

INTERCULTURAL COMPETENCE IN INTERNATIONAL BUSINESS OPERATIONS

Aleksandra Kuźmińska-Haberla

Abstract

Successful international business operations depend on a wide range of factors, both in external environment as well as within the company. The quality and skills of managers and employees are one of the major assets that the company should possess. Intercultural competence seems to be one of those skills that help to run the company on foreign markets without major cultural problems or failures.

Intercultural competence can be described as a range of competences that allow effective functioning in a multi- or intercultural environment. It facilitates understanding of people from other cultures, building lasting, satisfying relationships and managing efficient operations. It seems that intercultural competence is mostly important in the case of international team management or negotiations, but there are also other fields of international business where the intercultural knowledge can be crucial: team cooperation, leadership, sending employees abroad. Finally intercultural competence influences financial outcomes of companies' operations.

The objective of this paper is to present the importance and influence of intercultural competence on different fields of international business. The paper also aims to present the possible ways of developing intercultural competence in business environment as well as to present consequences of not acknowledging its influence.

Key words: culture, intercultural competence, cultural differences, international business

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Introduction

It is obvious that globalization creates many opportunities for companies' expansion and growth. As interesting and promising the international environment is, at the same time it is challenging and problematic. The range of factors that influence international business, employment, negotiations or marketing decisions is much more complicated than in the case of

doing business locally. The complexity and diversity of the environment requires additional knowledge and skills from the company, its managers and employees. One of those skills is the ability to communicate and cooperate with business counterparts from different cultures.

Culture shapes the way people think, interact, communicate, judge situations or other people. It does influence our behaviour and the world perception. This influence is visible in business approach, negotiation process, leadership, team management or cooperation. It may seem that in the globalization era the importance of cultural differences is losing its impact, but in praxis cultural differences still play an important role in business interactions. People are strongly culturally programmed and without cultural awareness, knowledge and developed skills are not able to collaborate effectively. A way to deal with this problem is to develop intercultural competence.

The importance of culture in business has become increasingly important in the last three decades, largely as a result of the work of Hofstede. National culture has been shown in the research of its impact on major business activities, from capital structure to group performance (Leung, Bhagat, Buchan, Erez and Gibson, 2005). Intercultural competence and its development, on the other hand is considered in literature in different contexts, especially education (Fantini, 2006), immigrants (Siter, 2003) and business, mostly in management (Bird, Mendenhall, Stevens and Oddou, 2010).

The objective of this paper is to present the concept of intercultural competence and its influence on different fields of international business, including management, leadership, team work, expatriates, negotiations and financial outcomes. The paper also aims to present the possible ways of developing intercultural competence in business environment as well as to present consequences of not acknowledging its influence. The paper employs secondary data collected from the relevant literature concerning culture, cultural differences, intercultural competence, intercultural trainings and international business. Research methods used in the paper include literature studies, descriptive and critical analysis of secondary sources.

1 Theoretical background

There is no one definition that would capture all the essence of culture. According to Kłoskowska (1980), culture is shaped by generations an external world of things and thoughts, which affects people. It cannot be a creation of an individual human being, it is a product of co-existence and cooperation, and it develops and enriches itself thru lasting for generations.

Hofstede, Hofstede, Minkov (2010) perceive culture as a collective software of the mind which distinguishes the members of one group from another.

The same authors distinguished a few levels of culture: national culture, associated with belonging to a regional group, associated with belonging to a gender, generation culture, social class and corporate or organizational culture (Hofstede, Hofstede, Minkov, 2010). The widest level is the national culture. Knowledge of cultural patterns makes it easier to navigate in a given country, but it can lead to simplifications in the perception of others, the formation of stereotypes because the patterns do not cover all the cultural features (Rozkwitalska, 2008).

If culture shapes people's values, attitudes, behaviours and perceptions, cooperating with people from different cultural backgrounds can cause misperceptions, problems with collaboration and mutual understanding on different levels. People from different cultures can be perceived as strange, incompetent, ignorant or even as a threat. It seems that developing intercultural competence can be crucial in better functioning in an international environment.

