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# 1 Management across cultures: an introduction

## MANAGEMENT CHALLENGE

MIT economist Lester Thurow observes, "A competitive world offers two possibilities. You can lose. Or, if you want to win, you can change."[1] With increasing globalisation come increased pressures for both change and competitiveness. Understanding this changing environment is a manager's first challenge. The second is building mutually beneficial interpersonal and multicultural relationships with people in different parts of the world in order to overcome these challenges and take advantage of the opportunities presented by the turbulent global environment. Meanwhile, concerns about ethical behaviour and social responsibility surround managerial actions. We suggest here in this introductory chapter that an important key to succeeding in the global business environment is developing sufficient *multicultural competence* to work and manage productively across cultures.

## CHAPTER 1 AT A GLANCE

After reading this chapter, you should be able to:

- analyse the emerging global landscape
- identify multicultural competence and managerial success

During a dinner meeting in Prague between Japanese marketing representative Hiroko Numata and her Czech host, Irena Novák, confusion quickly emerged when the Japanese guest went off to find the restroom. She began to open the door to the men's room when her host stopped her. "Don't you see the sign?" Novák asked. "Of course I do," Numata responded, "but it is red. In our country, a red-colored sign means it's the ladies' room. For men, it should be blue or black." Novák returned to her table, remembering that she too had looked at the sign but had focused on what was written, not its color. She wondered how many other things she and her Japanese colleague had seen or discussed but interpreted very differently.[2]

We live in a contradictory and turbulent world, in which there are few certainties and change is constant. Over time, we increasingly come to realise that much of what we think we see around us can, in reality, be something entirely different. We require greater perceptual insight just as the horizons become more and more cloudy. Business cycles are becoming more dynamic and unpredictable, and companies, institutions, and employees come and go with increasing regularity. Much of this uncertainty is the result of economic forces that are beyond the control of individuals and major corporations. Much results from recent waves of technological change that resist pressures for stability or predictability. Much also results from the failures of individuals and corporations to understand the realities on the ground when they pit themselves against local institutions, competitors, and cultures. Knowledge is definitely power when it comes to global business, and, as our knowledge base becomes more uncertain, companies and their managers seek help wherever they can find it.

Considering the amount of knowledge required to succeed in today's global business environment and the speed with which this knowledge becomes obsolete, it is the thesis of this book that mastering learning skills and developing an ability to work successfully with partners in different parts of the world may well be the best strategy available to managers who want to succeed. Business and institutional knowledge is transmitted through interpersonal interactions. If managers are able to build mutually beneficial interpersonal and multicultural relationships with partners around the world, they may be able to overcome their knowledge gaps. *Our aim in this book, then, is to develop information and learning models that managers can build upon to pursue their job responsibilities, corporate missions, and careers.*

As managers increasingly find themselves working across borders, their list of cultural contradictions continues to grow. Consider just a few examples. Most French and Germans refer to the European Union as "we," while many British refer to it as "they"; all are members. To some Europeans, Japan is part of the "Far East," while, to some Japanese, Europe is part of the "Far East"; it all depends on where you are standing. Criticising heads of state is a favourite pastime in many countries around the world, but criticising the king in Thailand is a felony punishable by fifteen years in jail. Every time Nigerian-born oncologist Nkechi Mba fills in her name on a form somewhere, she is politely told to write her name, not her degree.

In South Korea, a world leader in IT networks, supervisors often assume employees are not working unless they are physically sitting at their desks in the office. And in a recent marketing survey among US college students, only 7 percent could identify the national origins of many of their favourite brands, including Adidas, Samsung, Nokia, Lego, and Ericsson. In particular, quality ratings of Nokia mobile phones soared after students concluded, incorrectly, that they were made in Japan.

