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Cultural Intelligence Is Key to Building Asia Capability

Asia is the single biggest growth opportunity for Australian business. By 2025, Asia will account for almost half of the world’s GDP and will be home to four of the largest global economies – China, India, Japan, and Indonesia. By 2030, two-thirds of the world’s middle class will be in Asia, up from one-third today, and by 2050, Asia will have twenty of the world’s top 50 cities ranked by GDP, up from eight in 2007. In *A World of Difference: Leading in Global Markets with Cultural Intelligence*, Singapore-based consultant Felicity Menzies offers Australian business a proven approach for closing the Asia capability gap and capturing this potential.

Consumer attitudes and behaviours are highly influenced by culture. When a company moves into a new market, the primary focus should be on understanding the local culture and modifying product and service offerings, pricing strategies and marketing programmes to better reflect local preferences, customs and habits. Unless local cultures drive business models, foreign businesses have a high risk of failure. The costs of failed international business ventures can be significant: on average, international retailers will absorb seven years of losses offshore before they eventually shut down or sell their operations to a local competitor. In September 2012, after six years in China, the world’s largest home-improvement retailer, American mega-chain Home Depot Inc., exited the Chinese market, writing off US$160 million after tax. Home Depot’s rigid application of its American ‘do-it-yourself’ (DIY) business model had failed to lure the rapidly increasing first-home-buyer market. A more culturally appropriate model would have been ‘do-it-for-me’ (DIFM). Manual labour is inexpensive in China and viewed as beneath a middle class deeply committed to
International business success also necessitates an in-depth understanding of local business customs that may not be evident to the foreigner. In China, ‘guanxi’—one’s personal network of trusted relationships involving mutual obligations and favours—is critical for business success. eBay’s ignorance of guanxi contributed to its failure in China to compete with local player Taobao. Using its government and industry connections, Taobao was successful in developing an integrated e-payment system whereas eBay’s payment system, PayPal, was subject to government scrutiny and restrictions.

If Australian business is to remain competitive in the Asian century it must strengthen its capability to understand the needs and concerns of different consumer segments and stakeholders across rapidly changing diverse Asian markets. Strengthening Asia capability involves a three-pronged approach: winning the war for local talent across diverse Asian markets, leveraging the perspectives and experiences of Australian talent with Asian heritage, and increasing the cultural competency of its non-Asian workforce.

Achieving these goals necessitates the development of cultural intelligence or CQ—the collection of knowledge, skills and abilities that enable an individual to detect, assimilate, reason and act on cultural cues appropriately. Individuals with high cultural intelligence display four main competencies: CQ Drive is the willingness to work with others from diverse cultural backgrounds, CQ Knowledge is the ability to flex mentally and take alternative perspectives, and CQ Action is the ability to flex verbal and non-verbal behaviour to create shared meaning and build rapport and trust with culturally diverse others.

Cultural intelligence can help Australian businesses both win the war for talent across Asian markets and dismantle cultural stereotypes at home that contribute to Australia’s “bamboo ceiling”—the underrepresentation of Australians with Asian cultural background at leadership level. McKinsey reports only 13 per cent of global organisations are confident that their talent pipeline in China is adequate, and only 52 per cent of global executives feel that their company is effective at tailoring its recruiting, retention, training and development processes for different geographies. Annual staff turnover rates of 25 to 30 per cent are not unknown for global companies in Asian markets. The factors that influence employee motivation, job satisfaction and organisational commitment vary across cultures. Australian firms that understand the cultural value profile of their Asian employees and adapt their human resource policies and management practices accordingly are better placed to attract, retain and leverage local Asian talent.

Closer to home, Australian business is failing to leverage the Asia capability inherent in its working population. Diversity Council Australia reports over 9 per cent of Australian workers are Asia-born but only 1.9% of senior executives in ASX 200 listed companies have Asian cultural origins. Entrenched stereotypes and differences in leadership and communication styles prevent talent with Asian heritage from attaining leadership positions. Western leadership styles that endorse competitiveness, assertiveness and direct communication are at odds with Asian cultural preferences for cooperative interpersonal relations, indirect communication, and concern for ‘face’. A better understanding of how cultural stereotypes interact with dominant leadership styles can help to dismantle unconscious biases that prevent Australians with Asian heritage from achieving leadership positions and foster inclusive work settings where employees from diverse cultural backgrounds can thrive.

But increasing Asian representation in Australian company workforces is only half of the solution. Cultural differences in attitudes, values, beliefs and norms for appropriate behaviour present new challenges for workplace effectiveness. Cultural diversity enhances the potential for language and other communication barriers, heightens the risk of ambiguity and value conflicts, and reasoning and decision-making differences threaten rapport and stifle the exchange of information and ideas. Those challenges limit the strategic potential of a diverse workforce for accessing diverse customers and suppliers and attracting and energising top global talent.

Cultural diversity is complex and its benefits for growth in new markets will only be realised if an organisation’s workforce has the capability to manage that complexity. Cultural intelligence predicts important measures of performance in diverse cultural settings, including better problem-solving and decision-making, improved well-being, increased collaboration, the formation of diverse networks, innovation and better task performance. In fact, cultural intelligence is a better predictor of effectiveness in diverse settings than cognitive ability, emotional intelligence (EQ), personality, demographic characteristics, and international experience.

As markets become more diverse, cultural intelligence will emerge as an increasingly powerful driver of performance and profits. CQ can help you to build a sustainable business in Asia that captures as many customers as possible and provide them with the best products, continuously. Cultural intelligence can accelerate you ahead of your competitors. Companies without it are not even in the race.