
| Uncer- tainty avoid- ance | 46 | * A relatively low score, indicating a willingness to adapt to new ways of doing things, and tolerance for the opinions of others. * Not based on rules and bureaucracy, and decisions often made based on instinct rather than facts. |
| Long- term orienta- tion | 26 | * A low score indicating a focus on the short-term, get- ting things done, and achieving fast results. * Normative rather than pragmatic, with a strong sense of “good versus evil”. |
| Indul- gence | 68 | * Indulgent in nature, with a “work-hard, play-hard" mentality. * A contradiction exists within American culture, whereby strong social norms (beliefs about what is good and what is evil) clash with the desire for personal gratiﬁcation. |

These six dimensions of culture can be recognized clearly when examining the Ameri- can business environment in more detail.

###### Business Organizations

American businesses can take a wide variety of forms and structures, but they share the characteristic of having separate legal identity (independent of employees). The relationship between the company and its people therefore tends to be contractual and transactional, so that there is less room for the sentiment and relationship seen in more collectivist cultures. American employees take their work seriously and work hard. This means that they generally work long hours (on average 20 percent more) and enjoy only a small amount of vacation time each year compared to their European counterparts (BBC StoryWorks, n.d.).

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At the top of the organization, there is usually a board of directors, but their involve- ment tends to be hands-off. This means that the chief executive ofﬁcer (CEO) exercises a great deal of control over the running of the organization, and the inﬂuence of their personality can be highly signiﬁcant. The CEO often holds celebrity status in American business circles, rather like the manager of a football team in sporting circles.

According to Global Business Culture (n.d.-c), respect is gained in the organization as a result of achievement, rather than traditional criteria such as age, qualiﬁcations, or background. Because of the transactional nature of the relationship between staff and the company, and in keeping with the individualistic nature of American culture, there is more likely to be frequent turnover of staff and long-term, stable employment is not an expected condition. The culture of constant change and evolution in American busi- nesses mean that employees are dispensable, and the acquisition of new skills, talent, and perspectives is important to the future success of the company (Global Business Culture, n.d.-c).

###### Management and Leadership

The extremely high individualism score for the US is reﬂected in the typical manage- ment style, where managers are clearly accountable for their areas of responsibility and for the results of any decisions that are made. For this reason, managers are less likely to seek consensus and agreement with staff, instead following their instincts in the knowledge that their personal success depends on the outcome.

The distribution of responsibility and accountability tends to be organized vertically, and it is important for the American employee to know exactly what the extent of their accountability and responsibility is, who they report to, who works for them, and where they lie in the larger scheme of things. The **litigation culture** in the US means that knowing the extent of one’s personal liability is important. The layers in the hierarchy are labelled with numerous job titles and descriptions that often give a false sense of power or importance to a position.

Americans see a clear distinction between management and leadership. Competent management of processes and organizational tasks is expected from anybody holding managerial responsibility, while inspirational leadership is expected from those in the top positions in the organization. The CEO and other senior management are expected to inspire, motivate, and drive the organization forward. They are not expected to be involved in day-to-day management of staff and processes.

Although gender inequality still exists in the US, especially when it comes to the most senior positions, women now occupy a large proportion of management positions, and the situation continues to improve. Political correctness and the equal treatment of women in the workplace are both important characteristics, and failure to adhere to these principles is perceived negatively (Global Business Culture, n.d.-c).

Litigation culture This term describes the increasing use of legal proceedings when attempting to settle a dispute.

###### Communication

American workplaces tend to be informal and less hierarchical than in less individual- istic cultures. The ﬁrst impression when meeting Americans in the workplace is that they are warm, friendly, and caring. Americans will frequently open a conversation with the question “how are you?”, but this can be confusing because they do not expect to be given a detailed answer. A response such as “I’m ﬁne thank you, and how are you?” is all that is required (BBC StoryWorks, n.d.).

This friendly, positive, upbeat manner is very much a social convention in the US and should not be misconstrued as an offer of friendship. Given their individualistic nature, this outwardly friendly demeanor can be seen as somewhat self-serving. Their ﬁrst pri- ority is to make the deal or agree on the approach, and they do not need to strike up a relationship in order to do this. Relationships therefore take longer to build, although being friendly and showing signs of being trustworthy are obviously seen in a positive light (Zachwieja, 2017). Moreover, it is customary for Americans to be comfortable with discussing their private lives in public. This can be uncomfortable and intrusive for those coming from more closed European or Asian cultures, especially when they are asked questions of a personal nature at an early stage of a professional relationship.

