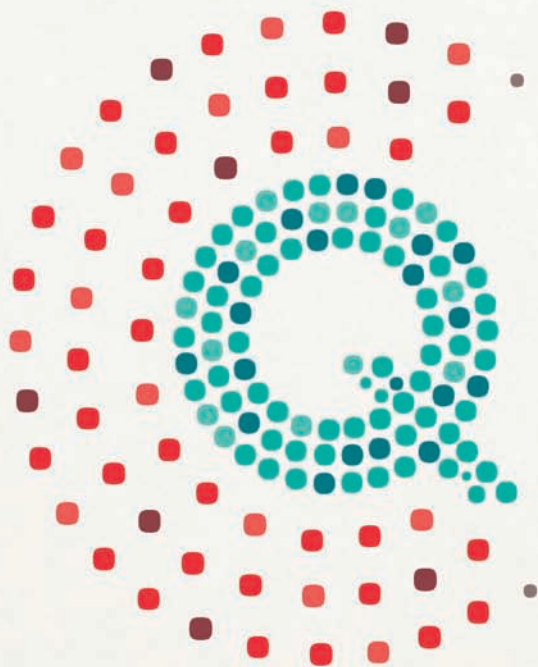


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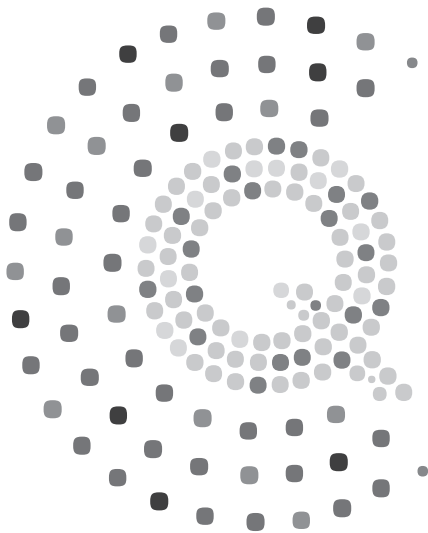
LEADING IN GLOBAL MARKETS
WITH CULTURAL INTELLIGENCE



FELICITY MENZIES

a
WORLD
of
DIFFERENCE

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WITH CULTURAL INTELLIGENCE



FELICITY MENZIES



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*This book is dedicated to my father,
Ray Dundon, who taught me that anything
is possible if you set your mind to it.*

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About the Author

Felicity Menzies is an authority on cultural intelligence and diversity and inclusion in the corporate environment. Felicity's interest in the role of culture in business began during her tenure as the Head of Private Bank, Westpac, in Singapore. There she led a culturally diverse team of bankers serving a multinational client base and learned firsthand how Cultural Intelligence is a necessary component of business success.

Now Felicity applies her business acumen and intercultural expertise to help global organisations respond effectively to the opportunities and challenges presented by diverse workforces, unfamiliar markets, and rapid shifts in the competitive landscape. As Principal Consultant at Culture Plus Consulting, Felicity works with individuals, work groups and organisations to develop the competencies necessary to manage cultural diversity and improve performance in diverse cultural settings.

Felicity has more than 15 years of experience in financial and professional services with blue-chip companies, and has held senior positions in business development, project and change management, relationship management and financial and operations control.

Felicity is an accredited facilitator with the Cultural Intelligence Centre and has been a member of Chartered Accountants of Australia and New Zealand since 1995. Felicity holds a Bachelor of Commerce and a Bachelor of Arts in Psychology.



1. MANAGING A WORLD OF DIFFERENCE

NOT LONG AGO, I was contacted by Alison, a senior sales executive of a large Australian property developer. She was anxious—her management skills were under scrutiny after losing two senior sales directors to competitor firms. She explained to me, “I have responsibility for leading the sales strategy and execution for our luxury apartment developments across North Sydney. We are targeting the high-net-worth Chinese buyer. It is estimated that Chinese investors account for around 20 per cent of the luxury apartment market in Sydney, but competition is strong, particularly from Chinese developers. While we sell 30 per cent of our developments to Chinese buyers, Chinese developers sell around 80 per cent. There are significant opportunities in this market that we are only partly capturing.”

