International Business: The Cost of Not Being Prepared

by Lothar Katz

What's the cost of not being familiar with a foreign culture your company is engaging in?

How about a billion dollars? After all, that's how much American mega-investor Kirk Kerkorian sued DaimlerChrysler for after their German chairman, Jürgen Schrempp, had bragged in a *Financial Times* interview that the merger between the two companies, officially promoted as a 'merger of equals', was really no more than a takeover. The case is still in court, but a similar class-action suit by other investors has already been settled by the company for $300 million. Technically, the issue was a legal one. Practically, however, what got DaimlerChrysler into trouble was that Schrempp lacked the cultural sensitivity and experience to realize that in the US, one simply won't get away with that kind of two-faced behavior. The same act would expectably have much less dramatic consequences in his home country. In fact, it didn't have any.

Microsoft reported losing several millions of dollars in India, the Arab world, and in South America because of cultural mistakes in some versions of their Windows program. Incorrect maps, poor translations that introduced offensive language, and other inappropriate material offended locals and in some cases led to government action. The company had to recall the affected versions, replacing huge quantities of its software packages. A spokesman admitted that *"some of our employees, however bright they may be, have only a hazy idea about the rest of the world"*. As a consequence, Microsoft now sends their staff to dedicated training classes.

A large high-tech corporation lost more than $10 million in development costs and missed market opportunities when they set up two of their international teams, one in Israel and one in Japan, to directly compete with each other in the same project, developing an important new product. What the division's manager was not aware of was that in many cultures, such an approach sends a message to the team that it is incompetent and cannot be trusted. Rather than serving as a motivator as it might have in the U.S., the decision led to low morale, increased turnover, and poor results in both countries. The project had to be stopped and re-initiated.

Fortunately, most cross-cultural blunders are less severe, or at least less costly, than in these examples. Nevertheless, the list still goes on and on about how businesses waste money and miss opportunities because of a lack of international experience or preparation.

What Goes Wrong

There are three fundamental ways in which international business interactions and engagements fail or become more costly than they ought to be:

Failure to cross the culture gap. The interaction falls apart because the parties involved are unable to bridge the culture gap between them. Many negotiations end at this stage. "They asked way too much", "they expected us to accept the short end of the stick", or "you just couldn't trust these guys – they never lived up to their promises" are statements one might hear at the end of such failed attempts. Most of the time, these can be traced back to poor mutual understanding and faulty initial assumptions rather than bad intentions on either side.

"Coopetition". The cross-cultural interaction limps along, but the parties involved fail to communicate effectively and to build sufficient trust between them. As a result, the competitive element outweighs the cooperative one, introducing issues over contracts terms, intellectual property, budgets and payments, and so on. This case is both more common and more devastating than the previous one. Rather than adding value to a company's global business strategy, such an engagement can become a major distraction from its key objectives and cause a lot of damage.

Limited collaboration. The parties involved establish reasonable ways to communicate and interact. However, they never fully trust each other. In many foreign cultures, people will not make any major business commitments unless a strong business relationship has been established and they feel that the partner can be fully trusted. Americans may be more at ease here because its culture encourages a competitiveness that maintains an element of rivalry business partners are used to. Dealing with foreign partners thus represents a bigger challenge if the goal is to achieve extensive collaboration.

Common Causes

Six elements can be identified that make or break the success of a global business interaction. All of them are ultimately linked back to people's cross-cultural understanding (or lack thereof).

#1 **Strategic Objectives**

Many international business interactions suffer from poorly defined objectives. Strategy, goals and approach all need to be set with the target culture(s) in mind. Only if strategic objectives and tactics are well aligned with the other culture's values, strengths, and preferences can a long-term gain be realized.

#2 **Approach**

Like any other aspect of running a business, success in cross-cultural interactions requires properly planning the approach. Strategic objectives need to be translated into a plan of action that defines steps, timing, roles, and responsibilities. That plan must also take into account the specific preferences and sensitivities of the targeted culture. Ad-hoc approaches in foreign countries have a very limited chance of success.

#3 **Negotiation**

Negotiating in a different cultural context is one of the toughest challenges in international business. What is effective and what is considered inappropriate varies greatly between countries. At the same time, the stakes are usually high and mistakes costly. Sending one's best and most skilled negotiators won't help much unless they are well-prepared[1]. If they lack a thorough understanding of the other culture, the company may be in for a business disaster.

#4 **Leadership**

Once a cross-cultural engagement is under way, visionary leadership becomes pivotal. Leaders will need to consistently demonstrate that they are serious about the engagement and willing to work through the cultural differences. That takes a strong commitment as well as the skills needed to identify sensitive areas and to act appropriately to build and maintain trust. Executives or middle managers who maintain an "us-versus-

[1] For more on this subject, see **"International Negotiation: How Do I Prepare?"** The paper can be found on the web at http://www.leadershipcrossroads.com/arti_inn.htm.

them" attitude can cause huge damage. Extensive communication, both within the own camp and with the foreign side, is also essential and requires constant leadership attention.

#5 **Facilitation**

The importance of relationship and trust building triggers a need for proper facilitation throughout the engagement. While early in the interactions senior leaders often drive the progress, they may have to become less involved once the engagement is under way. At that point, it becomes essential that a facilitator be assigned who continues to build the relationship. Sending an expatriate who lives in the foreign country can be very effective, but only if he or she is sensitive and well familiar with the specific culture. Companies not paying attention to this aspect frequently find their employees inadvertently triggering confrontations that hurt the business relationship.

#6 **Team Preparation**

Well-defined strategy and good leadership are not enough to make global business interactions successful. Getting buy-in from all team members involved is also essential. Without proper preparation for the engagement, cooperation will likely be poor and concerns may prevail. The objective has to be to get both sides into the right mindset, opening up to the engagement as an opportunity rather than viewing it a threat. Again, it will be very important to understand and address any cultural differences. Aspects such as how to motivate a team can differ significantly and may dictate a new approach in a foreign culture.

Conclusion

As Globalization accelerates business around the world, companies are realizing that proper preparation for international business is a mandatory step that has a strong positive impact on the bottom line. Effective communication and trust building are the primary factors in making a foreign engagement successful. They are influenced by several elements that take careful planning and orchestration. While this requires significant efforts, it is critical to the business success, and the tradeoff between costs and benefits is clearly favorable.

Lothar Katz is the founder of Leadership Crossroads. He has a wealth of experience in achieving productive cooperation across cultures and driving business success on a global scale.

A seasoned former executive of Texas Instruments, a Fortune 500 company, he regularly interacted with employees, customers, outsourcing partners, and third parties in more than 25 countries around the world. These included many parts of Asia, e.g., China, India, and Japan. Originally from Germany, he has lived and worked both in the United States and in Europe.

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