



MS thesis

Human Resource Management

**The Role of Cross-cultural
Competences in Start-up Companies**

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Supervisors: Gylfi Dalmann Aðalsteinsson, Árný Elíasdóttir

Faculty of Business

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HÁSKÓLI ÍSLANDS

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This is a 30 credit thesis to obtain a MS degree at the Faculty of Business, School of Social Sciences of the University of Iceland.

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Preface

This is a 30 credit thesis to obtain a Master of Science degree at the Faculty of Business, School of Social Sciences of the University of Iceland. My supervisor was Árný Elíasdóttir, in liaison with Gylfi Dalmann Aðalsteinsson.

The thesis aims to contribute to the body of research on start-up companies in Iceland, by seeking an answer to what role cross-cultural competences play in start-up businesses. The work commenced in late summer 2011 with an overview of relevant theory. The research took place during February and March 2012, with analysis of the data and conclusions drawn throughout March and April 2012.

I thank research participants for their genuine and enthusiastic contributions to the research. I would especially like to thank the encouragement and direction I received from my supervisor, Árný Elíasdóttir. I am also deeply thankful for the support of friends and family.

Abstract

The success of innovation and new ventures is a common interest of all spheres of society since they are drivers of economic development. However, growing international competition among firms, as well as the state of the global economy present difficulties that many new companies struggle with. Therefore it is important to learn more about new businesses in order to understand better their challenges and the environment they face.

Cross-cultural competences refer to a person's effectiveness in an unfamiliar cultural setting, which has significance in interactions between individuals of differing cultural backgrounds. The tendency for increasing internationalisation of businesses triggers questions around the merits of cross-cultural competences of employees in start-up companies.

The purpose of this study is to explore the role of cross-cultural competences in start-up companies in Iceland. The method of semi-structured interviews paired with observations of the researcher has been employed in a qualitative and exploratory study. Eleven employees in six Icelandic start-up companies participated in the research, whose interviews have been analysed, coded and discussed from a theoretical perspective.

Conclusions of the study include that cross-cultural competences enable start-ups to benefit from the contributions of foreign workforce, help start-ups in understanding and responding to the needs of international markets as well as support new businesses in becoming a learning organisation. Additional benefits of cross-cultural competences include strengthened communication and enhanced relationships among employees and with customers.

Útdráttur

Árangur nýsköpunar- og sprotafyrirtækja er mikilvægur því þau auka efnahagslegan vöxt. En mörg fyrirtæki eiga erfitt með að fóta sig í vaxandi samkeppni á alþjóðlegum vettvangi og efnahagslegu ástandi í heiminum. Því er mikilvægt að rannsaka og skilja betur umhverfi og áskoranir sprotafyrirtækja.

Alþjóðahæfni (cross-cultural competences) er mikilvæg til að hjálpa einstaklingum í samskiptum við aðra með ólíkan menningarlegan bakgrunn. Það er því áhugavert að komast að því hvernig alþjóðleg hæfni nýtist sprotafyrirtækjum.

Tilgangur rannsóknarinnar er að kanna hlutverk alþjóðahæfni í sprotafyrirtækjum á Íslandi. Rannsóknin er eigindleg og könnunarrannsókn, notast var við hálf opin viðtöl ásamt því að athugasemdir rannsakandans voru notaðar. Ellefu viðtöl voru tekin við starfsmenn frá sex fyrirtækjum. Viðtölin voru síðan afrituð, kóðuð og greind út frá fræðilegum sjónarmiðum.

Niðurstöður sýna að alþjóðleg hæfni hjálpar sprotafyrirtækjum að nýta sér framlag erlends starfsfólks, að skilja og svara betur þörf alþjóðamarkaðarins og einnig til að þróast út í það að verða lærdómsfyrirtæki. Aðrir kostir alþjóðahæfni eru meðal annars betri samskipti og samband á milli vinnufélaga og við viðskiptavinum, og einnig meiri skilvirkni.

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Introduction

When thinking about the topic of my final project, I was looking for something that I personally would find interesting, but also something that could be a useful contribution to businesses in Iceland. The timing of this research is an exciting one, with just a few years following the financial crisis in Iceland and a time of challenges to the economy at a global scale. Start-up businesses have a unique role in any economy, therefore it is important to understand the way they function. In Iceland, the local culture is especially supportive towards entrepreneurship (Hansson, Tómasdóttir, Sigurðardóttir, Elíasson & Sæmundsson, 2002). This makes Iceland a great place to research new businesses.

The tendency for internationalisation is another characteristic of global economical relations that is relevant to Icelandic businesses. Companies all over the world tend to have more and more reasons to enter international business. This comes as a consequence of new opportunities, an improvement of technical facilities, transportation and the emergence of a more mobile workforce than before. International relations have never been easier to establish, however, maintaining positive relations around the world requires specific competences from employees (Nordhaug, 1998).

Interacting in a new culture involves discovering and understanding differences, adjusting to new rules and developing competences that support a person in getting on in an unfamiliar environment (Hofstede, 1980; Johnson, Lenartowicz & Apud, 2006). In some way, this is similar to what start-up businesses set out to do at the level of a newborn organisation. Namely, discovering new fields, understanding and adjusting to unfamiliar circumstances and striving to be effective and growing in an unaccustomed context (Sarasvathy, Dew, Velamuri & Venkataraman, 2010). It is an exciting problem to discover whether cross-cultural competences could play a role in start-up businesses.

This topic is not only exciting but also one that is truly relevant to its context. Iceland faces today a challenge in reviving its economy, and international relations seem to be a key to this, as well as supporting entrepreneurship (De Buck, 2011).

With this thesis, I have set out to uncover in greater detail the role of cross-cultural competences in the context of start-up businesses in Iceland. The first part of the work prepares the research by introducing the theoretical background of start-up businesses, culture, competences and human resource management. This is followed by the purpose, methodology and further details of the study. Finally, findings of the research will be discussed from a theoretical perspective, and conclusions drawn to summarise the most relevant outcomes to start-up businesses in Iceland.

1 Theoretical background

1.1 Start-ups and entrepreneurship

1.1.1 Innovation and start-ups in a global context

Innovation is seen at the core of economic development and a “main contributor to competitiveness” globally. There seems to be a wide agreement among politicians on that newly established firms positively impact economies. This is especially pertinent in Europe today where governments are struggling with financial challenges and economies search for revival and new opportunities. The skills that will be the competitive edge in economies are science, technology, engineering and mathematics, which will in turn be the motors for new ventures in design, technology and services. However, it is estimated that there will also be a significant lack of skilled labour in Europe, meaning that competition for skilled employees will rise, and economies with the strongest education systems will be more successful (De Buck, 2011).

Mamis (1993) sheds light on the hidden benefits of start-up companies in local economies. His article titled *The Apple tree* describes the multiplier effect that starting new businesses can have: opening new markets, motivating others to create new businesses, enriching employees, rewarding investors. In his view, these bring much more positive impact to economies than what currently is credited to start-ups. Luger and Koo (2005) think along the same lines and state that start-ups bring new ideas into a region, which can in turn stimulate the regional economy.

Pena (2002) points out that although it is widely recognised that newly started businesses are of pivotal importance in economies and that innovation can have a significant impact on employment, starting a new business is still far from a secure success, with the majority of businesses failing after the initial years. He points out that studying the reasons how and why new ventures succeed is increasingly becoming the centre of research on start-ups.

A study published in the journal *Doing Business* (Starting a Business, 2011) combines all initiatives that governments around the world have undertaken to make business entry easier, by measures such as reducing minimal capital requirements or adopting technology in registrations. In general, the required time of starting a business has reduced, as well as the cost. However, regional differences still pertain: in high-income OECD economies including Iceland, it is possible to start a business in only 14 days and using only 5.34 % of annual per capita income. The ease of such processes is clearly a priority among this group of nations, with 9 countries introducing or upgrading procedures over the past 7 years. In Iceland, establishing a business only takes five days and 3.3 % of annual per capita income (*Doing Business*, 2012).

The economic recession does not put a stop on new business formation either. As an example, Germany has introduced a new legal form of limited liability company with no starting cost requirement, which resulted in 12000 such registrations between 2008 and 2010. As a contrast to OECD nations, in Latin America it takes four times as long to establish a new business and in Sub-Saharan Africa, the cost can be up to 18 times higher. In Eastern Europe and Central Asia there have been large scale improvements in procedures of starting new ventures, with 93 % of the economies streamlining start-up procedures in the past 7 years, including many introducing one-stop registrations. According to findings of a study carried out in Mexico, business registration reforms did have a positive effect both on employment (2.8% increase) and consumer benefits, as prices lowered by 0.6% due to greater competition from new ventures. It is clear that governments around the world do try to encourage new business creation by making start-up procedures simple, fast and low-cost. The results of such measures are increased firm satisfaction and savings, more registered businesses, employment opportunities and financial resources (*Starting a Business*, 2011).

Supporting unemployed persons to start their own businesses has been increasingly on the political agenda of European countries. As an example, Germany has a number of government schemes that provide subsidies to unemployed who take on to start a new venture. According to research findings,

survival rate among 3100 businesses was quite high after two and a half years (70 %), but their direct impact on employment was varied (Caliendo & Kritikos, 2010).

Based on the above papers, it is easy to see that the success of innovation and new ventures is a common interest and that much has been done around the world to support establishing a business. However, with internationalisation becoming more common, competition among firms and the economic recession present significant challenges that many companies can not overcome. Therefore, it is important to find out what really is behind the success of new businesses.

According to a 2007 study carried out by Florida International University, venture success has little to do with age, education, gender, nationality or household income (Wyss, 2007). As Paul Reynolds, the author of the study put it:

There is no magic associated with being white, black or Hispanic, having more education, being a man, [having] experience with an earlier start-up, or having an entrepreneurial personality. Anybody with the knowledge, skill, ideas, drive and resources that emphasize business creation may establish a new business (Wyss, 2007, p. 1).

Littunen (2000) looks at abilities, knowledge and skills with greater specificity, where the most important to entrepreneurship are listed as: the ability to take risks, innovativeness, knowledge of how the market functions, manufacturing know-how, marketing skills, business management skills and the ability to cooperate, extended with a good nose for business, the desire to take risks, the ability to identify business opportunities, the ability to correct errors effectively, and the ability to grasp profitable opportunities.

Kobia and Sikalieh (2010) note that a central trait attributed to successful entrepreneurs is high achievement motivation, which includes the setting of demanding targets and a proactive attitude in achieving such targets (this is encompassing goal-setting, planning and information-gathering and sustaining goal-directivity over a long period of time). Although a need for achievement might result in entrepreneurial action, according to the researchers, it can not fully explain the entrepreneurship process as in itself it may also act as an

obstacle in cooperating fully with others, which is also a key element of entrepreneurship. It is unclear, whether a sense of achievement results in entrepreneurial activities, or whether the causal relationship is the other way round. In addition to the need for achievement, the bulk of research indicates that there is an association between entrepreneurship and inner locus of control, the belief that one can influence one's own fate and outcomes with one's own actions as opposed to circumstances, chance or luck. Individuals who rely firmly on their abilities, actions and own will are likely to take action or change the course of events whenever they sense a conflict between other people's behaviour and their interests or the environment. This is closely linked to self-efficacy and the fact that people possessing such characteristics see more opportunities in a situation and therefore are more likely to overcome adversities, thus create successful businesses. It is important to notice however, that usually it is the people who possess the attributes, knowledge and skill and have the experience to complete a particular task that feel confident and in control.

