

Competing across borders

How cultural and
communication barriers affect
business

A report from the Economist Intelligence Unit



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About this report

Competing across borders: how cultural and communication barriers affect business is an Economist Intelligence Unit report, sponsored by EF Education First. It explores the challenges companies face when they have to operate or compete in increasingly international markets. Specifically, this paper assesses the role that cross-border communication and collaboration play in the success or failure of companies with ambitions that are not hostage to national borders.

The Economist Intelligence Unit bears sole responsibility for the content of this report. The findings do not necessarily reflect those of the sponsor.

The paper draws on two main sources for its research and findings:

1 A global survey of 572 executives, conducted in February and March 2012. Approximately one-half of respondents (47%) were C-level or board level executives, and over one-half (53%) were from companies with annual revenue in excess of US\$500m. All respondents represented companies with either an international presence or plans for international expansion. Just over one-half (51%) of the respondents' companies are headquartered in western Europe; almost one-fifth (17%) are headquartered in Asia Pacific; nearly one in ten (9%) have headquarters in North America, and 8% are based in Latin America. The rest of the companies represented in the survey are from Africa, eastern Europe and the Middle East.

1 A series of in-depth interviews with independent experts and senior executives from a number of major companies listed below.

1 Nancy Adler, professor in management, McGill University, Canada

1 Richard Gartside, human resources director, Balfour Beatty, United Kingdom

1 Albert Gilmudinov, minister of education and science, Tatarstan, Russia

1 Nandita Gurjar, global head of human resources, Infosys, India

1 Lan Kang, general manager of human resources, Fosun Group, China

1 Flavio Liviero, chief project co-ordinator, Scania, Brazil

1 Charlene Solomon, executive vice-president, RW³, United States

1 Patricia Taparelli, group human resources manager, ABB, Switzerland

We would like to thank all interviewees and survey respondents for their time and insight.

The report was written by David Bolchover and edited by Abhik Sen and Sara Mosavi.



Executive summary

With their home markets in the throes of a prolonged stagnation, if not downturn, companies based in developed economies are turning more and more towards the developing world in the search for new customers and the hunt for new talent. Meanwhile, companies from vibrant developing economies whose ambitions have outgrown their own homelands are also seeking opportunities to grow through international expansion. These dynamics have combined to create a world of business that is thoroughly international, and in which it is commonplace for workers and businesses to communicate and collaborate with customers, colleagues, suppliers and partners in other countries.

The resulting need for harmonious and productive cross-border relationships that transcend cultural differences has placed new demands on companies and their workforces.

The survey findings reveal a corporate world that has at least recognised a new reality in which the right products and services must also now be allied with the necessary cultural sensitivity and communication skills in order for companies to succeed in markets away from home.

However, the views expressed in the survey by

senior business executives from all corners of the world also indicate that many organisations have yet to

adopt measures that will turn this realisation into practice.

Some of the key findings of the report are as follows:

1 Contrary to the expectations of many experts, the current economic downturn is spurring companies into becoming more international

While previous recessions have often resulted in businesses reducing their risk exposure with a renewed focus on their core markets, an overwhelming majority of respondents in the survey conducted for this report confirm that their companies are becoming more global in their outlook and ambitions.

Several indicators corroborate this widespread internationalisation of business. Almost nine in ten respondents to the survey on which this report is based think their company's number of overseas clients will increase in the next three years, while 77% believe that their company will have an operational presence in more countries than it does now. As a consequence, companies are moving away from traditional organisational structures, with 78% saying that in the next three years they will establish more cross-border

teams, comprising people who are physically located in different countries.

1 Effective cross-border communication and collaboration are becoming critical to the financial success of companies with international aspirations

Presumably as a result of their companies' focus on international growth, almost two-thirds of respondents think that "better cross-border collaboration has been a critical factor in the improvement of our organisation's performance in the past three years". However, a similar proportion feel that their organisation encounters difficulties with cross-border collaboration or communication at least "sometimes". This can be costly. Around one-half of the executives surveyed for the purpose of this report admitted that ineffective communication or inadequate collaboration had obstructed major international transactions, inevitably resulting in financial loss.

The overwhelming majority (bordering on 90%) believe that if cross-border communication were to improve at their company, then profit, revenue and market share would all improve as well. This is partly because potential opportunities in foreign countries are currently being spurned, with almost two-thirds of respondents saying that differences in language and culture make it difficult to gain a foothold in unfamiliar markets.

1 Most companies understand the cost of not improving the cross-border communication skills of their employees, yet many are not doing enough to address the challenge

Despite acknowledging the direct impact of effective cross-border communication on their fortunes, a significant proportion of companies, by their own admission, are not taking sufficient remedial action to address the root causes of misunderstandings. Some 47% say their companies do not offer enough training to hone their employees' language and communication skills, and 40% believe there is not enough emphasis placed on recruiting or selecting people who are suited to cross-cultural environments.

Some organisations appear to be underestimating the extent of the challenge. "Interconnectedness through modern technology has deluded many people," according to Nancy J. Adler, chair in management at McGill University in Montreal, Canada, and author of *International dimensions*

of organizational behavior. "There is the false assumption that just because we can reach anyone in the world so easily through email or Skype, we are, therefore, all the same."

1 Organisations with international ambitions increasingly expect prospective employees to be fluent in key foreign languages

The survey conducted for this report reveals the multilingual nature of the modern business world. According to almost one-half of the companies surveyed, at least one in five of their workers need to speak another language in their job, and one-quarter say that a majority of their workforce require some foreign language skills.

Not surprisingly, a majority of executives surveyed believe that their workforce will need to know English if the company is to succeed in its international expansion plans. Mandarin

is considered the second-most important foreign language, but just 8% say their workers will need to be fluent in it. The importance of language skills in a globalised world is reflected in companies' hiring strategies. Very few companies never consider multilingual skills to be essential in job seekers, but many now expect them to be fluent in at least one non-native language.

1 Misunderstandings rooted in cultural differences present the greatest obstacle to productive cross-border collaboration

Respondents regard "differences in cultural traditions" (51%) and "different workplace norms" (49%) as the greatest threats to the smooth functioning of cross-border relationships. Nandita Gurjar, global head of human resources at Infosys, one of the world's largest information technology services companies based in India, agrees that cultural awareness and cross-border ambitions go hand in hand: "We are a global company. We simply cannot progress without the knowhow and experience to deal with other cultures."

Linguistic diversity – or the lack of it – is considered by some margin to be a greater business challenge in Latin America and southern Europe than elsewhere. For example, 38% of those surveyed in Brazil and 40% in Spain believe the difficulty in communicating in non-native languages to be a significant hindrance to effective cross-border relations.

1

The challenge and the prize

Since the turn of the century, thanks to the dynamism of many developing economies and the advances in technology and telecommunications, the world is getting ever smaller, and national boundaries matter less and less in business. In fact, in 2010 the high-growth markets of Latin America, Asia, eastern Europe, the Middle East and Africa together accounted for 45% of world gross domestic product, up from just 25% in 1980.¹ Gross domestic product in purchasing power parity terms, according to Economist Intelligence Unit estimates, is likely to more than double

by

2020 for many of the world's high-growth markets.² These economies are also on the cusp of superseding developed economies as the largest recipients of the world's imports³ (see charts 1 and 2).

But as companies seek to expand in new and unfamiliar markets, their ability to form close relationships with commercial partners and customers is often hampered by obstacles arising from cultural differences. It is therefore perhaps unsurprising that, when contemplating international

¹ Asian Development Bank, based on World Bank world development indicators and IMF databases.

² Economist Intelligence Unit, *CountryData*.

³ World Trade Organisation; *The Economist*.

Chart 2

Source: Economist Intelligence Unit.

expansion, many prefer to gain a foothold first in those countries with which they may be more compatible culturally.

In his influential book *The Language Instinct*, the Harvard University psychologist and linguist Steven Pinker observes: “What is truly arresting about our kind is better captured in the story of the Tower of Babel, in which humanity, speaking a single language, came so close to reaching heaven that God himself felt threatened. A common language connects the members of a community into an information-sharing network with formidable collective powers.”

Mr Pinker’s assertion is, in part, what Lazar Zamenhof, a philologist born in what is now Poland, was trying to achieve in the late 19th century, when he first introduced Esperanto to the world – a constructed language whose purpose, Zamenhof hoped, would be to minimise mutual misunderstandings created by the lack of a common language between people of different ethnic and linguistic backgrounds. Frustrated by the many divisions and quarrels among the diverse communities that made up the population

of his native Bialystok, Zamenhof believed that a common language would “break the walls between the peoples”.

While Esperanto never quite captured the world’s imagination, Zamenhof’s emphasis on creating a communication tool that unites rather than divides people is valid more than ever in today’s dynamic world economy. Pankaj Ghemawat, professor of global strategy at the IESE business school in Spain, has calculated that two countries which share a common language trade 42% more than two otherwise similar countries which do not have that linguistic connection. Meanwhile, countries once bound by colonial ties trade 188% more, by some margin even outweighing the impact of membership of a common currency (which increases trade by only 114%).⁴ For example, 68% of the foreign direct investment that entered China in 2009 originated from countries where the Chinese form the largest ethnic group (ie, Hong Kong, Singapore). The UK and its former colonies enjoy similarly strong business ties: trade between them, Professor Ghemawat found, gets a 13% uplift because of their shared cultural heritage.

Chart 3

Overall, how important would you say cross-border collaboration is in the following environments?

(% respondents)

Within your organisation
generally

Within your business
unit or division

With external partners,
suppliers or outsourcers in
other countries

How pressure and pace of cross-border expansion inevitably means that many more companies are now launching operations in countries with no such common heritage or language. More than three in four of the companies surveyed for the purpose of this report confirm that they will have an operational presence in more countries in three years from now than they do currently. One in six predict that the scope of their international presence will increase “significantly”, even in this relatively short time.

Consequently, many companies appreciate the need to bridge any national divides. More than one-half think that cross-border collaboration is now “very important”, both within the company in cross-border teams, and in relationships with external partners and suppliers (see chart 3).

But the globalisation of the business environment is not just about companies. It is also about countries and their governments creating the right environment to attract investment from foreign companies. Albert Gilmudinov, minister of education and science in the Russian Republic of Tatarstan, explains his own government’s policy to make Tatarstan an international business hub: “We’ve formed a dense and rich infrastructure to stimulate investment; we’ve minimised

and we’ve established scientific and educational institutions to make sure our workforce is ready for any project.”

When words add up to numbers

The impact of good cross-border collaboration on a company’s financial performance is now widely recognised. Nearly two-thirds (64%) of survey respondents believe that better cross-border collaboration was a “critical factor” in recent improved performance (see chart 5), perhaps in large part because it can provide the required intelligence about the intricacies of doing business in countries that might pose complex cultural barriers to business.

About two in five respondents (39%) to the survey carried out for this report believe that strategy and business operations stand to benefit the most from an improvement in their company’s cross-border communications. Just over a majority (55%) believe that relationships with clients in overseas markets will be positively affected by such improvements, followed by sales in overseas markets (43%). Remarkably, for 44% of respondents from China – compared to just 17% of all respondents - better communication skills are seen as key to improving their relationships with regulators in overseas

⁴ *The Economist*, “The Power of Tribes”, January 2012.

Chart 4

To what extent can better cross-border communications improve the following at your company?

(% respondents)

markets. Chinese respondents are probably quite right to be concerned, considering the increasing scrutiny that Chinese companies are coming under as they expand into new markets.

An overwhelming majority of executives surveyed also believe that an improvement in cross-border communications with customers and colleagues will have a beneficial impact on financial indicators, such as profit, revenue and market share (see chart 4). While most companies focus, quite sensibly, on getting their strategy right on products, costs, sales and the other building blocks of business, the research done for this report suggests that the inter-personal and

communication skills of their employees can have an equally critical impact on an international company's bottom line.

Richard Gartside, human resources director at Balfour Beatty Group, one of the world's largest infrastructure companies based in the UK, says that, in some cases, his company's first step in a foreign venture is normally to build a relationship with a local joint-venture partner. "Without good local knowledge and cultural awareness from such a partnership, it becomes much more difficult to break into a new market," he says. To capture that knowledge within the organisation and to broaden employees' experience, Balfour

Please state the extent to which you agree or disagree with the following statements:

Beatty looks to move people with leadership potential to other countries to learn more about the business, different working arrangements and cultures, and communication etiquette.

Meanwhile, a similarly high percentage of survey respondents - 67% - reckons that the multicultural nature of cross-border teams within the company increases innovation (see chart 5).

Professor Adler from McGill University agrees that multicultural teams have the potential to be more creative and offers three reasons why this is the case. "First, diverse teams naturally possess a broader knowledge of current world trends, and thus their decisions are founded on a stronger grasp of all relevant issues. Second, they are less likely to suffer from the 'group-think'—or pressure to conform—which often afflicts teams made up of similar people. Third, culturally diverse people tend to approach problems from different perspectives and therefore frequently produce a wider range of solutions, making it more likely that one of those solutions will be excellent."

One could also argue that cross-border teams have the potential to be more productive, simply because they don't work in the same place. "With a co-located team you can spend much of the day chatting, drinking coffee, making jokes," says Patricia Taparelli, group HR manager at ABB, a multinational engineering company based in Switzerland. "But when you are in a virtual team, all you have to do is get on with your work."

Mind the communication gap

When important cross-border relationships do break down, the cost to a business in financial, operational or reputational terms can hurt. Around one-half of respondents in the survey for this report admit that communication misunderstandings have stood in the way of a major cross-border transaction, incurring significant losses for their company (see chart

according to 74% and 61% of respondents from these two countries, respectively, their companies have suffered financial losses as a result of failed cross-border transactions.

It is not just financial performance that's at stake either. Over three-fifths of companies surveyed think a lack of clarity in their internal cross-border communication often results in lost productivity. The number rises to 77% when looking at just the Brazilian respondents, while 43% of UK executives think that better cross-border communications can improve productivity.

Clearly, if diversity is not handled correctly, then cultural differences can jeopardise the end objective (see box on page 11). Although business executives recognise the potential benefits that diversity brings to an organisation, they also report that cultural and linguistic diversity can make it difficult to collaborate across borders.

The survey confirms that different cultural traditions, combined with linguistic diversity, present the greatest threat to the harmony of cross-border relationships (see chart 7).

