The Effect of the CEO's Cultural Intelligence on Foreign Information Technology Firm Performance

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Multinational Information Technology firms that start new operations in a culturally distant host country will experience negative effects based on the level of cultural distance between home and host country. Depending on the level of cultural distance and the dimensions along which these cultural differences occur, these effects can be synergistic but will tend to be mostly discordant. This paper seeks to examine how leadership in Information Technology companies can bridge the cultural divide, promoting a spirit of novelty and enrichment, thereby ensuring enrichment and synergy based on these cultural differences, instead of division and mistrust.

Keywords: CEO, culture, information technology, multinational corporation

INTRODUCTION

Ever since the first stone was fashioned into a crude weapon to hunt and groups of men arranged themselves into hunter-gatherer clans, human beings have sought ways to improve their odds of survival by creating tools, developing processes, and forming groups. Communities have supported the interests of their members by creating mechanisms that provide order and control in society. Some of these mechanisms include institutions, laws, rewards, group dynamics, organization structure, and culture.

Culture is the system of beliefs and values that influence behaviors, especially work-related ones, in a national setting (Hofstede, 1980; Ronen & Shenkar, 1985). The effect of culture is to enhance the desirable similarities in human behaviors within a nation so that there is maximum harmonization of the efforts to achieve progress while overcoming obstacles. Hofstede (1980) found that nations varied significantly in their cultural practices and classified these differences along four dimensions. Cultural distance is the combined difference between-two cultures-along the four dimensions of uncertainty avoidance, power distance, masculinity, and collectivism/Individualism. Uncertainty avoidance is the level of unwillingness that an individual feels towards taking risks. Power distance is the extent to which people with varying degrees of power in a society are treated differently and differentiate themselves from each other based on differences in power. Masculinity is the level of materialism and achievement orientation in society. Finally, collectivism is the affinity for groups and the extent to which people consider the interests of group members over self-interests.

Cultures separate nations and can create a barrier to understanding and doing business with other nations (Clark, 1990). Cultural intelligence is the ability to make sense of the gestures of a person from another culture, the way a person from that culture would intend it (Earley & Mosakowski, 2004). In the same way that interpreters bridge language gaps, both cultural intelligence and cultural exposure reduce the likelihood of misunderstanding cultural gestures. Accordingly, a culturally intelligent person translates cultural cues. In so doing, the actions and signals of each actor are interpreted appropriately.

Steensma, Marino, Weaver, and Dickson (2000) showed that in rich, individualistic countries, information technology alliances operate differently due to lower reliance on groups for survival. A manager will likely need different motivational techniques. In China, CEOs of new information technology firms need to employ cultural tactics that are very different from the ones used at home (Ahlstrom & Bruton, 2002). These cultural tactics must be fine-tuned since born-global firms such as information technology firms have very peculiar organizational cultures in addition to national culture. A cultural misstep by a CEO can potentially be devastating (Zhang & Tansuhaj, 2007).

It is proposed in this study that the culturally intelligent CEO acts as a high-impact operative, knocking down cultural resistance and building channels of communication between home and host. Moreover, the CEO builds trust between cultures that allow the policies and goals of the headquarters to roll in smoothly and operate effectively. So we seek here to establish the relationship between the performance of the multinational corporation and the sensitivity of a CEO to differences in national culture.

LITERATURE REVIEW

Cultural Difference

Within multinational corporations and organizations in general, corporate culture is a tool of conformance that informs individuals how to behave to gain acceptance and approval within an organization. There are cues within a culture that signal the appropriate behavior which an employee should display and actions that are acceptable (Elenkov & Manev, 2005). In an application of transaction cost economics (TCE) to national and organizational culture, culture creates structures within which relationships operate. The structure makes actors in the relationship more apt to act in predictable ways that create an optimal level of overall good. These supported relational interactions stand in contrast to arm's-length interactions where each transaction is executed on an opportunistic zero-sum basis. Relationships, undergirded by culture, predispose actors to behave in ways that bring about the greatest benefit to the whole, in the long-term. Achieving this long-term benefit requires less policing of activities to ensure every single transaction is mutually beneficial (Bartlett & Ghoshal, 2002; Williamson, 1981). Differences in behavior due to cultural differences can create additional transaction costs for business (for example, resistance to policy changes). These differences will cause firms to incur the additional transaction costs of monitoring and controlling the actions of partner organizations (Barkema & Vermeulen, 1997).