In contrast, in regular communication, it is normal for Americans to be direct and blunt, to the extent that they can appear to be either rude or confrontational. This reﬂects the attitude to time as being precious and not to be wasted, and therefore the need to “cut to the chase” and get to the point. Americans want to discuss and debate issues directly and openly, and indirect or implied messages are not welcomed. Conﬂict and confrontation in communication is perceived as a healthy, positive sign and does not mean that communication has broken down.

Ironically, given the dislike for indirect or coded language, Americans are very likely to use business jargon and the latest management terminology in their communication, usually to indicate their prowess or capability and the fact that they are keeping up with the times. This can sometimes make it difﬁcult to understand the real meaning of some communication.

Verbal communication is increasingly being replaced, with Americans being proliﬁc users of technology as a communication mechanism. Email and text messages reﬂect their direct communication style and are usually concise and direct in style without any unnecessary content (such as salutations or closing good wishes). This style is consis- tent with the desire for effective use of time, with messages being short, rapid, and efﬁ- cient, rather than being a sign of disrespect or rudeness (Global Business Culture, n.d.- c).

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###### Decision-Making

Although Americans like to discuss and debate issues, often in a lively and confronta- tional manner, the process of making decisions is not driven by the need for the input of all interested parties and for consensus to be reached. Ultimately, managers will take responsibility for making decisions in areas for which they are accountable. This might involve listening to the views of others when deciding on the best way forward, but this is not always the case. Decision-making goes with the responsibility of the job, as do the risks and rewards related to the outcomes of a particular decision. Decision- makers are not afraid to take a risk if there is the potential for a large payoff from the decision.

Compared to Germany, the USA has a lower uncertainty avoidance score. This means decisions are often made without every piece of information needing to be known and discussed. Instinct and **gut feeling** are often equally or more important, and it is nor- mal for an agreed approach or decision to be modiﬁed several times after it has ini- tially been formulated. It is more important to be moving forward and getting on with the task of ﬁxing a problem, rather than spending too long deciding what needs to be done (Global Business Culture, n.d.-c).

###### Meetings

Effective use of time is important, so Americans do not appreciate meetings that go off- topic or where it is unclear what point is being made. Punctuality is also important. The critical objective is to make a decision or agree on what steps need to be taken next, and this objective takes precedence over being diplomatic or ensuring everybody has their say (Global Business Culture, n.d.-c). Given the individualistic nature of Americans, meetings are an opportunity to demonstrate competence and impress others, and this is reﬂected in the expected quality of presentations and the way they are presented. Participants in meetings are expected to show enthusiasm, commitment, and open body language.

Americans generally feel uncomfortable when there is silence in a meeting so they will aim to ﬁll any silent gaps. They are also not afraid to ask for clariﬁcation when some- thing is confusing or unclear to them. According to Zachwieja (2017), not asking ques- tions implies that you are clear on everything, and not speaking in a meeting can imply either that you have nothing to contribute or that you are unprepared for the meeting.

###### Teamwork

The strong individualistic characteristic of American culture means that teams are viewed as groups of individuals brought together for a temporary period of time in order to meet a particular objective or deliver a particular project. Employees then

Gut feeling

A gut feeling is an immediate reaction or feeling that is not based on any partic- ular rational basis.

move on to new teams regularly. This is not seen as a problem for group loyalty or commitment, but rather just a feature of working life. The collective thinking and belonging that is observed in other more collectivist cultures is rarely seen.

When working as part of a team, an individual is under pressure to prove their worth and impress their colleagues. This means team members display high levels of enthusi- asm and commitment to the project. Team members do whatever is necessary to meet the objectives and ensure the project is a success, because a successful outcome will therefore reﬂect well on them. Negativity and cynicism among colleagues are not toler- ated (Global Business Culture, n.d.-c).

###### Business Etiquette

There are a number of useful guidelines for some of the more speciﬁc aspects of busi- ness culture in the US.

Dress code

Given the size of the country and the range of climates experienced, combined with the individualistic nature, it is extremely difﬁcult to provide general guidelines for appro- priate business attire. For men, anything from wearing formal business suits to casual shorts and T-shirts can be acceptable, depending on the company. The range of accept- able female attire is equally as wide. It is prudent to be prepared to dress for any even- tuality and to do research on dress code prior to doing business in an American com- pany (Global Business Culture, n.d.-c).

