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An Analysis on Issues of Cultural Competencies in Businesses

Case Studies/Journal Article Citations:

Joutsenvirta, M., & Uusitalo, L. (2010). Cultural Competences: An Important Resource in the Industry-NGO Dialog. *Journal of Business Ethics*, 91(3), 379-390. Retrieved April 16, 2020, from www.jstor.org/stable/27749805

Wang, L. (2011, February). A Case Study of the Acquisition of Swedish Volvo by Chinese Geely. Retrieved April 16, 2020, from <https://www.diva-portal.org/smash/get/diva2:829635/FULLTEXT01.pdf>

Can business schools make students culturally competent? A paper published by the Academy of Management Learning & Education investigated this question. This topic is becoming more and more relevant as globalization continues to increase. In addition, today there are a record number of individuals who interact with people who have been socialized in a different culture on a daily basis (Eisenberg, 2013). The aim of this study was to examine the effects of university cross-cultural management (CCM) education on cultural intelligence. It will probably come as no surprise that results showed that CCM courses bring a significant increase to a student's cultural intelligence (CQ) following the course. I am sure that had I been a participant in this study results would have shown that my CQ increased following the completion of this course. My point in mentioning this study is that an ounce of prevention is worth a pound of cure. Perhaps if more people were educated on cultural competence some of the issues in organizations I will discuss in this paper could have been avoided.

The first journal article I will discuss defines cultural competence as “the sensitivity of the firm toward the surrounding societal and cultural changes, especially changes in customer values and behavior, and the ability to transfer this knowledge into meaningful business practices” (Joutsenvirta & Uusitalo, 2010). This article deals less with internal issues of cultural competence in an organization and more with how the environmental industry deals with external issues of cultural competence. In this situation the issue being dealt with involves ethics in the industry and focuses on the aspects of cultural competence most relevant to environmentally concerned customers, employees, and investors.

The cultural competencies of two organizations were investigated in this study. The first organization is StoraEnso, a global forest industry company with headquarters in Helsinki, Finland. The second is Greenpeace, a global environmental non-governmental organization with headquarters in Amsterdam, Netherlands. In this scenario, StoraEnso and Greenpeace were disputing over the environmental issues being caused by the forestry industry. This dispute lasted many years. A lot of the issues regarding cultural competence had to do with StoraEnso. In the past, the forestry industry did not have a lot of contact with customers. However, when companies like Greenpeace started to bring environmental issues to light, StoraEnso had trouble adjusting. The forest industry had to find arguments that legitimized its activity. They never had to do this before, and while they did not move locations or gain employees from a different nation like the traditional issues of cultural competence we discussed in class, they still had to adjust to a new cultural situation. They did not know how to maintain trust and a

good reputation because society did not have a problem with the environmental implications of the forestry industry before now.

With StoraEnso, consumers in Central-Europe had a lot of issues with the company regarding trust. Central-European consumers did not believe the arguments offered by this forestry industry company. Customers, employees, and investors were beginning to turn against StoraEnso. At first, StoraEnso reacted poorly by just accepting that “the situation was out of their control.” Eventually, they came to realize some of the key cultural competencies that were necessary for them to utilize, mainly being transparency. This brings me to a quote from *The Culture Map*. “In the Netherlands, if you don’t say it straight, we don’t think you’re trustworthy” (Meyer, 2014). In essence, this statement was the root of the problem for StoraEnso. StoraEnso tried to use subjective data and had previously only communicated using spokesmen. When consumers became active they no longer found this acceptable, and the company had to learn all new competencies. I would identify StoraEnso as an initially high-context communicator that had to change to a low-context communicator when this occurred (Meyer, 2014). Initially StoraEnso could get away with being secretive, lacking transparency, and not communicating effectively. When Greenpeace started debating with them, they no longer could.

The purpose of this study was to identify which aspects of cultural competence are most relevant to ethical and corporate social responsibility disputes. Three culture competencies were identified: the ability to understand evolving consumer values, the ability to utilize different positions/expertise depending on cultural circumstances, and the ability to maintain trust through good and open communication (Joutsenvirta & Uusitalo, 2010). In my opinion, StoraEnso eventually used a good approach to handling their problem. They learned how to openly communicate and handle working in a controversial industry through low-context communication. “In the last decade, corporate behavior and social responsibility have been considered important strategic aspects to guarantee sustainability and superior performance of companies” (Aqueveque & Encina, 2010). This quote supports the concept that ethical corporate behavior and social responsibility are key to a company’s success. Since the forestry industry is controversial, it is incredibly important that StoraEnso continue to keep ethics and social responsibility in mind as they continue to do business, and because of this my biggest critique of StoraEnso was how poorly they initially handled the issue. It took them a long time to figure out that essentially they just needed to be more transparent. As a result, they had conflict with their investors, employees, and concerned citizens. Between realizing there was an issue and actually addressing said issue, they choose to give up and blame others for their not being transparent. Surveying their customers

or actively listening to what the public and Greenpeace were trying to communicate would have solved their problem much more quickly.

The second case study I analyzed involves internal issues surrounding two better known brands: Volvo and Geely. Volvo is a Swedish car company and Geely is a Chinese automotive brand. The acquisition of Volvo by Geely marked the largest overseas acquisition ever by a Chinese company (Wang, 2011). As a result, there was a lot of pressure for Geely to succeed. Failure would result in more resistance for Chinese companies to make similar acquisitions in the future. The two companies did not have much in common. Instead, there were large differences in technology, product segment, brand, language, culture, etc. For example, Geely is a more unknown automotive brand. Their cars are low-quality and low-price compared to Volvo's popular luxury cars. In addition, 95% of Geely cars are sold in China, whereas Volvo is a truly international brand with cars sold across the globe.