When there is a cultural similarity, individuals can conform to group norms to gain acceptance. By assimilating, individuals achieve group acceptance as they show their willingness to perpetuate the norms that strengthen the group. When cultural differences exist in business, transaction costs may occur. Companies may also turn to legal avenues to reduce these transaction costs (Dharwadkar et al., 2000). Minimizing transaction costs is one of the main challenges of a strategic business unit (SBU) manager. But if an SBU manager relies totally on contracts to keep behaviors in line with policy, then these controls, effected through contract law and expensive lawyers, become prohibitive at some point. A more cost-effective approach for the SBU manager would be to control costs associated with cultural differences. SBU managers must also be able to interpret behaviors in their cultural context, so that early warning signs from employees can be interpreted and remedied quickly. In the quest to overcome cultural differences with host markets and institutions, a multinational company may opt for lower controls to make up for its inability to interpret culture in high culturally distant situations (Gatignon & Anderson 1998, Steensma 2000). While slacker controls are advantageous in allowing the subsidiary to navigate its external environment more easily, the organization trades its control over an institution, which would give it authority to direct procedures and shape corporate culture. One way of overcoming the disadvantage of slacker controls would be to install an SBU CEO who has trained in the host country and has performed well as a senior executive in the host culture.

Though it is taken for granted that gaps due to cultural distance cause discordance between home and host country, this is sometimes an illusion in both the causal and discordant dimensions (Shenkar, 2001). In fact, Tihanyi et al. (2005) suggest that cultural distance improves performance between two countries at a high level of development. It would appear nations that have different cultures, but between whom there is mutual respect, benefit from cultural attractiveness. Instead of being turned off by cultural differences, it is beneficial to look for aspects of the other culture that they can adapt and use to diversify or enrich their lives. We can see this in the way that westerners have been attracted to Buddhism and yoga as calming meditational techniques. We can also see it in the adoption by easterners of western-style business suits, which project power. A culturally astute home country SBU manager who has experienced (worked in) and is exposed to both cultures, should be able to understand the cultural norms and nuances of both. This exposure will enable the CEO to finesse situations in a suitable manner and figure out which aspects of the cultures are complementary to each other. This adjustment should allow for easier management of the organization as the manager can enhance culturally synergistic differences while attenuating culturally discordant ones. Multinationals can create a strong presence in a local market by showing responsiveness and a sensibility concerning the differences in how different countries operate (Bartlett & Ghoshal,1989, p18).

When companies need to establish business units in different countries, they cannot assume that what motivates people in that new culture works in the host country. So, to truly establish a strong business unit, they must recognize the cultural differences. Sometimes the company may not get it perfectly right in terms of complying to the local culture, but the simple act of recognizing the difference can redound to their advantage. This recognition removes a lot of the stigma of being controlled by a foreign entity. Sometimes the simple recognition of the difference can be sufficient since it allows the locals to see that any clumsiness in dealing with local culture is not borne of arrogance. It is due to foreigners who may not know better. Instead of bringing out a reaction of rebellion, recognition of differences can elicit a sympathetic reaction that maybe the "foreigners" can be taught to understand the local culture better. So, the very act of reaching out to the locals in a culturally sensitive manner can reap huge rewards and result in mutual respect. Sometimes reaching out is affected by a culturally sensitive CEO by highlighting, in conversation, aspects of the culture he thinks is cool, by occasionally wearing bits of local fashion, or by mimicking the local dialect (in a non-condescending manner of course). A humble CEO who is clever may even use a bit of humor by relating stories in which he is the hapless protagonist who makes clumsy mistakes and learns the hard way about how different both cultures are. Other techniques that culturally sensitive CEOs use include complimenting employees using the lingo of the culture, which serves the dual purpose of creating a positive association with the recognition of culture and also the reinforcement of acceptable behaviors in the employee's native communication style.