According to Kobia and Sikaileh, moderate risk-taking is also attributed to entrepreneurs, although there is a lack of clarity in research whether this concerns individuals who are actively seeking out risk or whether it simply means an ability to bear risk. The researchers point out that entrepreneurial success is contingent on a combination of factors: the interaction between the individual, the opportunity and the environment. It is clear that personality traits have their role in the business establishment process, however, it is not possible to support with evidence from research the singling out of only a few traits that would be all-important. It seems that knowledge, skills and abilities of an individual play a central role in the success of business start ups, but there is no clear consensus on whether a particular set of competences would be crucial to entrepreneurial success.

1.1.2 Entrepreneurship

It is remarkable to look at the development of research on entrepreneurship retrospectively. In recent decades, researchers moved away from the approach of personality traits in entrepreneurship and the ruling approach to studies to day

is more process focused, trying to see how and what decisions, what use of opportunities may lead to success (Davidsson, 2005).

Entrepreneurship is a hot issue in business and its significance is only likely to grow even more. There is great variety in the use of the term entrepreneur and its derivatives like entrepreneurship and enterprise. Desman (2008) argues that the term entrepreneur got diffused over the past century as it has gone through so many changes of meanings. Terms like social entrepreneurship, or enterprise, became widely used and they thus extend and dilute the meaning of the original phrase. The term enterprise is known since the 15th century, when Cristopher Columbus used it in a voyage journal. In the early 20th century, the understanding of an entrepreneur moved away from exploiting opportunities to gain profit and started to also include the element of making change. "Entrepreneurs were no longer just radical, profit-oriented risk takers they were also radical, innovative change makers" (Desman, 2008), this shift in definitions is reflected in Table 1.

Table 1. Changes in the definition of entrepreneurship in a historical context (adapted from Desman, 2008).

Year	Definition of an Entrepreneur	Focus of definition
1430	one who undertakes	gaining profit
1755	undertakes uncertain economic initiatives that promise handsome profits (Cantillon)	
1803	assembles borrowed factors of production for personal economic gain (Say)	
1911	innovative economic maverick and non-conventional change maker (Schumpeter)	
1959	visionary and creative economic opportunity seeker (Cole)	
1960	an individual who challenges uncertainty for extraordinary rewards (Knight)	bringing about change
1961	a driven, high achiever (McClelland)	
1987	risk-taking, innovative individual who establishes and manages a business for purposes of profit and growth (Olson)	
1992	a creative, driven, risk-taking personality type (Bird)	
1997	a facilitator/motivator who inspires others to behave like an entrepreneur for his/her benefit (Byers, Krist & Sutton)	
2002	a seeker of competitive advantage in extra-domestic environments (Zahara & George)	

Following World War II, the value of creativity, vision and responding to a latent need became part of the definition. After the sixties, the understanding of the entrepreneur turned towards the individual, and individual personality traits gained importance, thus blurring the distinction between the role of starting a new venture with the person and its qualities. An example to this change in paradigm is the article of Olson (1987), where the entrepreneur is defined as a “risk-taking, innovative individual who establishes and manages a business for purposes of profit and growth”. Olson has also defined characteristics of entrepreneurs, including high need for achievement, ability for unique accomplishment, setting high goals, taking calculated risks, wanting concrete feedback and rewards, having drive. He listed creativity, high tolerance for ambiguity and change, moderate risk-taking, future-orientation and the capacity to pioneer innovative ideas as desirable traits for key personnel in starting ventures.

Parallel to the emergence of the personality traits approach, entrepreneurship has also included in its definition any individual acting in the name of its employers, or even individuals not necessarily engaged in business activities at all, who facilitated relations, networks, using their influence to achieve desired goals. Entrepreneurship also became a social activity, without sticking to the “profit for risk” element in the original definition (Davidsson, 2005).

The idea of social entrepreneurship was also born, partly as a consequence of the irresponsible mishandling of companies (for example, the case of Enron) and banks that lead to the global financial crisis of 2008 (Koe & Shamuganathan, 2010). Social entrepreneurship focuses on integrating business, environment and social goals, and social entrepreneurs share some of the characteristics of their commercial counterparts: affinity for risk-taking, creativity and opportunism. Koe and Shamuganathan (2010) studied how Goldberg's (1993) Big Five personality traits (openness, extroversion, agreeableness, conscientiousness, neuroticism) affect the dimensions of social entrepreneurship (social vision, sustainability, social networks, innovation, financial returns). The researchers argue that their findings underline the necessity for integrating sustainability,

social responsibility and character development in business education programmes.

In the past two decades, entrepreneurship has also been moving closer to its original definition as a process and interplay of context (economical, social, political, technical, environmental etc. environment), recognising an opportunity and taking successful decisions along a process to start a new venture, and not anymore narrowing the definition to individual personality traits. Desman (2008) warns that the co-existence of very different meanings and definitions for entrepreneurship used by the scientific community may negatively impact the influence of research on policy making and economic development.

The entrepreneurial process is defined as spotting and utilizing a business opportunity (Shane, 2003), in which process both individual characteristics of the entrepreneur and the context should be accounted for. Apart from personal characteristics, circumstances matter to a great extent, as well as how the individual is able to cope with the environment. The knowledge, experience and access to information of an individual all play their part in identifying a business opportunity. This is equally confirmed by Sarasvathy et al. (2010) who define an entrepreneurial opportunity as “a set of ideas, beliefs and actions that enable the creation of future goods and services in the absence of current markets for them” (p. 1). The authors add that experimentation, careful adaptation and learning-by-doing in a step-by-step manner contribute to developing a successful strategy, that in turn has to be constantly adjusted to the changes in circumstances. According to the researchers, the role of new information and new knowledge plays an important part in the way businesses identify opportunities. However, often complementary resources need to be available (for example, prior knowledge) for new knowledge and information to be useful. The conditionality of practical knowledge also impacts entrepreneurial mistakes and overlooked opportunities. One might not realize that an opportunity is wide open, or that some decisions are incorrect, unless one possesses an adequate set of knowledge that enables these realizations (Sarasvathy et al., 2010).

This is consistent with the findings of Kobia and Sikalieh (2010), who point out that there is a lack of united understanding around entrepreneurship and this

may result in that professionals do not perceive themselves as entrepreneurs. In their paper on the meaning of entrepreneurship, the authors describe the three main research approaches to the subject: the trait, the behavioural and the opportunity identification approach. In the trait approach, the entrepreneur is assumed to be a particular personality type that has particular motives and incentives, whereas the behavioural approach focuses on entrepreneur's innovative strategies that are used when establishing an organisation. Opportunity-driven entrepreneurship looks at business ideas and the individuals who are able to see them and act on them, by seizing initiative and creating new ventures or pursue change within an existing organisation.

From the above researches it is clearly visible that there is a great need for deeper and more detailed empirical data on entrepreneurs. The Global Entrepreneurship Monitor (GEM) is today the most reliable and the largest single study on entrepreneurial activity worldwide, with over 80 countries participating since 1999 (GEM, 2011). Objectives of the research are:

- to measure differences in the level of early stage entrepreneurial activity between countries
- to uncover factors determining the levels of entrepreneurial activity
- to identify policies that may enhance the level of entrepreneurial activity.

This research has been providing access to instant, quality information on entrepreneurial activity to academics, policy makers, and businesses alike (Davidsson 2005).

The idea of this study has been developed by Paul Reynolds, who designed and coordinated two earlier international studies as well: the Entrepreneurship Research Consortium (ERC) and the Panel Study of Entrepreneurial Dynamics (PSED). The methodology and concepts used in these research programs were also developed by him. The Global Entrepreneurship Monitor is an authoritative resource on the subject, however, further detailed research is required to unfold and understand better the process of entrepreneurship, so that economic growth and the creation of employment opportunities can be further supported. In his book titled *A General Theory Of Entrepreneurship: The Individual-opportunity*

Nexus, Shane (2003) identifies particular fields that need more empirical evidence and further inquiry. Among these is the question of attracting and organising human resources in a start-up environment. The current research is hoping to contribute to the body of research on entrepreneurship by investigating the role of employee competences in a new venture, with special regards to cross-cultural competences.

1.1.3 Entrepreneurship in Iceland

Iceland participated in GEM for the first time in the year 2002, with the coordination of the University of Reykjavík (HR) and the support of a number of Icelandic institutions. Findings of the 2002 study suggest that entrepreneurial spirit is high in Iceland, and the costs of starting a business are relatively low. Icelandic culture is conducive to entrepreneurship as hierarchy structures are flat, communication chains are short, bureaucracy is minimal and the market is small. On the other hand, in spite of that people are willing to try new things, failure is not accepted in the society. Another drawback to start-up success is the lack of preparation before the realization of the idea, as well as limited knowledge especially in the fields of finance and international marketing. Middle aged men are the most likely to start a new business in Iceland, but the proportion of women entrepreneurs has been much lower (Hansson et al., 2002).

The latest report available on the website of HR is from 2009. According to this paper, the 2008 financial crisis has not affected entrepreneurship in the country to a great extent, still, more ventures went out of business and the proportion of existential reasons to start a new business increased. Entrepreneurship activity still remains high in the country with social norms and the cultural context remaining the major strength of the environment, whereas access to capital and lack of funds remaining the major weakness (Ottóson, Sæmundsson & Baldursdóttir, 2009).

1.2 Understanding cross-cultural competences

1.2.1 Literature review on culture

The concept of culture has been originally researched by anthropologists, and for about thirty years now, other disciplines have also increasingly given attention to understanding this complex concept. Still there is not a single definition or widely accepted theory that could alone describe its functioning.

A pioneer in discovering culture's significance in international business is Geert Hofstede, who gives a rather vague definition of culture in his book titled *Culture's consequences: International differences in work-related values* (1980):

In this book I treat culture as “the collective programming of the mind which distinguishes the members of one human group from another.” This is not a complete definition [...], but it covers what I have been able to measure. Culture, in this sense, includes systems of values; and values are among the building blocks of culture.

Culture is to a human collectivity what personality is to an individual (Hofstede, 1980, p. 21).

House (2004) talks about culture as “the shared motives, values, beliefs, identities, and interpretations or meanings of significant events that result from common experiences of members of collectives that are transmitted across generations” (p. 15). Jenkins (2006) compares culture to an iceberg, the tip over the waterline refers to tangible elements of cultures like food and language, whereas the mass of the iceberg below the surface is the symbol of intangible cultural elements such as beliefs, values and attitudes that remain invisible and can only be discovered through interaction. Common to all the above definitions is a careful tone when talking about culture, they all attempt to describe the vast complexity of the concept without being too generic at the same time. References to groups, collectives or societies can be found in every definition of culture, as this is the natural sphere where culture can be observed.

Hofstede (1980) was the first who attempted to describe differences in national culture through a system of variables. His theory has boosted the development of cross-cultural analysis in a number of academic disciplines, such as international management. His research started with analysing 116000

questionnaires that have been administered to employees of the multinational company IBM in 72 countries. Hofstede (1991) explained differences in responses in relation to four major dimensions of national culture. These four dimensions are:

- Power distance. Social inequality, including the relationship with authority.
- Individualism-collectivism. The relationship between the individual and the group.
- Masculinity-femininity. The social implications of having been born as a boy or a girl.
- Uncertainty avoidance. Ways of dealing with uncertainty, relating to the control of aggression and the expression of emotions (Hofstede, 1991, p. 13-14).