There is more. Germany's Bavarian Radio Symphony Orchestra recently deleted part of its classical repertoire from a concert tour because it violated the European Union's new noise at work limitations. US telecommunications giant AT&T has been successfully sued in class action suits for gender discrimination against both its female and male employees. When you sink a hole in one while playing golf with friends in North America and Europe, it is often customary for your partners to pay you a cash prize; in Japan, you pay them. The head of Nigeria's Niger Delta Development Corporation was fired from his job after it was discovered that he had paid millions of dollars of public money to a local witch doctor to vanquish a rival. The penalty for a first offense of smuggling a small quantity of recreational drugs into Western Europe is usually a stern lecture or a warning; in Singapore, it is death. Finally, dressing for global business meetings can be challenging: wearing anything made of leather can be offensive to many Hindus in India; wearing yellow is reserved for the royal family in Malaysia; and white is the color of mourning in many parts of Asia.

When confronted by such examples, many observers are dismissive, suggesting that the world is getting smaller and that many of these troublesome habits and customs will likely disappear over time as globalisation pressures work to homogenise how business is done – properly, they believe – across national boundaries. This may be incorrect, however. *The world is not getting smaller; it is getting faster*. Many globalisation pressures are currently bypassing – and, indeed, in some cases actually accentuating – divergent local customs, conventions, and business practices, if for no other reason than to protect local societies from the ravages of economic warfare. What this means for managers is that many of these and other local customs will likely be around for a long time, and wise managers will prepare themselves to capitalise on these differences, not ignore them.

## The changing global landscape

Much of what is being written today about the **changing global landscape** is characterised by a sense of energy, urgency, and opportunity. We hear about developing transformational leaders, building strategic alliances, launching global product platforms, leveraging technological breakthroughs, first-mover advantages, global venturing, outsourcing, sustainable supply chains, and, most of all, making

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**Exhibit 1.1** The changing global landscape

money. Action – and winning – seem to be the operational words. Discussions about global business assume a sense of perpetual dynamic equilibrium. We are told that nothing is certain except change, and that winners are always prepared for change; we are also told that global business is like white water rafting – always on the edge; and so forth. Everything is in motion, and opportunities abound.

At the same time, however, there is another, somewhat more troublesome side to this story of globalisation that is discussed far less often, yet it is equally important. This side is characterised by seemingly endless conflicts with partners, continual misunderstandings with suppliers and distributors, mutual distrust, perpetual delays, ongoing cost overruns, political and economic risks and setbacks, personal stress, and, in some cases, lost careers. Indeed, *over 50 percent of international joint ventures fail within the first five years of operation.* The principal reasons cited for these failures are cultural differences and conflicts between partners.[3]

Problems such as these have several potentially severe consequences for organisational success, especially in the area of building workable global partnerships. Although it is not easy to get a handle on all the changes occurring in the global environment, three prominent changes stand out: the evolution from intermittent to continual change, from isolation to increasing interconnectedness, and from biculturalism to multiculturalism (see Exhibit 1.1).

### APPLICATION 1.1 Expanding Telstra: Asia Pacific on the horizon

Telstra Corporation Limited is Australia's largest telecommunications and media company. It mainly runs businesses in the areas of telecommunication infrastructure building, providing pay television and other entertainment products and services, and operating telecommunications networks, such as mobile phone, fixed line, and internet access.[4] With its headquarters in Melbourne, the company faces an increasing challenge from global competitors as a result of globalisation. To actively deal with those challenges, Telstra has also expanded its business to the Asia-Pacific region. During the global downturn, the Asia-Pacific region became a driver of the global economy, and, as international businesses look for expansion overseas, the region presents some of the best opportunities for growth. However, the region also presents unique challenges: it is incredibly diverse, with wide cultural differences in and between countries and varying levels of political–economic institutional settings, such as political maturity, governmental regulation and technological infrastructure. When expanding its business to the region, Telstra's top management teams consider three key aspects of global realities.