The culturally sensitive SBU manager will not frown on behavioral discrepancies which come out of cultural differences, because situations in which the cultures may clash, need to be interpreted correctly. An SBU manager, who is ignorant of which behavioral discrepancies are due to culture and which are due to personality issues, will not be able to manage correctly. The manager can be laissez-faire allowing employees to ignore rules and create possible anarchy. Alternatively, the manager can rein in rule violations, which could result in resentment since the locals will feel straight-jacketed in not being able to express themselves. A culturally intelligent manager will be able to make the right calls when things go off track and distinguish between situations that require sanctions and those that simply need some cultural sensitivity and reinterpretation.

Entry Mode

On entering culturally distant locations, multinational enterprises are caught in a conundrum. If they chose a joint venture, then they can bridge cultural differences between home and host country markets, but they will have a multinational enterprise/subsidiary cultural distance hurdle (Barkema et al., 1997). If they chose a wholly-owned subsidiary with which to enter, they have no multinational enterprise/subsidiary culture problem. Still, they have a problem bridging the cultural distance between the multinational enterprise and the host-country market. This cultural distance usually comes with discordance and distrust (Lane et al., 2001, Sirmon & Lane 2004). A culturally intelligent CEO, operating in the context of a joint venture helps, to some extent, to bring the best of both worlds to the situation. Depending on the nature and 'direction' of the CEO's dual acculturation, the CEO will be able to bring sensitivity to either of the lacking qualities. If the CEO has grown up in the host country but went to school or worked in the home country, then she is able to bring inherent host country market sensitivity and professional culture sensitivity to business dealings. The CEO is further able to interpret home country institutional policy and procedure requirements for the subsidiary management team. If the leader is from the home country but has been schooled or lived in the host country, then he should be able to evangelize the home country's goals and objectives. The CEO can also empathize with the host country and advocate for cultural sensitivity to be applied to rifts between the home and host country players. One of these rifts is sometimes the seemingly unfair distribution of opportunities, rewards, and recognition. Ring and Van de Ven (1994) point out that if the distribution of equity is perceived as unfair, a spirit of cooperation and trust becomes hard to establish, making for restricted cooperation, so that the probability that the International Joint Venture will fail increases. Entry modes such as joint ventures are normally chosen to interpret and overcome cultural gaps between home country multinational enterprise and host country markets. But based on the foregoing, these entry modes are not a cure-all and can themselves cause organizational problems, while solving the market problems. A culturally sensitive CEO is, therefore, necessary to explain the cultural gestures of both sets of players (Earley & Mosakowski 2004).

Cultural distance does not always cause the same level of discordance in human relations. The risks associated with high cultural distance are different based on the actual industry, with high-tech industries having great risk. Therefore, multinational enterprises entering a country with high cultural distance will tend to take a smaller stake in technology companies (Steensma, et al., 2000; Tihanyi et al., 2005). But the taking of a smaller stake in a technology company as a risk reduction strategy could backfire in several ways. Firstly, joint ventures require double-layered acculturation when firms enter foreign markets because of the need to integrate new foreign partners (Barkema, 1996). This integration can reduce the desirability of joint ventures since firms must acculturate. Secondly, the lower level of control will mean that technology transfer may be less effective. Reduced technology integration may prohibit organizations from achieving critical mass where infrastructure is involved. Further, the reduced ability of the head office hinders the ability to impress upon the joint venture the need for effective technology implementation to overcome some of the other obstacles present in developing and emerging economies (Hockisson et al., 2000). Normally, a head office in control of the subsidiary would be able to implement technologies using a proven methodology and be able to test the implementation against international standards. This ability will most likely be compromised in the taking of a lower stake in the joint venture. A smaller stake means that the company will need to rely more on the local partner and therefore depend on the cooperativeness of the partner. It will, therefore, take a culturally intelligent SBU manager to lead this new cooperative venture and ensure its success, since the emphasis on cooperation would have shifted from financial to cultural controls. The culturally sensitive leader will be able to overcome the lack of control by culturally interpreting the host country management's need for achievement and success. The efforts of the SBU manager may also inspire and motivate them to implement first world policies and practices (Hennart, 1989).