The case study begins by comparing this acquisition with that of Daimler and Chrysler. There were a lot of reasons for its failure, but it claims that the main two were culture clash and mismanagement. Daimler, a German brand, tried to run Chrysler, an American brand, the same way it ran its German operations. We have seen this same reason for failure repeated time and time again in class and in *The Culture Map*. In addition, the two brands had the issue of a language difference and a difference in products, where Daimler is a luxury brand and Chrysler is not. As you can see, the merger of Daimler and Chrysler is very similar to that of Geely and Volvo. However, the acquisition of Volvo by Geely was able to eventually persevere.

There is a huge culture difference between Sweden and China. First of all, their social structures are very different. China has a very formal and hierarchical social structure, while Sweden has a very informal social structure. In addition, Sweden is known for keeping a timely schedule, whereas China takes time more as a suggestion than a strict schedule to stick by. Thirdly, Swedish people are more task-oriented, while Chinese people prioritize harmonious relationships above accomplishing a task. Lastly, Chinese people stick to putting faith in relationships while Swedish people stick to agreed upon rules and procedures. These differences, along with issues such as a major language barrier, contributed to a lot of difficulty in the acquisition of Volvo by Geely.

The two companies were able to overcome their language barrier by speaking English. Volvo did not expect Geely to speak Swedish since it is only spoken by 10 million people. While Chinese is used by over 1.4 billion people, it is a very difficult language to learn and is not based on an alphabet. As a result,

using English was the best solution. However, this still resulted in a major communication issue. English was not an issue for Volvo, however only young and well-educated Geely employees were able to speak English. Unfortunately, an issue like a language barrier is unavoidable. I admire the two companies for compromising even though the circumstances were not ideal.

In order to succeed, many changes were made when Geely acquired Volvo. Firstly, Geely allowed Volvo to run independently. Geely's chairman said that, "They are brothers, not ownership." I think this speaks to China's emphasis on relationships over procedures and tasks. In my opinion, this is the best decision that could have been made, and should be repeated in other acquisitions when possible. Perhaps if Daimler had allowed Chrysler to run independently like Geely did, the Daimler and Chrysler acquisition could have been more successful. This is because allowing Volvo to run independently preserves its brand, which is very different from Geely's brand, as discussed earlier. Furthermore, it makes Volvo feel like they are not just being taken over and forced to change the way they have been running the company. Lastly, it allows for some of the culture differences discussed earlier to not be as big of an issue. Another change that was made involved changes in China. A former vice president of Geely, Freeman Shen, was assigned to lead Volvo's operations in China. Obviously it was necessary for Geely to have someone running their new operation in China, however I think it would have been wise for a member of Volvo's team to possibly share the role with Mr. Shen to make the transition easier. Lastly, local production in China was established. Volvo's former production manager was appointed to lead construction of the new plant in China, which I think was a wise decision. Having Volvo employees at the Chinese plant allowed for Volvo's brand to be preserved, which is very important considering Volvo has made its money selling luxury vehicles, very different from the cars Geely produces.

"About half of China's overseas acquisitions have not been completed, and this is partly due to the fact that an overseas acquisition is less likely to be completed in an alien environment than in a familiar culture environment" (Zhang & Ebbers, 2010). This quote emphasizes the point that acquisitions of foreign companies are going to be challenging due to the fact that culture plays a significant role in company success. Since it has only been ten years since the acquisition, I think there are still many things that the two brands can do in order to continue to learn from one another. The Trusting scale in *The Culture Map* emphasizes that Sweden is very task-based in comparison to China's focus on building relationships. This presented a challenge for Geely and Volvo, but also an opportunity for the companies to learn something from one another. In addition to the companies having a lot to learn from one another based on their drastically different cultures, they also have a lot to gain from one another. Geely has the

opportunity to improve in areas Volvo is strong in, such as safety and engine technology, brand management, and international organization management (Fern Fort University, 2019). In addition, Volvo can learn from Geely's cost control and market experience. In summary, with challenges come opportunities. Geely and Volvo have a lot of cultural differences, however they also have the opportunity to benefit financially from one another and learn from their differences, proving that large Chinese acquisitions can be successful.

In conclusion, a lot can be learned from mistakes made in the past. In the case of StoraEnso, you can see that understanding the culture of your customers, employees, investors, and opponents (Greenpeace) is essential to success. When Central Europe's standards of preserving the environment heightened, StoraEnso made the mistake of not addressing the issue with transparency and communication, values important to the culture surrounding their company. In the case of Geely and Volvo, a risky acquisition was made and the two companies had to learn how to work with one another's very different cultures. For Swedish Volvo, a task-based culture varied drastically with Chinese Geely's need for harmony and relationships. Both brands made compromises, such as speaking English and allowing Volvo to run independently with some employees relocating to China. However, additional changes can still be made, such as the companies learning from each other's very different brands and cultures, and allowing for leadership roles to be shared by members of the different companies for smoother transitions. In summary, "Organizational culture fosters the process of learning and competence building and works as a glue between people and the organization they belong to" (Freiling & Fichtner, 2010). This course and these studies have proved that culture is an essential component to a business's success. In the future, business students should be educated on culture and companies should always keep the culture of their business and their consumers in mind so daily operations can be conducted efficiently, respectfully, and successfully.

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