

REPRINT

This preface on *Cultural Diversity* is a reprint from a quarterly called Chairman's Series published by Lussier Consulting. The Cultural Diversity issue was published during the Spring of 1999 and featured a prescient essay on Cultural Diversity and Competitive Advantage by Jorge Escalona, VP of Global Consumer Business, AT&T.

Consulting

Cultural Diversity and Competitive Advantage

Preface
by
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We are living in the era of the global marketplace. Thus, it is hardly news to say that success in the market requires a global presence. However, to companies of all sizes that are forging cross-cultural business ventures at an unprecedented rate, execution of a global strategy represents a very different challenge. A key ingredient for success has become cultural diversity at all levels of corporate activity.

Today, the Board and senior management may readily agree on the imperative of a global strategy. However, have they stopped to ask how prepared they are to face the many unknowns in the global marketplace – unforeseen, unfamiliar elements that profoundly affect a company’s global strategy? Companies that rely on the business judgment that allowed them to succeed in their home markets may be unprepared to deal with a foreign environment. Too often they are destined to find only limited success in foreign markets for the simple reason that they were inadequately prepared to compete effectively within the new, unfamiliar context.

...one can not escape from the conclusion that the domestic landscape of the United States is vastly more diverse than it was 20 years ago. Many of the insights expressed in the following essay are applicable to the global marketplace, including the United States. Diversity is much more than a passing fad.

A company may make the finest product of its kind, and have the means to send that product all over the planet. The company may have overcome every physical hurdle imaginable in positioning itself to be the next big winner in Tokyo, Delhi, Sao Paulo or Mexico City. It may have the consumer/demographic studies to prove that the time is right, that success is virtually assured. However, ask anyone who has had success in foreign markets, and they will tell you that it will take much more than a product to succeed in those markets. What it takes is a fundamental understanding of “cultural diversity.”

Until now, “diversity” has often been an afterthought rather than being seen as a crucial link to corporate strategy. Some companies seek diversity for reasons of political correctness or as way of addressing local operating performance. But that perspective won’t get it done today.

Even domestic markets are beginning to take on a global complexion. The Los Angeles school system is home to more than 80 different languages. Today Hispanics represent 15% of the US population and by the year 2010 they will be the single largest minority approaching one-third of the consumer base. The famous U.S. melting pot is getting more culturally diverse, not less. Thus, not only “globally oriented” companies need to contend with an ever increasingly culturally diverse marketplace. Diversity can no longer be thought of as window dressing, a nod to public image. Today it must be understood as placing the best, most culturally experienced, culturally sensitive and culturally astute people—people who are comfortable working across lines of race, class and religion—into the heart of strategic initiatives.

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Simply put, cultural diversity has become a strategic business imperative. It is a major factor affecting a company's competitiveness. As such, corporate boards need to reassess their recruiting objectives and policies to properly infuse the organization with a business mindset linking cultural diversity to all levels of corporate activity and performance.

While one of the Board's primary responsibilities is to help set strategic direction of an enterprise, the Board also needs to be able to anticipate the company's needs in the linkage of strategy, tactics and execution. The Board must count on directors and senior management that can recognize which of these three components are weakest. In a global market, even experienced executives may miss the underlying causes of problems if they lack the proper cultural sensitivity. Thus, in terms of Board policy, the guidelines for seeking cultural diversity must reflect one simple goal: to maximize the company's potential for success in cross-cultural business affairs.

Any company seeking to become a global player would do well to study such international business stalwarts as Coca Cola, IBM, Unilever, GM and Citibank. These and a handful of other large MNCs have been leading global players for decades. Their success has come from years of experience that has taught them how to adapt to the unique cultural territory they encounter in different nations. Internationalization is bred into managers at all levels at these firms through job content and experience in overseas assignments. Most of GM's senior executives, for instance, must have worked in Brazil or Europe before getting to the top positions at domestic headquarters. These truly international companies have received crucial insight from large cadres of internationally trained executives.

Companies new to the global market often lack a sufficiently deep bench of such internationally trained executives. Couple that with a lack of patience or insight to train people properly, and these companies can end up sending inexperienced teams into foreign assignments. While local joint venture partners or acquisitions may fulfill the local operational needs, the imperative for Board and senior management insight remains. The balancing act between the needs of the foreign environment and the demands of corporate headquarters requires culturally sensitive managers. A team of executives working in the foreign setting must be able to thrive amid an array of uncertainties that greet any foreigner in a foreign land. Certain key positions also require an understanding of the corporate realities that transcend local practices (Foreign Corrupt Practices Act for example). How these key executives handle those challenges will determine to a large extent the degree of success a foreign operation will have. An incisive essay on the topic follows written by Jorge Escalona, VP Global Consumer Business at AT&T.

Finally, when these executives return to their U.S. operations from successful foreign postings, their enriched experiences add depth and breadth to the domestic organization. However, the pace of evolution of the global marketplace may not allow for this process to take place within an organization. Thus, today more than ever, executive and Board recruitment must focus on cultural diversity as a fundamental element of erecting and implementing global strategic initiatives.