Alison continued, “Those statistics indicate to me that we don’t fully understand the cultural nuances of selling to the high-net-worth

Chinese investor. Recognising this, last year we recruited two experienced Chinese directors to our sales team. Both directors were born in China but had experience working for Chinese property developers in Australia. It was not easy recruiting Chinese directors—although we offered competitive base salaries and an aggressive performance-based bonus, we didn't attract many applicants. Eventually we hired Wilson, who had relocated to Sydney from Perth to be closer to his extended family. Wilson later introduced us to Chen, his second cousin, whom he had worked with in China but at the time was working for a competitor Chinese developer. Both directors had excellent credentials and a solid track record of sales of Australian luxury apartments to Chinese buyers.”

Alison explained to me that she had expected to realise the benefits of her Chinese hires immediately. She was eager to replicate the success of the company's Chinese competitors by integrating Chinese themes into marketing and sales strategy and practices, and she looked forward to Wilson and Shu's suggestions about how her team could increase sales to high-net-worth Chinese investors. But it didn't work out as she had hoped.

Alison has a participative management style. She values lively discussions in team meetings and encourages her sales directors to suggest and debate their ideas for the group's sales strategy. Sometimes the meetings would become quite heated as the directors challenged each other's ideas while arguing their own position, but Alison and her team understood that intentional workplace debate was conducive to preventing groupthink and stimulating creativity.

Wilson and Shu, however, rarely contributed to team meetings. While her Australian-born directors enthusiastically argued their different ideas and contrasting viewpoints during brainstorming sessions, Alison's new hires were quiet and reserved during the meetings. They

neither offered suggestions, nor commented on the ideas of their group members.

Outside of team meetings, her new directors were reporting strong sales. Alison was concerned that Wilson and Shu's sales success was fuelling resentment among other members of her team. She noticed a social division between her new Chinese hires and her non-Chinese staff—they rarely ate lunch together nor mixed after hours. Two of Alison's Australian-born senior sales directors had complained to her that Wilson and Shu were unfriendly, uncooperative and 'didn't fit in'.

Alison called Wilson and Shu into her office to discuss her concerns. She told her Chinese directors that while she was pleased with their sales performance, she was concerned that they were not team players, and she would like them to display greater initiative in mentoring their peers and contributing to group strategy. She relayed the feedback from her senior directors that Wilson and Shu were perceived by their team members to be unfriendly, and she encouraged her Chinese directors to be more approachable and to build friendships with their Australian-born colleagues. Three months later, both managers left Alison's firm to work for a competitor Chinese developer.

"What happened?" Alison asked me, exasperated. "Is it cultural?"

Alison and I met up for a coaching session a few weeks later to take a closer look at what might have gone wrong. Her difficulty managing a multicultural group is not unusual. Cultural diversity increases the complexity of work groups and managers need new knowledge and skills to manage that complexity.

I suggested that Alison's Western management style likely contributed to the loss of her Chinese directors. Also that cultural differences had created fault-lines—subgroup divisions—between her Chinese and Australian staff, which were exacerbated by her management practices.

Alison's participative management style suits the egalitarian work culture in Australia. Australian managers expect that subordinates will contribute to decision-making about strategy and work processes. In contrast, the workplace in China is hierarchical. Chinese employees seek and comply with the directions of their managers who are expected to have greater knowledge and experience than subordinates. Wilson and Shu might have felt uncomfortable with the autonomy Alison granted her direct reports. They might also have perceived Alison to be a weak leader because she sought the advice of her staff in formulating the group's sales strategy. This might have implied to Wilson and Shu that she did not have the knowledge nor experience required for her position. Asking Wilson and Shu to mentor their peers likely further diminished Alison's authority in the eyes of her Chinese hires.