A fifth dimension, “Long-term versus short-term orientation” has later been adapted as a result of further research, which refers to values opposing an orientation towards the future to an orientation towards the past and present. Hofstede's findings strictly refer to national culture and can not be deployed to analyse individuals or organisational culture. However, Hofstede also conducted research on organisational culture. He described the difference with explaining the distinct nature of national and organisational culture. He claims that national culture is something we learn in the first ten years of our lives by interacting with our family and peer groups. On the other hand, organisational culture enters much later into a person's life at the workplace, with learning the norms, rules and accepted behaviour of the professional setting (Minkov & Hofstede, 2011).

According to a survey carried out among Icelandic students in autumn 2009, Iceland scores low on power distance, similarly to other Scandinavian nations, which means that people at the work place, in public life, in the education system and in parenting treat each other as equals. Iceland's score of individualism is very high, resembling scores of Great Britain, New Zealand and the United States. In highly individualistic cultures, people are financially independent from an early age on, taking care of themselves and their immediate families. In their professional lives, people value freedom, challenges and performance. Innovation and start-up companies are more common than in countries that

score lower in this measure. Iceland measures low on the masculinity dimension, which indicates that women are involved in employment and leadership positions, and that average performance is valued as opposed to outstanding achievement. In addition, resistance to change is common, promotions are often based on seniority, and people tend to stay with their employer for a longer time. In terms of uncertainty avoidance, Iceland scored higher than its Scandinavian counterparts, which suggests that perseverance and a clear vision of the future are valued, people expect a fast solution to their problems and there are fewer rules in general (Aðalsteinsson, Guðmundsdóttir & Guðlaugsson, 2011).

Fons Trompenaars (1996) is also an influential theorist in culture research. According to him, culture has three interdependent layers: the explicit layer contains the obvious and visible cultural elements like food and clothing, the middle layer refers to norms and values such as respect, or attitude to work, and finally, the third layer consists of assumptions about existence, like respect for authority or equality of men. According to Trompenaars, seven dimensions by which cultures can be distinguished from each other are identified as:

1. universalism versus particularism,
2. collectivism versus individualism,
3. affective versus neutral relationships,
4. specificity versus diffuseness,
5. achievement versus ascription,
6. orientation toward time,
7. internal versus external control.

Culture is the manner in which these dilemmas are reconciled, since every nation seeks a different and often winding path to its own ideals of integrity. Not only will conflict be reduced by this reconciliation, but businesses will succeed to the extent that this reconciliation occurs.

The theories of Hofstede and Trompenaars on culture may well be called classic, or traditional, as they have both influenced research in related fields to a great extent. A general argument against these theories is that cultures can not

be limited within the border of nations and often span through entire world regions (for example, Arab or Latin American cultures), and that many nations have strong and distinct cultural variations (for example, Canada or India), or recognized intra-regional differences (for example, the United States of America), (Szewczak & Snodgrass, 2002).

Jacob (2005) points out that the theories of Hofstede and Trompenaars on national culture disregard regional diversities, thus over-simplifying the concept of culture. She adds, that from a cross-cultural management perspective, looking for differences in national culture and trying to adapt management styles accordingly divert the attention from universally accepted and significant managerial qualities. For example, being a considerate manager seems to be important across the entire globe, regardless of national culture (House, Javidan, Hanges & Dorfman, 2002).

Jacob (2005) defines multiculturalism as “the management of sub-cultures within a nation” (p. 524), and reminds that teams characterised by cultural diversity tend to develop hybrid cultures, as it is not viable to use one single type of cultural standards in such a setting. In a diverse team, hybrid norms evolve that support the effectiveness of team processes such as communication or conflict resolution. The author points out that such a hybrid cultural environment can occur not only in international settings, but also in large companies where the cultural diversity of the workforce is significant and hybridisation serves the efficient functioning of the organisation.

McSweeney (2002) is criticising Hofstede's work by questioning the validity of his research, and the accuracy of his findings. McSweeney states that surveys are not suitable to measure cultural differences, and agrees to the view that nations are not the best entities for studying cultural differences. Furthermore, he adds that only four or five dimensions are not sufficient to describe a concept as complex as culture. Still in relation to Hofstede's theory, Javidan, House, Dorfman, Hanges and de Luque (2006) acknowledge that Hofstede provided a good basis for cultural studies. In addition, they point out that researchers today have more options when executing cross-cultural studies, thus there is more opportunity for improved research methodology. They agree to McSweeney in

that no rules can exist around particular cultural dimensions, but there is still much to be done on the field of research regarding culture. Guðmundsdóttir (2010) provides an overview of the application and achievements of Hofstede's work and proposes splitting the dimension of individualism-collectivism into two separate dimensions, in order to increase validity and reliability of Hofstede's framework. At the same time, she mentions the Global Leadership and Organisational Behavior Effectiveness Research Project (GLOBE) as a possible alternative to Hofstede's framework.

Launched in 1993, the GLOBE uses multiple methods over multiple phases to shed light on the context of societal culture, organisational culture as well as organisational leadership. A large number of scholars are engaged in collecting data concerning 61 cultural clusters (Chhokar, Brodbeck & House, 2008). The study has received less criticism than Hofstede's framework, however, it has not yet been adequately analysed by the international researcher community (Guðmundsdóttir, 2010).

Rampersad (2009) supports this view and wraps up the conversation on cultural studies in a poignant manner:

Despite his fierce criticism to Hofstede's work, MsSweeney failed to offer any counter-theory or recommendations. Hofstede's work remains the cornerstone of cultural studies (Rampersad, 2009, p. 29).

1.2.2 Employee competences

Globalisation in its broadest sense is part of the strongest external environmental forces that affect organisations today (Daniels, Radebaugh & Sullivan, 2011). Factors in this process are increased migration of workforce, global competition, availability of communication and transportation tools, development of international services and cross-national cooperation, to name just a few. Interaction between firms and individuals has never been as convenient and as commonplace as today, and international relations are expanding fast. The rapid unfolding of globalisation is the main reason why competences that can be related to intercultural interaction have also gained significance at the workplace.

According to Kaplan and Norton (2001), competencies are the fundamental success factor of an organisation, creating the basis for organisational strategy and performance. Niven's (2002) view on employee competencies is similar: according to him, organisations are only as effective and productive as its employees, where there is an obvious link between employee competences and productivity.

Throughout his research, Odd Nordhaug (1998) recognised a gap between global tendencies and competences of individuals that are necessary to enable organisations to respond to these trends. He described competences as “the composite of human knowledge, skills, and aptitudes that can serve productive purposes in firms” (p.8), and established a typology according to competence specificity relating to the firm, task or industry. Table 2 illustrates Nordhaug's classification of skills with relation to firm, task and industry specificities.

Meta-competences refer to a wide variety of knowledge, skills and attitudes that neither are specific to the task, industry or the firm, for example, literacy or the knowledge of foreign languages and cultures. General industry competences are highly specific to the given industry but are transferable between tasks or firms, for example, knowledge of network in the free software industry or the knowledge of competitors in the catering trade. Intra-organisational competences enable employees to be effective within the firm they work for. Examples to these include knowledge of the firm's strategy and goals, its employees and informal networks as well as symbols and norms. Standard technical competences are specific to tasks that are mostly operational in nature, for example, familiarity with common computer software or generic budgeting skill. Technical trade competences are possible to apply within a given industry to a certain task but are portable between firms, like assembling electronic equipment or making and serving food. And finally, idiosyncratic technical competences are specific to both firm and task, for example, repairing custom designed technology or managing specialised local filing systems.

Table 2. Nordhaug's competence typology, illustrating the six types of competences (adapted from Nordhaug, 1998).

		Firm Specificity		
		Low	Low	High
Task Specificity	Low	Meta-Competences	General Industry Competences	Intra-Organizational Competences
	High	Standard Technical Competences	Technical Trade Competences	Idiosyncratic Technical Competences
		Low	High	
		Industry Specificity		

Nordhaug points out that although most companies focus on firm- and task-related competences, besides change-related ones are also gaining importance. As a result, business ventures should not underestimate the importance of the ability to adapt to new circumstances at an organisational level, or at the level of individual employees. Organisational hierarchies become flatter and increasingly resemble a spiderweb-like grid structure. In such a setting employees need to be effectively interacting with a wide range of colleagues, so that skills such as listening and oral communication become crucial. To the individual employees, looser company structure means greater autonomy at the workplace, but in turn they need to be equipped with skills such as self-management, career planning or motivation to perform well.

Spencer and Spencer (1993) compare competences to an iceberg, with visible competences that are easy to measure such as knowledge and skills, and less visible competences that are also less easy to observe and measure, such as motivation, self-concept or traits. As Figure 1 represents, competence is a long-term characteristic of a personality with aspects that can be difficult to develop or change, for example, traits or motives. Competences can predict behaviour in a variety of circumstances, therefore, observing competences can also provide cues for behaviour and performance in work situations.

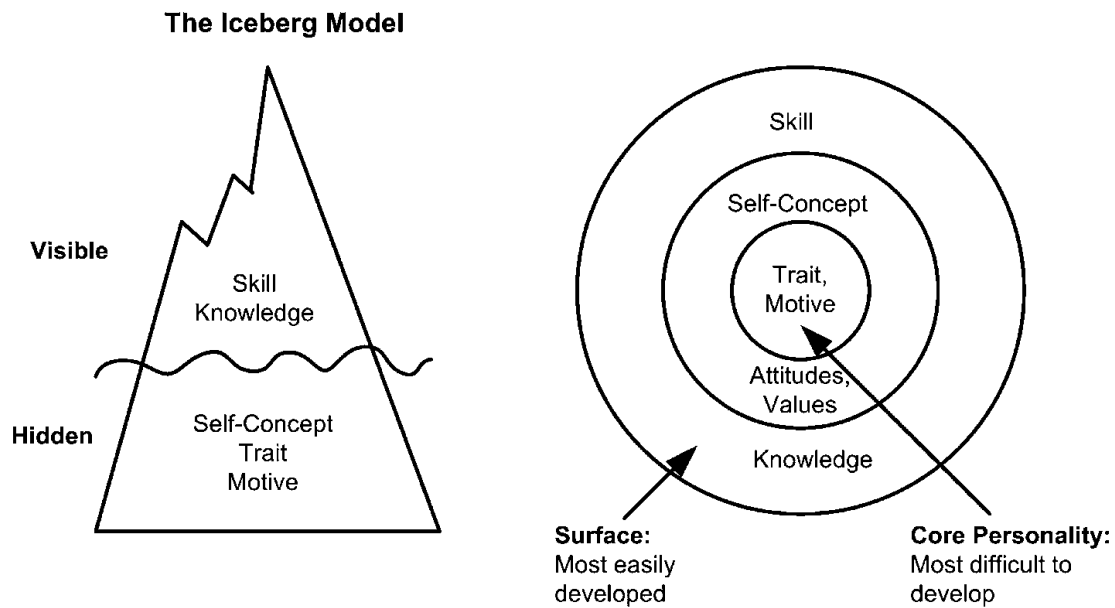


Figure 1. Models of competences (Spencer & Spencer, 1993, p. 11).

McClelland's (1987) view is in accordance with Spencer and Spencer's on the significance of competences at the workplace. He claims that education and intelligence are less reliable indicators of job performance than competences, and adds that each job requires particular competences that are possible to define.

Knowledge, skills and attitudes are often mentioned together as the three outcomes of learning, and the acronym KSA is widely used in referring to them (Blanchard & Thacker, 2004). KSAs are not only a necessity to perform well in intercultural environments. According to human capital theory, the stock of competences, knowledge and personal attribute together are the source of an individual's ability to perform labour, which in turn creates economic value (Mankin, 2009). Based on this logic knowledge, skills and attitudes are elements of competence and as such part of the portfolio of resources that workers and organisations can use to further their economic opportunity. To better explore the concept of competences, I provide a few definitions below on its key elements.

