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Cross-Cultural Risks of the International Business

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CROSS-CULTURAL RISKS OF THE INTERNATIONAL BUSINESS

One very important aspect of human life both as individuals and as groups living in societies is something called culture. By definition, culture can be said to refer to the social behavior and norms found in human societies. Culture can as well be said to be shared patterns of behaviors and interactions, cognitive constructs and understanding that are learned by socialization (Brouthers, 2002). For this reason, culture is frequently seen as the growth of a group identity fostered by social patterns unique to the group. For any given society, people always try as much as they can to safeguard and uphold the tenets of their culture. However, with the growth and expansion of the wave of international business technological enhancement, the world has virtually become a global village where people from all corners of the world interact seamlessly. With this kind of seamless cross-cultural interactions, cultural erosion is on the rise in many societies of the world. There are many different kinds of cross-cultural risks that face the conduct of international business across the world.

To begin with, failure to understand local legal and ethical issues has turned out to be the most prevalent cross-cultural risk that the international business continues to face. International business corporations face a highly complex web of legal and ethical issues that have proved to be detrimental in the recent past. The international business corporations setting up new outlets in foreign lands have continued to be bombarded with business threats that have nearly crippled their performance because of cross-cultural risks arising from the failure to understand the local legal and ethical constructs in foreign lands. For instance, the Chinese custom of guanxi calls for business organizations to establish long-term reciprocal relationships via the giving of gifts back to the community (Shenkar, 2001). This custom is so critical that it is the basis for establishing the trust that underpins successful business in China. However, the American international

business corporations setting out new outlets in China may be prohibited by the U.S. Foreign Corrupt Practices Act from engaging in this practice. For this reason, many international business corporations with the U.S origin and running branches in China have found it very difficult to establish trust with the Chinese market because of not practicing the guanxi custom. Without trust in such markets, many global business corporations are finding it hard to succeed in foreign lands just because of the failure to understand the cultural ethical issues in foreign markets. In such situations, international business organizations must explore other alternatives of fostering trust in foreign markets in order to overcome this kind of cross-cultural risk.

Another cross-cultural risk facing the international business is ineffective diversity management. Many existing research studies about international businesses suggest that diversity is a double-edged sword for many multinational corporations. Diversity in teams and strategies that such global business corporations employ has the potential to improve or counteract business performance. Looking at the positive side of the diversity coin, the successful integration of diverse business perspectives and strategies has the potential to promote innovation and creativity can help enhancing the competitiveness of such global corporations in foreign markets (Eid, 2011). Another positive contribution of diversity in international business is that it creates inclusive workplaces that allow international business organizations to attract, energize and retain top global talent, something that increases the chances of such multinational corporations to thrive in their international business ventures. With an effectively managed diverse workforce, international business corporations ¹ can better understand and respond to the needs of varied customers, something which results in increased customer satisfaction and thus customer trust and loyalty in the global market (Eid, 2011).

However, if not properly ¹ managed, diverse workgroups may experience greater conflict and less trust and cohesion than homogenous teams. International business corporations need to effectively manage cultural conflicts, bias, and discrimination. The multinational companies that fail to carefully address such cross-cultural and internal tensions in diversified workgroups face the high risk of encountering very costly discrimination claims (Tse, et al., 1988). What brings about this predicament for many international business organizations is the failure to understand ⁵ that diversity issues vary from one country to the next and they are often more complex outside the home country or state. To avoid facing the negative side of the diversity coin, international business corporations employ the use of ¹ global diversity programs that can accommodate variations in cultural, historical, political, social and legal contexts that are unique for each country of operation (Tse, et al., 1988). For this to be successful, such multinational business corporations need to make adaptations on their global diversity programs in terms of methods, rationale, content, and language.

Failure to recognize and appreciate regional and subculture differences is another cross-cultural risk that many international business corporations continue to face in the global business arena. One thing that international business managers tend to pay attention to is the fact that ¹ within emerging international markets, there are significant regional variations in consumer preferences and market conditions (Shenkar, 2001). However, such managers tend to overlook the fact that ¹² within a country, many subcultures exist, the subcultures of which are not limited to regional or ethnic variations. For instance, consumer profiles of males and females in the United States of America are different. Though previous research indicates that females generally account for about 88 percent of retail purchases, many marketing campaigns done by international business corporations in the country often overlook the differences that exist in ⁵ male and female consumer

behavior and mentality (Shenkar, 2001). In addition, female consumer habits and preferences differ across ethnic, generational, and occupational groups. International business organizations that fail to recognize these kinds of cultural diversity of their markets face the risk of missing important consumer segments. The result of this is crippled business operations and consequent failure.

Other than affecting the conduct and performance of international businesses, cross-cultural risks have significant effects on the cultural values of the local people in different parts of the world where such international business corporations operate. For instance, findings from previous research studies show that the establishment of international business corporations in the Kingdom of Saudi Arabia has opened up employment opportunities to the extent that the Saudi females are now working as employees in such multinationals. This has lessened the traditional attitudes that the Saudi males have towards working females. According to Elamin & Omair (2010), the single, unemployed, young and educated Saudi males report less traditional attitudes towards working females compared with married, employed, old, and less educated ones. This is a shift in cultural construction that has been brought about by the international business in the Kingdom of Saudi Arabia. In addition, the growth of international business in the Kingdom of Saudi Arabia has led to a revolution in cultural ethics concerning marriage in Saudi Arabia. Traditionally, the Saudi Arabian women were forbidden to marry non-Muslim strangers. However, this cultural tenet is being eroded and many Saudi Arabian women are getting married to foreign men, some of whom are non-Muslims (Elamin & Omair, 2010).

In conclusion, and as it can be seen from the above discussion, there are many different kinds of cross-cultural risks that face the conduct of international business across the world. In the recent past, globalization has outpaced the ability of many international organizations to

manage the accompanying cultural shifts. The main focus¹ of such business organizations has been on overcoming the political, legal, technological, and economic barriers, whereas cultural barriers have often been overlooked. The ignorance of cultural differences has the potential to weaken market share, lower return on investment, damage business reputation, and lead to gross losses in productivity (Brouthers, 2002). All these negativities that arise from the misunderstandings,¹ tensions, and biases caused by cultural differences can eventually lead to outright business failure.

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