I also advised Alison that workplace debate is deeply countercultural to the Chinese. While Australians value assertiveness and individual expression and resolve conflict through a competitive win-lose approach that involves pitting opposing parties against each other and in which the most dominant and forceful party wins an argument, the Chinese value interdependence with colleagues and relational harmony and resolve conflict through a cooperative win-win approach, whereby diverse perspectives and opposing ideas are integrated to achieve an outcome acceptable to all parties. Alternatively, in Chinese contexts, conflict might be avoided altogether to maintain social harmony. Alison's combative brainstorming sessions were likely a source of discomfort for her new hires.

Similarly, Alison's frank negative feedback was at odds with the Chinese preference for giving and receiving feedback indirectly. Whereas Australians view constructive feedback as necessary for improving individual performance, in a Chinese context, direct negative feedback can damage a person's 'face'—their positive social

standing. This is particularly true when the feedback is given in front of others, (which is what Alison had done when she addressed both managers together).

I then explained to Alison that there is a high risk of fault-lines developing in multicultural groups when multiple members share a similar cultural background. Perception of cultural differences drives 'us vs them' distinctions and creates cultural subgroups that negatively impact group integration and cohesion. By fostering competitiveness among group members, individual performance-based pay can exacerbate fault-lines.

Also, while Australian employees typically respond positively to a merit-based pay structure, individual performance-based pay can be demotivating to Chinese workers. Merit pay offers employees an opportunity to distinguish themselves from their peers. While this is valued in an Australian context, in Chinese contexts, distinguishing yourself from your colleagues through either superior or inferior performance threatens one's membership of the group, which is an important element of one's self-concept and self-esteem. To the Chinese, *fitting in* is more important than *standing out*.

"Wow!" exclaimed Alison. "I had no idea that my management style, which has been effective with my Australian staff, might have been demotivating to Wilson and Shu. The differences you describe are significant. I now understand how I need to adapt my feedback style across cultures but what about group processes? How do I run group meetings to accommodate the different preferences of a multicultural group? How do I reduce the risk of fault-lines and promote greater collaboration? And how do I design a performance management and compensation system that is motivating to all staff?"

"Indeed!" I replied. "Managing a multicultural work group is challenging. But when you manage with cultural intelligence, cultural diversity

can create an enviable competitive advantage. Effectively managing cultural diversity is an increasingly critical skill in the global workplace and one that is in short supply. Through education, training and practice, you can develop that skill, and when you do, you can propel yourself ahead of your competitors as well as future-proof your career.”

THE VALUE IN DIVERSITY

Diversity has tremendous value.

New consumer markets offer opportunities for growth. Businesses can arbitrage talent and suppliers around the world. The global labour market increases the pool of talent a company can recruit from.

Also, workforce diversity can drive market outperformance. The greater variety of ideas and perspectives accompanying a diverse workforce increases the breadth of solutions available for problem-solving, promotes more critical information-processing in decision-making, and stimulates innovation and creativity. A diverse workforce can also better understand and respond to the needs of varied customers and increase access to new suppliers and other stakeholders.

Cultural diversity, in particular, offers the insight and flexibility needed for sustainable global success. Reflecting its civil rights roots, workplace diversity has traditionally been defined and managed in terms of legally protected categories in the United States including race, gender and disability. These ‘visible’ diversity markers trigger stereotyping and other biases. Cultural diversity shifts the focus from visual differences to variations in behaviours and mental processes shared by a group of people connected through common life experiences. Cultural diversity intersects with other diversity categories when a group can be distinguished in terms of its shared mental framework for interpreting and responding to the world.

The impact of cultural diversity on organisational outcomes may be magnified relative to other sources of diversity. Cultural diversity is most likely to involve differences in perspectives, knowledge and experience necessary for optimal information-processing, decision-making and innovation, and for understanding the needs and concerns of different consumer segments and diverse stakeholders at home and across borders.

In 2015, McKinsey released the results of its global study of leadership diversity and corporate financial returns¹. The results present a compelling case for cultural diversity at top management and board level. Companies in the top quartile for racial and ethnic diversity are 35 per cent more likely to have financial returns above their national industry median, while companies in the top quartile for gender diversity are 15 per cent more likely to have financial returns above their national industry median.

