INTERCULTURAL COMPETENCE DEVELOPMENT IN EU BANKING SECTOR

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Abstract. Managing cultural diversity is not a subject of strategic dilemma anymore, but rather the necessity for organization in the 21st century. The article seeks to present the importance of organizational and individual intercultural competence as an instrument for the management of cultural diversity, and specificity of its development. It analyzes the demand and specificity of the development of intercultural competence in EU banking sector, operating under circumstances of increased market integration and internationalization. The results of empirical survey aimed at examining the demand for and behaviour of EU operating banks concerning intercultural competence development are presented here. The suggestions for improvement of IC development of EU banking sector employees are provided in the article, too.

Keywords: culture, diversity management, intercultural competence development, banking.

Introduction

Due to market deregulation, globalization processes and recent technological advancement, competition in the banking sector has shifted from national to European and global scale leading to boosted internationalization of the banking sector, with increasing intensity of intercultural interactions alongside.

Managing cultural diversity is not a subject of strategic dilemma anymore, but rather the necessity for organizations nowadays, when each manager has become a global manager and global enterprise has become a synonym of modern business (Adler 2002). Theory and researches indicate that mismanagement of cultural clashes create barriers for high organizational performance (Cox 2001; Melnikas 2007). On the other hand, well managed cultural diversity serves as a value-adding factor providing a source of competitive advantage, and increases organizational potential to adapt to culturally complex market place. However, in order to leverage the effect of and to use the opportunities offered by cultural diversity, companies need to address it proactively by developing intercultural competence (further – IC) within the organization, which can be defined as the ability of an individual (or organization) to act in an appropriate and effective manner in the intercultural environment eliciting successful outcomes.

Employees – their knowledge, skills, and abilities – are the most valuable asset of business in the 21st century. Particularly employees (while interacting with customers, partners, and colleagues) are perceived as active agents in intercultural encounters. Therefore, they are the key component of intercultural competency in organization. The problematic of the topic is that a number of companies can still be characterized as being culturally myopic. The impact of cultural differences in such organizations is underestimated, though employees lack cross-cultural expertise, development programs are not designed as IC development is not seen as a strategic priority.

Considering the economical significance and sensitivity of financial services, the above determined reasoning encourage us to empirically examine whether opportunities offered by cultural diversity are exploited and the behavior of EU operating commercial banks is adequate to the purpose to become interculturally competent organizations. The research emphasis is placed on intercultural competence development of employees.

In order to achieve the objective of the research, analysis of scientific literature and structured survey focused on intercultural competencies and human resource management (HRM) initiatives of EU banks have been performed.

Literature overview

Primarily intercultural competence by scientists and practitioners were defined as competence needed for effective international collaboration and analyzed in relation with concepts of international communication, expatriation programmes, etc.

However, envisaging that culture (either directly or indirectly) influence all aspects of organizational practices affecting organizational outcomes and considering
globalization processes together with increased connectivity rising from digitalization of society thereby increasing cultural diversity and complexity in business environment, the current trend in the literature, recognize IC as being equally vital both internationally and domestically (Holden 2002; Bennett 2009).

Cultural diversity is evident (Alas et al. 2009). Therefore, the major challenge for researchers as well as businesses remains at ‘how’ cultural differences should be managed in order to unlock their power and value, and use the offered opportunities. Gundling (2007) identifies 12 aspects where cultural diversity challenge organizations, witnessing the potential and need for intercultural competence to gain effective performance:

- **Interpersonal level:** Evaluating people; obtaining information; giving and receiving feedback; establishing credibility.
- **Group level:** negotiating, selling; training and developing; building global teamwork.
- **Organizational level:** managing change; innovating; knowledge transfer; strategic planning.

Thomas and Ely (1996) stated that organizations, demonstrating the shift from cognitive blindness toward emphasis and use of cultural differences for enhancing organizational efficiency, employ three different paradigms for cultural diversity management: Discrimination and Fairness; Access and Legitimacy; Learning and Effectiveness. Based on particular paradigms, exhibiting organizational attitude toward external multiculturalism in society, as well as perceptions held toward the need for intercultural competence development within organizations, Cortes and Wilkinson (2009) add one more paradigm named as Envisioning and Transcending. The core characteristics for comparison of paradigms are provided in Table 1.

Intercultural competence – the mindset required to influence cultural diversity rather than technical skills, is the dynamic and multilayered concept shifting from individual to interpersonal and organizational levels (Hogal-Garcia 2003). An emerging consensus in the literature views IC as encompassing three dimensions:

- **Cognitive** – knowledge-developing intercultural awareness;
- **Affective** – attitudes, personality traits, motivation, developing intercultural sensitivity;
- **Behavioral** – skills and communication behavior, developing intercultural adaptability and adroitness (Chen, Starosta 2008).