Introductions

A short and ﬁrm handshake is the normal form of greeting when meeting an American. As a culture who prefer to keep their physical distance, touching and standing close is otherwise kept to a minimum. It is customary to exchange business cards, and it is nor- mal to address each other on ﬁrst name terms right from the outset. Americans are usually warm and friendly on ﬁrst meeting, but this does not guarantee that the same levels of warmth will follow in subsequent meetings and negotiations (BBC StoryWorks, n.d.).

Business entertaining

Business entertaining can take place at any time of the day, including early morning breakfast meetings, although lunchtime is probably the favored time. Dinner can be as early as 5:30 p.m. Meals are seen as an accepted part of the business process, and it is usual for business topics to be the main focus of the conversation (although not exclu- sively). Much business is conducted and many agreements are made over the restau- rant table. It is also customary for business entertaining to occur at other events, such as sports games, concerts, or social events (Global Business Culture, n.d.-c.). Socializing with work colleagues, including visiting each other’s homes and meeting family, is com- mon and welcomed.

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Language

The variety of regional accents present across America can also create a challenge in understanding spoken language. Americans expect to carry out business communica- tion in English, even though more than 300 languages are spoken in the US. The lan- guage can be informal and can contain both references from popular culture (e.g., ﬁlm and TV), as well as business jargon and terminology.

Gifts

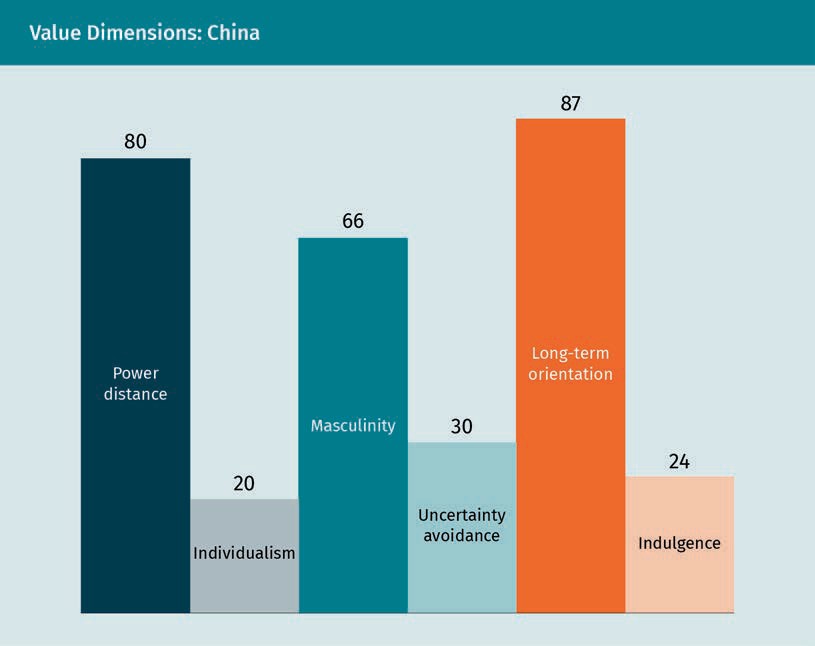
The giving and receiving of gifts in a business context is relatively uncommon in the US. In many contexts, it is actively frowned upon for employees to give or receive gifts (especially monetary gifts). Indeed, for government employees, it is forbidden to receive any gift at all, since this might be perceived as an enticement to do business (Global Business Culture, n.d.-c).

### China

China is now the world’s second largest economy with gross domestic product estima- ted to grow to 20.6 trillion USD by 2024 (Reynolds, 2021), having transformed itself into a new economic superpower that combines capitalism with traditional communist princi- ples. A massive population of potential consumers, a growing middle class population, an attraction to Western products and services, and a huge source of labor and produc- tion expertise for Western companies, have combined to make China an inevitable ave- nue of opportunity for multinational companies. But operating effectively with Chinese businesses requires a deep understanding of the unique combination of cultural val- ues that underpin that business environment.

###### Dimensions of Culture

Once again, we use Hofstede Insights (n.d.) as a starting point.