To the best of your knowledge, have communication misunderstandings or problems ever stood in the way of a major cross-border transaction (eg sale, contract with a supplier, merger, acquisition, foreign direct investment etc)?

Yes, it has happened a few times
and we have incurred
some
financial setbacks as a result

No, it has never happened
to my knowledge

Don't know/
Not applicable

Chart 7

Of the following, which are most likely to cause the greatest misunderstanding in cross-border communication for your organisation? Please select up to two options
(% respondents)

51%

Differences in cultural traditions in different countries

49%

Different norms of workplace behaviour

27%

Diversity of languages across countries

23%

Poor quality of translations

Percentages do not add up to 100% as respondents could select more than one option.

The 1998 merger of two car manufacturers, Germany’s Daimler-Benz AG and the American Chrysler Corporation, provides a stark example of the destructive impact of such discord. The different DNAs of the two organisations and a series of operational mis-steps, compounded by cultural and linguistic incompatibility, created irreconcilable tensions which eventually resulted in the two companies parting ways.

This cultural and communication risk that businesses face when they try to expand into unfamiliar territory is now commonplace. The survey indicates that just over three-fifths of companies (61%) admit to encountering difficulties at least “sometimes” when communicating across borders (see chart 8). This figure is much higher in some parts of the world: nearly four-fifths of respondents from Brazil (79%) and 71% from Spain report encountering such obstacles.

“Diversity has the potential to produce much better results, but this of course assumes that the cross-border relationships will survive the initial cultural misunderstandings,” says Charlene Solomon, executive vice-president at RW3, a New York-based online cultural training company. “With cross-cultural teams, the extremes become more possible – both excellent performance and very weak performance.”

When communicating with business stakeholders (partners, customers or co-workers) across borders, how often would you say that you or your organisation encounters difficulties?
(% respondents)

Measuring cultural differences

Cultural differences can be seen in a broad range of beliefs and behaviours found on a daily basis in the workplace. Several management thinkers, such as Geert Hofstede, Fons Trompenaars and Edward T. Hall, have formulated frameworks which attempt to measure how each national culture fits into this complex spectrum.

Such frameworks can help international managers to anticipate and then solve possible conflict caused by misunderstandings between various cultures. Nandita Gurjar, global head

of human resources at Infosys, a global IT services company based in India, believes that cultural awareness is key. "Most managers, when confronted with cultural conflict, often have little idea that the underlying issue could be cultural. They tend to think: 'Why are you so upset? This is the way I normally behave and people in my home office never get upset. What's wrong with you?'" A manager has to get the best out of people, and therefore needs to know that an individual's cultural background will strongly influence the way they respond."

Geert Hofstede's framework, the most widely known, hones in on key cultural differences such as the various attitudes towards hierarchy or uncertainty, or the extent to which a society or community values individual achievement on the one hand, or long-term loyalty to collective group on the other.

are likely to show much more deference to their manager than their counterparts in countries such as Denmark, Israel and Austria, where subordinates tend to want to be frequently consulted by those above them in the hierarchy.

Unsurprisingly, given the importance of the "American dream" within its culture, the United States scores highly for individualism, whereas several countries in Central and Latin America (Ecuador, Panama, Venezuela) and Asia (Pakistan, Indonesia, South Korea) are at the "collectivist" end of the spectrum.

The United States would also be what Edward T. Hall refers to as a "low-context" culture, in which people communicate very much through a direct, and often terse, exchange of words that carry a literal meaning. Communication in "high-context" countries, on the other hand, will be much more subtle, with the attentive listener required to pay greater attention to gestures, tones and the overall context of the conversation.

Lan Kang, general manager of human resources at Fosun Group, a conglomerate headquartered in Shanghai, explains how the "high-context" Chinese approach to communication can clash with more abrupt styles. "Americans are very explicit and quick to get to the point. The Chinese are accustomed to using vaguer language in the initial stages. Details are then gradually established during further

2

The corporate scorecard

iven the widespread perception that cultural and linguistic differences, in particular, can curtail a company’s international ambitions, many companies appear not to be doing enough to mitigate risks. For example, two in five

respondents to the survey conducted for this report believe that more needs to be done to recruit and select people who are suited to cross-cultural environments (see chart 9), and an even greater percentage (47%) regret the lack of investment in

Chart 9

(% respondents)

In improving cross-border communications, how would you describe your company’s investment in the following?

Management time spent on assessing impact of cross-border communication issues	Training to improve employees' language and communication skills	Conflict resolution of disputes arising from cross-cultural misunderstandings
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“language and communication training”. In light of the fact that in the same survey most executives admit to a strong correlation between cross-border communication and the financial performance of their organisation, it is remarkable that such a large percentage of companies appear to be taking an avoidable risk with such a key determinant of their competitiveness.

The view that companies’ response to cultural factors in business has been inadequate is

much more strongly felt outside the C-suite than within it. This may be a particularly telling finding, as it comes from frontline managers who perhaps experience the effects of shortcomings in corporate strategy on a regular basis. According to the survey done for this report, 40% of executives outside the top tier believe that insufficient management time is being spent on assessing the impact of cross-border communication issues, whereas only 27% of their C-suite counterparts agree. It could well be the case, the survey suggests, that top

Scania: When opposites attract

According to the cultural framework of the management thinker Geert Hofstede, Brazil and Sweden are poles apart in their workplace behaviour. For example, on his “masculinity versus femininity” dimension, which examines the degree to which a society values “masculine” values such as competitiveness and the acquisition of wealth over “feminine” concepts such as relationship building and quality of life, Brazil scores 49 (a mid-range figure), but Sweden registers just 5, to make it the most “feminine” society in the world.

The experience of Scania, the Swedish truck manufacturer which delivers more vehicles to Brazil than any other country, can thus help us to understand how co-workers from seemingly very different cultures can collaborate productively.

Flavio Lyvero, the chief project co-ordinator at Scania, has been working for the company for 25 years and believes that technology has played a huge role in improving the performance of cross-border teams over that time. “We didn’t even have fax machines at the start. At least now we have all the necessary tools for communication in place.”

Nevertheless, Mr Lyvero insists that cultural barriers are always present and need to be constantly managed. He believes that the most effective way to overcome such obstacles is to meet face-to-face at the project’s outset.

“What occurred quite early on was that face-to-face contact really helps interaction. The meeting

should be for all team members in one place for a week. In that time, we can discuss how the project will work and its goals, but also have some social interaction.”

By the time the meeting participants then go home to their respective offices, says Mr Liviero, the wheels of communication have already

been turning.

He added: “If people hadn’t met, they may be a little reticent about calling each other. Perhaps the conversation

doesn’t flow that easily. But if they’ve already spent some time in each other’s company, that interaction becomes much more natural. Issues are raised and problems solved more quickly.”

Gradually, as the relationship strengthens over time, the awareness of each other’s working culture is heightened. “In Brazil we are more emotional, we tend to hurry everything up when we need a decision made,” says Mr Liviero. “But we have realised that we need a more measured, logical approach when dealing with Headquarters in Sweden. To win support for our idea, we must produce carefully thought-out reports or powerpoint slides.”

Mr Liviero says that this approach is

know-how does not have to be built from scratch every time a new project team is formed. “An international team manager can now tap into a substantial pool of knowledge within our organisation. This best practice gets passed around from person to person over the years,” says Mr Liviero.

management at some companies are either being complacent or overconfident about the risk posed by the quality of their workforce’s cross-border relationships.

People further down the hierarchy may want top managers to allocate more of their time to intervening as trouble-shooters when a project founders on cross-cultural tensions. Almost one-half of respondents outside the C-suite express concern about the lack of investment in the resolution of conflict arising from cultural disputes.

The survey also reveals some significant regional variation in views about the quality of organisational efforts to improve cross-border collaboration. For example, around three in five respondents from Brazil and France think their companies do not focus sufficiently on recruiting the right people, compared with only 37% among the rest.

Indeed, Brazilian executives seem particularly concerned about cultural tensions and their impact on cross-border collaboration and trade (see box on page 13). Almost two-thirds say that “differences in cultural traditions” hinder cross-border relationships (as opposed to one-half of non-Brazilians). As a result, 29% of survey respondents in Brazil say that cultural differences greatly hamper their plans for international expansion, whereas just 12% of other respondents think likewise.

Polyglots, or at least bilingualists, wanted

A significant proportion of the global workforce now appears to spend a good deal of time speaking in a foreign language while doing their job, with one-quarter of all companies saying that at least half their employees regularly need to do so (see chart 10).

Recruitment policies have been shaped accordingly. Even when recruiting for jobs in their home market, almost one-half of all companies say that prospective candidates need to be fluent in a foreign language (see chart 11), and a further 13% say that multilingual ability is a key selection criterion.

Regions in which recruitment of multilingual candidates is particularly high can be divided into two. In the case of the Nordic region, the widespread language proficiency of employees has resulted in smooth cross-border collaboration. Nearly two-thirds (64%) of survey respondents in this region expect candidates in their home countries to be fluent in at least one non-native language. As a result, only 36% in this region believe that their international expansion is hampered by different languages and customs (compared with 64% of all respondents).

As revealed by the survey, companies headquartered in the Nordic region are by far the most confident in their ability to negotiate their way through cultural and communication

Chart 10

What proportion of your company’s workforce requires some level of international/non-native language skills in order to effectively carry out their job?
(% respondents)

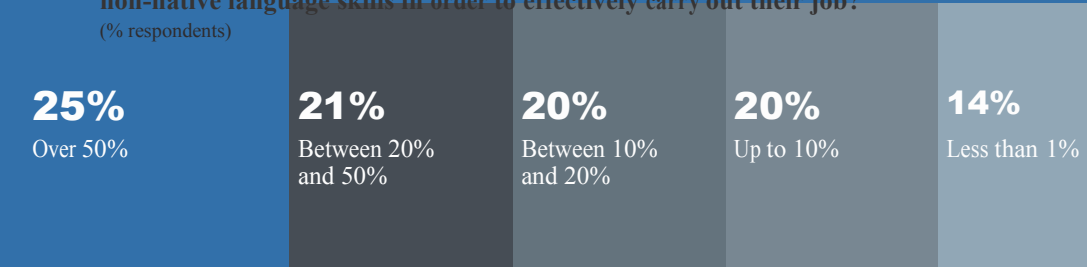


Chart 11

When hiring in general, how much importance is given to a candidate's ability to communicate with people from other cultures?

Recruiting in home country

Recruiting overseas

barriers in international business (see chart 12). Their confidence is rooted in the education and training systems in their countries, which encourage the learning of different languages. Other governments are now taking a leaf out of their book. "I am convinced that the vast majority of economic and social problems should be solved jointly by government and business," says Mr Gilmutdinov, Tatarstan's education minister. "For example, Tatarstan has recently implemented a number of educational programmes and modules aimed at foreign- language training for public servants. This is not only to improve their skills set, but also to improve the quality of service that foreign businesspeople receive in our country."

That said, the relatively widespread hiring of bilingual or multilingual workers in Spain is not a cause of high-quality cross-cultural collaboration, but rather, it appears to be a response to perceived problems in this area. Nearly one-half (49%) of respondents expect

candidates in their home market to be fluent in at least one non-native language, perhaps because an overwhelming proportion (89%) is of the opinion that the challenge of different languages and customs is stifling their international plans.

Talking business

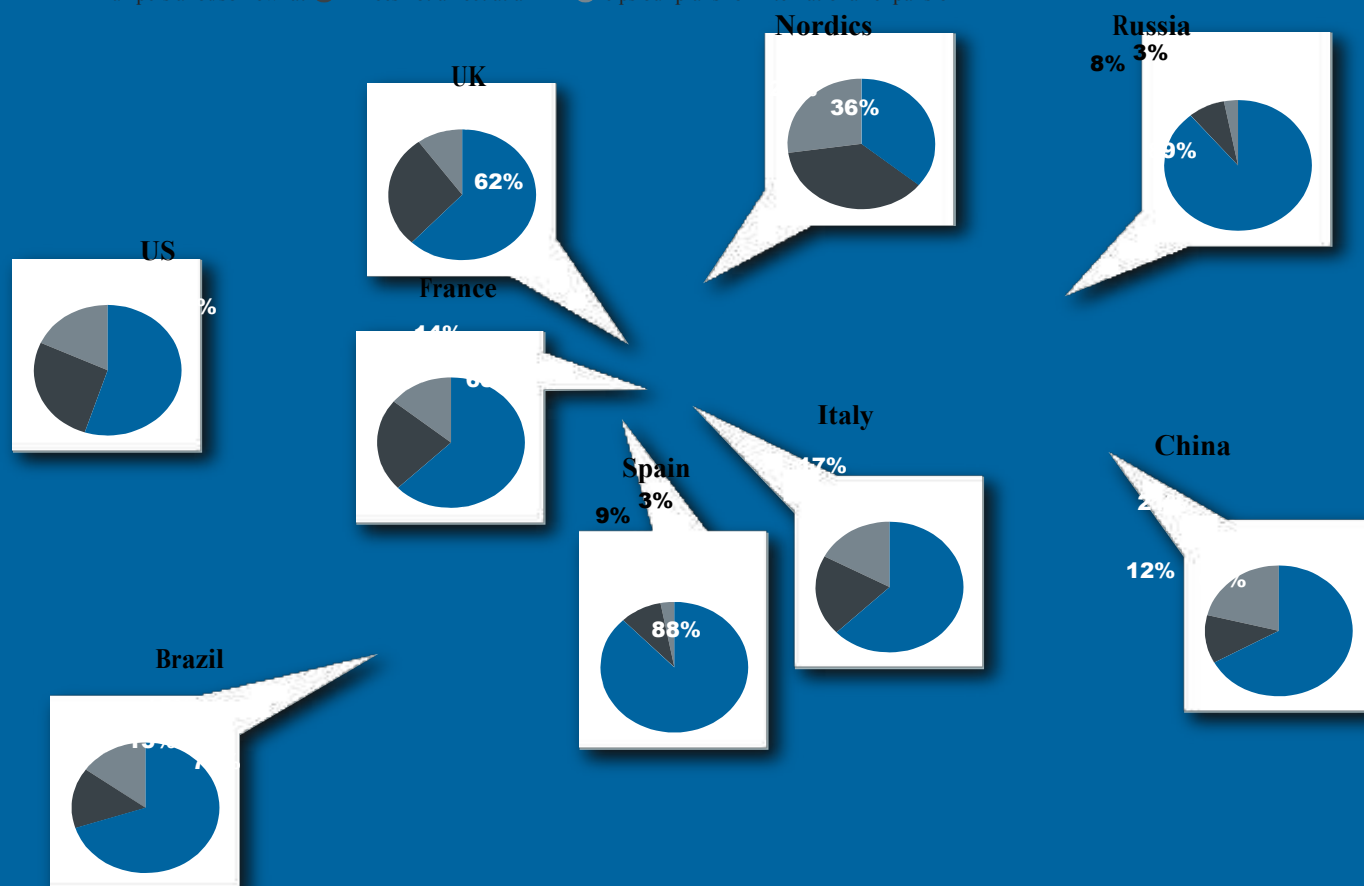
English is the one language which companies expect their workforce to know in order to succeed on an international scale. More than two-thirds of executives who participated in the survey on which this report is based consider English to be essential, followed by Mandarin (8%) and Spanish (6%) as the next most popular languages.