Knowledge is a complex and ambiguous concept that is difficult to define (Blackler, Crump & McDonald, 1998). In this thesis, the facet of cultural knowledge is the most relevant, which is defined by Wiseman, Hammer and Nishida (1989):

Cultural knowledge is an important determinant of one's ability to minimize misunderstandings with someone from another culture. Cultural knowledge has a positive effect on other [cross-cultural competences] attributes and maximizes intercultural competency (Wiseman et al., 1989, p. 351).

The above definition puts a focus to revealing what benefits cultural knowledge brings. Hofstede (2001) goes further in discussing the concept by defining two distinct types of cultural knowledge: culture-general and culture-specific knowledge. The former refers to an awareness that differences between cultures exist and have to be taken into account throughout intercultural interaction, whereas the latter refers to the knowledge about what those differences are in each specific cultural environment. Hofstede argues that both type of cultural knowledge are necessary to perform well in different cultural settings.

Mumford and Peterson (1995) define skill as a set of general procedures that underlie the effective acquisition and application of knowledge in various domains of endeavour, whereas according to Dunnette (1976) skill can be described as the capacities needed to perform a set of tasks that are developed as a result of training and experience. Both definitions imply that skills have a direct relation to knowledge, practice and expertise – it is only possible to apply a skill in relation to a specific task. In addition, skills can be understood as general procedures that allow to perform tasks grouped into broad domains, for example, problem solving or strategic planning. Also, the definitions suggest that skills are not necessarily stable attributes of an individual: they can be developed through experience (Esposito, 2008). Similarly, an ability is a set of specific skills that have been acquired over time, whereas an aptitude is an individual's capacity to acquire additional abilities in a specific skill-set (Dunette, 1976). Stuart Oskamp (1977) defines attitude as employee beliefs and opinions that support or inhibit behaviour. According to Eagly and Chaiken, (1993) “an attitude is a

psychological tendency that is expressed by evaluating a particular entity with some degree of favour or disfavour” (p. 1). From the above definitions it is visible that an individual's feelings, evaluation and judgement all affect the individual's attitude.

1.2.3 Cross-cultural competences in international business

In organisations, there has been a strong focus on improving workers' competences in an environment of locally unique technical equipment and routines. However, working environments moved away from being static and are today dynamically changing, and at the same time workforce is more and more mobile. In turn, the job market reacts by calling for flexible qualities in workers, who are able to effectively adjust to frequently changing conditions. Adaptability is not only important in international ventures, it is a quality that became a priority also at local businesses. Therefore, it is vital to pay attention to the role of less specialised competencies at the workplace, at the level of the individual (Nordhaug, 1998).

A relating research that has been conducted by Matveev and Milter (2004) tackles new, emerging complex problems of the global marketplace that trigger in firms innovation, a deeper understanding of local specificities and new ways of work. The researchers studied high-performance, multi-cultural teams and their managers to gain insight into multicultural team performance, intercultural competences and the relationship between team performance and intercultural competences. They broke down the concept of intercultural competences (IC) into three components and used an IC model. According to the IC model, the three components include cultural knowledge, skills and personality orientation, where the latter includes personal characteristics such as tolerance for ambiguity, flexibility and the ability to deal with uncertainty. As part of a qualitative study, 40 managers have participated in semi-structured interviews and answered questions relating to the importance of intercultural competences, multicultural teamwork, the characteristics of high-performance multi-cultural teams, and common challenges of multi-cultural teams. After conducting a content analysis, answers from American and Russian managers have been compared and contrasted, followed by drawing general conclusions. Research

findings have shown that managers from both countries agreed on the importance of IC, and as shown on Figure 2, both groups identified the skill component of IC as the most relevant when working on a multi-cultural team. However, to American managers, cultural knowledge was second most important as opposed to personality orientation to their Russian colleagues. The researchers explain this difference in perception with the differences between American and Russian national culture. Research findings also include that according to interviewees, the success of organisations operating in a multi-cultural environment depends on how well its employees are able to understand and adapt to cultural complexities.

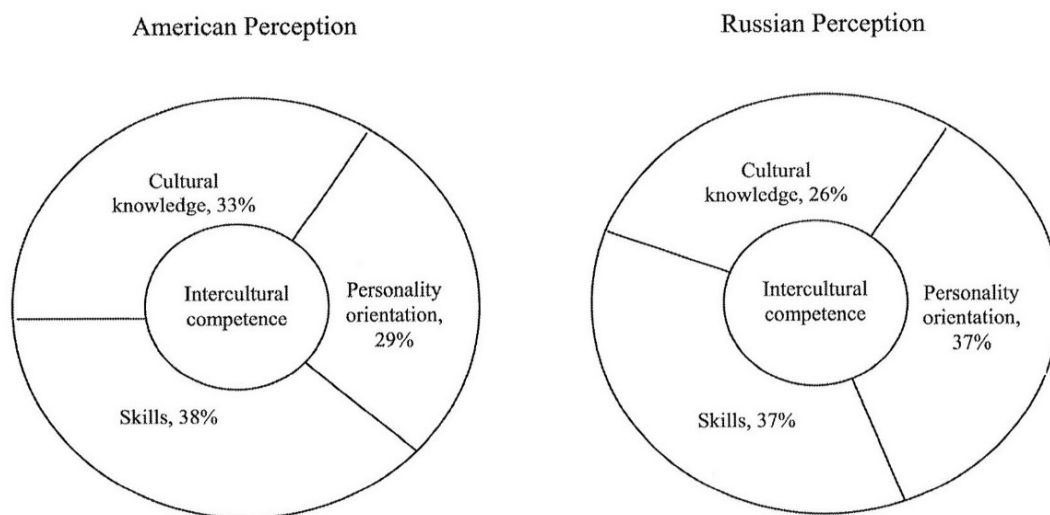


Figure 2. The intercultural competences (IC) model, including Matveev and Milter's results on Russian and American manager's perceptions of IC (Matveev & Milter, 2004).

Johnson, Lenartowicz and Apud (2006) argue that many business failures can be put down to a lack of such skills, especially cross-cultural competences in international business, which they define as

An individual's effectiveness in drawing upon a set of knowledge, skills, and personal attributes in order to work successfully with people from different national cultural backgrounds at home or abroad (Johnson et al., 2006, p. 530).

Their definition is centred around the ability for effectiveness of an individual in different cultural backgrounds, and the prerequisites of this performance

(knowledge, skills and personal attributes) remain of secondary importance. Johnson et al. also introduce a model of cross-cultural competences (CC), which can be found in Figure 3.

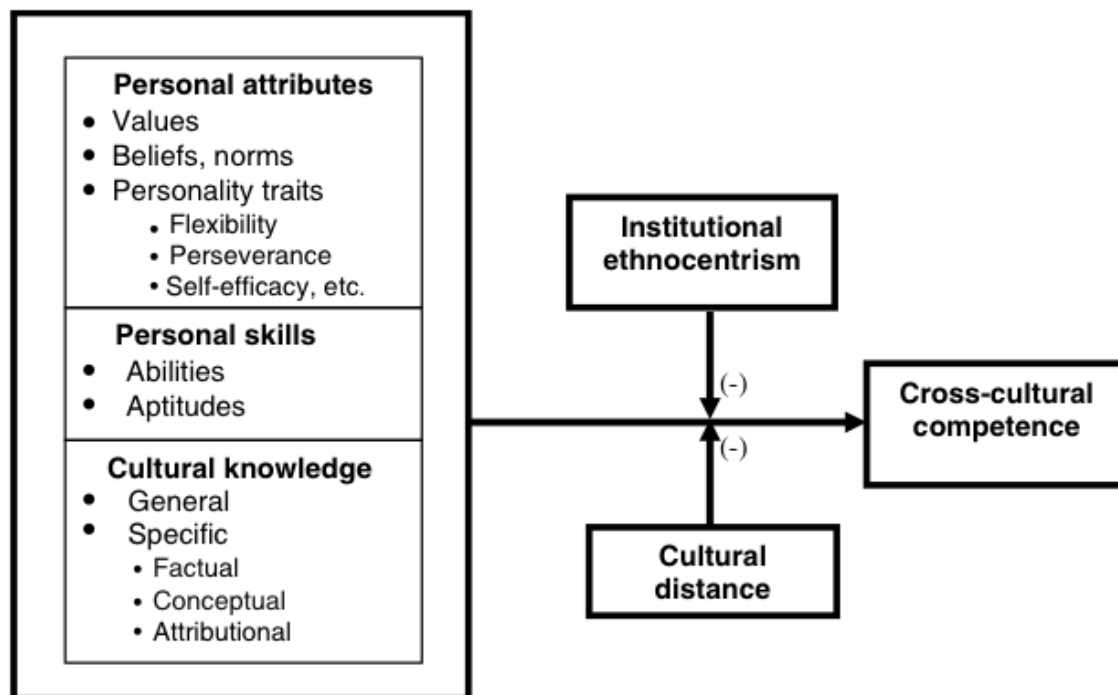


Figure 3. A model of cross-cultural competences in international business (Johnson et al., 2006).

In this model, the researchers used the definition from Hofstede (2001) of institutional ethnocentrism. This refers to situations where organisations enforce ways of work on affiliates that have emerged to fit the home organisation in the home environment, thus disregarding local culture and circumstances. The CC model can both be used to understand and predict expatriate failure, when a single employee is employed in a new cultural environment and fails to meet expectations, and also to understand local employees working in a subsidiary of a foreign organisation, where the local culture and the culture of the organisation are vastly different. This difference in cultures can often be observed in values, language, economy, or political and legal systems and is often referred to as cultural distance in international business research. The authors point out that “a large cultural distance between an individual's home culture and the local culture

can constrain adaptive behaviour” (Johnson et al., 2006, p. 535). Personality traits such as perseverance and strong self-efficacy can help a person to succeed, however, a too different cultural environment can be a psychological strain on individuals, negatively influencing their capacity to adapt and perform well.

The CC model raises the question of training employees: to what extent is it possible to improve peoples cross-cultural competences? Johnson et al. argue that some attributes may facilitate the learning of cross-cultural competences, for example, openness to new ideas or tolerance for ambiguity. However, these attributes are not easy to develop if a person does not already possess them, and this is the reason why it seems that some individuals may have an aptitude for developing cross-cultural competences, but not everybody. The CC model could possibly be helpful with hiring employees into a multi-cultural environment, or when evaluating the performance of employees from different cultures.

As opposed to Matveev and Milter (2004) and Johnson et al. (2006) Andrea Graf (2004) approaches the issue of intercultural competences from a wider perspective and refers to it in the sense that Spitzberg, Sherwyn and Barge (2001) describe as the sum of three systems: the individual system, the episodic system and the relational system. The individual system consists of what has earlier in this essay been referred to as intercultural or cross-cultural competences and is divided into the three categories that are also part of the above named descriptions of the concept: cognitive, affective and behavioural parts. The episodic system refers to a person's ability to predict other's reactions and impressions throughout the interaction. And finally the relational system refers to components that enable the individual throughout all social interaction, rather than just in a chosen episode (for example, confidence in the self). This process is shown in Figure 4.