There are a vast array of issues and complexities to contemplate when managing a modern day MNC. However, the rapidly globalizing world further complicates things. Culturally homogeneous boards are often ill

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equipped to clearly understand and act decisively with the increasingly important foreign dimension of global expansion. Therefore, companies need culturally diverse Board Directors that can quickly and viscerally understand the reasons for the disconnects between their company's aspirations and their actual performance in foreign operations. These are people who can provide accurate assessments for the root cause of persistent problems – whether it be due to inappropriate management or failing to perceive and act on missed opportunities.

Introduction

One person who knows the turf of the expatriate manager inside and out is Jorge Escalona. Jorge is the prototypical international executive. He was born in Havana, Cuba, then raised and educated in the United States. His decade-plus of international management experience has taken him to Spain, Germany, Puerto Rico, Mexico and, most recently, to his current post as Vice President of the Global Segment of AT&T's Consumer Division in Basking Ridge, New Jersey. In 1996 he was named Hispanic Executive of the Year by the U.S. National Hispanic Employee Association.

Jorge brings to foreign assignments an “American” can-do attitude and a thorough grounding in best business practices and methodologies. But he also has abundant international experience, from which he has gained the highly developed cultural sensibility mentioned previously. It was that skill set that served him particularly well when he arrived in Mexico in 1994 with a mandate to build—from scratch—a telecom company for AT&T.

Jorge's success was beyond impressive: As President and CEO of Alestra (AT&T's joint venture with Grupo Alfa, a leading Mexican conglomerate), he garnered a staggering one million new customers in less than one year.

What makes this achievement even more remarkable is that it was accomplished in a climate characterized by much greater uncertainty than that typically faced in foreign business settings. At the time, Mexico was experiencing political unrest. It was also in the depths of a recession caused by the 1994 peso devaluation (which triggered the infamous Tequila Effect that shook the rest of Latin America), and it was being barraged by unprecedented levels of crime.

Added to the mix was the fact that AT&T launched its brand-new telecom venture in a highly competitive environment. Telmex, the former telephone monopoly, fought its new international competition fiercely, investing U.S. \$10 billion in less than three years to upgrade its service capabilities. Then there were other major competitors vying for a piece of this new market. One very significant global player aggressively entered the arena at the same time in a joint venture with a large Mexican financial partner. What made the difference for Jorge was not only experience in difficult foreign settings, but careful application of his theory of *cultural differences* (“variances”, in his vernacular, which is explained in the essay that follows) and which enabled him to assess the new environment quickly and accurately, to process the cultural differences and to respond appropriately.

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Jorge knew, for instance, that he had to quickly assemble a small cadre of equally internationally trained executives to help him launch AT&T's telecom venture. He brought fewer than 30 foreign executives to Mexico, most of whom had worked with him before in the U.S., Spain, Germany and Puerto Rico. By contrast, the large competitor brought more than 200 executives and technicians from its home turf. The lessons learned from these two parallel, but quite different joint-venture start-ups in Mexico could fill a book.

Jorge arrived attuned to the cultural differences that would have to be dealt with in order to make Mexicans feel that AT&T had something *“for”* them rather than being another foreign entity perceived as doing something *“to”* them. By contrast, the competitor arrived on the scene determined to impress the locals by flaunting its strength and prowess. Not surprisingly, this strategy had mixed results. Indeed, they found out too late that Mexicans tend to be formal. Aggression puts them off. Their style is non-confrontational. One executive from the competitor was so aggressive in his dealings that the Ministry of Telecommunications banned him from ever again doing business in the telecom arena in Mexico.

Meanwhile, with its small band of seasoned international expatriates attuned to and respectful of Mexican social mores, AT&T was non-threatening. The competitor's culturally insensitive managers were perceived as intrusive, producing a negative reaction tied to a strong sense of national sovereignty. Ultimately, the competitor squandered valuable market share and future business opportunities.

Moreover, Jorge, recognizing that his competitor was blundering on a cultural level, exploited the situation by drawing attention to it. To this day, the competitor's image in Mexico is not what the company would wish—a telling example of the point raised earlier that once the damage is done, it is difficult to correct.

If a large, sophisticated telecommunications company can suffer the slings and arrows of its own cultural insensitivity, you can be sure that many other companies are making the same mistake. How many of them have assessed if they have the key leadership capital they need to perform effectively in all their markets simultaneously around the world? Do they understand that the lack of world-wise, multiculturally astute managerial talent is quickly reflected in the financial results? The fact is that failed joint ventures and acquisitions inevitably flow from culturally insensitive management selections around the globe.

With all that in mind, I present you with Jorge Escalona's prescient and illuminating essay. It represents a road map showing how to navigate new cultural landscapes and how to respond appropriately in order to gain competitive advantage.

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