Interestingly, the gap between current usage and the desired level of proficiency in English is greatest in China, showing the country's increasingly external-facing business outlook. Only 9% of Chinese respondents say that at least 50% their workers now use a foreign language in their job, but 86% also expect that 50% of

Chart 12

How do cultural factors or differences such as language and local customs affect your company's plans for international expansion?

Hampers a lot/somewhat (dark grey) Does not affect at all (light grey) Helps our plans for international expansion (blue)



their workers their employees will need to know English if their companies are to make a success of their international plans (see box on page 17).

As more and more workers at international companies add foreign-language skills to their résumé, those without any could perhaps be forgiven for thinking that communication barriers are disappearing. But just because, say, a German worker has learnt Chinese at language school does not mean that he or she will not get baffled by slang, jargon or colloquialism, or even by someone speaking Chinese very fast, particularly when the interaction is virtual, for example, during a video conference or telephone call.

Ms Solomon from the RW3 consultancy suggests

ways in which virtual group meetings can be made more worthwhile for everyone, whatever their level of fluency: "The conference leader has to create an environment in which language differences are accepted. State clearly that participants should ask for something to be repeated and clarified if they don't fully understand. You should always send an agenda beforehand so people who are not as comfortable in the language can prepare. Afterwards, always send minutes or a summary of what's been said. You should not rush the call, but always give people time to form their thoughts and give their opinions in what is for them a foreign language."

Emerging-market MNCs: From local to global

Much has been written about how companies based in developed countries are coping with the cultural obstacles they encounter while doing business in the developing world. But how are the rapidly growing companies from emerging economies faring with the similar challenges posed by expansion into unfamiliar markets?

Nancy Adler of McGill University in Canada thinks that they have a natural advantage over their Western counterparts, particularly the United States: “Historically, the US has had a huge domestic economy, so many US companies have not felt compelled to gain the understanding of other cultures that

is now necessary to conduct business in the 21st century’s global economy, or even to establish successful business ventures abroad. Also, because so much of world business is conducted in English, many native English speakers, including many Americans, tend to assume that non-native English speakers from other parts of the world want to be like them. A business person from Thailand or Slovenia knows that the world is not trying to be like them. By becoming multi-lingual, they already know that they must recognise cultural differences in order to leverage them to their advantage – what we call cultural synergy – and to mitigate the cross-cultural problems that might arise.”

According to Nandita Gurjar of Infosys, her global IT services company attempts to narrow cultural gaps through its recruitment and selection process by seeking out those who have the ability to deal with people from different backgrounds. “When we are interviewing either an internal or external candidate for a managerial position which requires cross-border work, we ask them lots of questions about how they handle cultural differences. This is particularly true for more senior positions.”

The company makes a special effort to familiarise new

induction period. “All North American and European graduates joining the company from university come for six weeks to our headquarters in Bangalore to obtain an insight into how our people operate, and also to get to know some of the people they will be working with,” says Ms Gurjar. “For senior levels, the induction programme lasts two weeks and involves much discussion and training on working with people from different geographies.”

In China, meanwhile, language differences pose more of a threat to the fulfilment of international strategy. Fosun, a Chinese conglomerate listed on the Hong Kong stock exchange, has invested in a broad range of business ventures throughout the world, and therefore fluency in English is a requirement for its investment professionals.

“This obviously narrows down the candidate pool, and we have to pay a little more to recruit people with language skills, but we don’t experience a real bottleneck,” says Lan Kang, general manager of human resources at Fosun. “There are many Chinese returnees who’ve spent long periods abroad, and an increasing number who have studied English during their education. Training is available for people who joined before we became a global company, but who need English.”

Ms Kang, who previously worked in executive search for Korn/Ferry in China, makes a distinction between the Chinese professional class, such as Fosun’s investment experts, and the often less educated managerial class, whose English tends to be less advanced. “Western multinationals often limit themselves to English-speakers and thus miss out on people with excellent operational experience who don’t speak English. They miss out on top talent that way. They need to find ways to enlarge the pool, for example by offering language training.”



Conclusion

Fuelled by the winds of change blowing through the world economy; business is becoming more international by the day: some companies are doing it on their own initiative to capitalise on opportunities they have spotted, while others are pushed into it by slowing growth in their home markets. Whatever the reason for expanding outside their home countries, companies have clearly recognised the impact that cross-border collaboration and communication with clients and colleagues from different countries, cultures and time zones can have on their fortunes. Sometimes, as a few examples in this report demonstrate, it can mean the difference between success and failure.

The global survey of senior executives conducted for this report clearly shows that a significant number of companies are stuck at the stage where they can recognise the benefits of overcoming cultural and communication barriers, but are not necessarily doing enough to address this challenge. There may well also be a touch of complacency in the top echelons about how much still needs to be done. Certainly, middle and senior managers appear more concerned about the current levels of investment in facilitating effective cross-border relationships than those at the very top. Business leaders will sooner or later have to consider steps to narrow the gap between perception and reality on this issue if they want to ensure that their strategy to grow internationally is both a financial and an operational success.

The senior executives and management experts surveyed and interviewed for this report have made it clear that, the task of overcoming cultural and linguistic barriers is a difficult but not an impossible one. It may have to be done differently at different organisations, but the risks posed by ineffective or less than ideal cross-border collaboration and communication can be measured, and the impact on financial performance can also be quantified. That being said, the risks can be minimised by smarter recruitment and a workforce that is trained to handle the rigours of operating on an international stage. Companies just need to face up to the challenges, recognise the dangers of inaction and be innovative in their approach to solving problems that involve their most precious resource: their people.

As Flavio Liviero, chief project co-ordinator at Scania points out, the good news is that the tools to manage cultural differences and communication challenges in business are improving and developing all the time. As companies become ever more global in their quest for growth and efficiency, they will have to make increasing use of at least a few of them if they are to prosper from the knowledge, diversity and opportunities that come with doing business across borders.

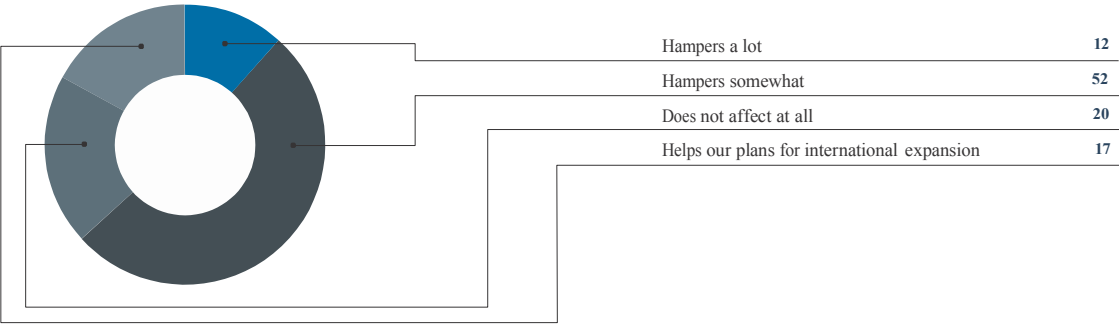


Appendix

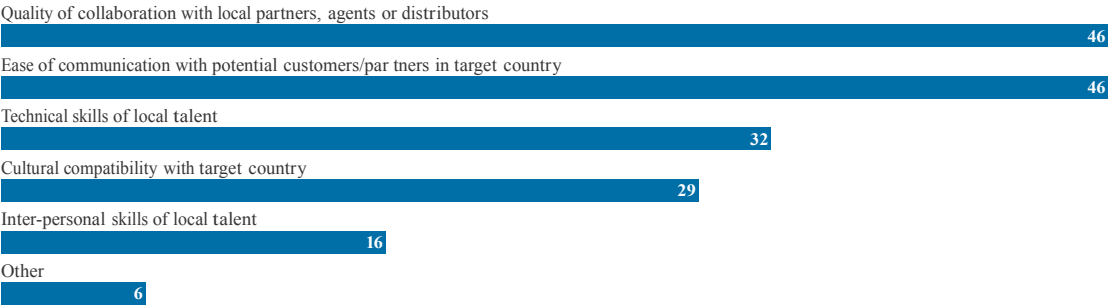
Does your company have an international presence or has plans for international expansion?
(% respondents)



How do cultural factors or differences such as language and local customs affect your company's plans for international expansion?
(% respondents)



When planning expansion into any country, which of the following would you consider the most critical organisational factors in enabling that expansion?
(% respondents)



How do you expect the following to change in the next three years?

(% respondents)

Will increase significantly/a little No change Will decrease a little/significantly

The number of clients or customers located outside our organisation's home country

89 10 2

The number of business partners or suppliers based outside our organisation's home country

81 17

The number or size of cross-border teams in our organisation

78 21

The number of countries in which our organisation has an operational presence

77 20

Which of the following would you say are the most important factors for effective cross-border collaboration within your organisation? Please select up to two options.

(% respondents)

Employees with the right mix of communication, linguistic and business skills

43

Creating the right organisational structure(s)

34

Senior management support

27

Culturally sensitive team leaders

22

Robust company-wide technology

20

One language for internal cross-border communications

19

Effective training for working in cross-cultural teams

13

Appropriate and fair financial incentives across borders

9

Established process for conflict resolution

3

Other, please specify

1

Don't know

1

Overall, how important would you say cross-border collaboration is in the following environments?

(% respondents)

Very important Somewhat important Not important at all Don't know

Within your organisation generally

59 38 3 1

Within your business unit or division

56 38 5 1

With external partners, suppliers or outsourcers in other countries

52 43 4 1

Please state the extent to which you agree or disagree with the following statements:

(% respondents)

Strongly agree/agree Neutral Disagree/strongly disagree Don't know

Cross-border teams are a well-established way of working within our organisation

69 22 8 1

Better cross-border collaboration has been a critical factor in the improvement of our organisation's performance in the past three years

The multicultural nature of cross-border teams breeds innovation

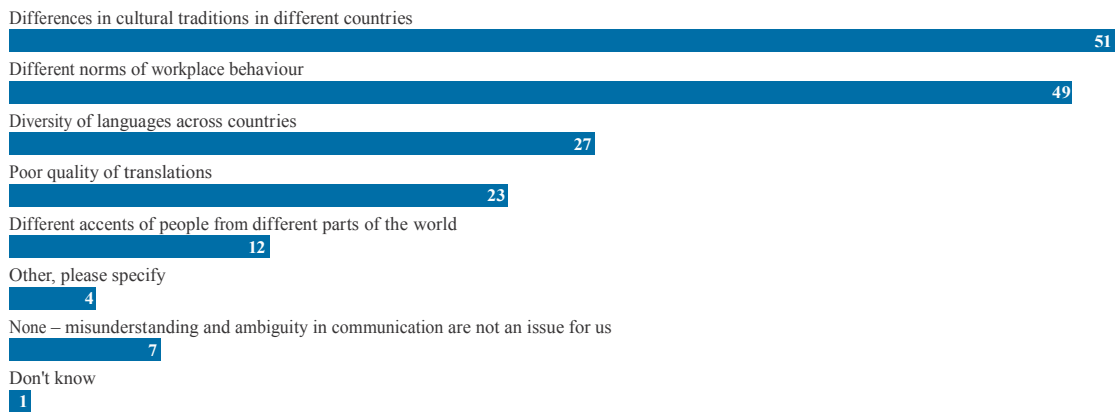
collaborative team working within our organisation is more effective thanks to a diverse workforce (employees of different national backgrounds)

58 32 10 1

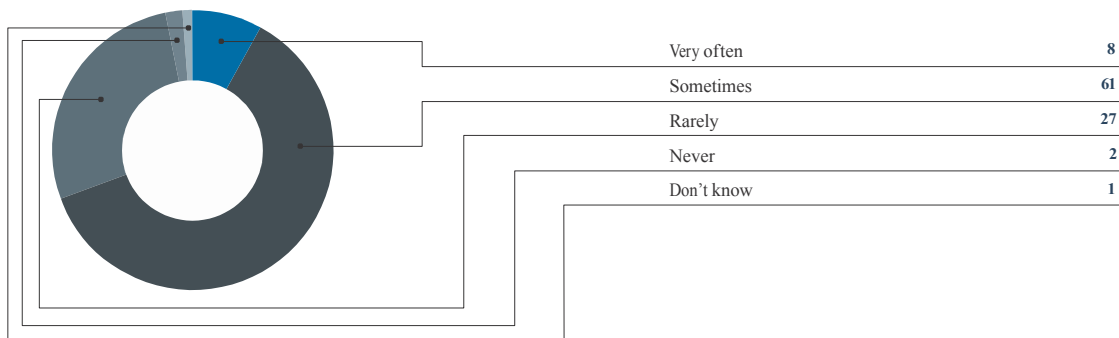
Cultural and linguistic diversity can make it difficult to collaborate internally across borders and with our external partners

Cultural and linguistic diversity in our company opens up cross-border business opportunities

Of the following, which are most likely to cause the greatest misunderstanding in cross-border communication for your organisation? Please select up to two options.
(% respondents)



When communicating with business stakeholders (partners, customers or co-workers) across borders, how often would you say that you or your organisation encounters difficulties?
(% respondents)



In improving cross-border communications, how would you describe your company's investment in the following?