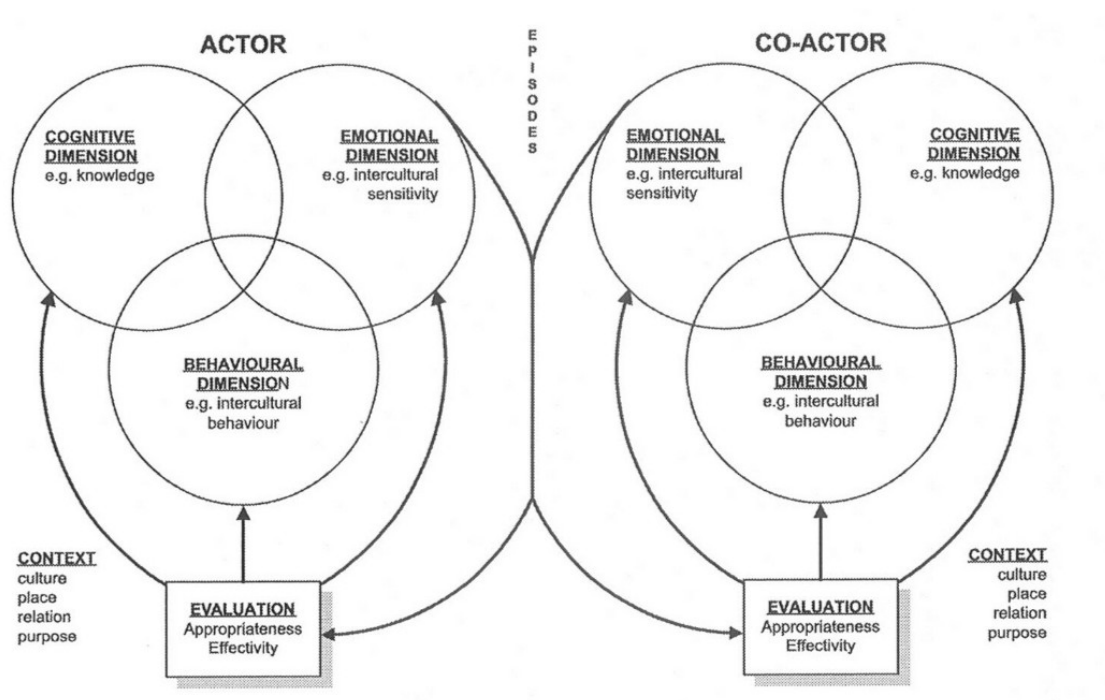


Figure 4. The concept of intercultural competences (Graf, 2003).

Graf's idea of intercultural competences is focused on interacting with a co-actor, and this aspect is unique in her model, making it possibly useful in workplace analysis or other process or group focused methods of IHRM. Although both the IC and CC model imply that intercultural or cross-cultural competences manifest through interaction, these are less successful at representing how intercultural interaction affects an individual's intercultural competences. Out of the three models presented in Figure 2, 3 and 4, the CC model is the only one that takes into account outside moderating effects (e.g. organisational ethnocentrism and cultural distance), and also the only one that focuses on the individual in great detail, clearly defining what cultural knowledge, personal skills and attributes include. The IC and CC models take on a similar approach in breaking down cross-cultural competences into three main elements, which make these models especially easy to compare and work with side-by-side. For these reasons, in the rest of this thesis I will use the definition and model of Johnson et al. (2006) when referring to cross-cultural competences.

1.3 Human resource management in a globalised world

According to human capital theory, individuals and societies derive economic value from investments in people, such as education, health and nutrition. Although the theory has roots in early economics and appears in the work of Adam Smith, John Stuart Mill and Alfred Marshall, it only received firm empirical support through the work of Theodore Schultz. Schultz claimed that the economic growth of the United States in the period 1900-1956 can only be explained if the value of education and investments in human capital are considered. Gary Becker (1993) pointed out the role of education as an investment in human capital with significant returns to the individual, organisations and society as a whole (Sweetland, 1996).

The significance of the human capital theory from the point of view of human resource management is that employees were empirically proved to be an important economic resource, worthy of investments such as training and development, even though Kenworthy and McMullan (2010) argue that there is very little known on return on investment on formal education in particular for entrepreneurs and suggests further gathering of empirical evidence on the theory. Still, Paul Kearns (2005) maintains that individual and organisational learning have to remain in the focus of human resources management.

Investing in human capital is only one aspect of human resources management (HRM) that can increase the capacity of organisations. Embracing the practices of human resources in business strategies of organisations has significant impact on organisational effectiveness (Beardwell & Claydon, 2007). This is the core thought around strategic human resource management (SHRM), where practices relating to employee management are tightly tied to the goals of the organisation. This is called a fit of HRM strategies with business goals, and is defined by Taylor, Beechler and Napier (1996) as "the degree to which the needs, goals, objectives, and/or structure of one component are consistent with the needs, demands, goals, objectives, and/or structure of another component" (p. 961).

A significant external force that is increasingly affecting all organisations from the smallest to the largest is globalisation and its effects. Here, I understand globalisation in the sense that Daniels, Radebaugh and Sullivan (2011) explain as “the broadening set of interdependent relationships among people from different parts of a world that happens to be divided into nations” (p. 49). To survive, organisations seek internationalisation in order to

- expand their operations,
- acquire additional resources necessary for staying competitive on an increasingly international market,
- minimise risk affecting business operations.

This is especially important as unforeseen political, economic and natural events (as an example, the Arab Spring, the economical recession or volcano eruptions) can have enormous effects on organisations, but especially on businesses. In such an environment, organisations are required to respond faster and in a more flexible manner with a higher level of business intelligence to changing demands than ever before (Blanchard & Thacker, 2004). In order to achieve this, it is important for organisations to adopt human resource management practices that are effective in a globalised environment. Such an environment requires businesses to develop or adapt products and services quickly. Employees are expected to forecast trends more accurately and react to these flexibly, which in turn presents higher expectations towards employee qualifications, such as technological literacy and processing and analysing information from a variety of sources. This means, that fewer employees will be able to fulfil these higher expectations, therefore firms in turn will face a shrinking labour market and higher competition in retaining successful employees. Taylor, Beechler and Napier (1996) support this view, who understand flexibility as “the capacity of HRM to facilitate the organisation's ability to adapt effectively and in a timely manner to changing or diverse demands from either its environment or from within the firm itself” (p. 961). The authors argue that as an organisation becomes increasingly internationalised, the need for flexibility will also increase.

Adler and Ghadar (1990) have developed a model that describes four phases of internationalisation:

- domestic: minimal attention to cultural differences
- international: focus on local responsiveness and transfer of knowledge
- multinational: focus on success in international competition
- global: adherence to international quality standards while achieving local responsiveness.

International interactions play a different role in each phase, moving from an ethnocentric management perspective to external relations becoming more important, and finally to integrated interactions that embrace diversity and respond to local specificities while holding on to international standards. Cultural sensitivity becomes the key in both external and internal practices that equip organisations with tools to respond to the demands listed above. To fill this gap, international human resource management (IHRM) came to existence as an emerging field of academic study, with inconsistencies in definitions – as a result, its theory is not always well integrated with its practice (Perkins, 2003). In this essay, I will use the definition of Taylor, Beechler and Napier (1996) who define IHRM as

the set of distinct activities, functions, and processes that are directed at attracting, developing and maintaining a multinational corporation's human resources. It is thus the aggregate of the various HRM systems used to manage people in the multinational corporation, both at home and overseas (Taylor et al., 1996, p.960).

Strategic international human resource management (SIHRM) has been defined by Schuler, Dowling and De Cieri (1993) as “human resource management issues, functions, policies and practices that result from the strategic activities of multinational enterprises and that impact the international concerns and goals of those enterprises” (p. 422).

Both of the above definitions focus on the interventions of human resource management, and in the second definition, there is an additional focus on the international aspect of the external environment, as well as the goals of the

firm/organisation/enterprise. What is also common in them is that international human resource management is seen as a field of management practice backed with firm administration procedures in large organisations. However, today the tendency is that every organisation has to face and adjust its processes to internationalisation. Here I cite Scroggins's (2010) description of this process:

Modern business practices must broaden, and with changing technology and the Internet it is arguable that all firms are today multinationals. Combined with the increasing mobility of labor markets and the means of production for those workers, few organizations can ignore the important role of international models of administration (Scroggins, 2010, p. 412).

A case study research by Festing (1997), conducted among ten German multinational corporations, supports these views. As part of the study, a set of propositions were developed by the researcher and explanatory case studies have been used in reference to these propositions. In the research process, interviewees were asked a set of "Why" and "How" questions to reveal corporate goals and HRM interventions in their organisation. In addition to interviews, questionnaires and internal documents have also been used to confirm information gained from the interviews. Conclusions have shown that strategic international human resource interventions are of great value to global organisations, but should not be evaluated separately as individual instances. Instead, IHRM practices need to be consistent within an organisation and considered as a whole to measure their overall impact.

To sum it up, cultural aspects of human resource management are equally important in small businesses as in multinational corporations, and will predictably gain even more importance as globalisation enfolds. International strategic human resource management practices can earn competitive advantage to enterprises by adapting processes that account for the international environment and by making sure that these are in line with organisational strategy.

1.3.1 Human resource development in the learning organisation

Within human resource management, strategic human resource development (SHRD) deserves a closer look in this thesis. SHRD prepares and continually

develops people and learning systems to achieve the highest possible performance in order to meet strategic goals, thus, the field is concerned with interventions and processes at the workplace that enhance the ability of the workforce to carry out their core tasks. Learning is central to this definition, as is the notion that this learning ultimately improves efficacy and the performance of the organisation (Yorks, 2004).

Schön (1991) uncovered how practitioners grow professional competences in their jobs through gaining practical knowledge. He revealed that learning takes place through reflection, which involves critical thinking and a close examination of phenomena, processes and causes. This can both happen in the action, or following the particular action that triggered the reflection and learning process. The type of knowledge that results from reflection is sometimes factual and can be easily explained (explicit knowledge), however, often this knowledge is practical in nature and hard to share (tacit knowledge). Schön described learning as a process that can occur on multiple levels: as either single-loop or double-loop. Single loop learning refers to when a mistake is detected and corrected, so that all similar future mistakes can be avoided. Double-loop learning, however, examines the deeper cause of problems by asking why they occur at all and what elements would need to be changed in an organisation – examining a wide range of possibilities such as norms, policies, goals, that may need to be changed in order to eliminate the occurrence of the problem. Schön argues that in double-loop learning, learning occurs twice: for the first time with the experience of detecting the problem, and another time when the underlying cause is revealed and understood.

Wang and Ahmed (2002) agree to Schön concerning the significance of learning at multiple levels, as well as the essential contribution of knowledge in achieving organisational performance. Furthermore, the authors introduce triple-loop learning, that has similarly been named “learning to learn” and “organisational unlearn”. The central element of the concept of triple-loop learning is the creation of new knowledge which seeks to critically re-evaluate and re-consider systems and strategies that provide the base for an organisation. In turn, new systems, strategies and concepts emerge through the

approach of triple-loop learning. Wang and Ahmed argue that this process is vital in contributing to innovation and value creation in the organisation, and that knowledge has an indispensable role in facilitating this undertaking.

Knowledge accumulation and knowledge-sharing therefore is a key in human resource development. Whereas there is no universal definition accepted on knowledge management, Mankin (2009) refers to it as the process of “enhancing company performance by designing and implementing tools, processes, systems, structures, and cultures to improve the creating, sharing, and use of knowledge” (p. 301).

