# Cultural diversity challenges and opportunities for businesses in a global world

Siakou Koffi Senyo\* and Sheetal\*\*

#### Abstract

Cultural diversity is a global phenomenon that no organization can stay isolated of. It is always challenging but if understood and managed properly, it turns to be a big dividend for companies and their stakeholders. This paper examines the concept of cultural diversity and its effect on national and international businesses. It will also focus on significance of cultural diversity for business success in today's global world. The methodology used is descriptive research based on the review of previous literature on these themes. It argues that the work practices of businesses across the globe are facing a variety of challenges associated with culturally diverse workforce. This paper highlights the importance of developing cultural awareness and understanding of cultural diversity as an important skill for the future workforce, and the companies. Based mainly on secondary data, this research will analyze the challenges that could be taken advantage of, for multicultural management in assuring business benefits associated with cultural diversity. Cultural diversity understanding is crucial in meeting the expectations of the internal and external customers of any organization. This paper discusses the workforce diversity management approaches in different multinationals. This paper tries to point out the key to successful cultural diversity management either in positioning the organization in a global market or managing its workforce.

#### Introduction

The globalization has changed tremendously the social and work environment in which people all over the world are working today. The concept of cultural diversity in organizations is no longer an abstract but daily life reality. Employees from far different places across the world are sharing the same shelter and/or working under the banner of same organization. With technology driven global village, people are instantly and constantly communicating with great number of interlocutors from different cultural background. In this tough competitive world, companies either domestic or global are compelled to search new markets beyond their borders and to diversify their workforce to meet the challenges of the survivors. Cultural diversity in organizations today can be observed from a pessimistic or optimistic view (Mannix & Neale, 2005). The pessimistic view is associated with social identity Tajfel (1981) and similarity-attraction principles (Byrne, 1971), which argue that individuals have a preference for their own group. In the other hand, an alternative optimistic view states that cultural diversity facilitates information processing, learning, and problem solving capacity Cox &Blake (1991) and reduces groupthink Janis (1982). Under this optimistic view, cultural diversity is conceived to be beneficial to group performance.

<sup>&</sup>lt;sup>\*</sup>Lecturer, Department of Management, School of Business Administration, Lovely Professional University, Phagwara, Punjab, India; Mobile: 0091 8699267359; Email: parsenio08@gmail.com; Skype: siakou.koffi

<sup>\*\*</sup>Department of Management, School of Business Administration, Lovely Professional University, Phagwara, Punjab, India; Mobile: 8558021603

In the light of significant number of literatures related to the topic it is important to seek for the similarities and coherencies among them in order to help inform about the appropriate way of overcoming the challenges and gaining from cultural diversity in organization. Culture is a reservoir of knowledge, value, traditions unique to a particular people. Variety of cultures coming together in organization can be resumed as sum total of their unique knowledge, values and traditions. While every organization has its own culture which reflects the vision and philosophy of its founder; the employees from their part joined the organization with their own value and identity while keeping in mind the opportunities of personal growth available in the company. Identifying the unique value of each employee and their expectations from the organization become critical for the management.

## Literature Review

The cultural diversity had been subject of many research studies over the last decades. Though there is significant number of publications on the topic, there are still interrogations as to know whether cultural diverse groups perform effectively on the job or whether they are relevant for business success today. These interrogations show the importance of new research on cultural diversity in dynamic global environment in which businesses are operating today. Among the first researchers to define cultural diversity were Cox & Blake (1991) who defined cultural diversity as "the representation, in one social system, of people with distinctly different group affiliations of cultural significance."The concept of managing cultural diversity in the organizations is challenging and of increasing importance. According to Johnson & Johnson (2006), there is an increasing interdependence on each other thus diversity in any setting is increasingly inevitable, the globalization of business resulting in a more diverse workforce. Karyn Krawford (2009), in his paper, addresses the diversity of organizational culture on a macro level and what constitutes effective management of diversity on a micro level.

Triandis & Wasti (2008); Parkes, Bocher & Schneider (2001) & Rodrigues (1997) explain the effect of culture on the organization by emphasizing collectivist and individualist cultural orientations in organizational contexts. Triandis & Wasti (2008) says, a highly collectivist culture means there is expected self-sacrifice for the group and punishment for non-compliance with group norms, often found in the domains of religion, social life, politics and economics. People who have lived longer in a culture different to their upbringing are also easier to train for cross-cultural management purposes as they have often either adopted or able to understand the difference between both individualist and collectivist behaviors. These people therefore, can be effectively trained for expatriate work in another culture (Triandis & Wasti, 2008).