Leadership

Some cultures, such as British culture (which has entered the wealth driven stage), do not adopt change or facilitate innovative behaviors as much as they need to (Porter, 1990). Failure to innovate is just one of the traps that developed nations fall into, which eventually threatens their past achievements and success. There is an inevitable complacency that sets in with the sense of having "arrived." The sacrifices and risk-taking of the previous generation become lost on the sensibilities of third and tenth generations who have grown accustomed to the lap of luxury and forget what it took to build the empires which feed their lifestyles. It is not to say that the wealth driven stage is all bad. With it comes a confident self-assurance of its citizens and a sense of entitlement, which is good, since it feeds a sense that life has rewards to be pursued and efforts can and do lead to a good life. A leader who has been exposed to both cultures can see how cultures mirror each other. It will take a culturally-attuned leader to bridge the gap between both cultures and be able to translate home country complacency into host country innovativeness. In this particular case, it would take a culturally sensitive leader who has been exposed to British culture and those of other countries that have entered the wealth driven stage, to convince their managers and other staff of the need for innovative thinking.

Bridging Cultural gaps

In their study of international joint ventures between Eastern and Western Europe, Brouthers and Bamossy (2006) found that cultural and trust barriers were overcome by having employees and managers participate in in-depth training programs to improve their language and business skills. Therefore, SBU managers who were cross-trained, lived in both countries, and spoke both languages well and were familiar with the business practices of both countries should be able to bridge the divide more skillfully. Acculturation across both cultures highlights the major cultural differences between the two nations. In some nations and cultures, the vocabulary describing the work environment differs from the vocabulary of others (such as in Eastern bloc cultures where there are more than seven words describing power). Language differences give us clues to the dissimilarities in cultures (such as variation in power distance between two cultures). Business practices also show up as cultural dissimilarities. In some cultures, it is de rigueur to advertise the services of certain industries such as health, while in others, it is considered a fatal faux pas to advertise those same services. In these situations, it becomes necessary to rely more on public relations and good corporate citizenship to create consumer buy-in of the organization and its products. Cultural effects such as these may seem to affect mainly the internal marketing machinery of the company. But it can also reflect ethnocentricism surrounding the product being by a foreign counterpart. The negative perception that the product is foreign may impact an employee's commitment to engage in activities that promote it. The effective SBU manager needs to understand how to handle these differences to create minimum discord between the cultures. Good management will allow him to achieve maximum buy-in of the employees, which will come with minimum turnover and productivity, which reaches further than compensatory mechanisms can achieve.

Suchman's (1995) study on institutional theory tells us that nations and the firms operating within them must be considered as more than just producers of services or the source of goods. Firms also seek legitimacy with their operating environment. One of the reasons for this is, as mentioned before, the need to achieve buy-in of consumers, suppliers, employees, and industrial customers. The multinational enterprise increases access to the local environment by networking (Luo et al., 2002). Judge et al. (2008) point out that the perception of legitimacy in corporate governance is judged by the accepted practices within that particular nation or culture. Another aspect of legitimacy is affected by the composure of the top management team and origin of the CEO—especially based on the visibility of the CEO and the type of industry (Wills et al., 1991). A local SBU manager (from the home country) who has worked in or been trained in the host country, should be better able to interpret the cultural attitudes, rituals, and practices of the host country. That manager should also be able to determine which image to project and which actions to perform to demonstrate good corporate governance. In addition, the SBU manager has to persuade the top management team to accept foreign ownership and control as a good thing. For example, in older, more xenophobic cultures, a cultural attractiveness approach (as cultural equals) may yield better results. If the correct approach is not taken to bride cultural differences, then these cultural and national differences, fueled by low trust, will lead to lowered performance in international joint ventures (Park & Ungson, 1997). Joint ventures must be managed with cross-cultural sensitivity, so that management can adequately promote trustworthiness and credibility to local partners. Otherwise, employees and customers will reject the presence of the multinational or its involvement and leave the SBU manager with a difficult job of achieving buy-in.