Drucker (2001) argues that knowledge is always embodied in a person, therefore it is really important for organisations to retain employees whose knowledge is key to the business. Davenport (2005) defines these employees as knowledge workers, who “have high degrees of expertise, education, or experience, and the primary purpose of their jobs involves the creation, distribution or application of knowledge” (p. 10). Nelson and McCann (2010) draw attention to the importance of retention of knowledge workers as they possess tacit knowledge that is otherwise hard to pass on or preserve. They argue that knowledge workers retention can be improved by tying training and development goals to existing knowledge gaps, investing thought in designing effective knowledge management systems and ensuring that organisational leadership embraces the development of a learning culture. Nelson and McCann add that a learning culture is characterised by collaboration, willingness to learn from errors, openness to share knowledge, supporting creativity and inquisitiveness in employees.

There are numerous attempts for definitions of a learning organisation. Miller and Stewart (1999) use one that defines a learning organisation where

learning and business strategy are closely linked, the organization consciously learns from business opportunities and threats; individuals, groups and the whole organization are not only learning, but continually learning how to learn; information systems and technology serve to support learning rather than to control it; there are well-developed processes for defining, creating, capturing, sharing,

and acting on knowledge; these various systems and dimensions are balanced and managed as a whole (Miller and Stewart, 1999, p. 44).

Wang and Ahmed (2002) write about organisational learning as an important competence, supporting continuous improvement and incremental changes that eventually lead to comparative advantage of organisations.

It is important to note that there can be many barriers to learning within an organisation, which have been categorised by Knasel, Meed and Rossetti (2000) as follows:

- personal: referring to when individuals lack the self-esteem, motivation or necessary skills
- practical: is a wide category encompassing details as lack of time or other resources
- organisational: includes the lack of organisational commitment to support learning, as well as the inability of organisational structures and ways of work to help learning occur
- social: availability of skilled labour

Although not all barriers may affect all organisations, the effect of these or just some of them can still be significant. Human resource development can offer tools to overcome these barriers in workplaces to ensure that knowledge accumulation occurs as a natural process (Mankin, 2009).

2 The research

This chapter describes the details on the research conducted in this thesis, revealing the background for decisions on choosing the research method, formulating the purpose of research, selecting the research sample and the method of data collection. Limitations of the research are explained as well as its contributions along with possible future directions for research.

2.1 Characteristics of qualitative research

Qualitative research methods originate in the studies of researchers of the University of Chicago in the first half of the 20th century, where researchers produced detailed participant observations of urban life. It was not until the late 1960s that this type of research arose as a response to the domination of standardised measures. Qualitative research methods build on data that are not contained in the form of numbers, with the aim of exploring a topic without pre-judgements and to give space to voices that are otherwise not in the forefront. This type of research is inductive, and has also been named as grounded theory and emergent analysis (Taylor & Bogdan, 1998).

Another merit of qualitative research is that it looks at settings and people holistically. The focus of this type of research is on how people act in their everyday lives, and every perspective is considered worthy of attention (Creswell, 2007).

2.2 Qualitative research in management studies

Johnson, Buehring, Cassell and Symon (2007) have attempted to define qualitative research in management studies through conducting semi-structured interviews with 44 research participants. Participants were members of one of four groups:

- academic disseminators: editors of key management journals, leaders of professional association related to the field as well as funders of management research.
- industrial group: beneficiaries of qualitative research results.
- doctoral group: those who run programmes in higher education on research methods in management studies.
- qualitative researcher group: researchers who published studies using qualitative research methods in management, or have been regularly using this research methodology throughout their work.

The researchers pointed out the general lack of a consensus regarding what qualitative management research entails and what its role in academic work was. Some of the participants agreed that it is the research question that should determine the method of research. Qualitative research was found particularly fit to uncover organisational realities investigating the cultural and symbolic aspects of organisations that would be missed when using quantitative methodology. Some research participants felt that qualitative methods should be exclusively used for exploratory studies and are not fit to base predictions, create or test theories based on them.

The controversy on research methods can also be traced around the work of Geert Hofstede, who has been criticised for disregarding validity and not adhering to the principles of deductive quantitative methods (McSweeney, 2002). In response, Minkov and Hofstede (2011) brought up the following arguments:

We believe that social science should be oriented towards practice: its models should lead to valid predictions. A good theory is needed to explain these models as they may defy common sense. Yet, the merit of any model should be judged on the basis of its capability to statistically predict interesting and important phenomena. This is what gives a model its value, not the beauty of the theory behind it (Minkov & Hofstede, 2011, p. 18).

Sinkovics, Penz and Ghauri (2008) raise an issue around that international business examines politically and culturally different populations. Therefore, it can be a challenge to arrive to conclusions that are valid in a local context but also in an international comparison. The researchers argue that both approaches are essential in international business and are complementary to each other.

It is important to acknowledge the criticism regarding qualitative research methods. However, there are also arguments in favour of this inductive research methodology, especially in the field of researching topics related to culture (Hofstede, 1980; Johnson et al., 2007; Matveev & Milter, 2004). This is the reason why I decided to use a qualitative approach in my research on cross-cultural competences in start-up businesses.

2.3 Purpose of research

The purpose of the research is to explore the role of cross-cultural competences in start-up businesses. This study aims to investigate how managers and employees of start-up companies use cross-cultural competences in their work, understand the significance of cross-cultural competences in start-up companies, and reveal if there are any specific aspects of start-ups that benefit from cross-cultural competences of workers.

2.4 Research question

The research question was formulated to be as simple and inclusive as possible, in order to meet the requirements of a qualitative and exploratory study that aims to consider all pieces of information that may be relevant.

The research question sounds as follows: “What is the role of cross-cultural competences in start-up businesses?”

2.5 Method of research

The research is based on an initial literature review followed by in-depth enquiry and data collection. Data are analysed by identifying overarching themes and organising them into categories. Once tendencies and common threads in data are identified, these are related to theories introduced in the initial literature review.

The aim of the research is to understand in-depth issues around cross-cultural competences in a start-up environment. For this to happen, participants of the research need both a structure and freedom to express their opinions and experiences related to the topic undisturbed. So that a good balance between sticking to the topic and providing sufficient freedom to research participants can be achieved, semi-structured interviews were chosen as the best fitting method for the purposes of the research. Complementing predefined questions from the researcher, these provide space for follow-up questions, clarifications or discussions on topics that have not been planned out prior to the interview. The role of the researcher in semi-structured interviews is to listen, stay in tune and follow the lead of the participant of the research, allowing the interviews to branch off from the pre-planned flow (Esterberg, 2002).

2.6 The research sample

When choosing the research sample, the principle of purposive sampling was used (Gummesson, 1991), where the aim is not to establish a representative group of respondents but to find research participants through professional and personal networks whose experience and context enables them to give informative and knowledgeable insights on the topic of the research.

Participants have all been selected based on their experience working in a start-up environment. When identifying start-up companies, the definition of Luger and Koo (2005) has been taken into account:

a business entity which did not exist before during a given time period (new), which starts hiring at least one paid employee during the given time period (active), and which is neither a subsidiary nor a branch of an existing firm (independent) (Luger and Koo, 2005, p. 19).

The given time period was agreed as 12 years – companies had to be established in 2000 or later to be participants of the research. Competences influence employee behaviour and effectiveness at work over a long period of time, and this means that start-up companies already ten or even twenty years old may still show characteristics for a new business. In the current research, the focus is on what and how employees contribute to start-ups and what role cross-cultural competences have in their contributions, and this process does not change all of a sudden as time passes. Table 3 summarises general information on the companies which participated in the research.

Three groups of research participants have been identified:

- international employees of start-up companies
- managers in start-up companies
- co-workers of international employees in start-up companies

Table 3. Details of the companies that participated in the research.

	Profile	Founded in	Number of employees	Number of foreign employees	Number of interviews
Company A	Hospitality industry	2005	10-20, depending on season	varies	1
Company B	Medical device industry	2002	8	3	5
Company C	Innovation based on microwaves	2000	4	varies, currently 1	2
Company D	Internet based communication	2010	3	1	1
Company E	Online shopping	2009	1	0	1
Company F	Tourism	2005	10-100, depending on season	currently 1, but up to 60 in summer	1

International employees that have been chosen as research participants were born and raised outside of Iceland, but have spent a year or more in the country as employees of start-up companies. Their perspective is the one of expatriates who go through cultural adjustment to local circumstances on a daily basis. One research participant is an exception, working as a remote employee from his home in the United States, hired through a website for remote workers. Another participant is working remotely from Hungary, but has previously been living in Iceland as an employee in the same company. Through their experience and the experience of their managers, the research could be extended to include insights on remote work and international teams established and operating virtually.

The second group of research participants are managers in start-up companies, who have been with the companies from the very beginning, shaping the business idea, setting up and managing the business from its earliest time. They have been chosen to provide insights on cross-cultural competences in start-ups from the perspective of dealing with business operations, long-term goal setting and managing employees. In many of the sample companies, they act as co-workers as well, as this is how the needs of a small and young company can best be matched.

The third group is of co-workers of international employees in start-up businesses who have at least one year of experience in a start-up environment. They have been asked to participate in the research to share their views on cross-cultural competences in start-ups from the perspective of looking after the core activities as team members of the business on a day-to-day basis. Similarly to the group of managers, they often have mixed roles in their companies. All of the co-worker participants of this research have some kind of management responsibilities, for example, managing a group of programmers, or managing a budget. Table 4 shows details on the research participants.

Practically, membership of the three groups mentioned above (international employees, managers and co-workers in start-up companies) is overlapping: sometimes managers are of foreign origin, or they may carry out core business activities in cooperation with other team members (Johnson et al., 2007).

Table 4. Details concerning research participants and interviews.

Participant	Company	Role	Country of origin	Years spent in Iceland	Interview details
1	A	Manager	Haiti	10<	in French, 21 min, 1973 words
2	B	Manager/Co-worker	Iceland	native	in English, 35 min, 830 words
3	B	Manager/Co-worker	Iceland	native	in English, 38 min, 2971 words
4	B	Employee	USA	5	in English, 57 min, 4681 words
5	B	Employee	France	3 1/2	in English, 33 min, 2295 words
6	B	Employee (working remotely)	USA	0	in English over Skype, 19 min, 1418 words
7	C	Employee (working remotely)	Hungary	1	in Hungarian over Skype, 48 min, 2593 words
8	C	Manager	Iceland	native	in English, 18 min, 1391 words on record, off record: 40 min
9	D	Manager/Co-worker	Iceland	Native, with extensive international experience	in English, 1 h 5 min, 5127 words
10	E	Manager	Iceland	native	in English, 46 min, 2086 words
11	F	Employee	Finland	5	in English, 26 min, 2285 words

2.7 Details of the interviews

Interviews have been one-to-one semi-structured interviews, the shortest lasted eighteen minutes and the longest interview just over an hour. The average interview was about forty-five minutes. Most interviews were conducted at the workplace of participants, but some in the home of the researcher to ensure that the environment is calm enough for recordings. Two of them occurred online through Skype, when the respondents were abroad.

The researcher's role was to clarify the topic of the research as well as to encourage participants to express their views in as great detail as possible. Listening to what has been shared by participants encompassed paying attention to non-verbal signals like body language or pauses, and using this additional information in data analysis. Often it was necessary to re-word, follow-up or clarify questions. Once data saturation has been reached, the interview was wrapped up (Kvale & Brinkmann, 2009).

Slightly different questions were used according to the grouping of participants. Managers were asked in deeper detail about the organisation of the work, whereas international employees were asked to talk more about their international experience. The list of interview questions can be found in the Appendix.