For further delineation of intercultural competence constituents Dardorff (2006) provides the list of 22 essential elements, among which are: Cultural self-awareness and capacity for self-assessment; Deep knowledge of culture; Respect for other cultures; Understanding the value of cultural diversity; General openness toward intercultural learning and to people from other cultures; Cross-cultural empathy; Adaptability.

In business practices, intercultural competence according to Radzevičienė (2007) manifests in:

- Knowledge of customs, traditions, business cultures and policies, negotiation strategies of different cultures;
- Ability to analyze and adequately interpret differing cultural contexts and react appropriately;
- Ability to build relationship with business and political agents from different cultures;
- Ability to work effectively in multicultural environment and/or multicultural teams;
- Foreign language proficiency;
- Positive attitude towards cross-cultural challenges.

### Table 1. Characteristics of cultural diversity management paradigms in organizations (based on Thomas, Ely 1996; Cortes, Wilkinson 2009)

<table>
<thead>
<tr>
<th>Paradigm</th>
<th>Core characteristics</th>
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<tr>
<td><strong>Discrimination and Fairness</strong></td>
<td>– Assimilation and integration of differences;</td>
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<tr>
<td></td>
<td>– Compliance with diversity-related laws;</td>
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<td></td>
<td>– Equality in opportunities and treatment;</td>
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<td></td>
<td>– Demographically representative workforce composition.</td>
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<tr>
<td><strong>Access and Legitimacy</strong></td>
<td>– Differentiation of differences;</td>
</tr>
<tr>
<td></td>
<td>– Acknowledgement of cultural differences;</td>
</tr>
<tr>
<td><strong>Learning and Effectiveness</strong></td>
<td>– Internalization of differences;</td>
</tr>
<tr>
<td></td>
<td>– Equality in opportunities;</td>
</tr>
<tr>
<td></td>
<td>– Acknowledgement and value recognition of cultural differences;</td>
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<td></td>
<td>– Team orientation.</td>
</tr>
<tr>
<td><strong>Envisioning and Transcending</strong></td>
<td>– Building on diversity;</td>
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<td></td>
<td>– Developing culture where diversity questions are initially framed as opportunities;</td>
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<td></td>
<td>– Culturally inclusive climate with full participation of workforce;</td>
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<td></td>
<td>– Policies and practices developed based on emphasis on equity and human dignity;</td>
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<td></td>
<td>– Training fostering individuals for cultural transcending.</td>
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</table>
As a result of insufficient intercultural competence and lack of preparation for intercultural interactions, Petkevičiūtė and Budaitė (2005) identify problems related with particular culture related factors are tend to arise:
- Different temperament of communicating parties;
- Different negotiation styles;
- Different perception of authority relationship;
- Different patterns of time management;
- Different working cultures and behavioral rules;
- Different decision making styles.

Intercultural competence development
IC development at the individual level could be named as intercultural transformation process, a change in individuals beyond cognitive, affective and behavioral limits of their original culture enabling to transcend any specific cultural boundaries (Kim and Ruben 1988; Taylor 1994). It is a complex process. Therefore, even in culturally diverse societies, intercultural competence seldom occurs naturally and it’s development is not something that is easily accomplished through exposure to international assignments (Hogan-Garcia 2003). IC development requires strong institutional support, incorporation of development process into policy-making and daily practices, including systemic training programmes (Kumpikaičė 2008).

A number of challenges and barriers for developing IC in organizations are present (Babichenko 2008). At individual level the most critical barriers are: Ethnocentrism; Stereotyping; Attitudinal prejudice; Discrimination; Mindlessness. At interpersonal level the most prominent barriers are: Intergroup bias and resistance to change; Stress; Language and non-verbal communication. At organizational level the most prominent challenges are: Cultural myopia; Lack of emphasis on developing IC; Lack of organizational dedication and long term commitment. Referring present, cultural issues have to be taught gradually and developmentally relating it with ‘the frog theory of change’ metaphor Bennett (2009). Education and experience together with strong leadership support and constant institutional reflection of the level individuals value and use cultural diversity by organizational norms, policies, procedures, programs and processes are listed as prerequisites for developing organizational competence in the literature.

Specificity of EU banking sector:
High regional economic and political integration, uniformization of regulatory regimes, leading to a formation of single financial market with minimized competitive inequalities among international and domestic banks, have extended the home market of European banks encouraging internationalization and regional consolidation process.

