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Leadership skills for international crises: The role of cultural intelligence and improvisation

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"Small People." These two words were enough to set off an uproar as Americans said it showed British Petroleum's (BP) indifference to those harmed by the oil spill in the Gulf of Mexico in 2010. A BP spokesman said it was a "slip in translation" from the speaker's native language, and the originator of the words apologized for speaking "clumsily." The damage was done and now a multinational enterprise (MNE), already facing an environmental crisis, had earned another poor mark in the public's mind.

From natural disasters and terrorist attacks to bribery and consumer activism, MNEs face multiple business crises every year across diverse geographical locations and cultures. In spite of their frequent occurrence, global leaders still lack guidance about the implications of international crises for their operations. Research has produced insights into crisis handling, categorization of crisis events, and connections between crisis events and management strategies. Nevertheless, research tends to be fragmented and fairly American-centric, and crisis studies tend to overlook geographical borders. For those reasons, we currently have a myopic and truncated view of the leadership skills required for international crises.

Filling this gap in our knowledge is imperative, given the growth of MNE operations, the shrinking of national boundaries, and the domino effect that crises have across MNE subsidiaries. In order to keep pace with the proliferation of international crisis events, we need to specifically address the implications of the international business environment in which MNEs operate, which involves managing differences in national cultures, media outlets, languages and oftentimes cultural values and norms.

For example, the 2011 Olympus scandal called into question Japan's cultural norm of the *Tobashi scheme*. This scheme represents financial fraud, in which a client's losses are hidden by shifting them among the portfolios of other clients. This practice was unheard of in other subsidiaries of

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Olympus, outside of Japan, and Michael Woodford — the newly appointed British-born CEO (chief executive officer) and first non-Japanese CEO — was unaware of its use. When Woodford discovered the practice, shortly after becoming CEO, and started to probe financial irregularities and unexplained payments of hundreds of millions of dollars, the board of directors initially publically dismissed Woodford as failing to grasp local culture. Olympus fired Woodford after two weeks as CEO, which ended his 30-year tenure with Olympus.

However, as investigations in several countries continued, the crisis became one of the largest and longest-lived loss-concealing financial scandals in corporate Japan. The end result was a decrease in company value by 80 percent, the resignation of much of the board of directors, and the arrest of 11 past or present Japanese directors, senior managers, auditors and bankers of Olympus. Crises such as this exemplify the call for global leaders with high levels of cultural flexibility and low levels of ethnocentrism.

While MNEs' demand for leaders capable of transitioning between their home and host cultures is vast, many models of global leadership omit the topic of leading international crises. The profusion of crisis mismanagement by MNEs highlights that this skill is not common and that it is greatly needed. Another clear example is that of the 2007 Mattel toy recall. The logistic complexity of multiple recalls of Chinese-made toys due to the use of lead paint and faulty magnets was augmented when Mattel blamed its Chinese suppliers for the safety problems, when, in fact, the larger source of the problem originated in Mattel's headquarters as a result of a design flaw. By the time this was realized by the public and Mattel apologized to the Chinese government and the Chinese people for the handling of the toy recall, the damage to "Brand China" and Mattel's relationships in China had been done. To help address such mismanagement, the purpose of this paper is to answer the following question: *What competences do MNE leaders need to effectively manage different types of international crises?*

CEOs report that their firm's ability to be effective in an increasingly complex global environment is challenged by cultural barriers such as cultural issues and conflicts, conflicting regulatory requirements, unexpected costs, stakeholder opposition, and inadequate human talent ability. To address these concerns, we build on Hwang and Lichtenthal's distinction between abrupt and cumulative crises and propose that cultural intelligence (CQ) and improvisation are critical capabilities for leadership of international crises because they are at the core of what differentiates crises faced by MNEs from crises faced by domestic-only companies.

CQ is the ability to react and process differences across multiple cultures, and improvisation is the ability to act spontaneously and creatively to try to achieve an objective in a new way. While CQ enables global leaders to recognize and reconcile cultural distances of the stakeholders involved, improvisation allows them to be nimble and adaptable. Thus, we propose a typology of four types of international crises and argue that a crisis can be managed more effectively if the MNE recognizes that different skill sets are required to facilitate international crisis management.

DEFINITIONS

International crises

A crisis is a negative and largely atypical shock to an entity. A crisis can be a disruptive shock to a firm, such as the 2010 Chilean mine accident, or it can transpire from a bad business decision that gathers steam and turns into a crisis such as the 2014 revelation of the National Security Agency spying through user applications such as Angry Birds, or the 2013 KTVU reporter using incorrect and culturally offensive names for the pilots of the Asiana Airlines Flight 214 crash. Firms also differ in what they perceive as a crisis. A crisis in one firm or during one time period may simply be an incident or business problem in another firm or time period. For instance, strikes are a fairly common business problem at factories, but the 2011 strike in Toyota's French production plant was elevated to a crisis due to the concurrent strikes in their Australian plants and the ongoing recovery from the tsunami that impacted its plants in Japan earlier that year.

MNEs must manage crises that cross diverse cultural environments. We consider the national culture of the headquarters as the "baseline" culture for comparing cultural distance—the difference between the national culture of the headquarters and the national culture of the crisis location and participants. Some crises are characterized by a narrow cultural distance, such as the 2006 Cadbury-Schweppes recall, when the British firm recalled more than one million chocolate bars from retailers in the United Kingdom and Ireland over fears that they might have been affected by salmonella. Other crises involve a wide cultural distance, such as the 1984 Bhopal chemical disaster, where the US-based Union Carbide dealt with a chemical crisis in India, or the 2007 Nokia global product advisory for a defective cell phone battery, where the Finnish company experienced a very antagonistic response from the Indian press and customers. We also make note of the cultural distance of the participants, since some crises, such as the 2011 Olympus scandal, have a small cultural distance between the Japanese headquarters and the crisis location, yet the cultural distance is much larger when compared to that of the British-born CEO.

Additionally, some crises do not have clear geographical boundaries, such as the 2013 Adobe data breach or the 2013 Forex (Foreign Exchange Market) probe. Adobe's data breach compromised password and credit card information for over 38 million users worldwide, and the geographical location of the hackers is still unknown, making it hard to draw geographical boundaries around this crisis. The Forex is a global decentralized market for the trading of currencies with its main participants being the larger international banks. Forex determines the relative values of different currencies across the world. In 2013, it was discovered that employees from multiple financial institutions in multiple countries colluded for at least a decade to manipulate and rig the daily foreign exchange rates. The wide geographical range of the banks involved also makes drawing a geographical boundary around this crisis difficult.

We consider an international crisis as one that originates within an MNE's operations and either occurs *outside* the geographical boundaries of an MNE's primary place of business or greatly impacts operations *outside* the geographical

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