Buy-in is not dependent solely on cultural sensitivity, and legitimation with cultures does not apply only to the host country. Lane et al. (2001) point out that subsidiary performance is dependent on the level of trust which partners enjoy, along with the management support of the parent organization. But the universalistic nature of societies like the United States has a clear emphasis on rules and regulations (Parboteeah et al., 2005). The inherent inadequacy of an arrangement between a universalistic parent multinational enterprise and a culturally motivated subsidiary is the tendency to be culturally insensitive, giving total deference to the rule and regulations of the home country. One poignant example of the potential for rifts between host and home country is in dealing with corruption. There are two schools of thought on dealing with corruption. These include the revisionist and moralist camp. One revisionist attitude on corruption is that it is simply a framework outside the regular system, which allows a company to exert increased control over the bureaucratic processes which affect its operations. This view of corruption represents the 'effective' versus the 'formal' system (Leff, 1989), an opportunity to 'purchase' greater efficiency and speed up its transactions (Kaufman & Wei, 1999). Indeed, some see corruption as a substitute for market mechanisms that would not be present due to poorly designed or excessive regulation (Huntington & Fukuyama, 1968). However, engaging in payoffs of foreign officials in the course of transacting business is illegal under the United States Foreign Corruption Prevention Act - FCPA (Ring et al., 1990). There is a sense in which the universalistic parent will feel that since there are clear rules of engagement defining how to deal with corruption, then it makes the issue very cut and dry. Cuervo-Cazurra (2008) proposed that corruption acts as sand in the wheels of bureaucracy by increasing costs where the markets are well established (and supposedly do not need substitute mechanisms). While it is not being proposed that home country managers should be more open to engaging in corruption, the discrepancy in the attitudes between home and host country can cause debilitating rifts between the multinational enterprise and subsidiary, leading to an unworkable dilemma. The SBU CEO who is trained in, and somewhat experienced in operating within, the home country's environment should be better able to interpret host country requirements in a culturally sensitive manner. In any case, adherence to laws and regulations requires cultural interpretation and compliance with home country institutional and regulatory requirements.

THEORETICAL DEVELOPMENT

The practices and behaviors of a leader should conform to the cultural influence and strategic contingencies of the organization (House et al., 2002; Elenkov & Manev, 2005). It can be an illusion that cultural distance will cause discordance between home and host country (Shenkar, 2001). Tihanyi et al. (2005) suggest that if there is an attractiveness to the cultural distance then that cultural distance will cause firm performance to improve. The following hypotheses are proposed.

Hypothesis-1a: *SBU manager's host country training is positively related to the profitability of a foreign subsidiary.*

Hypothesis-1b: *SBU manager's host country experience is positively related to the profitability of a foreign subsidiary.*

Social culture is the general attitudes that impact an employee's attitudes & behaviors, specifically need deficiency, fulfillment, and job satisfaction (Ronen & Shenkar, 1985). When reshaping organizational culture to embrace a foreign partner in the presence of employee resistance (Bartlett & Ghoshal, 2002), the SBU manager must demonstrate greater cultural sensitivity to gain legitimacy and credibility required by those who follow (Judge & Elenkov, 2005).

Hypothesis-2: *SBU manager's Diversity of cultural exposure is positively associated with foreign subsidiary profitability.*

Hypothesis-3: *Depth of SBU manager's cultural exposure in the cluster of countries within which the host country falls is positively associated with foreign subsidiary profitability.*

Hypothesis-4: *Depth of SBU manager's cultural exposure in the cluster of countries within which the host country falls is negatively associated with SBU top management team turnover.*

METHODOLOGY

The information technology industry is one that requires high levels of accurate and efficient knowledge transfer, which cannot be achieved between partners who do not trust each other (Steensma, 2000; Lane et al., 2001; Park & Ungson, 1997). Therefore, the use of subsidiaries within the electronics industry will show the effects of cultural distance as far as the discordant forces are at play.