With a greater focus on the strategic value of workforce diversity, organisations across all industries are setting more aggressive diversity targets and ramping up their diversity efforts. Organisations make significant investments in recruiting and retaining a diverse workforce. Market leaders extend their diversity efforts outwards, building diverse stakeholder networks. Reflecting its strategic value, accountability for diversity management often sits with the C-suite and board of directors.

THE CHALLENGES OF DIVERSE WORK GROUPS

Yet, despite those efforts, many organisations fail to achieve their diversity goals. Leaders struggle to create the inclusive work environments necessary to attract, retain and engage diverse employees and unlock the potential value in a diverse workforce. Established organisations continue to stumble in their global ambitions. More than half

of all business leaders do not believe their organisations are flexible enough to respond to change across diverse markets².

Workforce diversity is a double-edged sword. Heterogeneous groups can both enhance and detract from group performance. While diversity offers potential benefits, diversity also enhances the potential for language and other communication barriers. It heightens the risk of ambiguity, value conflicts, reasoning and decision-making differences, and stereotypes and other forms of bias threaten rapport and stifle the exchange of information and ideas.

Those challenges can lead to failure in our dealings with individuals with backgrounds different to our own and limit the strategic potential of a diverse workforce for higher quality problem-solving and decision-making, innovation and creativity, accessing diverse customers and suppliers and attracting and energising top global talent. Work group diversity can be associated with poor group integration and cohesion, decreased satisfaction and commitment, and increased turnover of staff.

A 2011 review of 108 studies across 10,632 culturally diverse groups reported that the mean effect of cultural diversity on group performance is zero³. In other words, while some culturally diverse work groups outperform culturally homogenous groups, others underperform. Those results indicate that pursuing diversity in your markets and your workforce is only half of the solution. As cultural diversity is complex, its benefits for growth, innovation and talent optimisation will only be realised if your workforce has the knowledge, skills and abilities required to manage that complexity.

As demographic changes, migration and the globalisation of business increase the diversity of the workforce, companies will need to carefully manage cultural tensions. Companies that fail to address intercultural tensions may not only fail to leverage the strategic

potential in a diverse workforce, but they may also face costly legal battles. In 2000, Coca-Cola paid \$192.5 million to former African American employees in the largest racial discrimination case up to that date.

NEEDED: A NEW WORKPLACE COMPETENCY

Management scholars have long accepted the importance of interpersonal effectiveness at work. Recognising this, employers pay a premium for individuals with proven interpersonal skills and invest significantly in developing these skills in their employees. ‘Social intelligence’ is the ability to understand emotions, motivations and behaviours of the self and others in social settings. A subset of social intelligence is ‘emotional intelligence’ (EQ)—the ability to recognise, interpret and respond appropriately to one’s own and others’ emotions. In 2011, a review of over 1,100 studies confirmed the importance of emotional intelligence over and above cognitive ability (IQ) and personality traits in predicting work performance⁴.

Social and emotional intelligence, however, are culture-bound. They rely on familiar contexts and cues to guide responses. In a novel cultural environment, reliance on familiar cues prompts habitual responses that might be inappropriate for the new cultural setting. In Japan, I mistakenly insulted my dinner hosts. I thought that an empty plate would convey that I thoroughly enjoyed my meal. But in parts of Asia, an empty plate implies that you have not been served enough food. And don’t scribble on business cards in Asia, or shove them into your back pocket without so much as a cursory glance. While in the West, business cards serve mainly as a record of contact details, in Asian contexts, business cards represent the person you have met. They should be respectfully accepted with two hands and studied politely for a while before being laid out on the table in front of you or carefully placed in a business card case.

The social skills that support successful adaptation in one environment do not transfer directly to another setting. In fact, individuals possessing high levels of social or emotional intelligence in their own culture may find it particularly difficult to respond outside their deeply embedded cultural scripts. People who are less entrenched in their cultural frameworks more readily suspend judgment and more easily align their thinking and behaviours with a new cultural environment.

The workplace has changed dramatically over the last two decades, and skill sets must align with this new environment. Today, we interact frequently with people who do not share our assumptions, values or behavioural norms. Increasingly, our exchanges are with individuals from a wide range of cultural backgrounds. As we become more interdependent in our work lives, cultural differences in attitudes, values, beliefs and norms for appropriate behaviour present new challenges for interpersonal effectiveness.