All interviews have been recorded with the consent of participants. In one case, the participant requested to record only a part of the interview. Recordings were transcribed for analysis, the length of interview text varied between 830 to 5127 words.

2.8 Analysis of data

Emerging categories and concepts were identified through a process of coding with three aims: to organise data, to interpret data and to identify elements in data that could contribute to a deeper understanding of the research question.

All interviews were transcribed and analysed line by line and recordings listened to multiple times. In some cases it was necessary to contact research participants for clarification, to avoid misunderstandings. The positive rapport between research participants and researcher contributed hugely to the quality of the research, the established trust was helpful along the entire process.

Two interviews were taken in a different language from English, with participant number 1 and 7. Relevant sections of these talks are translated into English by the researcher.

Through the analysis descriptive categories were identified that share particular characteristics. Finally, connections were established between these categories, the topic of the research and the relating theoretical background, to draw conclusions that answer the research question.

2.9 Trustworthiness of the research

Similarly to quantitative research, trustworthiness is a cornerstone in qualitative research as well. Sinkovics, Penz and Ghauri (2008) propose to use a transparent logic, procedures and methods to make sure that qualitative research is a valid tool to describe reality, and not merely justifying the ideas of the researcher. Similarly to quantitative measures, it is important to take trustworthiness into account with the research design. Measures of quantitative research are validity and reliability, with the former referring to whether a study measures what it intends to measure, the latter referring to the repeatability or consistency of studies.

Sinkovics et al. (2008) argue to also consider credibility, transferability, dependability and confirmability in qualitative research. Credibility is parallel to internal validity in quantitative research and refers to whether realities of participants and researcher overlap. Transferability equals generalisability, and dependability is concerned with the stability of results over time (similarly to reliability in the quantitative methodology). Finally, confirmability refers to an independent reality that exists outside of the research boundaries.

The current study attempts to enhance the quality of the research through transparent methodology. This includes building on established theory and using multiple sources of evidence such as researcher's observations and comments of participants, which are meant to enhance the credibility (validity) of the study. Dependability (reliability) is addressed by adopting a logical, transparent and consistent approach to research that ensures the possibility for repeating the study, as well as taking a sufficient number of interviews, in this case, eleven. Transferability (external validity, generalisability) is enhanced through using previously defined concepts in the research like cross-cultural competences. The definition of the concept has been explained to each research participant at the beginning of interviews to make sure that they talk about equivalent concepts as the researcher. In addition, a coding scheme was used throughout data analysis and research results have been compared with various sources of literature. Confirmability (objectivity) was enhanced through a positive rapport between research participants and researcher, who at the same time as being involved in the research made an effort to remain detached and observant, as well as paying attention to what participants have said and what they meant (Sinkovics et al., 2008).

2.10 Limitations, contributions and future directions of the research

The scope of the current study is a thirty credit masters project. With more resources the topic could be researched in much greater detail.

In addition, participants were asked to talk about their own competences and how they use these in their work. As Schön (1991) pointed out, this is a kind of tacit knowledge that is not easy to explain with words, similarly to as if one would be asked to write up instructions on how to drive a car or ride a bicycle purely with words. This fact also presents a limitation.

The contribution of the research can be best described by that it reveals aspects of human resource management in Icelandic start-up companies, focusing on international themes and cross-cultural competences. The research topic gives insights to the contribution of skilled foreign workforce in the success of Icelandic start-up companies at a time of recovery from the economic recession, and may reveal new possibilities in the way human resources are utilised. Besides the topic, the research also aims to contribute to the body of literature on start-up companies in Iceland with employing a research method of semi-structured interviews.

Possible future directions could be to research the topic by employing additional methods. The methodology of case studies could be especially beneficial in uncovering causal relations and further details on the context of start-up companies in Iceland and the way cross-cultural competences are employed in them.

3 Findings

With discussing the findings of the research, the aim was to uncover all relevant themes relating to the research question: what is the role of cross-cultural competences in start-up businesses? Since the current study is qualitative and exploratory in nature, it encompasses a wide range of various themes that relate to cross-cultural competences in the context of start-up companies.

Themes were identified by reading and listening to the interviews multiple times, highlighting sections of text and grouping these sections according to their content. With the establishment of themes, a rather inclusive approach was adopted to account for all important aspects. Attention was given to reveal information about the context, about how participants related to the research topic and about participants' opinions and views in relation to the topic. The following chapter compares the themes that emerged from the research with the theoretical background of cross-cultural competences in start-up companies, and discusses the connections found. A few quotes from participants are used as examples to illustrate these connections.

The main themes that have emerged through the interviews are listed and defined below:

- Competences: includes the most important competences to research participants that enable them to be successful in their job, and the competences they think are most important for their companies.
- Communication: comprises of descriptions of research participants of the communication processes in their companies, and comments from them concerning communication in general.
- Icelandic culture: the comments regarding Icelandic culture are partly about how research participants perceive Icelandic culture, and also about aspects that they find important to know about Icelandic culture.
- Multicultural team: entails comments about research participants' experience of working as part of a team with members of diverse cultural backgrounds.
- Cultural differences: reveals concrete examples for disparity between cultures, and also comments concerning the fact that cultures differ from each other in many ways.

- Remote employment: two companies have had the experience of employees working remotely, this theme is made up of their experiences as well as their co-workers' and managers' comments on telecommuting.
- The start-up context: comments refer to the work environment and the specific needs of the companies involved in the research.
- Organisation: this theme covers comments relating to planning and managing the workload and other resources in start-up companies.
- Innovation: includes participants' views on the process of creating new products.

A few overarching motives could be observed during the interviews that have not explicitly been expressed by research participants with words, rather implied or understood. One such has been the obviously high intrinsic motivation that all research participants shared towards their job. They all seemed to be deeply committed to the role they played in their business, and showed enthusiasm and involvement in their work. They also demonstrated a deep interest in participating in the research and seemed to be highly concerned about sharing accurate information during their interviews. These motives give background information on the environment and the organisational culture in which start-up businesses operate, revealing a dynamic, hard-working and positive working climate.

The rest of this chapter is dedicated to discuss key findings in greater detail.

3.1 Competences

The findings on competences are the most significant in giving an answer to the research question on the role of cross-cultural competences in start-up companies. Therefore, in this chapter the three models (the IC, CC and the intercultural competences models introduced earlier in this thesis) on intercultural and cross-cultural competences will be discussed in detail, as well as connections of the findings on competences to other pieces of literature.

I have always looked for a character. They need to have the basic technical skills, but I am not looking for the guy with the most experience or the best education. I think the character itself is more important. Will he be a part of the team, will he assist us in building up this small company? Can he communicate, can he write, is he organized? Can he be flexible (Participant no. 8)?

The above quote summarises the essence of interview conversations regarding competences. Often participants noted that having a firm background in technical skills that their job demanded was really important, especially in a small company where employees need to be experts of their own field to be able to cope on their own. However,

interviews also suggest that although technical expertise is necessary, it is not sufficient for professional success in start-up companies as personality plays a role as well.

This theme is discussed by all three models on intercultural and cross-cultural competences, from different angles. Matveev and Milter (2004) found that the perceived importance of personality orientation as a component of intercultural competences varies according to cultures – for Americans, it was ranked on the third place after skills and cultural knowledge, whereas Russians assigned more importance to personality orientation and ranked it as second after skills. The CC model of Johnson et al. (2006) describe personality traits like ambition, curiosity, enthusiasm, integrity, perseverance, judgement and the like as prerequisites to acquiring leadership skills thus functioning effectively in a cross-cultural setting. In the model on intercultural competences of Graf (2004), the affective component of intercultural competences is equally important to the cognitive (referring to cultural knowledge) and behavioural ones (referring to intercultural skills). In her view, these three components merge into each other and they determine the quality of behaviour that one shows in intercultural interactions.

Skills such as communication, teamwork and organisation, and competences like flexibility, curiosity and adaptability have all been named by participants as core to success. A central element to the first quote is the ability of employees in start-up companies to contribute to the business as a whole and be effective in a team. The significance of teamwork has been confirmed by other participants too, and can also be found in studies on start-up companies – articles of both Littunen (2000) and Kobia and Sikalieh (2010) highlight that cooperation is pivotal to start-up success. Findings are equally in accordance with the CC model in that the above mentioned skills and competences are part of cross-cultural competences and they are of great value in positive interactions. Graf (2004) identifies the most important competences that she recommends as to develop as intercultural communication skills, intercultural sensitivity, interpersonal competence, social problem-solving capability and self-monitoring. Although categorised differently, the skills and competences named by research participants can also be traced in the description of Graf. Communication has a clear and direct connection, teamwork and flexibility can be related to Graf's understanding of social problem-solving capability, and curiosity and adaptability can be related to Graf's intercultural sensitivity.

In some interviews participants pointed out that the lack of competences may lead to loss of morale and a weaker team in general. These observations, and especially the

quote above are in accordance with McClelland's (1987) thesis on competence, which claims intelligence and education to be less reliable in predicting job performance than competences. At the same time, they acknowledge Nordhaug's argument on that competences which are not bound to a certain task or industry are gaining momentum in the job market. Wyss (2007) equally confirms that competences matter more in building up a prosperous venture than factors such as gender or education.

The above quote is also in harmony with Johnson et al. (2006) who question whether improving someone's competences such as flexibility is possible. This is underlying the importance of selecting the right employee for the working environment and the job, and matches the observation of participants as well. Matveev and Milter (2004) however are of the view that there should be training targeted at the development of intercultural competences, as they argue that cultural knowledge, skills and personality orientation are learned phenomena. Graf (2004) recommends the use of culture-general, experiential methods when developing intercultural competences. It could be interesting to research the potential of intercultural training further. Based on the findings of the current research, it seems that employees are expected to already possess cross-cultural competences at the time of their job entry, without any formal or planned intervention to improve these. On the other hand, they seem to encounter plenty of opportunities on the job for boosting their cross-cultural competences through the method of "learning by doing". Therefore human resource development interventions that build on reflective practices may be beneficial to employees in start-ups (Schön, 1991).

On one hand, research findings underline that agreeableness, proactive attitude and a high achievement motivation contribute to success of start-up companies (Kobia & Sikalieh, 2010; Koe & Shamuganathan, 2010), as can be read in the quotes of multiple participants:

In a small company like this, you really have to be self-motivated. There are many other characteristics that are important if you want to carry out your job, but if you don't want to do well than it doesn't matter what you can do (Participant no. 3).

It's really important to have sort of a positive attitude towards things. You need to be sort of wilfully optimistic to keep doing that (Participant no. 9).

The intercultural competences model of Graf (2004) reflects especially well the way how wilfully positive attitude is able to help with developing and demonstrating cross-cultural competences in interactions. The model focuses on the process of individuals engaging in

interactions with each other, who evaluate their experiences after the interaction and as a result enrich their competences base. In their subsequent interactions, individuals with a positive and proactive attitude are able to engage with more solid competences, eventually leading to higher quality interactions through a gradual learning process. Both the message of the quotes above as well as Graf's model are in line with the observation of Schön (1991) on the process of learning, who holds that reflection and critical thinking are essential to the process of learning. Wang and Ahmed (2002) argue that double- and triple-loop learning are antecedents to organisational learning which support continuous improvement and lead to comparative advantage of organisations. These examples reveal the way positivity and wilful optimism can contribute to start-up success.

An additional element that has also been referred to was perseverance, or the competence to keep working hard for an extended period of time towards a certain goal, sometimes under adverse circumstances of limited resources or high uncertainty regarding the future of the company. This quality is thought to lessen the negative affects of cultural distance on work performance of foreign employees whose native culture is significantly different from the one they live and work in (Johnson et al., 2006). Besides, the findings confirm Nordhaug's (1998) notions on that employees need a higher level of motivation and self-management to be effective in flat and less defined organisational structures.

