



Managing Cultural Differences for Competitive Advantage

By LISA ADENT HOECKLIN

Special Report No. P656

The Economist Intelligence Unit
A member of the Economist Group
40 Duke Street
London W1A
United Kingdom

Table of Contents

Executive Summary	ix
Chapter 1: The impact of cultural diversity on international business	1
Are cultures converging?	1
As superficial behaviour converges, cultural differences accentuate	2
The costs of cultural mismanagement	3
Culture affects even "ordinary" business practices	4
Are there universal management theories?	5
"Morality is a movable feast"	6
Perceptions of other cultures: USA—Europe	6
Differences even among neighbours	7
Creating a global organisation out of diversity	7
The competitive advantage of culture	7
<i>Case study: using culture competitively at ICI</i>	10
Summary	12
Notes	13
Chapter 2: Culture: what it is, what it is not and where it comes from	15
What culture is	15
What culture is not	16
Different layers of culture	16
Cultural values taken for granted	17
Definitions of culture	18
Fons Trompenaars's research	19
Universalism versus Particularism	20
Individualism versus Collectivism	21
Neutral versus Affective relationships	22
Specific versus Diffuse relationships	23
Achievement versus Ascription	25
Summary	26
Notes	27
Chapter 3: The strategic value of cultural differences	29
Changing competitive requirements	29
Managing cultural differences in various stages of organisational structure	29
Different approaches to managing cultural differences	31
Building a strong corporate culture internationally	32
<i>Case study: Ikea</i>	33

Building a common technical or professional culture/relying on strong financial or planning systems	35
Leaving each culture alone	36
Key elements of global competitive advantage	36
The competitive advantages from "softer" sources	36
<i>Case study: Emerson Electric</i>	37
<i>Case study: Elf Aquitaine</i>	38
<i>Case study: Bühmann-Tetterode</i>	40
A transnational organisational structure	41
Building and managing the transnational	42
Culture and the transnational organisation	43
<i>Case study: Siemens</i>	43
A model of cultural learning	46
<i>Case study: Cultural learning at Toshiba in the UK</i>	47
<i>Case study: Cultural learning at Toshiba in the USA</i>	49
<i>Case study: Cultural learning at Toyota in the USA</i>	50
Summary	53
Notes	54
Chapter 4: Advertising across cultures	55
Do "global" products exist?	55
Global products, global meanings?	56
The potential for global products	57
The potential for global messages	59
<i>Case study: Heineken beer—brewing a global brand</i>	62
Same product concept: standardisation of advertising	63
Same product concept: local adaptation of message	63
A value-added approach to marketing and advertising across cultures	65
<i>Case study: Johnson & Johnson baby products—the language of love</i>	65
<i>Case study: Unilever's fish-fingers</i>	66
<i>Case study: Steelcase Strafor</i>	68
Summary	69
Notes	69
Chapter 5: Managing human resources across cultures	71
The context	71
Articulating explicit company values worldwide	73
"Every act of creation is an act of destruction" (Picasso)	76
Selection	77
Career development	80
Organisational models of career development	80
How individuals from different cultures perceive the career	83
Performance appraisal	85
Summary	87
Notes	87

Chapter 6: Managing alliances across cultures	89
The role of culture in alliances across cultures	89
Joint venture between Motorola and Toshiba	92
Managing the process	97
<i>Case study: Acquisition of Kyat (Spanish) by Syseca (French)</i>	97
Notes	98
Appendix 1: Some leading organisations offering cross-cultural development consultancy	99
Appendix 2: A selection of leading business school executive courses in cross-cultural management	121
Index	129

List of Figures:

1.1	European and American cultural behaviours: how we perceive each other	8
2.1	Three levels of human mental programming	16
2.2	Layers of cultural "programming"	17
2.3	Change capability	17
2.4	Universalism versus Particularism	20
2.5	Individualism versus Collectivism	21
2.6	Neutral versus Affective relationships	22
2.7	Specific versus Diffuse relationships	23
2.8	Privacy	24
2.9	Achievement versus Ascription	25
3.1	A model of cultural assumptions and organisational structure	30
3.2	International organisational structure and cultural assumptions	35
3.3	Multidomestic organisational structure and cultural assumptions	39
3.4	Multinational organisational structures and cultural assumptions	44
3.5	A model of cultural learning	46
3.6	Toshiba consumer products operating philosophy	47
3.7	"Toshiba pen"	49
4.1	Adapting advertising messages for different cultures	59
4.2	Individuation of messages contradicts cost-saving rationalisation	60
4.3	The intended meaning of the brand should coincide with the perceived meaning of the message	61
4.4	The managing meaning matrix	61
4.5	Culture and advertising—considerations of meaning: intended=perceived?	67
5.1	Culture and selection	78
5.2	Managed development approach to management development: the Anglo-Dutch model	80
5.3	Functional approach to management development: the Germanic model	81
5.4	Elite cohort approach to management development: the Japanese model	82
5.5	Elite political approach to management: the Latin model	83
6.1	Frequency and common causes of failure of strategic alliances	90
6.2	The three Cs	96

Executive Summary

Hard advantages from soft sources

Sources of competitive advantage are rapidly shifting from "hard" cost factors (labour costs, capital equipment, etc) to other, "softer" dimensions, such as the ability to work in an international context, build collective know-how and interact successfully across functions in a creative, unplanned way. Several successful international companies, interviewed for this report, are shown to be using cultural diversity as a strategic weapon to create long term and sustainable competitive advantages, rather than regarding it as a costly obstacle.

Cultural differences can be used competitively. To do so, companies must examine and change their assumptions about cultural diversity. Change must be driven from the very top with senior executives recognising both the potential benefits and pitfalls that culture can create. And cultural learning at an operational level must be considered a strategic requirement.

But culture has its own language, and to be successful that language has to be first defined, and then understood. This report translates abstract cultural issues into concrete business considerations, helping managers formulate strategy and manage their businesses across borders to best effect.

Four Key Steps

At the practical level of managing cultural differences, companies that have been successfully translating "cultural synergy" into action are using four important steps in specific cultural encounters.

- Implementing a considered process of making implicit knowledge explicit.
- Agreeing on the specific outcomes that are desired from the interaction.
- Understanding why each culture does things the way it does and agreeing which combination of approaches will lead to achieving the desired outcomes.
- Reviewing the results and modifying the approach to better fit both cultures and the desired outcomes.

The Costs of Cultural Mismanagement

While globalisation means that more products and services are common to markets worldwide, people tend to cling tenaciously to their own unique cultural values, and the fierce nationalism characterising the 1990s is a poignant reflection of cultural differences actually accentuating rather than converging. As a result, the costs of mismanaging cultural differences are higher than ever.

- When the French company Carnaud merged with the UK's Metal Box in 1989, the marriage seemed an excellent fit; yet at the end of 1991 the merger had not yielded the expected rewards. A clash of cultures at top level had led to indecision about organisation and strategy.
- A UK insurance company bought a 50 per cent stake in three small Italian companies in 1989 and proceeded to change their policies to conform with its British products, thinking this standardisation was critical. Then the company tried to market them via direct mail and through the branches of its partners in northern Italy. Few policies sold and the joint venture suffered a pretax loss of about US\$90 million in just over a year.
- A large US electrical company acquired a French company. Poor first-year results were partly blamed on the motivation of sales and marketing staff. To improve performance, the US parent organised a high-tech motivational road show for employees, complete with T-shirts printed with the company slogan for all participants to wear. But the plan backfired: French employees were appalled at the idea of wearing the "costume" and the way in which the "vulgar hype" was expected to be motivational. Results for the next half year were worse than ever.

Success is Well Rewarded

As well as the failures we look carefully at how and why some major companies have been successful. The report shows, among others, how:

- ICI has made major strides in its efforts to internationalise its business practices. A project to identify the problem areas between British and Italian managers was undertaken and both groups of managers realised that neither culture was right or wrong. Instead of considering their cultural differences as distinct and incompatible, they worked out particular ways of integrating each other's strengths.
- Toyota has profitably incorporated the cultural aspects of its American workforce at its highly successful manufacturing facility in Kentucky, USA, through identifying the reasons behind each culture's behaviour and drawing the best from both.

- The joint venture between Motorola and Toshiba is an exemplary cross-border alliance incorporating a set of clearly established priorities and allegiances for managers and employees from the outset, an attitude of mutual respect, trust and patience, and the formation of project teams with Japanese and American members.