Schoemaker and Laecke (2007) in their study identify that EU banking sector is much more internationalized than American or Asia-Pacific as the trans-nationality index of the European sector is slightly below 50%, while American or Asia-Pacific reach just around 20%. Furthermore, authors suggest that cross-border banking within Europe is very intense, thus intra-European business is an important feature of European banking.

Because of the specificity of financial services, internationalization of banks is a complex and paradoxical phenomenon. Differently from other industries, banking sector is characterized as having a strong national component (both from the viewpoint of customers and banks themselves) (Canals 1997; Asghar, Rostamy 2009). When domestic growth opportunities increase, banks favor domestic growth over foreign growth as because of costs stemming from the liability of foreignness related with consumer ethnocentricity, unfamiliarity with trade law, different consumer taste and cross-cultural communication, foreign profitability tends to be lower than domestic. Therefore, even though EU banking industry is highly liberalized and integrated, there are still impediments and natural barriers affecting efficiency in operations and further internationalization process with particularly cultural and language differences being the prime managerial challenges, which are very difficult to overcome completely.

Cultural and language dissimilarities increase the cost of information gathering and intensify information asymmetry; encumber coordination and communication between culturally different individuals, affect mutual trust both during the process of organizational integration of cross-border mergers or acquisitions as well as serving culturally different clients. Furthermore, cultural dissimilarity of financial institutions and consumers (especially in retail banking segment) often create local prejudice against foreign banks. Particular segment remains highly fragmented along national borders proving the lack of intercultural competence in banks for overcoming the barriers, because the major reasons for fragmentation are the characteristics of reputation, image, the brand name associated with reliability and safety of the bank, relationship building and switching costs, and quality and range of services with regards to cultural preferences of the client playing an important role (OECD roundtables 2006).

According to Tumpel-Gugerell, the member of the Executive board of the ECB, this type of obstacles can be removed only in the long run through appropriate education and the arrival of a common European culture.
ties of contemporary banking foster the amplification of the relevance of IC development in order to reduce obstacles in enhancement of organizational efficiency and further integration of the sector.

Methodology

In order to examine how EU operating banks manage the effect of rapidly changing social conditions, particularly increased multiculturalism within business environment and develop intercultural competence within organizations, an expert opinion based research has been conducted.

Data for the survey has been collected using structured questionnaire for targeted sampling of HR managers working in internationally operating European banks. The questionnaire composed by 22 questions reflects upon human resource management strategies and practices for IC development. A combination of multiple choices, open-ended and 7 point Likert-scale questions are used. The survey was conducted during 2009.05.15-2009.07.15.

The questionnaire in Lithuanian or English was sent to 143 commercial banks headquartered in EU following the list of Top 500 Global financial institutions provided by ‘The Banker’ and the list of banks provided by central banks of particular countries.

The response rate was quite high for an on-line questionnaire comprising 27 respondents (19%). 84 respondents (58%) have not replied at all; 11 (8 per cent) refused to participate in the survey, because of the reasons related to organizational policies for not participating in researches or restrictions to provide organization related information; 21 (15%) named, that their banks or particular subsidiaries are of very high local orientation and issues related with cultural differences or IC development are not relevant for them. It should be noted, the questionnaire was answered by 8 international commercial banks operating in Lithuania. The list of participating banking groups is provided in Table 2.

Table 2. The participating banks

<table>
<thead>
<tr>
<th>Participating EU banking groups</th>
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<tr>
<td>BNP Paribas (FR)</td>
<td>Royal bank of Scotland (UK)</td>
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<tr>
<td>Nordea (SE, LT)</td>
<td>Gruppo banca Firenze (IT)</td>
</tr>
<tr>
<td>Dexia (BE)</td>
<td>Eurobank EFG (GR)</td>
</tr>
<tr>
<td>Danske Bank (DK, LT)</td>
<td>Fortis (BE)</td>
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<tr>
<td>SEB (SE, LT)</td>
<td>Parex (LT)</td>
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<tr>
<td>Swedbank (LT, EE)</td>
<td>Ukio bankas (LT)</td>
</tr>
<tr>
<td>DnBNord (LT, DK)</td>
<td>Snoras (LT)</td>
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<tr>
<td>HSH Nord bank (DK)</td>
<td>Ulster bank (UK)</td>
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<tr>
<td>Saxo bank (DK)</td>
<td>Santander (UK)</td>
</tr>
<tr>
<td>Rabobank (NL)</td>
<td>CALYON (FR)</td>
</tr>
<tr>
<td>Unicredit (UK)</td>
<td>Piraeus bank (GR)</td>
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</tbody>
</table>

The questionnaire provided qualitative variables, therefore nominal and ordinal variables were coded according to denominations, categorized according to predetermined criteria, tabulated and interpreted following the frequency method. For variable rating, statistical character – mean – was additionally calculated.