(% respondents)

More than enough Adequate Not enough Negligible/ Non-existent

Management time spent on assessing impact of cross-border communication issues



Technology to help improve cross-border communication



Training to improve employees' language and communication skills



Conflict resolution of disputes arising from cross-cultural misunderstandings



Recruitment and selection of individuals who are suited to cross-cultural environments



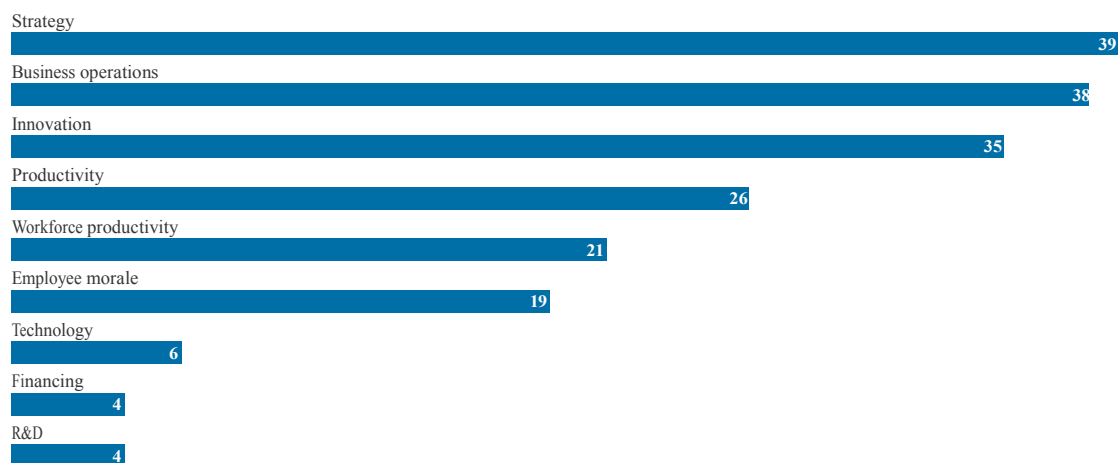
To what extent can better cross-border communications improve the following at your company?

(% respondents)



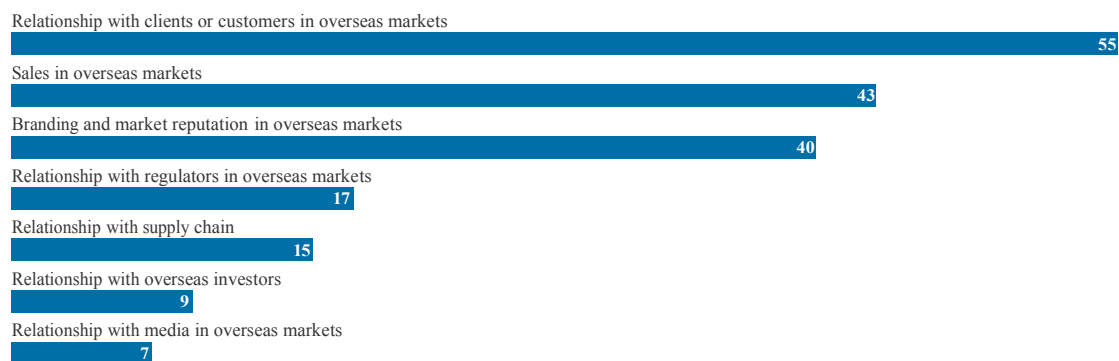
Which of the following (internal factors) are likely to benefit the most from an improvement in your company's cross-border communications? Please select up to two options.

(% respondents)

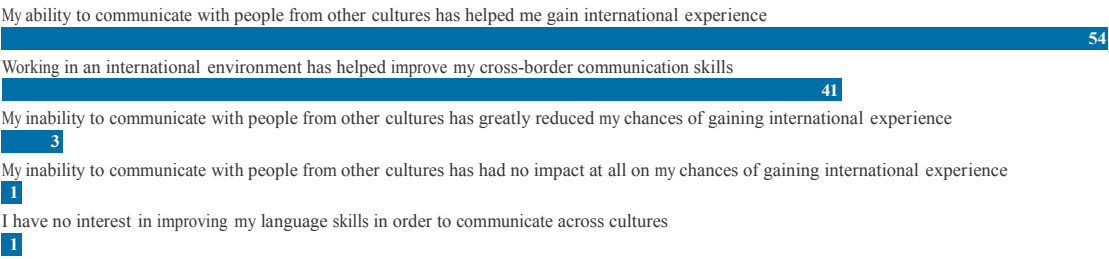


Which of the following (external factors) are likely to benefit the most from an improvement in your company's cross-border communications? Please select up to two options.

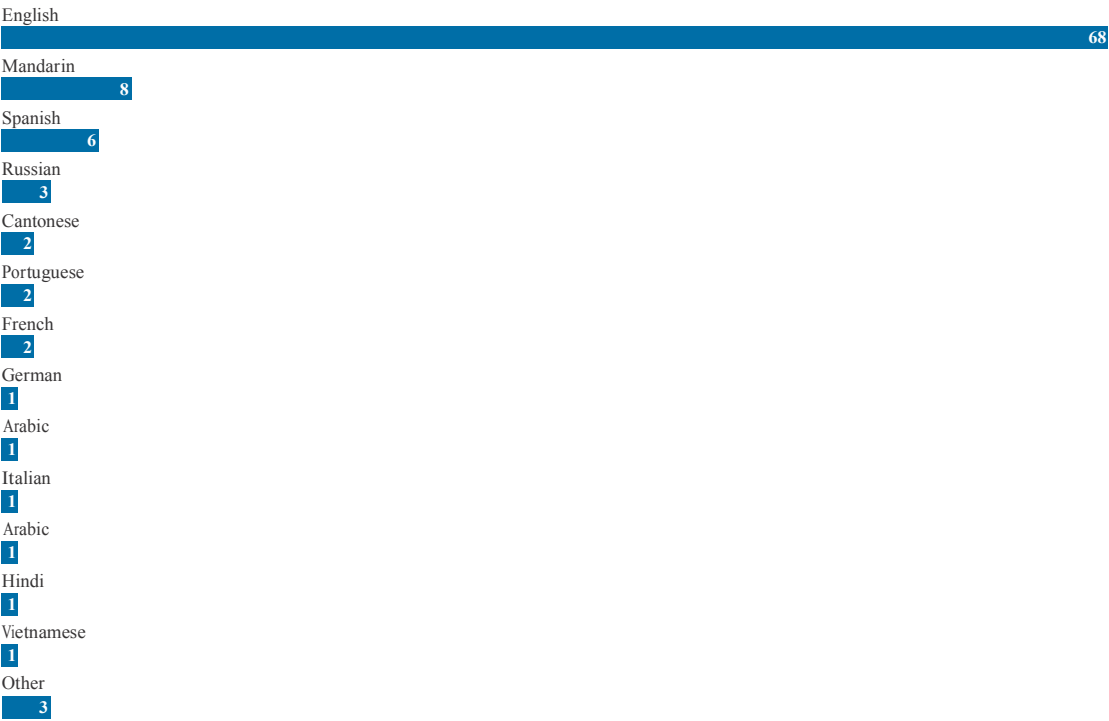
(% respondents)



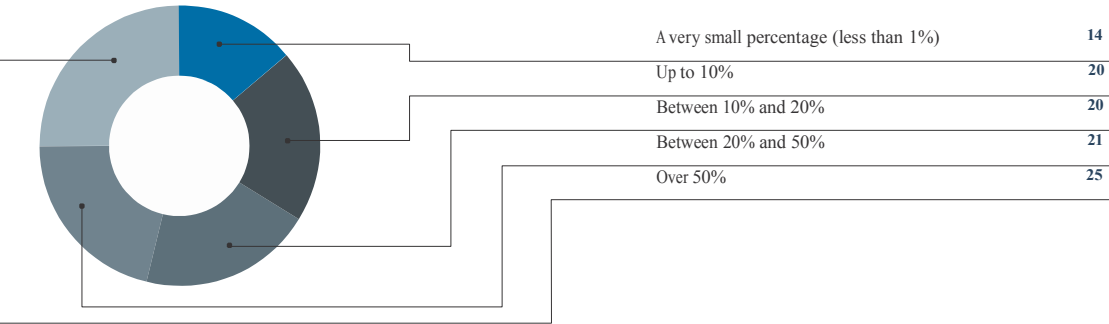
Which of the following most applies to you?
(% respondents)



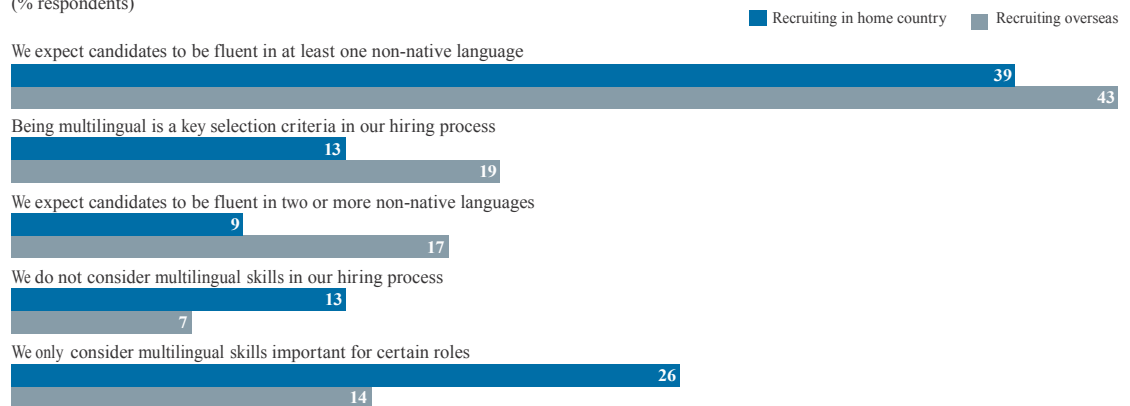
Which language, if any, will your company's workforce need to know to execute expansion plans in key overseas markets in the next five years?
(% respondents)



What proportion of your company's workforce requires some level of international/non-native language skills in order to effectively carry out their job?
(% respondents)

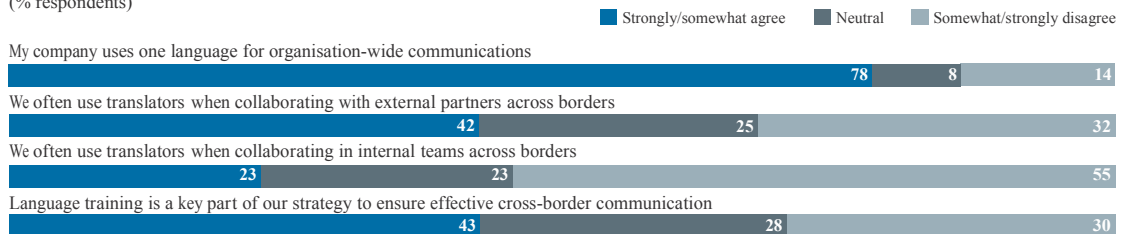


When hiring in general, how much importance is given to a candidate's ability to communicate with people from other cultures?
(% respondents)

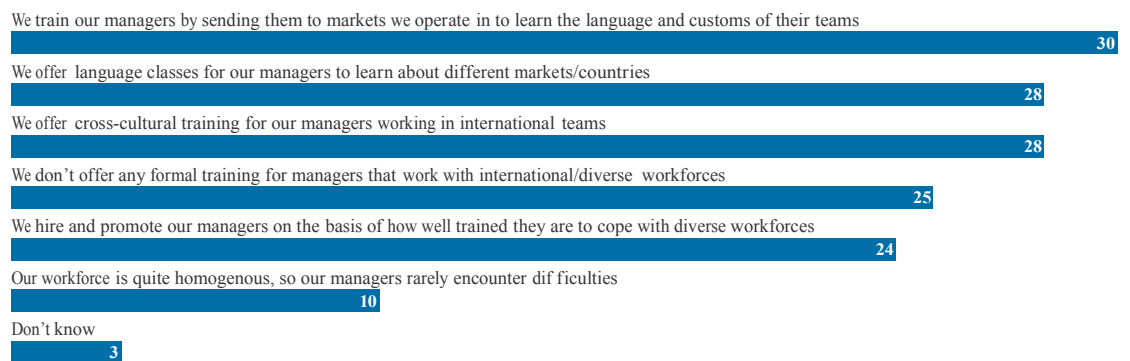


Please state the extent to which you agree with the following statements:

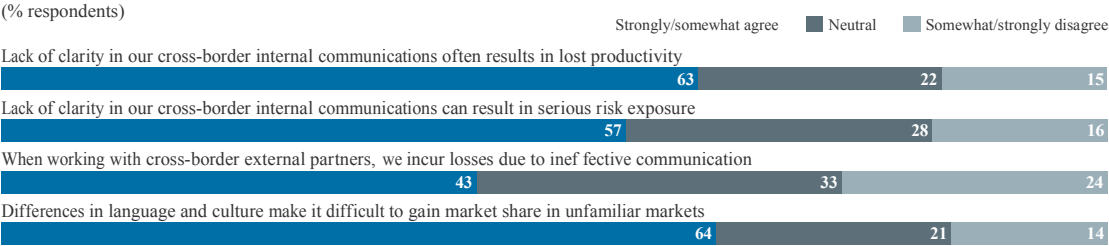
(% respondents)



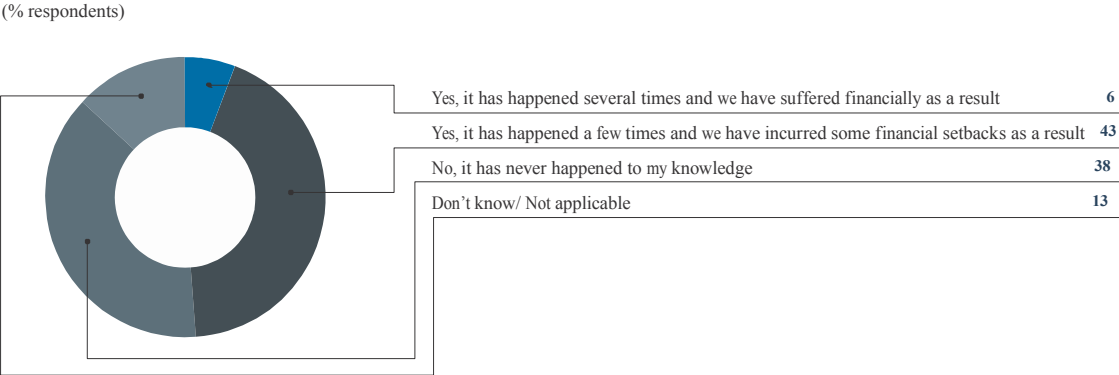
Of the following statements, which best describes your company's strategy to managing and improving cross-border communications? Please select up to two options.
(% respondents)