First, the future of Asia is uncertain. Although many economists hold a positive view about Asia, and believe it will be an economic centre in world trade with a fast growth rate, a number of different factors could affect this outlook. Managers from Western multinationals should not just understand the marketplace of the region, but also the 'people factor' within the region. For example, it is unclear whether the disparity of wealth and poverty among the large population in the Asia-Pacific region will be resolved, or even how it could be resolved. With this uncertainty, the region will remain a risky prospect for investors.

Second, there are the more profound challenges of diversity throughout the region, such as diversity in law, business practices, and cultures, which are not easy for Telstra to comprehend.[5] For example, from an institutional perspective, there are two sets of economies in the region: advanced economies, such as Japan, Singapore, Hong Kong, and Korea; and developing economies like Indonesia, Malaysia, Thailand, and the Philippines. Telstra must therefore find an adaptive strategy to account for these differences between countries in the region.

Third, Telstra should consider a divergent approach to localise its market entry into countries in the region, rather than think of the whole region as a single entity.[6] Telstra should take a practical approach, and make its entry strategy flexible and adaptable to different political and economic environments. Building a close collaborative business relationship with trusted local partners is a way to ensure decision-making processes are well-informed.

Think about it . . .

(1) Can you give more examples of other aspects of diversity in the Asia-Pacific region?
(2) Do you think the three points considered by Telstra's top management would be relevant to other Western multinationals?
(3) It seems that Telstra has adopted a localised strategy to enter into the region. Do you think this is the best strategy for Western multinationals to expand business in the region?

## From intermittent to continuous change

Change is everywhere. Companies, products, and managers come and go. This turbulence increasingly requires almost everyone, from investors to consumers, to pay greater heed to the nature, scope, and speed of world events, both economically and politically. Details have become more important. Personal relationships, even though they are under increasing strain, remain one of the last safe havens in an otherwise largely unpredictable world.

Across this changing environment – indeed, as one of the principal causes of these changes – we can see the relentless development and application of new technologies, especially with regard to the digital revolution. Technology is largely held to be a principal driver of globalisation and the key to national economic development and competitiveness. Indeed, global business as we know it today would not be possible without technology. It was only with the emergence of affordable and reliable computer and communication technologies that coordination and collaboration across borders became reliable. A few years ago subsidiaries were managed as independent organisations, and managers travelled around the globe for coordination purposes. Today electronic technologies facilitate the transfer of information and make communication through text, voice, and video simple and affordable.

At the same time, globalisation has resulted in an increase in the transfer and diffusion of technological innovation across borders, as well as competition among nations to develop and adopt advanced technologies. As business becomes more and more global, the need for better and cheaper technology increases, pushing technological development to new heights. Computers are obsolete as soon as they are out of the box, smartphones integrate new functionalities for managers on the move, and we have mobile phone coverage and Internet access in almost every corner of the world. Managers cannot understand globalisation or manage globally without understanding the influence of technology on business.

Take the example of the growth of the mobile Web in Vietnam.[7] Internet penetration in Vietnam has grown to 44 percent of the state's 90 million people from 12 percent a decade ago. Much of that is driven by smartphones, which are used by more than a third of the population. This expansion is powering a range of online services, many of which are showing their first signs of serious growth, such as mobile e-commerce. A Vietnamese government agency forecasts the market for e-commerce will generate revenue of $4 billion this year, compared with $700 million in 2012. Data prices are among the lowest in the world. This presents an opportunity for local businesses and at the same time expands the footprint of global technology companies. Active mobile social-media accounts, meanwhile, rose 41 percent in the past year. That is more than China, India, or Brazil, and indicates what might happen in other mobile-first countries such as Myanmar or

Nigeria as they race to catch up with Internet usage in more developed countries. And Facebook now has 30 million active users in Vietnam, up from 8.5 million just three years ago, making the country one of Facebook's fastest-growing markets.