Research shows the impact of diversity on groups is positive in relation to group conflict, cohesion, absenteeism, turnover and satisfaction (Johnson & Johnson, 2006)They provide a number of suggestions which are suggested in workable steps for managing diversity such as; recognizing it exists, building personal identity and ethnic awareness, understanding and reducing barriers such as stereotyping, understanding and management of intergroup conflict, understanding social judgment focusing on creating a process of acceptance rather than rejection, creating a cooperative context in which to build diverse relationships and internalization of democratic values and manage innovation organizations by understanding different thinking styles, decision making and employing people different to themselves.

The cultural impact on management is reflected by basic values, attitudes, beliefs and behaviour of the people. Culture can affect technology transfer, managerial attitudes, managerial

ideology and even government-business relationships. Moreover culture affects how people think and behave (Hodgetts and Luthans, 1994).In some societies important decisions are made by few top managers, while in others, these decisions are diffused throughout the enterprise. American society comes under the first case and Japanese comes under the latter case. American and other Western countries' cultural norms require individual rewards that are not so in Japanese culture. In some societies, risk-taking is encouraged which is not so in others. People identify themselves very strongly with their company as in Japan against America where people identify themselves with their occupational group. Some societies encourage cooperation between people. Others encourage competition between people. Some countries believe in short-term goals, while others are more interested in long-term goals. Western countries put high value on innovation and change as against rest of the countries where stability is being encouraged. So, it is the cultural background that creates differences (Reynolds, 1986).

Cross-cultural training stresses on training employees about other cultures and sensitizing them to the discrimination and biases diverse employees feel (Farren and Nelson, 1999). Crosscultural training aims at helping employees live and work comfortably in another culture. Organizations can use two approaches of training that can play a big role in managing diversity

## **Objectives of the study**

The paper examines the concept of cultural diversity and its effect on national and international businesses. It also focus on significance of cultural diversity for business success in today's dynamic and permanent changing global world.

- > Why diversity today is affecting even small local companies?
- > Why should management promote cultural diversity in organizations?
- ➤ How could the leadership of organizationsmove its cultural diversity from divisive to integrative diversity?
- ▶ How can diverse team bridge it differences to create synergy?

#### Globalization and business today

The term globalization has several definitions since it encompasses different dimensions. Considering its economic aspect, the International Monetary Fund (IMF) defined globalization as "a historical process, the result of human innovation and technological progress. It refers to the increasing integration of economies around the world, particularly through the movement of goods, services, and capital across borders. The tern sometimes also refers to the movement of people (labour) and knowledge (technology) across international borders. There are also broader cultural, political, and environmental dimensions of globalization".

Considering the cultural and political aspect of the globalization today, the movement of people within and outside the borders of their countries has increased as never before. The early movements of people before and after the independences of the countries in Africa, Asia and Latin America were basically towards the western countries mainly Europe and America up to nineteen nineties. Today the attraction has changed its direction towards the emerging countries usually referred to BRICS (Brazil Russia India China and South Africa). The role of these countries in the global economy is no longer insignificant; rather it is vital for the world economy's survival. From China, India South Africa, Brazil and Russia many transnational companies are emerging with significant contribution to the regional and world economy making these countries the pole of attraction for people around the world. As mentioned by a joint report by the UN Global Compact Office and the UN Alliances of Civilization (2009) "The world

economy is continually becoming more interconnected. One indication is the growing diversification in the direction of global foreign direct investment flows. Fifty years ago, flows were almost entirely from the developed to the developing world".

In 2006 the World Investment Report by the UN Conference on Trade and Development (UNCTAD) noted "This phenomenon (growing diversification in the direction) has been particularly marked in the past ten years, and a growing number of TNCs from these economies are emerging as major regional – or sometimes even global – players. The new links these [companies] are forging with the rest of the world will have far-reaching repercussions in shaping the global economic landscape of the coming decades" UNCTAD World Investment Report (2006).