Please state the extent to which you agree or disagree with the following statements:

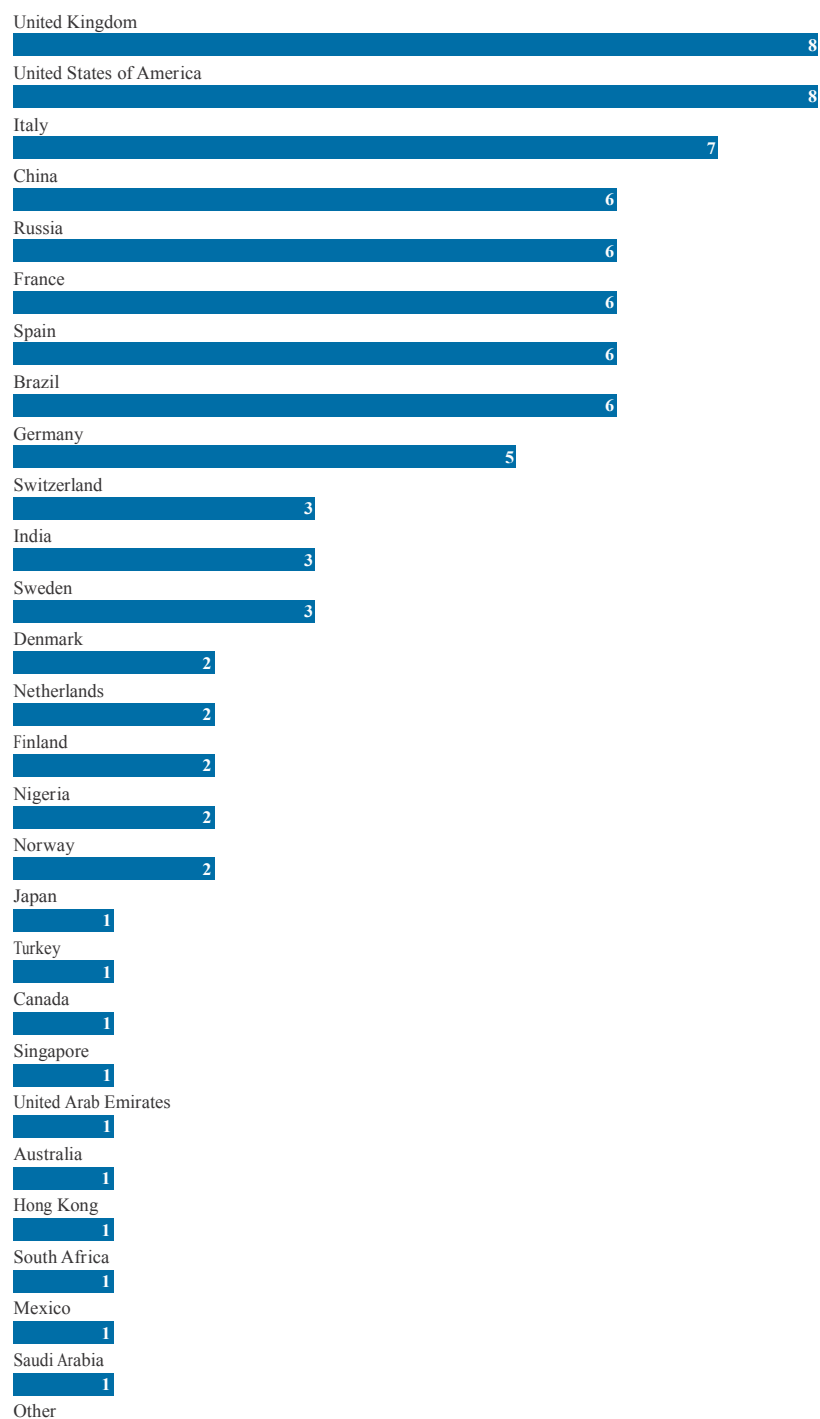


To the best of your knowledge, have communication misunderstandings or problems ever stood in the way of a major cross-border transaction (eg, sale, contract with a supplier, merger, acquisition, foreign direct investment etc)?



In which country is your company headquartered?

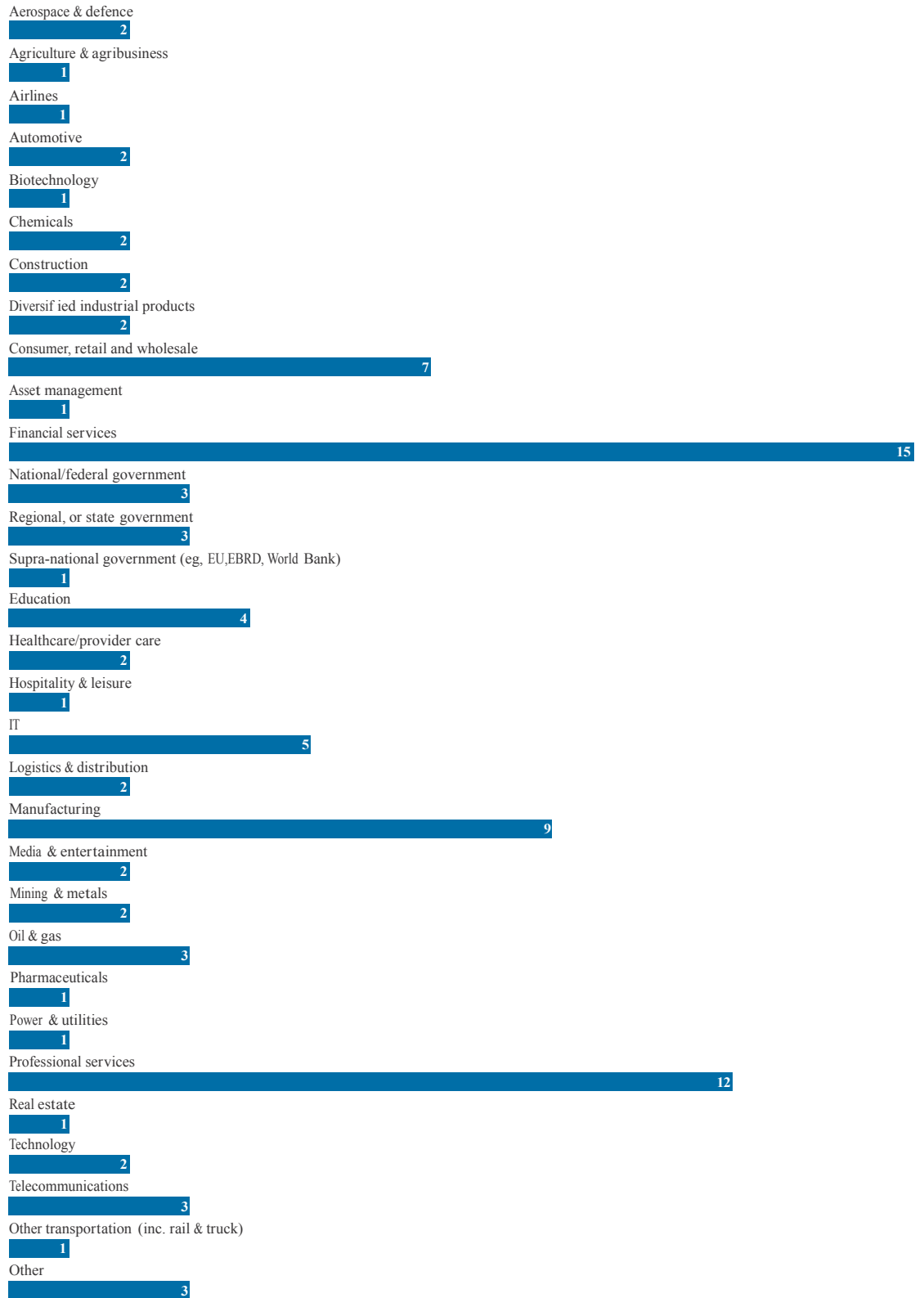
(% respondents)



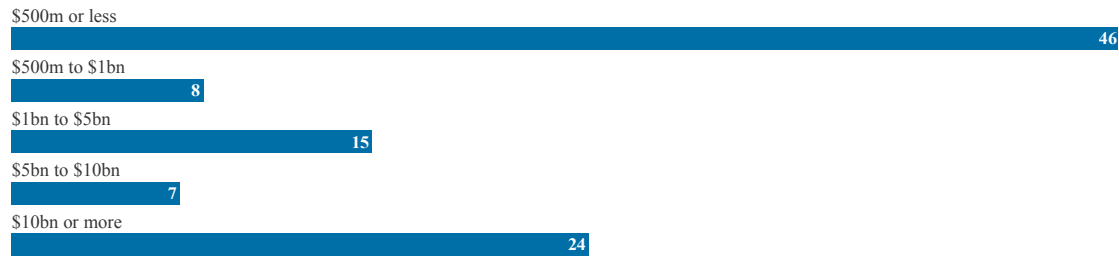
In which region is your company headquartered?
(% respondents)



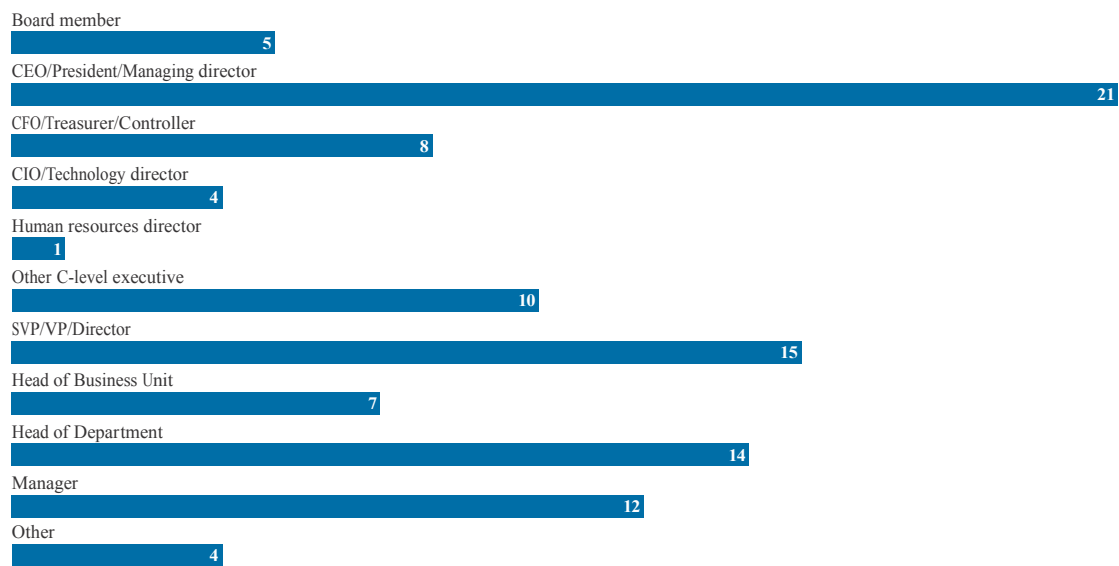
What is your primary industry?
(% respondents)



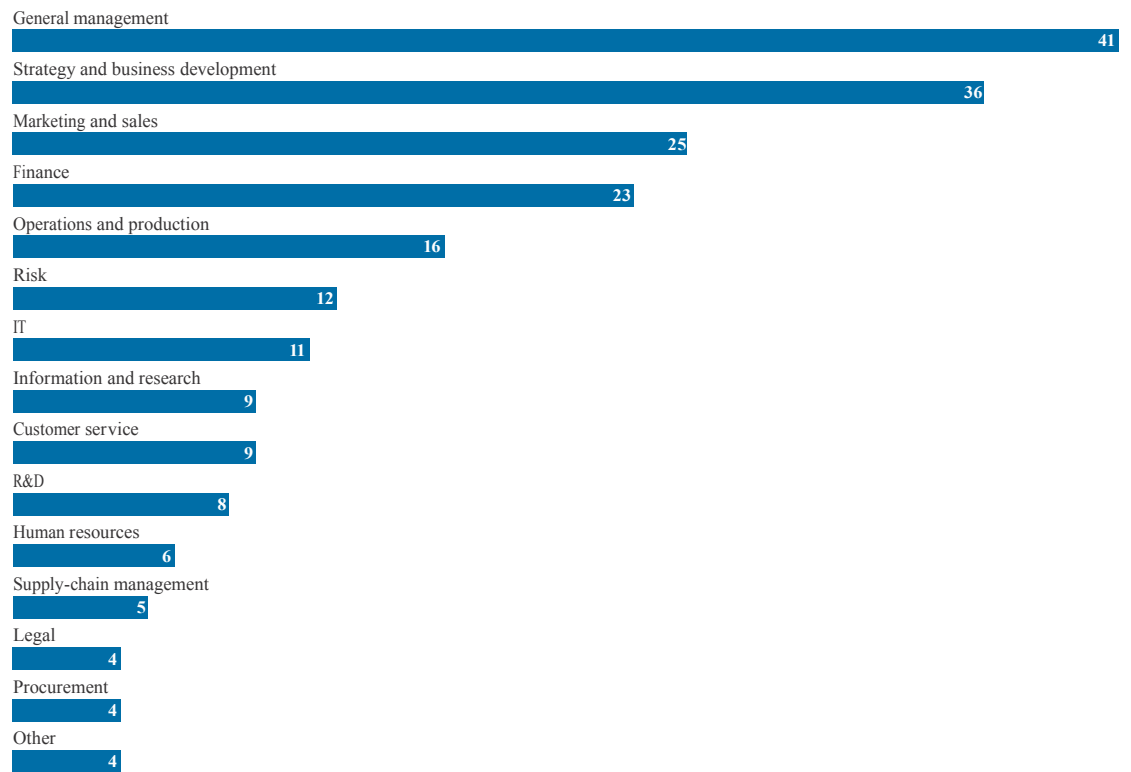
What are your organisation's global annual revenues in US dollars?
(% respondents)



Which of the following best describes your title?
(% respondents)



What are your main functional roles? Select all that apply.
(% respondents)



While every effort has been taken to verify the accuracy of this information, neither The Economist Intelligence Unit Ltd. nor the sponsor of this report can accept any responsibility or liability for reliance by any person on this white paper or any of the information, opinions or conclusions set out in this white paper.