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| --- | --- | --- |
| Hofstedeʼs Value Dimensions—China | | |
| Dimension | Score | Description |
| Power distance | 80 | * China has a high power distance index score, reﬂecting the idea that inequality is an accepted fact of life, authority should be accepted, and that people should not aspire to climb above their rank. |
| Individualism | 20 | * A highly collectivistic culture, where the interests of the group outweigh personal interests. * Personal relationships are more important than the company or the task being carried out. |

Intercultural Management in Selected Countries

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| --- | --- | --- |
| Dimension | Score | Description |
| Masculinity | 66 | * A masculine society where success is important, as reﬂected in the level of sacriﬁce people are willing to make on behalf of their employer. * Work-life balance and leisure time are unimportant compared to the pursuit of success. |
| Uncertainty avoidance | 30 | * A low uncertainty avoidance score, indicating that people are comfortable with ambiguity. * Adaptability is a key characteristic. |
| Long-term orientation | 87 | * A high score indicating pragmatism and a belief that what matters depends on the context, time, and situation, adapting traditions as appropriate to ﬁt the context. |
| Indulgence | 24 | * A low score indicating restraint, often manifesting itself as pessimism or cynicism. * Self-indulgence is frowned upon, there is little focus on leisure time, and people exercise self- control. |

These six dimensions of culture are recognized when examining the Chinese business environment in more detail.

###### Business Organizations

Chinese society follows Confucian principles, so it is no surprise that business organi- zations reﬂect this in the hierarchical nature of organizational and operational struc- tures. Chinese businesses have rigid command structures and styles of management that must be respected and followed.

Although the traditional Communist regime has adapted, the underlying allegiance to a person’s work group, or *dan wei*, has remained, with workers feeling secure when pro- tected by the support mechanisms that their group provides. For this reason, it is difﬁ- cult for Western countries to set up operations in China that are new and unknown. Rather, it is more beneﬁcial to enter into joint venture arrangements with Chinese organizations in order to integrate effectively into the Chinese work environment and tap into the network of Chinese business relationships.

Personal relationships and personal connections (*Guanxi*) are essential when attempt- ing to do business in China, and the formation of a joint venture is the optimum way to develop these connections. The task of ﬁnding the most appropriate partner, however, is a signiﬁcant challenge and takes a long period of time to establish (Global Business Culture, n.d.-a).

###### Management and Leadership

Since culture is underpinned by Confucian philosophy, it is no surprise that inequality is an accepted feature of the Chinese business environment. Older employees are respected and honored by their younger colleagues, and senior colleagues are respec- ted by their subordinates, as a natural and automatic feature of business hierarchy. Notions of empowerment, consensus, equal opportunity, and freedom of access to information for all, are considered as negative features of the Western world.

In keeping with the strict hierarchical order, management style tends to be autocratic and directive, with orders and instructions being issued from the top and ﬂowing down the hierarchy into the organization without question or challenge. Indeed, any attempt to challenge the actions or directions from above would be considered disrespectful and would cause embarrassment and loss of credibility for the perpetrator. Although management styles in China are directive, they are also paternalistic, with the manager perceived as a father ﬁgure who takes a paternal interest in all aspects of the well- being of their family of subordinates. In return, the manager receives unquestioning loyalty and support.

A key inﬂuence in management structures in China remains the Communist Party. Often, senior managers are linked closely to the Party. As a result, business decisions are frequently subject to scrutiny by the Party before being conﬁrmed or rejected. Given the reliance on traditional management practices, combined with the huge growth and modernization of the economy, there is a critical shortage of contemporary manage- ment skills to move the economy forward. This means companies, including Western joint venture operations, are in ﬁerce competition to recruit and retain the best man- agement talent.

Although women ofﬁcially have the same workplace entitlements as mean, the con- cepts of equal rights and gender equality are somewhat contrary to the Confucian phi- losophy that underpins Chinese culture. However, according to Global Business Culture (n.d.-a), women occupy relatively senior positions in Chinese companies, and the con- tinued growth in their educational success means that they are likely to play an even more prominent role in the future. For a foreign woman doing business in China, she is likely to be treated with great courtesy and good manners. However, it is likely that the Chinese will assume that the senior person in a Western group is male, even if this is not the case (Global Business Culture, n.d.-a).

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###### Communication

The major initial stumbling block in communication with Chinese business associates is the language barrier. If you (or a representative of your company) are able to speak ﬂuent Chinese (Mandarin), then this is an advantage. Otherwise, business will need to be carried out via an interpreter or with an English-speaking representative of the Chi- nese organization. In both cases, there is a risk that meaning is lost or that the focus of the conversation switches to the translator, who may or may not be competent to act as an intermediary in your communication. This means that communication in China can be a long, drawn-out process with continual risk of misunderstanding. It is essen- tial, therefore, to go over key points of the communication multiple times to conﬁrm that there is shared understanding.