## From isolation to interconnectedness

In today's increasingly turbulent and uncertain business environment, major changes occur with increasing regularity. The recent collapse of the global financial markets, accompanied by worldwide recession, continues to cause hardships around the world and has led to changes, both political and economic, in rich and poor countries alike. The economic and political power of India and China continues to grow exponentially, and both are struggling to manage the positive and negative consequences of growth and development. Russia is trying to reassert itself politically and economically in the world, overcome rampant corruption in its business sector, and reform its economic system in order to build local companies that can compete effectively in the global economy. Arab nations are struggling for greater democracy and human rights. Japan is trying to rebuild its economy after its recent catastrophic environmental disaster. France is trying to reinvigorate its economy by changing its historically uncompetitive labour policies. Turkey is trying to join the European Union so that its companies can gain greater access to world markets. South Africa continues to struggle to shed the vestiges of its old apartheid system and build a new, stronger economy based on more egalitarian principles. Throughout, there is a swelling consumer demand for higher quality but lower-cost goods and services that challenge most governments and corporations. In a nutshell, welcome to today's increasingly global economy. In this new economy, globalisation is not a debate; it is a reality.

This is not to say that the challenges and potential perils of globalisation are a recent phenomenon. Indeed, quite the contrary is true; globalisation has always been a major part of commerce. What is new, however, is the magnitude of globalisation today and its impact on standards of living, international trade, social welfare, and environmental sustainability. In 1975 global foreign direct investment (FDI) totalled just $23 billion; by 1998, a little over twenty years later, it totalled $644 billion; and by 2008, just ten years after that, it totalled $1.5 trillion. It is estimated that, by 2020, global FDI will surpass $3 trillion. Despite regional and worldwide recessions and economic setbacks, global FDI continues to grow at a seemingly uncontrollable rate. What are the ramifications of this increase for organisations and their managers? What are the implications for developed and less developed countries? Is there a role for governments and public policy in this revolution?

Take just one example of this interconnectedness. When the use of ethanol as an additive to gasoline production increased significantly in American and European markets, corn prices around the world skyrocketed, and the price of tortillas in Mexico, a staple food among Mexico's poor, nearly doubled. A short time later, however, the bottom fell out of the ethanol market as oil prices dropped and the price of corn fell.[8] Then, a year later, oil prices skyrocketed again, as did the price of corn. Caught in the middle of all of this is the Mexican peasant, just trying to survive: unintended, yet nonetheless very real, consequences.

### APPLICATION 1.2 Engaging in the Asian Century

Australia, as a developed country and one of the wealthiest in the world, is geographically isolated. Sustaining economic interconnectedness with other countries is one of most important national strategies and is manifested in the White Paper released by the Australian government in 2012, *Australia in the Asian Century*. The rise of Asia provides great opportunities for Australia. Economic integration with Asian countries has become crucial and challenging for Australian society in the 21st century. Although Australia's economic integration into Asia has accelerated over the past four decades, Australia's engagement with Asian nations has broadly fallen: for instance, engagement fell by 0.4 per cent in 2012, with the major drag coming from a 32.2 per cent fall in engagement with China.[9] Misunderstanding Asian culture is holding Australia back. To successfully engage in Asia, "business leaders need to show the way", said Mr Andrew Parker,[10] who heads the Asian deals desk for consultancy giant PricewaterhouseCoopers. However, one issue is the continuing habit of company boards appointing people like themselves – Anglo-Celtic males, often from similar education backgrounds and with little knowledge of or experience in Asia.

On 16 July 2013, former Prime Minister Kevin Rudd, in his address to the National Press Club,[11] said:

> I am concerned that if you went through our business elites, you would not find a lot of the top 25 executives in each of our top 100 firms who have spent any of their career time serving in Asia – the engine driver of the global economy through until mid-century. Remember this is the Asian Century. The truth is Australia is much underdone in Asia.

According to the latest Asialink survey,[12] Australian businesses operating in Asia are dealing with a wide range of challenges – and the most pressing relate to cultural capability and insufficient market and industry information.

Think about it . . .

(1) Can you give any examples of culture failure of Australian companies in Asia?