Considering different economic, social and cultural conditions and banking traditions in EU member states, as the predetermined criteria for categorization geographical regions were applied. As the Baltic region was in the focus of the research, the Baltic group was distinguished and compared with Nordic group and other EU countries. Geographical distribution of respondents is presented in Table 3.

Table 3. Geographical distribution of respondents

<table>
<thead>
<tr>
<th>Region</th>
<th>Sent questionnaires</th>
<th>Number of responses</th>
<th>Countries of respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nordic group</td>
<td>28</td>
<td>6</td>
<td>DK, SE</td>
</tr>
<tr>
<td>Baltic group</td>
<td>23</td>
<td>9</td>
<td>LT, EE</td>
</tr>
<tr>
<td>Other EU countries</td>
<td>92</td>
<td>12</td>
<td>FR, BE, NL, IT, GR, UK</td>
</tr>
<tr>
<td>Total</td>
<td>143</td>
<td>27</td>
<td></td>
</tr>
</tbody>
</table>

It should be noticed that because of the impediment of different cultural backgrounds of respondents, linguistic limitation of questionnaire, similar to the issues related to cultural diversity (particularly, if it is interpreted as concerning with immigrants or minority groups) are grievous in particular countries, the risk of overvalued answers because of reluctance to be associated with any form of discrimination should be taken into account.

Research results

One of the important factors influencing the increased demand for IC development could be mentioned as inten-
sified international migration to EU, leading to the increased multiculturalism within business environment of even very much locally oriented banks and plausibility of intercultural interactions when different values, beliefs, systems of meaning, languages, and behavioral patterns confront. The research reveals a positive link between organizational reflection of multiculturalism in society and cultural diversity inside the bank (corr = 0.48; apha = 0.05; df = 25; r = 0.381) However, though increased cultural diversity according to literature presents both opportunities and challenges, none of respondents in the survey stated that multiculturalism in society impose challenges for their organizations with further organizational orientations toward managing cultural diversity, evidencing the shift from cognitive blindness toward emphasis and employment of cultural differences varying among regions.

Regardless the fact that in overall Europe cultural heterogeneity in society is reflected in HRM strategies by 74% of respondents, the Baltic Group could be identified as considering issues related with societal multiculturalism the least. 22% of respondents reported, that they do not consider issues related with multiculturalism within society, further 11% in this region reported that external multiculturalism does not affect their HRM strategies. 33% reported that their workforce is purely monocultural and the majority of the rest (45% of the total) stated that multicultural teams are formed only in exceptional cases for specific projects.

As the reasoning for such responses could be named low level of multiculturalism within society (especially in the case of Lithuania), strong local orientation arising from specificity of the sector and the fact that the majority of banks respondents are subsidiaries or branches of poly-centrically oriented foreign banks primarily focused on serving the local market. It should be noted that even though cultural diversity is not a momentous for Baltic region, 45% of respondents value different perspectives and experiences, enhance organizational learning from individuals with different cultural background.

Nordic Group could be listed as highly acknowledging cultural differences and integrating them within organization through personnel selection practices (67%). In 50% of responding banks, up to 20% of employees are representatives of different cultures regarding citizenship of foreign country. However, none of the Nordic banks stated that managing cultural difference is a strategic priority, and only 17% stated enhancing organizational learning from different ways of doing things. Therefore, it could be concluded that as the driving force for acknowledging and integrating cultural differences within organization, market based motivation or necessity to ensure the status quo, as the level of multiculturalism within Nordic society is high and social responsibility related issues are escalated a lot, could be named.

Banks from other EU countries, particularly those with highly multicultural societies and matured financial markets, identified themselves as approaching adaptation to multicultural society as a strategic priority of their HRM (33% of respondents). With the main focus on its actualization stressing not employing individuals with different cultural background, but acknowledging, integrating, valuing differences and encouraging organizational learning from different ways of doing things (83% of respondents).

In order to identify the source of cultural differences, it was asked to identify countries of origin of foreign employees. The most frequently mentioned countries for particular regions are as follows:

For banks operating in Baltic countries: Scandinavian countries, Latvia, Poland, Russia, the Ukraine, and India.

For banks operating in Nordic countries: Sweden, Finland, Germany, Ireland, Eastern Europe, Middle East, China, and Mexico.

For banks operating in other EU countries: the Netherlands, UK, Germany, Luxemburg, France, India, USA, Africa, Romania, and Serbia.