As in the case of defining culture, in case of intercultural competences there is no consensus on the uniform determination of this phenomenon and on what constitutes intercultural competence. According to Taylor (1994) intercultural competence is a learning process in which a person from other culture develops the ability to adapt, change his/her point of view, understand and meet the expectations and demands of the host country culture. Johnson, Lenartowicz and Apud (2006, p. 530) define intercultural competence as: "an individual's effectiveness in drawing on a set of knowledge, skills, and personal attributes in order to work successfully with people from different national cultural backgrounds at home or abroad".

According to Fantini and Tirmizi (2006) intercultural competence is a set of skills necessary for effective and appropriate use in contacts with other people who are linguistically and culturally different from each other. The set of skills consists of few components like: communication, knowledge, collaboration, relations, attitudes, awareness, knowledge of a language and a country. Fantini (2000) also pointed out three main domains of an ability that characterize intercultural competence: the ability to develop and maintain relationships; the ability to communicate effectively and appropriately with minimal loss or distortion; the ability to attain compliance and obtain cooperation with others. It suggests that similar abilities are necessary everywhere, doesn't matter if it is in national or international context. The intercultural level, however, is much more complicated when people interact across cultures because their commonalities diminish while differences increase dramatically. Differences on

international level are generated by differences in languages, values, beliefs and world view, all greatly affecting the interactions.

Most of the definitions underline cognitive, affective, and behavioural perspectives that are necessary to communicate with people from other cultures. Cognitive skills refer to understanding situation and environment of intercultural interactions and application of intercultural awareness, which is influenced also by understanding of own culture. The knowledge concentrates on general aspects connected with culture, the knowledge of a country, its culture, language, standards and behaviours. Affective skills are connected with emotions that accompany intercultural interactions. Those emotions should concentrate on respect, tolerance, openness towards new things, behaviours, readiness for different, diversified, the ability to change views and perspectives, auto reflection. Behavioural perspective concentrates on how to act effectively in intercultural situations, for example how to use a foreign language, behave properly in given circumstances, the ability to solve conflict situations, strategies to deal with culture shock, etc.

It is important to remember that skills alone are not enough. A person needs to know how to use them, and apply them in difficult circumstances (Johnson, Lenartowicz, Apud 2006).

International business areas

In the international business the intercultural competence can be considered on the individual level and on the organizational level. In the first case it is visible in the form of personal attributes, knowledge and skills, it is associated with global career success. On the organizational level, with business success through the more effective management of business operations in a diverse range of host locations (Morley, Cerdin, 2010).

The first field where intercultural competence is necessary is management from different perspectives. Nowadays international corporations send their employees (expatriates) to different countries to fulfil work tasks. Those people are exposed to the culture shock. The prospect of spending many months and often a longer period in a completely foreign and sometimes extremely different environment, distance, separation with family, friends, misunderstanding of other cultural behaviours can lead to anger, bad mood, sometimes even depression, homesickness. The degree of experience of culture shock may vary depending, for example, on the time that a person has to spend on a foreign trip. Managers who go for more than 6 months are much more likely not to cope with culture shock, especially when they cannot

take their families with them. In the case of shorter contracts, employees are usually very busy and do not have too much time and opportunity to experience local culture.

Negative experiences and perceptions of culturally different environment can affect fulfilling work obligations. Expatriates mostly occupy managerial positions which require setting goals, organizing work, motivating employees and communicating with them, evaluation of assignments, improvement and development of subordinates. Fulfilling these functions gets much more complicated in a foreign environment where people communicate (communication refers not only to verbal and nonverbal language, but also to communication styles and the context), behave and see the role of manager differently (due to for example impact of power distance). Manager that is not interculturally competent is not able to manage the team properly, is not able to see and solve problems in the way that would be understandable and acceptable for the local employees. This can cause misunderstanding and frustration for both sides and influences the company outcomes.