This growing diversification in the direction of the foreign direct investment implies that firms from these emerging economiesare gaining responsibility hence power and control over the economic, social, political, cultural dimensions of the globalization. They therefore require a deep understanding of the world as it is not as they perceive it. To be able to understand the world in its diversity these companies need to be representative of their diverse and global environment through their workforce. Since diversity is argued to bring competitive advantage Cox& Blake (1991) hiring and using employees' insight to understand the culture effects on buying decisions of customers and on the behavior of the workforce within the organization can only enhance the performance of these emerging companies. Organizations have their own values, norms, believe that are mostly based on the national culture of the organization, responding to the expectations of diverse culture workforce does not come so easily. It is the result ofefforts of the employees and the company to understand each other. However the greatest responsibility lies on the organization that has to develop a pluralistic culture environment which promotes diversity in all it senses.

The president and CEO of Lenovo, Bill Amelio, describes his company as a stage without a ceiling for every employee worldwide. In a truly global spirit Lenovo's top-team meetings rotate among Beijing, Hong Kong, Singapore, Paris, and Raleigh North Carolina. "Instead of having everyone traveling to me, I travel to them" Amelio says. Lenovo's brand promise credibly communicates that nationality doesn't matter, if an employee demonstrates capability and vision there are no limits. The playing field is level.Ready, Hill &Conger, (2008).

#### Cultural diversity in the world today

Organizations regroup employees unique by their characteristics. Work-force diversity could be defined as the coexistence in the workplace of employees of different biographical and non-biographical characteristics. These characteristics could be related to the gender, age, sexual orientation, tenure, religion, and race-ethnicity. While the presence of all these different characteristics within the workforce of an organization are to be taken into consideration in the management practices, the globalization has imposed today cultural diversity management as an imperative for the business competitiveness.

Organization as an entity has its culture, organizational culture. Beside the employees working in the organization hold their own cultures. The word culture is defined as "acquired knowledge that people use to interpret experience and generate social behavior. This knowledge forms the values, creates attitudes and influences behavior". Hodgetts, Luthans & Doh (2006). Back in the history the cross cultural encounters, had been motivated by the needs of businesses and speculations. The main reason of interaction between people across their race or ethnicity was speculations.

"Throughout history, doing business has been a principal motivation for people to interact across borders and cultures. Before people began to travel for leisure in the late 19th century, they travelled primarily in two capacities – as religious pilgrims and as commercial traders. From the ancient trading routes of the Silk Road that traversed more than 8,000 kilometers across central Asia from China to India, the Middle East and Europe, to the explorations of Arab merchants in Africa and Asia in the 11th century, to the trading empire of the Venetian Republic, to the communities of African entrepreneurs that have boomed in southeast China during the first decade of this century – to name just a few examples – commerce has consistently resulted in the interaction of people and cultures from every corner of the world. While warfare and colonization have sometimes been the means or result of these encounters, international commerce has historically been characterized by peaceful interaction, constructive exchange and cross-fertilization of cultures and ideas that have given humanity some of its most enduring achievements," a joint report by the UN Global Compact Office and the UN Alliances of Civilization (2009).

Today the world has tremendously changed. The colonization and afterward decolonization followed by independences of many countries around the world resulted into the erection of political borders scattering same ethnic groups between two or more countries. The cultural differences are fund not only outside the borders of countries but also within; this led to bloodshed and political instability in many countries in Africa, Asia and South America. In many organizations today cultural diversity is fund not only between employee of different citizenships but also employees of same citizenships. In the market cultural differences separate not only the customers of different nationalities but also those living in the same country. For instance Togo a small country in West African regroups 21 ethnic groups (Demographics of Togo from Wikipedia December 2013) its neighbor country Ghana regroups more than Hundred (ghanaweb.com December 2013) , where India has more than two thousand ethnic groups (Demographics of India from Wikipedia December 2013). Switzerland regroups four distinct ethnic groups: French, German, Italian and Romansch. Singapore has four distinct cultural and linguistic groups: Chinese, Eurasian, Indian and Malay (Hodgetts, Luthans, Doh.Chp 6 pp 171).

