
The ROI of Cultural Understanding

By Lothar Katz

Do you remember how Chrysler looked in the year 2000? That tired, underperforming behemoth, with its aging products that simply weren't good enough to keep it from bleeding rivers of money? Quite a change between then and now, don't you think?

After the painful "merger of equals" with Daimler-Benz, with huge power conflicts and much cultural friction, and with several years of struggling and suffering behind it, Chrysler today sure looks prettier. It has started making decent profits again and is showcasing long lines of attractive new models. While many people played a role in this astounding turnaround, one person deserves much of the credit: Dieter Zetsche.

A German by passport and culture, Turkey-born Zetsche, who has also lived and worked in Argentina, Brazil, and elsewhere in the U.S. before taking the helm at Chrysler, demonstrated the value of cultural understanding by doing the right things in a new environment. After taking over at a time when DaimlerChrysler chairman Juergen Schrempp's attitude had almost everyone at Chrysler turned against "those Germans", Zetsche managed to revitalize employee relations by showing a can-do attitude coupled with much-appreciated humility, unleashing developers' creativity, bonding with Chrysler's loyal dealers, demonstrating respect for the company's strong unions, and paying tribute to investors and analysts by openly sharing his plans and keeping the public informed. As an industry insider put it, "He's really the opposite of what the stereotypical expectations were. It was 'Here's a German storm trooper, and we're in deep trouble.' But what Chrysler has found is an affable guy with excellent leadership qualities who thinks like a coach and has no problem delegating authority as well as responsibility."

At the same time, Zetsche slashed payroll by more than 20 percent, overhauled and accelerated programs, cost-reduced manufacturing, outsourced nonessential processes, established companywide benchmarking, juiced up marketing, and shook up his senior management team. Dieter Zetsche, now destined to become the next chairman of DaimlerChrysler, is living proof for the importance of cultural understanding. He could not have succeeded without his ability to work effectively across cultures.

Why does knowing this "culture stuff" matter? What's the incentive for learning about it? Or, in CFO speak: what is the return-on-investment (ROI) of cultural understanding?

Four Examples

Let us take a look at some areas where the ROI of cultural understanding can be substantial:

1. Communicating with Foreign Company Employees

Studies have shown that oral communication between people within the same culture is usually only 40 to 60 percent effective. In other words, about half of the message gets lost. People often have to rely on body language, repeat questioning, and other forms of redundancy to (hopefully) get their points across. This becomes even more challenging in international interactions. Communicating with foreigners not only introduces language pitfalls but also cultural barriers. For instance, people in many countries may not openly reveal personal opinions or flag problems. It usually takes subtle questioning in culturally

compatible ways to find out what they really think. Body language can also be hard to read. Understanding such cultural aspects pays huge dividends: error rates drop, redundancies and unnecessary rework can be prevented, and companies are able to maximize their success by aligning their international workforce.

2. International Negotiations

Experienced negotiators know that when the bargaining begins, the party which is better prepared will usually end up with the better deal. Nowhere does this apply more than in international settings. Negotiators who do not understand that arguing may not mean disagreeing, that silence may not signal rejection, or that signing a contract may not cause the bargaining to stop in a given culture inevitably end up with unfavorable terms. Worst case, there may be no deal at all. As a matter of fact, experts list cultural hurdles as the primary show-stopper in more than 25 percent of all failed international business negotiations. Simply put, cultural understanding frequently translates to negotiation success.

3. Cross-Cultural Project Management

Offshore outsourcing, much debated during recent years, proved to be a sobering experience for many companies. A recent IT survey found average savings of only 10 percent, while more than a quarter of the participants reported that their project cost had actually increased. Other surveys have shown cultural factors contributing significantly to such disappointments. This should be no surprise since project success depends on several culture-specific factors, such as communication, planning, risk-taking, responsiveness, or team motivation. Each of these needs to be managed effectively. Ample evidence suggests that culturally savvy project managers drive substantially higher success rates, achieving better budget utilization and higher R&D efficiency.

4. Intercultural Partnering

International partners may be customers or suppliers, investors or buyers, competitors or peers. In any case, collaborating effectively requires trust. Countless examples exist where mistrust got in the way of cross-cultural partnerships, reducing or destroying their strategic value to both sides. In many such cases, the reason given for the failure is “incompatibility between the partners”, which often indicates cultural friction. Indeed, managing international alliances has become one of the biggest challenges for global companies, and alliance managers who can work productively across cultures are much sought after. The financial incentives for companies to manage their partnerships in culturally effective ways are obvious and significant.

The Bottom Line

Let's face it: a hard nosed, bean-counting CFO may still not be convinced. It is indeed difficult if not impossible to assign accurate numbers to the financial rewards of learning how to work across cultures. As the fine print usually says, “results may vary.”

But there can be no doubt that the benefits of understanding cultural differences and knowing how to overcome them are significant and often substantial. In contrast, the required effort is not. Time to take a lesson from Dieter Zetsche?

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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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