The majority of countries identified are geographically and culturally close, reflecting the regional orientation of banking sector (especially in Baltic and Nordic regions).

The responses to the question, whether the bank’s human resource management practices are flexible towards different backgrounds of employees, go in line with organizational attitudes toward cultural differences and the level of multiculturalism within organizations. With Baltic group being the least flexible (56%) and other EU group the most (75% adapted at least in one area of HRM).

IC elements critical for effective performance in banking sector:
In order to identify the actual set of IC critical for effective performance in banking sector, a set of culture related factors which tend to create problems during intercultural encounters in banking sector has been identified. Factors reasoning the problems in internal intercultural encounters are the following: Lack of tolerance to other cultures (5.38 score); Different perception of authority relationship (4.89 score); and Ethnocentrism (4.85 score).
Factors reasoning the problems while serving culturally diverse customer base are the following: Lack of tolerance to other cultures (5.65 score); Language problems (5.44 score); Ethnocentrism (5.04 score); and Poor knowledge about different cultures (5.00 score).

Looking from the regional perspective, the consensus towards factors creating problems for effective intercultural communication among respondents was demonstrated. Only the relevance, revealing frequency and gravity of problems varies, with Baltic region respondents reporting the lowest scores and Nordic region respondents the highest. For further analysis of IC development patterns within EU banking sector, identification of necessary elements of intercultural competence is presented in Figure 1. It should be noted, that the majority of these competencies are also elements of general managerial competencies.

Regardless, knowledge of the role of culture, of peculiarities of different cultures and their management patterns are characterized as the foundation of IC, particular components identified as being the least relevant in EU banking sector. Trends of intercultural competence development Only the Banks from other EU countries reported commitment to IC development stating, that intercultural competence development is a priority of their HRM strategies and special IC training programmes are offered for their employees.

Despite evaluation of IC competence as being highly relevant for effective organizational performance, answers from Baltic region institutions evidence, that IC development receives a scant attention here. 78% of respondents reported, that IC development is left at the expense of employees, other 22% integrate it to other training programmes.

Suggestions for improvement: The holistic IC development model

The answers of HRM experts confirmed that managing cultural diversity and developing intercultural competence is not a choice, but the reality as various cultural diversity related stimulus influence EU banks from multicultural environment. However, organizational reaction toward them differs depending on organizational factors, such as: openness vs. closeness; sensitivity vs. rigidity; social responsibility vs. not responsibility; systemic vs. ad hoc approach to problem solving and employing benefits, composing gates determining organizational reaction type and reflection of stimuli in organizational transcendence toward becoming interculturally competent organization.

In order to improve intercultural competence development, the holistic organizational IC development model is offered (Fig. 2).

Two streams: corporate mind development and competence development directly affect the implementation of intercultural organizational development objectives. Corporate mind affects the development at the ideological level. Competence development affects implementation of the process.

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Fig. 1. Necessity and relevance of particular IC elements
To minimize cultural diversity inherent challenges, alongside professional competencies, IC should be encompassed into organizational competency models and integrated into overall competency development programmes.

Without IC training and development the outcomes of interculturally competent organization (Balanced diversity; Achieved synergy from differences; Adaptability and cultural adroitness) are hardly achieved.

Developing intercultural competence within organization requires systematic approach bridging layers of Organizational culture; Climate; Leadership; Operations. In order to improve IC development process, intercultural learning has to combine all three, cognitive, behavioral and affective dimensions, and reflect each individual’s position in their cognitive transition process. It is very important to safeguard that intention to develop interculturally would come inside-out from each individual as the specificity of intercultural learning is that it is hardly imposed. Organizational IC development process should contain steps of: 1) situation analysis; 2) auditing of elements to be developed; 3) planning of the developing process, selection of instrumentation; 4) consistent implementation of IC development programme; 5) assessing the effectiveness of initiative.

Conclusions

1. There is no systemic approach to IC applied for developing interculturally competent organization in EU banking sector with too much concentration on behavioral dimension and scant emphasis on knowledge and emotional dimensions.

2. Domestically oriented banks irrespectively the regions of operation are tending to under evaluate the impact of multiculturalism and importance of IC development. As multiculturalism in society increases it is predicted that their position toward IC will change together with broadened comprehension of diversity as factor influencing organizational behavior.

References


TARPKULTŪRINIŲ KOMPETENCIJŲ UGDMAS ES BANKINKYSTĖS SEKTORIUJE

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Santrauka


Reikšminiai žodžiai: kultūra, įvairovės valdymas, tarpkultūrinių kompetencijų ugdymas, bankinkystė.