To be effective in today's business environment, individuals must demonstrate intercultural competence. Generally understood as the knowledge, skills and abilities needed to communicate appropriately and effectively with people of other cultures, intercultural competence is an essential competency for 21st-century leaders and employees across all levels of an organisation. Communicating appropriately involves interacting with others in a manner that conveys genuine interest and does not violate their cultural values, beliefs or norms. Communicating effectively involves successfully achieving the goals of the interaction.

Intercultural competence is not only important at the level of nationality. Within each national culture, subcultures develop among individuals who share unique life experiences. A subculture refers to a group of people who, while sharing the values and meanings of an

embracing national cultural group, collectively hold some patterns of thought and behaviour that are not shared by the wider societal group. These differences distinguish this group from the dominant culture. There are ethnic, religious, generational, gender, occupational, sexual-orientation, social-class and health-status subcultures. These groups have developed distinctive meaning systems as they have learned to successfully overcome the unique challenges they face. The existence of subcultures means that intercultural effectiveness is as relevant at home as it is abroad.

Intercultural capabilities are critically relevant for global leaders. Today's business leaders across all markets must be able to expand businesses successfully into foreign markets, strategise and manage risk globally, manage and motivate geographically dispersed and diverse employees and develop effective relationships and negotiate successfully with a diverse range of stakeholders—including shareholders, suppliers, customers and regulators.

THE INTERCULTURAL SKILLS GAP

Recognising the importance of intercultural effectiveness for today's workforce, business schools are responding to the persistent calls of management academics to include intercultural competency in their curricula to better prepare their graduates for working in diverse settings.

Study-abroad programs, combined with intercultural training, are increasingly a core component of leading MBA programs. More broadly, intercultural competency is gradually being included in undergraduate curricula across a range of faculties and courses, reflecting an acknowledgment across academia that all graduates, not only management students, require intercultural skills in today's world.

However, because intercultural education is not mandatory, and because university-based education is often more awareness-focused than skills-focused, many graduates remain chronically under-equipped for managing cultural diversity. Also, the prevalence of Western and, in particular, North American-based management theories and techniques in management courses means that business graduates may have to unlearn or question much of what they have learned if they are to manage effectively across diverse cultural settings.

The shortage of intercultural skills in the labour market means that there is a large role for organisations to play in developing the intercultural competency of their existing workforce, particularly in terms of practical skills that can be applied on the job. Responding to this demand, 59 per cent of international firms report having a global leadership program⁵. Such programs may include involvement in global groups, international work-related travel, in-country training or coaching, cross-national mentors, global rotational programs, formal training programs and international assignments.

However, despite the prominence of global development programs, only half of the firms with programs in place perceive theirs to be effective⁶. Notwithstanding widespread acknowledgment in the business community of the importance of developing future global leaders, there is considerable doubt as to whether this is being achieved. More than 40 per cent of international leadership assignments fail⁷. This book assists organisations in closing this gap by providing a proven approach for enhancing the intercultural effectiveness of an organisation's human capital.

CLOSING THE COMPLEXITY GAP WITH CULTURAL INTELLIGENCE

Today's business environment is increasingly diverse, fast-moving and unpredictable. Swings in consumer demand, the emergence of non-

traditional customers and suppliers, technological innovations and policy changes all can radically alter the competitive landscape with incredible rapidity. The business environment has become increasingly volatile, uncertain, complex and ambiguous. That makes innovation and understanding the diversity across your markets critical. Innovation and diversity awareness will ensure businesses stay relevant, capture new opportunities and engage the top talent they need to thrive and survive amid the chaos.

Cultural intelligence helps your organisation convert a risk into a strength. In a world of difference, intercultural competence will emerge as an increasingly powerful driver of performance and profits. Cultural intelligence can help you to build a sustainable business that captures as many customers as possible and provides them with the best products, continuously. Cultural intelligence can accelerate you ahead of your competitors. You can't lead in global markets without it. Companies without it are not even in the race.