We cannot afford to ignore the United States of America in this topic, which has today the most diverse national culture. The United States of America is often referred to as the "Great Melting Pot," a metaphor that connotes the blending of many cultures, languages and religions to form a single national identity" Cross-cultural diversity information package July 2001 US Embassy Jakarta. Doesn't this great nation own its greatness to it cultural, and racial diversity and all its diversities? If diversity is only divisive and destructive the United States cannot be so united so powerful to lead the world since many decades. "We are a nation of Christians and Muslims, Jews and Hindus-and non-believers. We are shaped by every language and culture, drawn from every end of this Earth; and because we have tasted the bitter swill of civil war and segregation, and emerged from that dark chapter stronger and more united, we cannot help but believe that the old hatreds shall someday pass; that the lines of tribe shall soon dissolve; that as the world grows smaller our common humanity shall reveal itself" President Barack Obama's Inaugural Address, January 20, 2009, Washington D.C.

South Africa is known as the rainbow country for it represents people of diverse colours. Many countries around the globe regroup different cultures within their borders: national cultural diversity. With regard to all these, cultural diversity management today is not only matter of concern of multinationals, or global companies but it is a serious issue for all businesses (domestic or international, SMEs &MNCs) and mostly governments. If the international cultural diversity impacts more the international firms and has no significant effect on domestic firms, it is clear that national cultural diversity affects them cruelly. These differences in culture influence the attitudes and shape the behaviors in term of job attitudes in the organization and interpersonal relationships. Ignoring these differences could be costlier for individual as well as business. The effects of culture on business could take two difference dimensions. The first dimension could be the internal to the organization with concern to the employees from diverse cultural background whose job satisfaction needs to be met and commitment gained by the organization. The second dimension could be the external with reference to the consumers whose satisfaction is one of the business' priorities.

With regard to the different ethnic groups within the countries around the global,organizationsare made up of multicultural groups. Multicultural groups are groups "in which there are individuals from three or more ethnical backgrounds" (Hodgetts, Luthans & Doh, 2006). Even though Multicultural groups are not rare to be found in organizations today, having them in a company is meaningless and could be an handicap for performance without an effective management practices and a dynamic organizational culture. Multiculturalism presents enormous challenges but beside these, are infinite benefits for employees as well as organizations. "Multiculturally diverse teams have a great deal of potential to be very effective or very ineffective." (DiStefano and Mazneviski, 2000).

Today it seems quite difficult fororganizations to escape cultural factor in business' success. Therefore there is an urgent need of knowing the potential challenges and advantages that represent cultural diversity for the firms (small or big). More the world will be integrated as matter of this irreversible and dynamic process of globalization the cultural barriers would be dissolved as result of education and cultural awareness. Only may remain the destructive barriers of political borders. The cultural awareness is no longer an imperative only for business but a moral obligation for all men and women of twenty first century. "Every time I open a newspaper, I am reminded that we live in a worldwhere we can no longer afford not to know our neighbors." Yo-Yo Ma, Artistic Director and Founder, The Silk Road Project.

#### Challenges of cultural diversity for business

Comparing homogeneous groups to multicultural groups, there aresufficient number of challenges related to multiculturalism that could frighten the managers. The main challenges could be as follow:

- Overall diversity may cause a lack of cohesion that results in unit's inability to take concerted action, be productive and create a work environment that is conducive to both efficiency and effectiveness.
- Another potential problem may be perceptual. Unfortunately, when culturally diverse groups come together, they often bring preconceived stereotypes with them.
- Another problem with diverse group is inaccurate communication, which could occur for a number of reasons. One is misunderstandings caused by words used by speaker that are not clear to other members".
- "Another contribution to miscommunication may be the way in which situation are interpreted. Many Japanese nod their head when others talk, but this does not mean that they agree with what is being said."

International management Culture, Strategy, and Behavior Hodgetts, Luthans & Doh.(2006) Chp 6 pp 169.

#### Cultural diversity as opportunity for businesses today

We have today a considerable number of literatures arguing in favor of multiculturalism. If many literatures pointed out the creativity and better decision making, there several other advantages related to cultural diversity within a team. As compare to homogenous group, research has proved that cultural heterogeneous teams make a better decision by generating very different ideas and opinions that are subject to debate and deliberation. Hence all the ideas and opinions are evaluated the final decision gain in quality. " One main benefit of diversity is the generation of more and better ideas, Because group members come from a host of different cultures they often are able to create a greater number of unique (and thus creative) solutions and recommendations." (Hodgetts, Luthans & Doh, 2006).