In keeping with much of Asia, the Chinese have a problem with saying “no,” because in Chinese culture this causes a loss of credibility and is therefore embarrassing. In situa- tions where the Chinese disagree, they are more likely to agree in a less convincing or powerful manner. This is the approach you should also take when wanting to disagree or refuse. The same reluctance is applied to the giving and receiving of negative mes- sages. Generally, it is prudent not to be too direct in communication and be willing to take time (through tact, diplomacy, and harmony) in order to meet your objectives.

While communicating, the Chinese can give the impression of lacking emotion and being unreceptive, but this is largely a misinterpretation of their natural understated style of body language. The likely rigid and unemotional response, coupled with a lack of animated visual clues, just make it more of a challenge to understand or decipher reactions and opinions from Chinese counterparts (Global Business Culture, n.d.-a).

###### Decision-Making

Decision-making in Chinese business culture is signiﬁcantly different to that observed in Western business cultures. Decisions are rarely made quickly, and making on-the- spot decisions to enable rapid progress is seen as either aggressive, unwise, or even foolish. The Chinese will insist on being given sufﬁcient time to consider their options carefully as a sign of respect and pragmatism, where all aspects of the situation and context need to be taken into consideration (ChinaWindow.com, n.d.). The pragmatism associated with the high score on the cultural value dimension of long-term orienta- tion means that Chinese decision-making can often mean looking at the bigger picture or context and considering a wider range of factors than in Western decision-making. The idea of a “quick win” is unusual in Chinese culture (Bizshifts-trends, 2012). Those with appropriate seniority and power make decisions. It would be seen as extremely disrespectful for a subordinate to agree to anything without ﬁrst consulting or defer- ring to their superior. By the same token, it would be seen as disrespectful to send a person to negotiate an agreement or make a decision who is not sufﬁciently senior in the organization.

The initial parts of the decision-making process are normally spent establishing the relationship, and discussion may not cover speciﬁc aspects of the subject under con- sideration. Only when the relationship is established and trust has been formed will Chinese counterparts be willing to discuss and commit to any decision or agreement. It is also uncommon for the actual decision to be made during a meeting. Instead, it is likely that consensus will need to be reached outside of the meeting, including a wide range of people (including potentially the Communist Party), before a decision can be announced.

###### Meetings

Meetings follow strict protocols for appropriate behavior, in keeping with the high- power distance culture, and based on deference and respect. It is essential to be aware of who you are meeting and the level of deference that needs to be shown in each case. This includes standing up when a person of seniority enters the room. Respect is due based on seniority, age, or education, but it should also be shown to all aspects of the company and Chinese culture. Making unwarranted references to Chinese history, the Communist Party, or human rights would be highly inappropriate and insulting to the Chinese.

Local representatives are likely to be somewhat wary of an outsider in their presence, so it is essential to be respectful of the group and show yourself to be honorable at all times. Earning the trust and respect of the group is the priority before any form of negotiation or discussion can take place. The concept of *Guanxi*, (personal relation- ships) is hugely important and should not be underestimated.

Meetings are often iterative in China and can often seem long and without clear objec- tives. With each meeting, the relationship will develop further and more information will be exchanged. Impatience or pushing the group will not yield results and will be seen as disrespectful or aggressive. Again, it is essential that you do not openly push or disagree with anybody in front of the rest of the group, since this causes great embar- rassment (Global Business Culture, n.d.-a).

###### Teamwork

Although China is a collectivist culture where loyalty to the group outweigh individual interests, this does not necessarily mean that Chinese employees thrive when working in teams. Loyalty to the in-group can cause a conﬂict of interest and divided loyalties when placed in another working group (an out-group). Often, the individual will feel the need to defer back to their in-group, rather than committing wholeheartedly to the objectives of their new team.

The respect for hierarchy and acknowledgement of inequality being a fact of working life means that working in a matrix-style structure where all members are equal, bring- ing their speciﬁc skills to a role within the group, can be confusing and difﬁcult. The

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expectation is that management is directive and that instructions should be followed without question. This goes against the Western notion of effective teams made up of individuals working with autonomy toward a collective goal.