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Economist Intelligence Unit



Competing across borders

**How cuLturaL and
communication barriers
affect business**

A report from the Economist Intelligence Unit

Sponsored by • *Corporate*
Language

A

Connecting across borders: how cultural and communication barriers affect business is an Economist Intelligence Unit report, sponsored by EY Education First. It explores the challenges companies face when they have to operate or compete in increasingly international markets. The report assesses the role that cross-border communication and collaboration play in the success or failure of companies with ambitions that are not hostage to national borders.

The Economist Intelligence Unit bears sole responsibility for the content of this report. The findings do not necessarily reflect those of the sponsors.

The paper draws on two main sources for its research and findings:

1 A global survey of 572 executives, conducted in February and March 2012. Approximately one-half of respondents (47%) were C-level or board level executives, and over one-half (53%) were from companies with annual revenue in excess of US\$500m. All respondents represented companies with either an international presence or plans for international expansion. Just over one-half (51%) of the respondents' companies are headquartered in Western Europe; most of the rest (17%) are headquartered in Asia Pacific; nearly one in ten (9%) have headquarters in North America, and 8% are based in Latin America. The rest of the companies represented in the survey are from Africa, Eastern Europe and the Middle East.

1 A series of in-depth interviews with independent experts and senior executives from a number of major companies listed below.

- 1 Nancy Adler, professor in management, McGill University, Canada
- 1 Richard Gartside, human resources director, Balfour Beatty, United Kingdom
- 1 Albert Gilmudinov, minister of education and science, Tatarstan, Russia
- 1 Nandita Gurjar, global head of human resources, Infosys, India
- 1 Ian Kang, general manager of human resources, Fosun Group, China
- 1 Flavio Liviero, chief project co-ordinator, Scania, Brazil
- 1 Charlene Solomon, executive vice-president, RW3, United States
- 1 Patricia Taparelli, group human resources manager, ABB, Switzerland

We would like to thank all interviewees and survey respondents for their time and insight.

The report was written by David Bolchover and edited by Abhik Sen and Sara Mosavi.

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partnersin other
countries.

The resulting need
for harmonious
and productive
cross-border
relationships that
transcend cultural
differences has
placed new
demands on
companies and
theirworkforces.
The 9. J. survey
findings reveal a
global trend that
has at least
recognised a new
realityin which
the right products
and services must
also now be allied
with the necessary
cultural sensitivity
and communication
skills in order for
companies to
succeed in markets
away Fromhome.
However, the views
expressed in the
survey by senior busi
ness executives
Fromall corners of
the world also
indicate that many

organisations have yet to

adopt measures that will turn this reality into a vision for the future

practices. Some of the key findings of the report areas follows:

any experience with current economic conditions do not return to previous

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establish more cross-
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teams, comprising people who are physically located in different countries.

1 Effective cross-border communication and collaboration are becoming critical to the annual success of companies with international aspirations

Presumably as a result of their companies' focus on international growth, almost two-thirds of respondents think that "better cross-border collaboration has been a critical factor in the improvement of our organisation's performance in the past three years". However, a similar proportion feel that their organisation encounters difficulties with cross-border collaboration or communication at least "sometimes". This can be costly. Around one-half of the executives surveyed for the purpose of this report admitted that ineffective communication or inadequate collaboration had obstructed major international transactions, inevitably resulting in financial loss.

The overwhelming majority (bordering on 90%) believe that if cross-border communication were to improve at their company, then profit, revenue and market share would all improve as well. This is partly because potential opportunities in foreign countries are currently being spurned, with almost two-thirds of respondents saying that differences in language and culture make it difficult to gain a foothold in unfamiliar markets.

1 Most companies understand the cost of not improving the cross-border communication skills of their employees, yet many are not doing enough to address the challenge

Despite acknowledging the direct impact of effective cross-border communication on their fortunes, a significant proportion of companies, by their own admission, are not taking sufficient action to address the root cause of misunderstandings. Some 47% say their companies do not offer enough training to hone their employees' language and communication skills, and 40% believe there is not enough emphasis placed on recruiting or selecting people who are suited to cross-cultural environments.

Some organisations appear to be underestimating the extent of the challenge. "Interconnectedness through modern technology has lulled many people," according to Nancy J. Adler, chair in management at McGill University in Montreal, Canada, and author of *International dimensions*

of organizational behavior, "There is the false assumption that just because we can reach anyone in the world so easily through email or Skype, we are, therefore, all the same."

1 Organisations with international ambitions increasingly expect prospective employees to be fluent in key foreign languages

The survey conducted for this report reveals the multilingual nature of the modern business world. According to almost one-half of the companies surveyed, at least one in five of their workers need to speak another language in their job, and one-quarter say that a majority of their workforce require some foreign language skills.

Not surprisingly, a majority of executives surveyed believe that their workforce will need to know English if the company is to succeed in its international expansion plans. Mandarin

is considered the second-most important foreign language, but just 8% say their managers will need to be fluent in it. The importance of language skills in a globalised world is reflected in companies' hiring strategies. Very few companies never consider multilingual skills to be essential in job seekers, but many new expect them to be fluent in at least one non-native language.

1 Misunderstandings rooted in cultural differences present the greatest obstacle to productive cross-border collaboration

Respondents regard "differences in cultural traditions" (51%) and "different workplace norms" (49%) as the greatest threats to the smooth functioning of cross-border relationships. Nandita Gurjar, global head of human resources at Infosys, one of the world's largest information technology services companies based in India, agrees that cultural awareness and cross-border ambitions go hand in hand: "We are a global company. We simply cannot progress without the knowhow and experience to deal with other cultures."

linguistic diversity - or the lack of it - is considered by some margin to be a greater business challenge in Latin America and southern Europe than elsewhere. For example, 38% of those surveyed in Brazil and 40% in China - the two most linguistically diverse countries in the world - consider linguistic diversity to be a significant hindrance to effective cross-border relations.

Since the turn of the century, thanks to the dynamism of many developing economies and the advances in technology and telecommunications, the world is getting ever smaller, and national boundaries matter less and less in business. In fact, in 2010 the high-growth markets of Latin America, Asia, eastern Europe, the Middle East and Africa together accounted for 45% of world gross domestic product, up from just 25% in 1980.¹ Gross domestic product in purchasing power parity terms, according to Economist Intelligence Unit estimates, is likely to more than double by

2020 for many of the world's high-growth markets.² These economies are also on the cusp of superseding developed economies as the largest recipients of the world's imports' (see charts 1 and 2).

But as companies seek to expand in new and unfamiliar markets, their ability to form close relationships with commercial partners and customers is often hampered by obstacles arising from cultural differences. It is therefore perhaps unsurprising that, when contemplating international

Chart 1

Leading places

(Share of world imports, %)

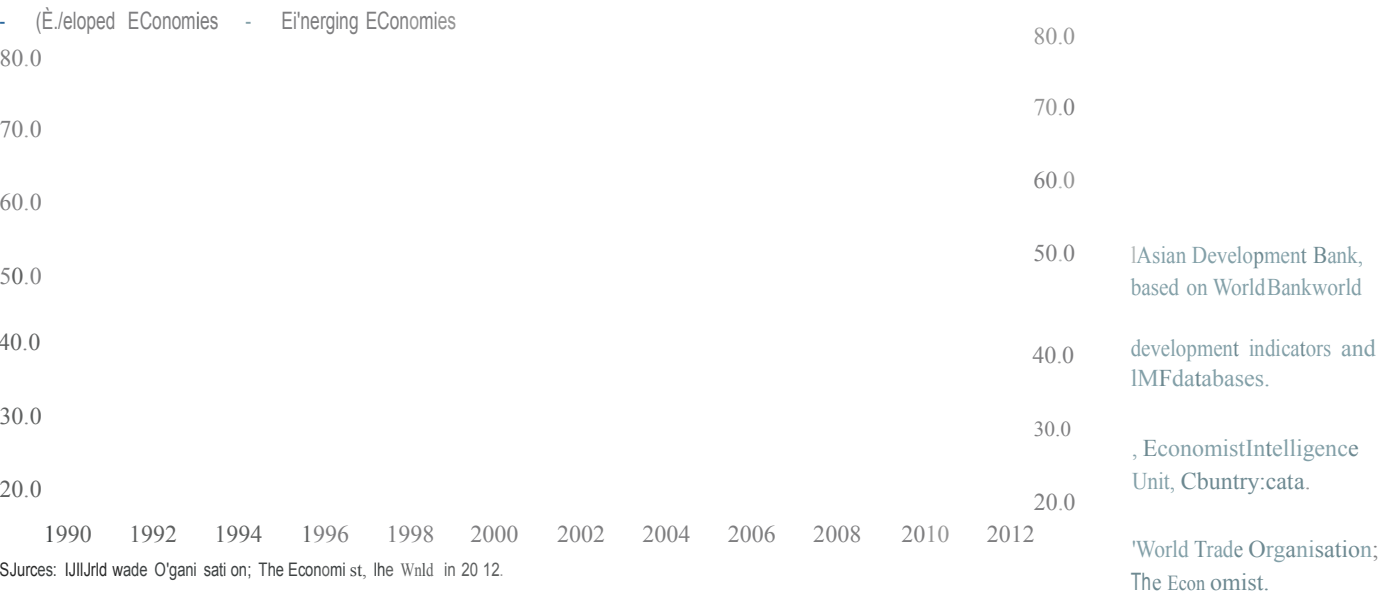


Chart 2

Nominal GDP

(Gross domestic product at purchasing power parity; US\$)



Source: Economist Intelligence Unit.

expansion, many prefer to go to a common language in those countries with which they may be more compatible culturally.

In his influential book *The Language Instinct*, the Harvard University psychologist and linguist Steven Pinker observes: "What is truly arresting about our kind is better captured in the story of the Tower of Babel, in which humanity, speaking a single language, came so close to reaching heaven that God himself felt threatened. A common language connects the members of a community into an information-sharing network with formidable collective powers."

Mr Pinker's assertion is, in part, what Lazar Zamenhof, a philologist born in what is now Poland, was trying to achieve in the late 19th century, when he first introduced Esperanto to the world - a constructed language whose purpose, Zamenhof hoped, would be to minimise mutual misunderstandings created by the lack of a common language between people of different ethnic and linguistic backgrounds. Frustrated by the many divisions and quarrels among the diverse communities that made up the population

of his native Bialystok, Zamenhof believed that a common language would "break the walls between the peoples".

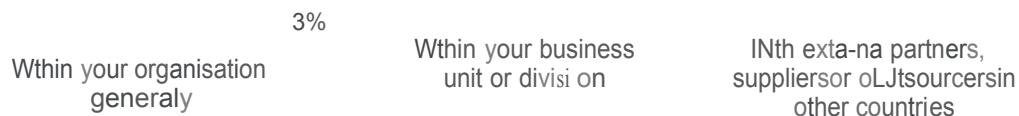
While Esperanto never quite captured the world's imagination, Zamenhof's emphasis on creating a communication tool that unites rather than divides people is valid more than ever in today's dynamic world economy. Pankaj Ghemawat, professor of global strategy at the IESE business school in Spain, has calculated that two countries which share a common language trade 42% more than two otherwise similar countries which do not have that linguistic connection.

Meanwhile, countries once bound by colonial ties trade

188% more, by some margin even outweighing the impact of membership of a common currency (which increases trade by only 114%).⁴ For example, 68% of the foreign direct investment that entered China in 2009 originated from countries where the Chinese form the largest ethnic group (ie, Hong Kong, Singapore). The UK and its former colonies enjoy similarly strong business ties: trade between them, Professor Ghemawat found, gets a 13% uplift because of their shared cultural heritage.

Overall, how important would you say cross-border collaboration is in the following environment?
(% respondents)

- Very important
- Somewhat important
- Not important at all



However, the sheer extent of competitive pressure and pace of cross-border expansion inevitably means that many more companies are now launching operations in countries with no such common heritage or language. More than three in four of the companies surveyed for the purpose of this report confirm that they will have an operational presence in more countries in three years from now than they do currently. One in six predicts that the scope of their international presence will increase "significantly", even in this relatively short time.

Consequently, many companies appreciate the need to bridge any national divides. More than one-half think that cross-border collaboration is now "very important", both within the company in cross-border teams, and in relationships with external partners and suppliers (see chart 3).

But the globalisation of the business environment is not just about companies. It is also about countries and their governments creating the right environment to attract investment from foreign companies. Albert Gilmudinov, minister of education and science in the Russian Republic of Tatarstan, explains his own government's policy to make Tatarstan an international business hub: "We've formed a dense and rich infrastructure to stimulate investment; we've minimised

administrative barriers to the private sector; and we've established scientific and educational institutions to make sure our workforce is ready for any project."

When words add up to numbers

The impact of good cross-border collaboration on a company's financial performance is now widely recognised. Nearly two-thirds (64%) of survey respondents believe that better cross-border collaboration was a "critical factor" in recent improved performance (see chart 5), perhaps in large part because it can provide the required intelligence about the intricacies of doing business in countries that might pose complex cultural barriers to business.

About two in three respondents (64%) to the survey carried out for this report believe that strategy and business operations stand to benefit the most from an improvement in their company's cross-border communications. Just

over a majority (55%) believe that relationships with clients in overseas markets will be positively affected by such improvements, followed by sales in overseas markets (43%). Remarkably, for 44% of respondents from China - compared to just 17% of all respondents - better communication skills are seen as key to improving their relationships with regulators in overseas

"The Economist, "The Power of Tribes". January 2012.

ToVvhatextent can better cross-border communications improvethefolloVving at your company?

(% respondents)

. 'Improvesignificant'y . 'I1IXCMIs:xneWICi • N:X Cial

Profit

Revenue

Market share

markets. Chinese respondents are probably quite right to be concerned, considering the increasing scrutiny that Chinese companies are coming under as they expand into new markets.