Multicultural groups also reduce groupthink (Janis, 1972), who defined group think as "a mode of thinking that people engage in when they are deeply involved in a cohesive ingroup...members' striving for unanimity override their motivation to realistically appraise alternative courses of action...a deterioration of mental efficiency, reality testing, and moral judgment that results from in-group pressures" (Janis, 1972) reported by Neck and Manz (August 1994).

For organizations especially multinationals, multiculturalism may be a competitive advantage if managed well. Cox and Blake (1991) pointed out six arguments for multiculturalism:

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Exhibit1: Managing Cultural Diversity Can Provide Competitive Advantage (Academy of Management Executive, Cox and Blake, 1991 vol.5 No 3)

Furthermore, to support these arguments for diversity, "Avon Corporation used cultural diversity to turn around low profitability in its inner-city markets. Avon made personnel changes to give Black and Hispanicmanagers substantial authority over these markets. These formerly unprofitable sectors improved to the point where they are now among Avon's most productive U.S. markets. Avon President Jim Preston commented that members of a given cultural group are uniquely qualified to understand certain aspects of the world view of persons from that group (Cox & Blake, 1991)."

However reaching a high performance level in cultural heterogeneous teams does not seem to be easy task for many research concluded that very few diverse teams perform effectively and they are high performing teams while most of diverse teams perform poorly compare to homogenous.

Unlike cultural homogeneous groups; multicultural groups require more time and appropriate systematic approach in its different phases. Management therefore requires appropriate knowledge skills and abilities to succeed.

## MBI model of cultural diversity management:

Bringing together employees of different cultural background does not guarantee high organizational performance rather it mostly lead to failure. In today's global economy having an homogeneous team in organization (something that is almost impossible) is to have a very good competitive disadvantage on the market. So the risk seems unavoidable for the survivors. How to create this synergy and harmony has been discussed by Lane, DiStefano & Maznevski, International Management Behaviour. 4<sup>th</sup> ed, who proposed the MBI Model of managing cultural diversity. The MBI stands for Mapping, Bridging and Integrating.

- Mapping: Mapping is the skillof understanding the relevant differences in a management situation, the dimensions of cultural perspectivesown and others' positions.Cultural values Leadership style Personality Thinking style Gender, etc
- Bridging: Communicate across the differences Preparing: motivation, Confidence Decentering: Perspective taking, Explain without blame Re-centering: Common view, common norms (commonalities)
- Integrating: manage the differences Building Participation Resolving Conflicts Building oneach others' Ideas
- Value and utilize the differences that lead to high performance. Lane, DiStefano & Maznevski (2000)

The MBI model is argued to transcend cultures, hierarchies, spaces and organizations. "MBI model transcends cultures. It is applicable independent of the particular cultural mix of the members of a team. It has been applied across Asia, North and South America, Europe, the Middle East and Africa .The MBI model transcends industries and organizations. It is applicable in the private and public sectors, in NGOs, even in churches and armies (e.g., it has been used to train Bosnian peace-keeping forces)". DiStefano (2003).

#### Conclusion

To paraphrase YoYo Ma, Every time we open a newspaper, listen to music on radio, watch a movie on TV, buy a product from supermarket, we are reminded that we live in a world where we can no longer afford not to know our neighbors.

Being from same culture doesn't mean that we have everything in common nor being from different cultures means we have nothing in common. We need therefore to know each other and learn to transcend our differences to create harmony and success stories for organizations and our society.

Many research studies have been conducted on the topic of cultural diversity, and many progress have been made on cultural issues' understanding; cultural integration has been achieved in some organization and nations, however the success stories of pluralistic culture in organizations today are still difficult to be replicated therefore cultural diversity management remains a topic of debate. To have an effective team, organizations have to develop a mechanism to bring certain level of harmony in diversity without conformity and high level of synergy without complexity.

The effects of globalization have made diversity especially cultural diversity management an imperative for business today. The question is not whether cultural diverse teams are successful or not but how they work successfully and how long it takes to reach the synergy phase in pluralistic cultural environment? The answers to these questions should be given consideration in the research studies on cultural diversity.



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