A particular challenge is presented when one or more Chinese colleagues are members of an international team. Language barriers create an initial obstacle, but the cultural adaptation required to work in such a different way is even more challenging. Differen- ces in social customs, decision-making, communication, and hierarchy are potentially extreme. This is why most successful entries into the Chinese business environment have taken the form of joint ventures rather than joint teams, because this enables Chinese counterparts to continue to operate in their familiar working environment.

###### Business Etiquette

There are a number of useful guidelines for some of the more speciﬁc aspects of busi- ness culture in China.

Dress code

Respect and deference are important when doing business in China and this should be reﬂected in one’s manner of dress. The default should be smart, conservative business attire. Chinese business people have adopted suits and ties for men, skirts and blouses for women, and appearance is a reﬂection of one’s status and success. However, being ostentatious with one’s appearance can also leave the wrong impression.

Introductions

Introductions in China are formal and somewhat ritualistic in nature. It is convention to shake hands, but this should not be a ﬁrm or overlong handshake. It is seen as impo- lite to look the other person directly in the eye; instead, eyes should be lowered as a mark of respect. The exchanging of business cards is a key part of the ritual of initial introductions. Your business card should be printed in Chinese on one side, and when it is offered, it should be done so with the Chinese side facing upwards. The card you receive should be closely examined with reverence, being held in both hands and being treated with the same level of respect that you would give to the person. Not looking at the card and just putting it in your pocket would be seen as disrespectful.

Business entertaining

Building relationships with your Chinese counterparts is essential, and it is therefore no surprise that entertaining is an especially important part of the relationship-build- ing process. The Chinese enjoy introducing outsiders to their cuisine and are very happy to give guidance on what to eat and what to do. A Chinese banquet can be the experience of a lifetime, consisting of 20—30 dishes brought to the table over an exten- ded period. It is good manners to try some of every dish, but do not feel compelled to ﬁnish everything. An empty plate is a sign that you are still hungry so there is the dan- ger that another plate of more of the same will be brought to you. Eating habits and table manners in China are quite different to those experienced in Western countries. It is appropriate to show your appreciation for the food by belching or slurping. Smoking

in restaurants is commonplace and takes place even during the meal itself. Alcohol is also likely to be consumed in large quantities and excessive drinking is normal but there is a danger of losing credibility and respect if too much is drunk.

The seating plan will have been worked out in advance, based on status and hierarchy, so you should wait to be told where to sit. If you are hosting the meal, the seating plan needs to be carefully considered in advance so as to avoid insulting anybody by seat- ing them in an inappropriate position.

Language

The misunderstandings that originate from language difﬁculties are among the most signiﬁcant challenges that a business faces in China. It is not good practice to expect your Chinese counterparts to conduct business in English. This means it is good prac- tice to hire an interpreter who understands the subtleties of the Chinese language and culture. Attempting to say a few words in Mandarin is also a positive gesture and will be welcomed by your Chinese counterparts (MarketingtoChina.com, 2021).

Gifts

The giving and receiving of gifts in a business context is a part of the process and ritual of building the business relationship. The choice of gift is important and needs to be considered carefully. It cannot be something too expensive or ostentatious because this might be perceived as a form of bribery or corruption, which are criminal offenses in China. The gift should be a present to the whole group (not an individual) and should be wrapped. It will most likely not be opened in front of the person who gave it.

Summary

The business cultures of Germany, the US, and China are signiﬁcantly different, yet evidence suggests it is possible for these important nations to work together in healthy business relationships.

On the value dimensions of culture, of particular note for Germany are the high degree of long-term orientation and the low degree of power distance. These char- acteristics manifest themselves in the need for detailed, well-thought out propos- als and decision-making, and the respect that is held for expertise, knowledge, and qualiﬁcations.

Americans, on the other hand, score very highly in the dimensions of individualism and indulgence, and very low in the area of long-term orientation. The concept of following the American dream, where everybody can achieve and progression is based on merit, creates a business environment where people are expected to be able to look after themselves. The focus is on achieving quick results from which individuals can gain instant credit, creating a decision-making process that is often short and impulsive, with frustration at too many obstacles or at over-analysis of facts. American employees take their work seriously and work hard.

Intercultural Management in Selected Countries

The Chinese score very highly on the dimensions of power distance and long-term orientation, and very low in the area of individualism. In the workplace authority, rank and status are highly respected and form a key feature in the formality of business communication and decision-making. As a highly collectivist culture, indi- viduals act in the interests of the group ﬁrst and the building of personal relation- ships is extremely important.



# Appendix 1

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