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(2) Can you name three Australian companies that have substantial engagement in Asian countries?
(3) Why should business leaders establish role models for engaging in Asia?

## From biculturalism to multiculturalism

The increasing intensity and diversity that characterise today's global business environment require managers to succeed simultaneously in multiple cultures, not just one. Gone are the days when a manager prepared for a long-term assignment in France or Germany – or even Europe. Today this same manager must deal simultaneously with partners from perhaps a dozen or more different cultures around the globe. As a result, learning one language and culture may no longer be enough, as it was in the past. In addition, the timeline for developing business relationships has declined from years to months – and sometimes to weeks. This requires a new approach to developing global managers. This evolution from a principally bicultural business environment to a more multicultural or global environment presents managers with at least three new challenges in attempting to adapt quickly to the new realities on the ground.

- **It is sometimes unclear to which culture we should adapt.** Suppose that your company has asked you to join a global team to work on a six-month R&D project. The team includes one Brazilian, one Indian, one Portuguese, and one Russian. Every member of the team has a permanent appointment in his or her home country but is temporarily assigned to work at company headquarters in Sweden for this project. Which culture should team members adapt to? In this case, there is no dominant cultural group to dictate the rules. Considering the multiple cultures involved, and the little exposure each manager has likely had with the other cultures, the traditional approach of adaptation is unlikely to be successful. Nevertheless, the group's members have to be able to work together quickly and effectively to produce results (and protect their careers), despite their differences. What would you do?
- **Many multicultural encounters occur at short notice, leaving little time to learn about the other culture.** Imagine that you have just returned from a week's stay in India, where you were negotiating an outsourcing agreement. As you arrive in your home office, you learn that an incredible acquisition opportunity has just turned up in South Africa and that you are supposed to leave in a week to explore the matter further. You have never been to South Africa, nor do you know anybody from there. What would you do?
- **Multicultural meetings increasingly occur virtually, by way of Skype or video conferencing, instead of through more traditional face-to-face interactions.**

Suppose that you were asked to build a partnership with a partner from Singapore whom you have never met, and that you know little about the multiple cultures of Singapore. Suppose further that this task is to be completed online, without any face-to-face communication or interactions. Your boss is in a hurry for results. What would you do?

Taken together, these three challenges illustrate just how difficult it can be to work or manage across cultures in today's rapidly changing business environment. The old ways of communicating, negotiating, leading, and doing business are simply less effective than they were in the past. As such, as noted earlier, the principal focus of this book will be on how to facilitate management success in global environments – how to become a global manager.

## Multicultural competence and managerial success

Globalisation pressures represent a serious challenge facing businesses and the way in which they conduct themselves in the global economy, and they have a direct influence on the quality and effectiveness of management. Even so, globalisation presents companies with opportunities as well as challenges. The manner in which they respond – or fail to respond – to such challenges will in large measure determine who wins and who loses. Those that succeed will need to have sufficient managers with economic grounding, political and legal skills, and cultural awareness to decipher the complexities that characterise their surrounding environment. Tying this all together will be the management know-how to outsmart, outperform, or outlast the competition on a continuing basis. Although globalisation seems to be inevitable, however, not all cultures and countries will react in the same way, and therein lies one of the principal challenges for managers working across cultures.

In view of the myriad challenges such as this, managers viewing global assignments – or even global travel – would do well to learn as much as they can about the world in which they will work. The same holds true for local managers working in their home countries, where the global business world is increasingly challenging them on their own turf. Like it or not, with globalisation and competition both increasing almost everywhere, the challenge for managers is to outperform their competitors, individually or collectively. This can be attempted either by focusing exclusively on one's own self-interests or by building mutually beneficial strategic alliances with global partners. Either way, the challenges and pitfalls can be significant.

Another important factor to take into consideration here is a fundamental shift in the nature of geopolitics. The days of hegemony – East or West – are over. No longer do global business leaders focus on one or two stock markets, currencies, economies,