An overwhelming majority of executives surveyed also believe that an improvement in cross-border communications with customers and colleagues will have a beneficial impact on financial indicators, such as profit, revenue and market share (see chart 4). While most companies focus, quite sensibly, on getting their strategy right on products, costs, sales and the other building blocks of business, the research done for this report suggests that the inter-personal and

communication skills of their employees can have an equally critical impact on an international company's bottom line.

Richard Gartside, human resources director at Balfour Beatty Group, one of the world's largest infrastructure companies based in the UK, says that, in some cases, his company's first step in a foreign venture is normally to build a relationship with a local joint-venture partner. "Without good local knowledge and cultural awareness from such a partnership, it becomes much more difficult to break into a new market," he says. To capture that knowledge within the organisation and to broaden employees' experience, Balfour

Please state the extent to which you agree or disagree with the following statements:

(% respondents)

- Strongly agree/strongly disagree
- Disagree/strongly agree

64% 27% 7%

Better cross-border collaboration has been a critical factor in the improvement of our organisation's performance in the past three years

67% 28% 3%

The multicultural nature of cross-border teams breeds innovation

Cultural and linguistic diversity can make it difficult to collaborate internally across borders and with our external partners

Beatty looks to move people with leadership potential to other countries to learn more about the business, different working arrangements and cultures, and communication etiquette,

Meanwhile, a similarly high percentage of survey respondents - 67% - reckons that the multicultural nature of cross-border teams within the company increases innovation (see chart 5).

Professor Adler from McGill University agrees that multicultural teams have the potential to be more creative and offers three reasons why this is the case. "First, diverse teams naturally possess a broader knowledge of current world trends, and thus their decisions are founded on a stronger grasp of all relevant issues. Second, they are less likely to suffer from the 'group-think' - or press.eto conform-'wl,hich often af i dsteams made up of similar people. Third, culturally diverse people tend to approach problems from different perspectives and therefore frequently produce a wider range of solutions, making it more likely that one of those solutions will be excellent."

One could also argue that cross-border teams have the potential to be more productive, simply because they don't work in the same place. "With a co-located team you can spend much of the day chatting, drinking coffee, making jokes," says Patricia Tapparelli, group HR manager at ABB, a multinational engineering company based in Switzerland. "But when you are in a virtual team, a llyou have to do is get on with your work. "

Mind the communication gap

When important cross-border relationships do break down, the costs to a business in financial, operational or reputational terms can hurt. Around one-half of respondents in the survey for this report admit that communication misunderstandings have stood in the way of a major cross-border transaction, incurring significant losses to their company (see chart 6). Brazilian and Chinese companies appear to fare considerably worse than their peers elsewhere:

according to 74% and 61% of respondents from these two countries, respectively, their companies have suffered significant losses as a result of failed cross-border transactions.

It is not just financial performance that suffers as a result. Over three-fifths of companies surveyed think a lack of clarity in their internal cross-border communication often results in lost productivity. The number rises to 77% when looking at just the Brazilian respondents, while 43% of UK executives think that better cross-border communications can improve productivity.

Clearly if diversity is not handled correctly, then cultural differences can jeopardise the end objective (see box on page 11). Although business executives recognise the potential benefits that diversity brings to an organisation, they also report that cultural and linguistic differences can make it difficult to collaborate across borders.

The greatest threat to the harmony of cross-border relationships (see chart 7).

To the best of your knowledge, have communication misunderstandings or problems ever stood in the way of a major cross-border transaction (eg sale, contract with a supplier, merger, acquisition, foreign direct investment etc)?

(% respondents)

- ~ it has happened several times and we have suffered financially as a result
- ~ it has happened a few times and we have incurred some financial setbacks as a result

43%

!h, it has never happened to our knowledge

38%

COO't knON!
Nd: cvpicable

FtrCéfttag€S do not add upto 100%asrepond€flltscould931Ert morethan ooeoptioo.

The 1998 merger of two car manufacturers, Germany's Daimler-Benz AG and the American Chrysler Corporation, provides a stark example of the destructive impact of such discord. The different DNAs of the two organisations and a series of operational mis-steps, compounded by cultural and linguistic incompatibility, created irreconcilable tensions which eventually resulted in the two companies parting ways.

When communicating with business stakeholders (partners, customers or co-workers) across borders, how often would you say that you or your organisation encounters difficulties?
(% respondents)



This cultural and communication risk that businesses face when they try to expand into unfamiliar territory is now commonplace. The survey indicates that just over three-fifths of companies (61%) admit to encountering difficulties at least sometimes when communicating across borders (see chart 8). This figure is much higher in 91% of parts of the world: nearly four-fifths of respondents from Brazil (79%) and 71% from Spain report encountering such obstacles.

"Diversity has the potential to produce much better results, but this of course assumes that the cross-border relationships will survive the initial cultural misunderstandings," says Charlene Solomon, executive vice-president at RW3, a New York-based online cultural training company. "With cross-cultural teams, the extremes become more possible - both excellent performance and very weak performance."

Measuring cultural differences

Cultural differences can be seen in a broad range of beliefs and behaviours found on a daily basis in the workplace. Several management thinkers, such as Geert Hofstede, Fons Trompenaars and Edward T. Hall, have formulated frameworks which attempt to measure how each national culture fits into this complex spectrum.

Such frameworks can help international managers to anticipate and then solve possible conflicts caused by misunderstandings between various cultures. Nandita Gurjar, global head of human resources at Infosys, a global IT services company based in India, believes that cultural awareness is key. "Most managers,

when confronted with a cultural conflict often have little idea that the underlying issue could be cultural. They tend to think: 'Why are you so upset? This is the way I normally behave and people in my home of course never get upset. What's wrong with you?' A manager has to get the best out of people, and therefore needs to know that an individual's cultural background influences strongly in the way they respond."

Geert Hofstede's framework, the most widely known, hones in on key cultural differences such as the various attitudes towards hierarchy or uncertainty, or the extent to which a society or community values individual achievement on the one hand, or long-term loyalty to a collective group on the other.

Scores on the various dimensions of the framework vary hugely. For example, workers in Asia, Africa, Latin America and the Arab world

are likely to show much more deference to their manager than their counterparts in countries such as Denmark, Israel and Austria, where subordinates tend to want to be frequently consulted by those above them in the hierarchy.

Unsurprisingly, given the importance of the "American dream" within its culture, the United States scores highly for individualism, whereas several countries in Central and Latin America (Ecuador, Panama, Venezuela) and Asia (Pakistan, Indonesia, South Korea) are at the "collectivist" end of the spectrum.

The United States would also be what Edward T. Hall refers to as a "low-context" culture, in which people communicate very much through a direct, and often terse, exchange of words that carry a literal meaning. Communication in "high-context" countries, on the other hand, will be much more subtle, with the attentive listener required to pay greater attention to gestures, tones and the overall context of the conversation.

Ian Kang, general manager of human resources at Fosun Group, a conglomerate headquartered in Shanghai, explains how the "high-context" Chinese approach to communication can clash with more abrupt styles. "Americans are very explicit and quick to get to the point. The Chinese are accustomed to using vaguer language in the initial stages. Details are then gradually established during further discussions, as the relationship between the two sides grows stronger."

Given the widespread perception that cultural and linguistic differences, in particular, can curtail a company's international ambitions, many companies appear not to be doing enough to mitigate risks. For example, two-thirds of respondents to the survey conducted for this report believe that more needs to be done to recruit and select people who are suited to cross-cultural environments (see chart 9), and an even greater percentage (47%) regret the lack of investment in

respondents to the survey conducted for this report believe that more needs to be done to recruit and select people who are suited to cross-cultural environments (see chart 9), and an even greater percentage (47%) regret the lack of investment in

In improving cross-border communications, how would you describe your company's investment in the following? (% respondents)

Management time spent on assessing impact of cross-border communication issues

Investing in employee language and communication skills

Providing resolution of disputes arising from cross-cultural misunderstandings

Recruitment and selection of individuals suited to cross-cultural environments

Competing for Borders:

"language and communication training". In light of the fact that in the same survey most executives admit to a strong correlation between cross-border communication and the company's performance, it is remarkable that such a large percentage of companies appear to be taking an avoidable risk with such a key determinant of their competitiveness.

The view that companies' response to cultural factors in business has been inadequate is

much more strongly felt outside the (-suite than within it. This may be a particularly telling finding, as it comes from frontline managers who perhaps experience the effects of shortcomings in corporate strategy on a regular basis. According to the survey done for this report, 40% of executives outside the top tier believe that insufficient management time is being spent on assessing the impact of cross-border communication issues, whereas only 27% of their (-suite counterparts agree. It could well be the case, the survey suggests, that top

Scania: When opposites attract

According to the cultural framework of the management thinker Geert Hofstede, Brazil and Sweden are poles apart in their workplace behaviour. For example, on his "masculinity versus femininity" dimension, which examines the degree to which a society values "masculine" values such as competitiveness and the acquisition of wealth over "feminine" concepts such as relationship building and quality of life, Brazil scores 49 (a mid-range figure), but Sweden registers just 5, to make it the most "feminine" society in the world.

The experience of Scania, the Swedish truck manufacturer which delivers more vehicles to Brazil than any other country, can thus help us to understand how co-workers from seemingly very different cultures can collaborate productively.

Flavio Liviero, the chief project co-ordinator at Scania, has been working for the company for 25 years and believes that technology has played a huge role in improving the performance of cross-border teams over that time. "We didn't even have fax machines at the start. At least now we have all the necessary tools for communication in place."

Nevertheless, Mr Liviero insists that cultural barriers are always present and need to be constantly managed. He believes that the most effective way to overcome such obstacles is to meet in person at the project's outset: "What we noted quite early on was that face-to-face contact really helps interaction. The meeting

should be for all team members in one place for a week. In that time, we can discuss how the project will work and its goals, but also have some social interaction."

By the time the meeting participants then go home to their respective offices, says Mr Liviero, the wheels of communication have already been successfully oiled: "If people hadn't met, they may be a little reticent about calling each other. Perhaps the conversation doesn't come that easily. But if they've already spent some time in each other's company, that interaction becomes much more natural. Issues are raised and problems solved more quickly."

Gradually, as the relationship strengthens over time, the awareness of each other's working culture is heightened. "In Brazil we are more emotional, we tend to hurry everything up when we need a decision made," says Mr Liviero. "But we have realised that we need a more measured, logical approach when dealing with headquarters in Sweden. To win support for our idea, we must produce carefully thought-out reports or powerpoint slides."

The good news is that this cross-cultural know-how does not have to be built from scratch every time a new project team is formed. "An international team manager can now tap into a substantial pool of knowledge within our organisation. This best practice gets passed around from person to person over the years," says Mr Liviero.

management at some companies are either being canplænt or overCOOdent about the risks posed by the quality of their workforce's cross-border relationships.

People further down the hierarchy may want top managers to allocate more of their time to intervening as trouble-shooters when a project founders on cross-cultural tensions. Almost one-half of respondents outside the (-suite express concern about the lack of investment in there9Jlution of conflict arising from cultural disputes.

The survey also reveals that 9% of respondents in the Nordic region view the quality of organisational efforts to improve cross-border collaboration. For example, around three in five respondents from Brazil and France think their companies do not focus sufficiently on recruiting the right people, compared with only 37% among the rest.

Indeed, Brazilian executives seem particularly concerned about cultural tensions and their impact on cross-border collaboration and trade (see box on page 13). Almost two-thirds say that "differences in cultural traditions" hinder cross-border relationships (as opposed to one-half of non-Brazilians). As a result, 29% of survey respondents in Brazil say that cultural differences greatly hamper their plans for international expansion, whereas just 12% of other respondents think likewise.

Polyglots, or at least bilinguals, wanted

Almost a quarter of the global workforce now appears to spend a good deal of time speaking in a foreign language while doing their job, with one-quarter of all companies saying that at least half their employees regularly need to do so (see chart 10).

Recruitment policies have been shaped accordingly. Even when recruiting for jobs in their home market, almost one-half of all companies say that prospective candidates need to be fluent in a foreign language (see chart 11), and a further 13% say that multilingual ability is a key selection criterion.

Regions in which recruitment of multilingual candidates is particularly high can be divided into two. In the case of the Nordic region, the widespread language proficiency of employees has resulted in smooth cross-border collaboration. Nearly two-thirds (64%) of survey respondents in this region expect candidates in their home country to be fluent in at least one non-native language. As a result, only 36% in this region believe that their international expansion is hampered by different languages and customs (compared with 64% of all respondents).

As revealed by the survey, companies headquartered in the Nordic region are by far the most confident in their ability to negotiate their way through cultural and communication

When hiring in general, how much importance is given to a candidate's ability to communicate with people from other cultures?

(% respondents)

Recruiting in home country

Recruiting overseas

How much importance is given to a candidate's ability to

be fluent in at least one

39%

non-native language

43%

19%

Being multilingual is a key selection criteria in our hiring process

How much importance is given to a candidate's ability to be fluent in two or more non-native languages

7%

How much importance is given to a candidate's ability to have multilingual skills in our hiring process

How much importance is given to a candidate's ability to have multilingual skills important for certain roles

26%

barriers in international business (see chart 12). Their confidence is rooted in the education and training systems in their countries, which encourage the learning of different languages. Other governments are now taking a leaf out of their book. "I am convinced that the vast majority of economic and social problems should be solved jointly by government and business," says Mr. Gilmudinov, Tatarstan's education minister. "For example, Tatarstan has recently implemented a number of educational programmes and modules aimed at foreign language training for public servants. This is not only to improve their skill set, but also to improve the quality of service that foreign business people receive in our country."

That said, the relatively widespread hiring of bilingual or multilingual workers in Spain is not a cause of high-quality cross-cultural collaboration, but rather, it appears to be a response to perceived problems in this area. Nearly one-half (49%) of respondents expect

candidates in their home market to be fluent in at least one non-native language, perhaps because an overwhelming proportion (89%) is of the opinion that the challenge of different languages and customs is stifling their international plans.

Talking business

English is the one language which companies expect their workforce to know in order to succeed on an international scale. More than

two-thirds of executives who participated in the survey on which this report is based consider English to be essential, followed by Mandarin (8%) and Spanish (6%) as the next most popular languages.