Basing on the literature review in the field of competencies of expatriates and global leaders Bird, Mendenhall, Stevens and Oddou (2010) developed a three factor framework of 17 intercultural competency dimensions that can be useful for global leaders. The first group is called “perception management” and addresses the way people cognitively approach cultural differences. It refers to people’s flexibility when confronted within culturally different environment, their tendency to judge those differences, their ability to manage their perceptions when confronted with situations that differ from what they expect, and assesses people’s interest in other cultures. This factor consist of 5 facets: nonjudgmentalness, inquisitiveness, tolerance of ambiguity, cosmopolitanism, category inclusiveness. The second factor is called “relationship management” and refers to the people’s orientation toward the importance of relationships, how aware the people are of others and their interaction styles, values, etc., the level of awareness they have of themselves and their impact on others. This factor complements the previous one – it focuses on how mental structures shape behaviours, with the respect to the management of intercultural, interpersonal relationships. This one also consists of 5 factors: relationship interest, interpersonal engagement, emotional sensitivity, self-awareness, social flexibility. The last developed group is called “self-management” and relates to people’s strength of identity and their ability to manage emotions and stress. Success in intercultural situations depends a lot on clear identification of own fundamental values and a strong sense of themselves. To be effective in an international setting, people not only have to be able to understand and adopt to intercultural circumstances but also they must have a stable sense of self in order to remain mentally and emotionally healthy. This group consists of 7 dimensions

including: optimism, self-confidence, self-identity, emotional, non-stress tendency, stress management, interest flexibility.

Strong importance of intercultural competences is also visible in the case of culturally diverse work teams. In today's technology dominated world, multinational teams can work not only in the same office but also remotely without even seeing each other personally, what widens the possibilities of developing such teams. Multinational groups can bring positive impact on company's performance but on the other hand they can suffer from a lack of cohesion caused by differences in team member's perceptions, they can lead to conflict and subgroup formation (Lloyd, Härtel 2010). The positive impact of multicultural teams refers to a bigger creativity and synergy effects. Thanks to different backgrounds and experiences team members are able to create a wider number of ideas, are able to develop more innovative and unconventional solutions. Intercultural teams can help in better understanding customers on different markets and offer them products/services that will better fulfil their needs. Culturally diverse teams usually are much more opened and tolerant towards differences, which influences the feeling of acceptance in the team and translates into better cooperation and creativity of the team.

The lack of intercultural competence among team members can lead to conflicts, discrimination, devaluation of diverse team members' contribution, problems with power distance perception, problems with fulfilling tasks. There are many examples of conflicts among team members connected for example with different approach to problem solving resulting from different communication styles or decision making approach. It seems that these problems could be avoided if team members had adequate knowledge and skills that make up intercultural competence. According to Shaw and Barrett-Power (1998) intercultural competence allows team members to communicate better about their differences and approaches, evaluate how their own behaviour affects group processes, to react more realistic and less judgmental to differences presented by other members of the team.

Among the competencies that are crucial in the intercultural team work context there are: cognitive complexity, goal orientation, dissimilarity openness, tolerance for ambiguity, cultural empathy, intercultural communication competence, emotion management skills, conflict management skills. The first two are connected with cognitive competencies and relate to person's ability to perceive and process information, they help in better understanding of a situation and perceive a range of possible perspectives. The following three fall into affective category and relate to person's emotional responses, feelings, attitudes and personality traits that individuals possess regarding specific cultures and individuals with whom they must

interact. The last three ones are considered as behavioural. They help individuals to behave appropriate in intercultural interactions and provide the ability to communicate successfully with others. Intercultural communication competence, emotion management skills and conflict management skills are important regardless of whether individuals have acquired cognitive or affective competencies. If they don't possess behavioural competencies they will not know how to act in intercultural situations (Llyod, Härtel, 2010).

The intercultural competence seems to be also crucial when it comes to negotiations. Negotiations are always difficult, stressful, involve emotions, and depend a lot on the negotiator's preparations and skills. The international negotiations process gets even much more complicated and demanding. Lewicki, Barry and Saunders (2010) pointed out different ways that culture can influence negotiations. According to the authors: people in different cultures perceive negotiation process differently, for example as a competitive process or opportunity for information; the negotiation opportunity can be seen in some countries as more distributive or more integrative; selection of negotiators – the criteria can differ, for example seniority, knowledge of the negotiation subject, family connections, gender or age; cultures vary in the degree to which protocol, level of formality between parties is important; people differ significantly when it comes to communication, both verbally and nonverbally; the perception of time influences the negotiation length and decision making process, time devoted to building relationships, meeting deadlines and follow agendas; cultures differ in the willingness to take risks – in some countries negotiators need lots of information before the decision is made, in others they take more risk even if they have incomplete information; in some countries people are individual-oriented and decisions are often made by individuals while in others decisions are made collectively; countries also differ in the perception of formality that the negotiations take; culture influences the level of emotions that negotiators display – emotions can be used as tactics, or might be a natural response to positive or negative situations during negotiations.

