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Managing Cultural Differences for Competitive Advantage

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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.