Interestingly, the gap between current usage and the desired level of proficiency in English is greatest in China, showing the country's increasingly external-facing business outlook. Only 9% of Chinese respondents say that at least 50% of their workers now use a foreign language in their job, but 86% also expect that 50% of

How do cultural factors or differences such as language and local customs affect your company's plans for international expansion?

- Has it been a lot of work?
- Is it not effective at all?
- Help our plans for international expansion

Nordic

Russia

their workers their employees will need to know English if their companies are to make a success of their international plans (see box on page 17).

As more and more workers at international companies add foreign-language skills to their résumé, those without any could perhaps be forgiven for thinking that communication barriers are disappearing. But just because, say, a German worker has learnt Chinese at language school does not mean that he or she will not get baffled by slang, jargon or colloquialism, or even by someone speaking Chinese very fast, particularly when the interaction is virtual, for example, during a video conference or telephone call,

Ms Solomon from the RW3 consultancy suggests ways in which virtual group meetings can be made more worthwhile for everyone, whatever the level of fluency: "The conference leader has to create an environment in which language differences are accepted. State clearly that participants should ask for something to be repeated and admit if they don't fully understand. You should always send an agenda beforehand so people who are not as comfortable in the language can prepare. Afterwards, always send minutes or a summary of what's been said. You should not rush the call, but always give people time to form their thoughts and give their opinions in what is for them a Foreign Language."

Emerging-market MNCS: From local to global

Much has been written about how companies based in developed countries are coping with the cultural obstacles they encounter while doing business in the developing world. But how are the rapidly growing companies from emerging economies faring with the similar challenges posed by expansion into unfamiliar markets?

Nancy Adler of McGill University in Canada thinks that they have a natural advantage over their Western counterparts, particularly the United States: "Historically, the US has had a huge domestic economy, so many US companies have not felt compelled to gain the understanding of other cultures that is now necessary to conduct business in the 21st century's global economy, or even to establish successful business ventures abroad. Also, because so much of world business is conducted in English, many native English speakers, including many Americans, tend to assume that non-native

English speakers from other parts of the world want to be like them. A business person from Thailand or Slovenia knows that the world is not trying to be like them. By becoming multi lingual, they already know that they must recognise cultural differences in order to leverage them to their advantage - what we call cultural synergy - and to mitigate the cross cultural problems that might arise."

According to Nandita Gurjar of Infosys, her global IT services company attempts to narrow cultural gaps through its recruitment and selection process by seeking out those who have the ability to deal with people from different backgrounds. "When we are interviewing either an internal or external candidate for a managerial position which requires cross-border work, we ask them lots of questions about how they handle cultural differences. This is particularly true for more senior positions."

The company makes a special effort to familiarise new recruits with Indian working culture by means of an extensive

induction period. "All North American and European graduates joining the company from university come for six weeks to our headquarters in Bangalore to obtain an insight into how our people operate, and also to get to know some of the people they will be working with," says Ms Gurjar. "For senior levels, the induction programme lasts two weeks and involves much discussion and training on working with people from different geographies."

In China, meanwhile, language differences pose more of a barrier to the implementation of international strategy. Fosun, a Chinese conglomerate listed on the Hong Kong stock exchange, has invested in a broad range of business ventures throughout the world, and therefore places a high priority on the requirement for its investment professionals.

"This obviously narrows down the candidate pool, and we have to pay a little more to recruit people with language skills, but we don't experience a real bottleneck," says Lan Kang, general manager of human resources at Fosun. "There are many Chinese returnees who've spent long periods abroad, and an increasing number who have studied English during their education. Training is available for people who joined before we became a global company, but who need English."

Ms Kang, who previously worked in executive search for Korn Ferry in China, makes a distinction between the Chinese professional class, such as Fosun's investment experts, and the often less educated managerial class, whose English tends to be less advanced. "Western multinationals often limit themselves to English-speakers and thus miss out on people with excellent operational experience who don't speak English. They miss out on top talent that way. They need to find ways to enlarge the pool, for example by offering

language training."

Luelled by the winds of change blowing through the world economy; business is becoming more international by the day: some companies are doing it on their own initiative to capitalise on opportunities they have spotted, while others are pushed into it by slowing growth in their home markets. Whatever the reason for expanding outside their home countries, companies have clearly recognised the impact that cross-border collaboration and communication with clients and colleagues from different countries, cultures and time zones can have on their fortunes. Sometimes, as a few examples in this report demonstrate, it can mean the difference between success and failure.

The global survey of senior executives conducted for this report describes that a significant number of companies are still at the stage where they can recognise the benefits of overcoming cultural and communication barriers, but are not necessarily doing enough to address this challenge. There may well also be a touch of complacency in the top echelons about how much still needs to be done. Certainly, middle and senior managers appear more concerned about the current levels of investment in facilitating effective cross-border relationships than those at the very top. Business leaders will sooner or later have to consider steps to narrow the gap between perception and reality on this issue if they want to ensure that their strategy to grow internationally is both a financial and an operational success.

The senior executives and management experts surveyed and interviewed for this report have made it clear that, the task of overcoming cultural and linguistic barriers is difficult but not an impossible one. It may have to be done differently at different organisations, but the risks posed by ineffective or less than ideal cross-border collaboration and communication can be measured, and the impact on financial performance calculated and quantified. That being said, the risks can be minimised by smarter recruitment and a workforce that is trained to handle the rigours of operating on an international stage. Companies just need to face up to the challenges, recognise the dangers of inaction and be innovative in their approach to solving problems that involve their most precious resource: their people.

As Flavio Liviere, chief project co-ordinator at Scania points out the good news is that the tools to manage cultural differences and communication challenges in business are improving and developing all the time. As companies become ever more global in their quest for growth and efficiency, they will have to make increasing use of at least a few of them if they are to prosper. From the knowledge, diversity and opportunities that come with doing business across borders.

Competition / Across Borders:

Does your company have an international presence or have plans for international expansion?
(% respondents)

11

How do cultural factors or differences (e.g., language and local customs) affect your company's plans for international expansion?
(% respondents)

12

20

17

When planning expansion into any country, which of the following do you consider the most critical factors in enabling that expansion?
(% respondents)

Availability of collaboration with local partners, agents or distributors

11

11

Technical skills of local talent

Overall compatibility with target country

First-person skills of local talent

Other

Hovvdovou ecped thefollowingtochangein thenext threeyeas?
(% re~ondents)



Imi chof thefollowi ngwouldyou say arethemost irrportmt factorsfor effectivecross-bordercollaborationwithi n your organisation?Rea:a99le::tuptotoooptions.
(% re~ondents)

Employeeswith theright mix of communicatio,li~::tiCandturessWilS

Oe<tingtheright organisational strUaure::s)

SEnior management support

OJlturalysensitiveteam leaders

Ribust comp8;wldetechnolW

Ole language for Interna cross-border cornrm.nClltloos

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Appropriate and fair financia Incentivesacross borders

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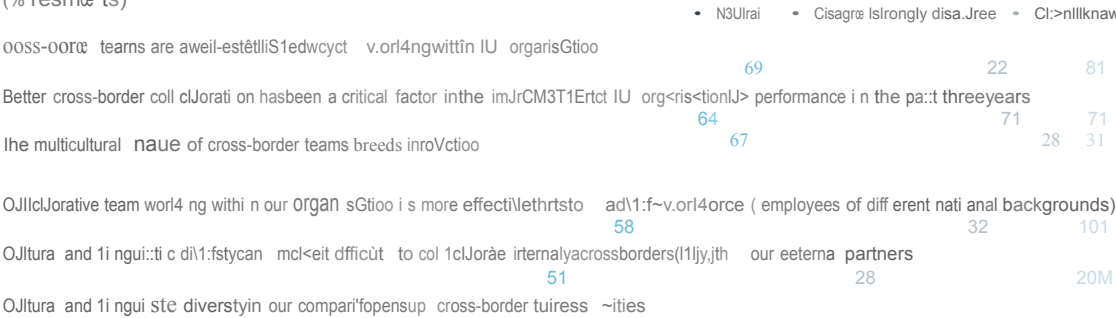
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Oleral, hovvimportantwouldyou saycross-bordercollOOor~ionisin thefdIONingenvi ronments?
(% re~ondents)



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(% resma ts)



Comparing Across Borders:

Of the following, which are most likely to cause the greatest misunderstanding in cross-border communication for your organisation? Please select up to two options (% respondents)

Differences in cultural traditions in different countries

Different norms of workplace behaviour

Diversity of languages across countries

A lack of quality of translations

Different accents of people from different parts of the world

Other, please specify

None of the above: understanding and ambiguity in communication are not an issue for us

I don't know

When communicating with business stakeholders (partners, customers or suppliers) across borders, how often would you say that your organisation encounters difficulties? (% respondents)

8

27

In improving cross-border communications, how would you describe your company's investment in the field? (% respondents)

More than enough Enough Not enough Not at all No investment

Management's main focus is on assessing impact of cross-border communication

Issues related to technology to help improve cross-border communication

Training to improve employees' language and communication skills

Conflict resolution of disputes arising from cross-cultural misunderstandings

Recruitment and selection of individuals who are suited to cross-cultural environments

10

50

35

Towha: extent Cal better cross-borderconnrnniE iionsif1)rCNethefdlcwingat your company?
(% respondents)

• 1rrprOI'e 9iJJ'eYha • Nlt al ail • [»nlllknow

Frofit	33	55	7	5
~ue	35	54	7	4
Ma-ketsha-e	35	51	8	6

IAhich of thefollowi ng (internai factors) aelikelyto benefit themost from ci1 improvement in your company[!Jc;ross-
border communications?Rea99931ecut ptotoo options.
(% respondents)

S:ategy

Bus nessoperai ons

irrovaton

FrOductivity

IAbrktorceproductivi ty

Bnplojee morale

lèC11nOI0% #1

Rnancing

1;&0

IAhich of thefollowi ng(externe! factors) aelikelyto benefit themost tronai if11j(CNernenint your company[!Jc;ross-
border communications?Rea99931ecut p toteo options.
(% respondents)

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CM:!'seasmcrkets sa es in (Mrseas markets

Branding and market reputai on in ~ markets

RllationShi p wi th regulaors In ~ mar1ets

Rllationshi p wi th suppl y cha n

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Comparing Cross Borders:

Which of the following most applies to you?

(% respondents)

My ability to communicate with people from other cultures has helped me gain international experience!

Working in an international environment has helped improve my cross-border communications skills.

My inability to communicate with people from other cultures has greatly reduced my international experience!

My inability to communicate with people from other cultures has had no impact at all on my international experience!

I have no interest in improving my language skills or to communicate across cultures.

Which language, if any, will your company need to know to execute its global business in the next five years?

(% respondents)

English

Dutch

French

Spanish

Portuguese

Arabic

Chinese

Japanese

Italian

German

Other

What proportion of your company's workforce requires some level of international/non-native language skills in order to effectively carry out their job?

(% respondents)

14

20

When hiring in general, how much importance is given to a candidate's ability to communicate with people from other cultures? (% respondents)

- Fè:ruiting in horrecountry • fècruiting overseas

We expect candidate to be fluent in a: 1~ ooenm-nativela1~

Being multilingual is a key selection criteria in DlrtingJ700: 5S

We expect candidate to be fluent in two or more non-native languages

Regarding the extent to which you agree with the following statements: (% respondents)

7 compaz uses one language for internal communication

We often use translators to communicate with partners from other countries

We often use translators to communicate with clients from other countries

Language training is a key part of our training for employees from other countries

Of the following statements, which best describes your company's strategy to manage and improve cross-border communications? (Please select up to two options. (% respondents))

We train our managers by sending them to markets we operate in to learn the language and customs of their teams

We offer language classes for our managers to learn about the markets they serve

We offer cross-cultural training for our managers to improve their communication skills

We don't offer any formal training for managers to improve their communication skills

We hire and promote our managers based on their ability to communicate with clients from other countries

Our workforce is quite homogeneous so our managers rarely need to communicate with clients from other countries

Don't know

Competing across Borders:

Please state the extent to which you agree or disagree with the following statement:
(% respondents)

Leadership in our cross-border international communications often results in more creativity

Leadership in our cross-border international communications can result in serious problems.

When working with cross-border external partners, we incur losses due to ineffective communication

Differences in language and culture make it difficult to gain market share in a new market.

Neura • 9 months strongly disagree

64

21_14

To the best of your knowledge, have you experienced any of the following problems in the context of a cross-border transaction (eg, sale, contract with a supplier, merger, acquisition, foreign direct investment etc)?
(% respondents)

Yes, it has happened several times and we have suffered financially as a result

Yes, it has happened a few times and we have suffered financially as a result

In which country is your company headquartered?
(% respondents)

United Kingdom

United States of America

Italy

China

Russia

France

Brazil

Germany

Switzerland

India

Sweden

Denmark

Netherlands

Australia

Nigeria

Norway

Japan 1

Turkey 1

Canada 1

Singapore 1

United Arab Emirates 1

Israel 1

Hong Kong 1

South Africa 1

Mexico 1

Saudi Arabia 1

Other

Competing Across Borders:

In which region is your company headquartered?
(% respondents)

Western Europe

Asia-Pacific

North America

Eastern Europe

Latin America

Middle East and Africa

What is your primary industry?
(and others)

Defense

Agribusiness

Technology

Construction

Food and industrial products

Healthcare

Consumer, retail and wholesale

Financial services

Local government

International government (eg, BJEER, World Bank)

Regional, or state government

in

City & leisure

Healthcare provider care

IT

Logistics & distribution

Manufacturing media &

entertainment

als

ices

eChnology

R:la estae

^T
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Telecommunci ations

Qhe

Competing across Borders:

What are your organisation's global annual revenues in US dollars?

(% respondents)

\$500m or less

\$500m to \$1 bn

\$1bn to \$5bn

\$5bn to \$10bn

\$10bn or more

Which of the following best describes your title?

(% respondents)

Board member

Chief Accounting Officer

4'

Treasurer / Controller

Technology director

Chief Financial Officer

Chief Executive Officer

Chief Executive

Senior Vice President

Head of Business Unit

Head of Department

Manager

Other

IAhat areyour main functional roies? S91e:tal the! cqJly.
(% re::pondEllts)

S:rategy <nd businessde-.elopmEllt

Ma-keting <nd sales

Rnance

operations <nd producti on

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IT

1nformation and research

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R&D

Hum<n resouræ s

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