Data Source:

Electronic Business 200. Annual survey published by "Electronic Business" of largest US-based manufacturers of electronics and computers (Tihanyi et al., 2005).

Dependent variable:

- Return on Equity (ROE) of the firm as a proxy for firm profitability (Barkema, 1996)

Independent variables:

- Cultural distance of home and host country: (Hofstede, 2010)
- Years of SBU manager training in home country (Examination of executive biographies (Tihanyi et al., 2005), questionnaire issued to Top management team on the cultural intelligence and sensitivity of the SBU manager)
- Years of SBU manager experience in home and host country

Control variables:

- Firm size (Pedersen & Thomsen, 1997).
- Total revenue (Tallman & Li,1996).
- LASSETS, the log of the assets of the firm in the year that the venture was initiated, as a proxy for firm size (Barkema 1996).
- Firm's number of years in operation before CEO took over as evidenced by the firm's annual reports (Barkema et al., 1996).
- Entry mode (JV, WO / Greenfield, Acquisition) (Hill et al., 1990)
- Work goals, values, needs, and job attitudes of SBU manager (from a questionnaire circulated to TOP management Team and self-assessment questionnaire given to SBU manager (Ronen & Shenkar, 1985)
- Work goals, values, needs, and job attitudes of SBU top management team (from self-assessment questionnaire circulated to SBU TOP management Team and questionnaire given to SBU manager for each member of TMT), (Ronen & Shenkar, 1985)

Analysis

Regression Analysis. Time-lagged (2 years from the start of CEO's take over, or two years from start of international joint venture operation with culturally cross-trained CEO in control).

DISCUSSION AND CONCLUSIONS

Since a culturally intelligent CEO is expected to perform better in a cross-cultural work setting, the question is left as to where the CEO should come from, where that person should be trained and where should that person have lived and work to gain cultural sensitivity? The GLOBE conceptual model indicates that societal culture, norms, and practices should shape leader attributes and behavior while he should also conform to strategic organization contingencies (House et al., 2002). This suggests that a leader who has experience in operating in the host country but who has seen the strategies used in the home country should be able to internalize home country strategies and apply them in a culturally appropriate manner in the host country. But it is easier to imitate and learn from the strategies and structures of organizations that are fruitful than to adopt leader characteristics that are perceived favorably (Judge, 2001). Therefore, a personally effective home country leader, who has been exposed to successful organizations in the host country, should manage more effectively than a culturally sensitive leader who is developed through enrollment in MBA programs to bring management skills to the fore. Organizational capacity for change has as one of its major constructs, "Trustworthy Leadership," which refers to senior executive's ability to earn the trust of the rest of the organization (Judge & Elenkov, 2005). An SBU manager who is caught in a culturally diversified situation must be able to create a new, more integrated culture. The SBU manager must obtain the trust of followers. Trust helps to overcome any negative attitudes to cross-cultural cooperation that may be present in the workings of the organization and may be ingrained in their administrative heritage (Bartlett & Ghoshal, 1989).

FURTHER RESEARCH

Increased cultural intelligence and exposure facilitates communication and trust-building between the head office and subsidiary. Bjorkman et al. (2007) find that the level at which the human resource department operates affects the extent to which training policies are affected, while Sirmon & Lane (2004) indicate that differences in partner culture will affect the knowledge transfer capacity between the two institutions. It stands to reason that the culturally sensitive CEO is integral in selecting, positioning, and guiding the human resource department in effecting greater understanding of cultures and the promotion of greater cultural attractiveness. An area for further study is the balance of emphasis which the culturally sensitive CEO places between operational effectiveness and human resource effectiveness, especially in efforts toward cultural understanding and promotion of cultural attractiveness.

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