An international negotiator needs to deal with a much more complex environment than in a situation of local negotiations. He/she needs to have a decent level of knowledge not only in the field of negotiated agreement, but also needs to be aware of the cultural background of his/her counterpart, its influence on behaviour, decision making process, negotiation style. A negotiator needs to be also aware of his/hers own culture and negotiation style to adopt to the style represented by the other party. A negotiator should be able to interpret different behaviours in a proper way, be open-minded and tolerant, be able to deal with uncertain situations and conflict. Intercultural negotiations require a skill of listening, understanding and interpreting

messages, both verbal and non-verbal, in the cultural context. Negotiator needs to represent a certain level of empathy to see the situation from the other person's perspective, which is especially difficult and demanding when it comes to people from different countries. Finally a negotiator should be familiar with the business protocol and do's and don'ts in a certain country.

The intercultural competences or a lack of them, in result influence the financial aspect of international business activities. According to the research on how cultural and communication barriers affect international business conducted by The Economist Intelligence Unit (2012, p. 4) "effective cross-border communication and collaboration are becoming critical to the financial success of companies with international aspirations". About one-half of the respondents in the survey pointed out that ineffective communication and inadequate collaboration influenced negatively major international transaction causing financial losses for the company. It is obvious that if any of the fields or functions of a company does not work appropriately or effectively it will affect the final outcome of an enterprise. Poor international management, conflicts in cross-cultural teams, marketing failures or inadequate negotiation can lead to a loss of opportunities, bad performance and finally money loss.

The respondents of abovementioned survey also believe that improving cross-border communication at their company would influence positively profit, revenue and market share. Majority of surveyed believe that differences in language and culture make it difficult to gain a foothold in unfamiliar markets. Furthermore, even though respondents realize the importance of intercultural competence, they are not taking sufficient remedial action to address the root causes of cross-border problems. Companies do not train their employees enough to upgrade their intercultural competencies, or do not put enough focus on recruiting employees that would be suitable for intercultural environment (The Economist Intelligence Unit, 2012).

Conclusion

Companies' need for further development, reaching new customers and seeking new opportunities pushes them to international markets, very often geographically and culturally distant. In this context intercultural competence without any doubt is a necessity in today's global business. Cultural awareness, including self-awareness, helps in noticing influence of cultural differences on people's actions, attitudes, values, believes, helps in better understanding of others, not overestimating differences and seeing possible ways of finding common solutions. Poor or none intercultural competence can lead to misunderstanding, misjudgements, problems with communication and cooperation with other people, poor

productivity, lack of agreement, missing opportunities. In the result it can influence the financial outcome of a company, causing money loss. Although companies realize the importance of intercultural competence, often they do not put enough effort to improve it.

Developing intercultural competence is not easy nor quick to achieve. It can be done through intercultural trainings, self-development trainings, language lessons, meetings with representatives of different cultures, reading literature and of course experience and practice.

Development of intercultural competence in business interactions should correspond to the three components: cognitive, affective and behavioural. First of all it should be developed on the cognitive level to build the general cultural knowledge about basic concepts, models, dimensions, as well as elements connected with the specifics of a selected culture (characteristics of the culture, business attitudes and behaviours, do's and don'ts). At this point also self-awareness knowledge is crucial – believes, attitudes, values that are important to each person, and which helps to understand how we look at the others. Second of all development of skills useful in managing emotions, as well as building positive attitudes towards diversity. The last element concentrates on working on specific skills connected with proper behaviour in a given country, for example how to greet, negotiate, communicate, manage employees, entertain, etc.

What is important to be interculturally competent requires not only theoretical preparation but primarily using the knowledge and skills in real life situations, in international business context.

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Contact

Aleksandra Kuźmińska-Haberla

Wrocław University of Economics

ul. Komandorska 118/120, 53-345 Wrocław, Poland

aleksandra.kuzminska-haberla@ue.wroc.pl