On the other hand, comments regarding attitude touched upon the attitude of foreigner colleagues in particular, highlighting the individual's responsibility:

When you are alone, it is more up to you, you have to be the active one and you have to push yourself into things (Participant no 11).

Participants seemed to be very aware of the impact that their attitude has on their performance. Moreover, they also accepted full responsibility in striving to demonstrate the best attitude possible at work, acknowledging the link between individual feelings, judgements, opinions and attitude (Eagly & Chaiken, 1993; Oskamp, 1977).

Another common thread in many of the interviews has been about openness and its role in keeping up the attitude and morale that is conducive to a positive working atmosphere in start-ups. According to both Johnson et al. (2006) and Graf (2004), openness to new ideas is among the attributes that can facilitate the development of cross-cultural competences, and many of the participants demonstrated this quality. This is also reflected in the CC model and the model of intercultural competences.

In a start-up environment, employees often need to assume multiple roles and do not keep strictly to their field of expertise. The competence of flexibility is especially required in small-size companies, where a handful of employees need to cover all areas of work, occasionally requiring engineers to step into a sales role or think about business strategy and marketing.

That is just part of being in a small company, you basically switch the roles every day (Participant no 2).

Flexibility is mentioned in all three of the models on cross-cultural and intercultural competences (Graf, 2004; Johnson et al., 2006; Matveev & Milter, 2004). The expectation of flexibility towards employees of small-sized companies was strongly represented in some of the interviews, which confirms the views of Blanchard and Thacker (2004) and Taylor et al. (1996) regarding the need for flexible, highly skilled labour. Interestingly, some other participants did not feel that they needed to be flexible in their jobs, even if they had to accommodate needs of telecommuters or use multiple languages at work.

Flexibility is very important in start-up companies like that, because there are so many things that you need to do. For example, for the last month, I have been doing the accounting, also the manufacturing, purchasing, driving around the city – doing everything (Participant no 8).

Many of the companies participating in the research offered flexible working hours to their employees or were able to compensate for the effort of their workforce in alternative ways, like providing autonomy in their projects even if they sometimes make mistakes, offering interesting assignments or the option of structuring ones own time. According to Mamis (1993) and Nelson, enriching employees in unusual ways is an advantage that start-ups are more able to offer than larger organisations. Nelson and McCann (2010) note that it is increasingly a challenge for organisations to retain their knowledge workers. Not all participants felt the need for flexibility in their job. They seemed to perceive that their companies were offering flexibility to them, not the other way round – this could be interesting to research further.

Adjustment has often been mentioned by participants in the sense of cultural adjustment, when people learn about each other's backgrounds through interactions and as a result, make a conscious effort to accommodate each other's needs. This process is incremental and needs time to develop – a little learning enables a little higher level of adjustment, and so on (Graf, 2004; Johnson et al., 2006). Graf acknowledges that it takes time and it is difficult to change these competences through training.

They have a different way of working than I do sometimes, so I have to adapt to that. I like to plan everything out, whereas they don't necessarily. You learn about the people and you trust them. I think we both learnt to trust each other and we both adapted, so we have a mutual respect (Participant no 6).

Research findings are equally in accordance with Graf (2004) as well as with Matveev and Milter (2004) about adjustment being a key for the success of multi-cultural working environments. Not only is this valid in getting along with colleagues but also in building positive relationships with customers. Adjustment has multiple layers, with language being an obvious one, however, understanding the layers that are less evident such as differences in expectations is crucial in maintaining customer relations, as participants expressed. Three companies participating in the research compete on markets abroad, meaning that they need to use foreign languages to serve their customer base. Also, they need to make adjustments to accommodate various expectations of customers. The IC, CC and intercultural competences models all refer to cultural knowledge, skills and personal attributes or traits as the bases for cultural adjustment. In addition, the CC model also takes into account the moderating affect of cultural distance, that might apply to start-ups who are seeking to enter new markets, or hire employees from diverse cultural backgrounds (Graf, 2004; Johnson et al., 2006; Matveev & Milter, 2004). For a number of research participants, cultural distance was obviously an obstacle to overcome, however, following an initial period of settling in and learning about their new environment they felt that they managed to adjust to new circumstances.

The following quote from a research participant reveals another important aspect of the discussion on the role of competences in start-up companies:

I think it is very common in a technical start-up, it is that they start off with an understanding of the technical problem, they try and solve it, and then they hit this wall that nobody on the team knows how to negotiate with a partner or approach the media or find a market. That's what we are missing (Participant no. 9).

The above quote serves as evidence to the limited nature of resources available to start-up companies. It is also an example for limited resources such as competences and the need for employees with a variety of competences. Access to employees with the right competences indirectly impacts the ability of start-ups to gain market share. This leads us back to the conversation on human capital theory, which looks at the whole of competences of an organisation as resources and fundamental success factors that create

economic value, thus linking employee competences to productivity (Kaplan & Norton, 2001; Mankin, 2009; Niven, 2002).

Marketing has been named by two of the participants as the most important competence to develop in their business. This is in accordance with the notion on the increasing need for internationalisation of businesses (Daniels et al., 2011; Nordhaug, 1998). Similarly, the Global Entrepreneurship Monitor for Iceland points out the importance of the support from Icelandic public institutions to encourage exports of Icelandic start-up companies (Ottóson et al., 2009). Matveev and Milter (2004) conclude their paper with stating that cross-cultural competences are essential to survive in a culturally diverse marketplace. Thus, cross-cultural competences and international marketing skills seem to complement each other. This is especially evident when looking at the IC, CC and Graf's intercultural competences models, as cultural knowledge is a central element of cross-cultural competences, and is also a key in international marketing (Graf, 2004; Johnson et al., 2006; Matveev & Milter, 2004).

3.2 Communication

Participants found the use of multiple avenues of communication helpful in performing their tasks. Being well-organised, clear and concise in how and what to communicate and providing sufficiently detailed information was also a discussion point in interviews. Time as a limited resource was related to communication. In the view of multiple interview participants, communication was also about balancing time, not allowing misunderstandings take up too much of it.

It was important to have good communication. In the beginning, I needed a lot of information about all kinds of things like customers, factories and so on, so I needed to know all the details (Participant no. 7).

Similarly to findings of the current research, Matveev and Milter (2004) stress the importance of communication in creating clarity around team goals and responsibilities. They also mention that a lack of communication may lead to an ineffective team and to draining resources. Equally, Johnson et al. (2006) point out that communication contributes to effective and appropriate interactions between people from different cultural backgrounds.

In the above quote a participant also touches on the process of bringing a new colleague on board. From the quote the need for an initial investment from co-workers in terms of time and effort to pass on knowledge and experiences becomes clear, as well as

for showing patience towards a new colleague. This observation is in accordance with all models relating to cross-cultural competences: building cultural knowledge, skills and personality traits takes time and requires practice (Graf, 2004; Johnson et al., 2006; Matveev & Milter, 2004).

3.3 Icelandic culture

Icelandic culture is the most dominant influence on the ways of work of the start-up companies participating in the research. Therefore the effects of Icelandic culture should be considered both in terms of interactions within companies and also in their external relations.

Our market uses English and we need to be aware of the culture we are getting into and how we present ourselves there (Participant no 2).

Participants unanimously agreed that the culture in Iceland is conducive to entrepreneurship, in line with the findings of the Global Entrepreneurship Monitor (GEM) for Iceland. The GEM highlights the advantage of flat hierarchies and a tendency in Iceland to execute things rather than spend time on planning or organising (Hansson et al., 2002; Ottóson, et al., 2009). A participant pointed out that Icelandic working culture allows a lot of freedom and autonomy for the employee, which leads to higher performance. In addition, a flat hierarchy and treating people as equals have been found conducive in a multi-cultural working environment. Aðalsteinsson et al. (2011) related these to low power-distance in Icelandic culture.

Icelanders are big tellers and willing to take on doing things that they don't really know how to do, or are not qualified to do, and I feel that in myself. I am willing to do this, but also I have a long work experience that gives me the confidence to do it. (...) At a very early stage I think that the sort of recklessness that is very Icelandic is very necessary, because if you get to think of what you are getting into and thought about it, you just give up before you get started (Participant no 9).

A factor that has proved to be harder for some participants to overcome was the tight fabric of Icelandic society. This is illustrated in the quote below:

One difficult thing in Iceland is that in our company everyone is a really tight group of friends, everyone knows each other from way back and it is easier for them to persuade someone to do something than for me as a complete stranger and newcomer (...) On the other hand, I think it is also a benefit for me, because I am the observer and the newcomer who has more neutral eyes for everything (Participant no 11).

Particularly interesting has been to hear about Icelandic culture from foreign participants, who seemed to take a proactive outlook on making an effort and adjusting to the local culture. Positive attitude to welcome challenges is a key in developing cross-cultural competences, according to Johnson et al. (2006). The researchers doubt that cross-cultural competences could be further developed in individuals, unless they already possessed a certain level of these competences. Openness and tolerance for ambiguity are characteristics that help with developing cross-cultural competences, therefore, looking out for candidates who possess cross-cultural competences can be useful to companies when making hiring decisions (Johnson et al., 2006).

3.4 Multi-cultural team

Multi-cultural teams consist of members of different cultural origins. Interviews confirmed that each and every one of the team members has a great influence on the work processes and relations in small teams, like most start-ups that participated in the research. Therefore, members can also shape the working culture and norms of small teams. This makes it necessary for every member to adapt to and participate in the creation of norms – Jacob (2005) calls this process the evolving of hybrid norms. These allow the team to function more effectively as they tend to use a many different tools and methods for communication, problem solving, decision making and other key team functions.

A multicultural group really brings a lot of comparison to things. People ask Why? Why? Why? And if the answer is that we have always just been doing this, maybe then we should be doing something else (Participant no 11).

A major benefit of multi-cultural teams that participants mentioned is the ability to put things into perspective and examine from different angles. Participants gave quite a few examples to situations when dilemmas were discussed from new perspectives with the arrival of a foreign employee. The research showed evidence that people in multi-cultural teams tend to bring about double-loop learning by constant questioning, which leads to enhanced learning and better performance (Schön, 1991). The practice of double-loop learning is also an essential step towards establishing organisational learning, which contributes to the long term survival of organisations (Wang & Ahmed, 2002).

Participants also mentioned that working in a multi-cultural team is fun and contributes to a positive working atmosphere without ever being dull, which helps in maintaining motivation.

3.5 Cultural differences

The companies participating in the research have all had some kind of international interaction on a daily basis, with the majority of them developing products or services for foreign markets. This international background creates situations where employees need to interact with confidence and professionalism with people from cultures they do not necessarily know. Findings show that participants have been drawing on both their culture-general and culture-specific knowledge to interact with their colleagues and customers, both Icelandic and international, in harmony with Hofstede's (2001) notions on cultural knowledge. It is also in the sense of minimising misunderstandings that cultural knowledge is employed by participants, which also agrees to the definition of Wiseman et al. (1989) of the term.

I think that French and Icelanders have a different way of thinking sometimes. For instance, on a daily basis, at first, it was very difficult for me to have the company accept that there were regulations. It was maybe a bit of a fight (Participant no 5).

Working in an environment where cultural differences are constantly present requires strong cross-cultural competences, as understanding the environment is key in being able to adapt to it (Johnson et al. 2006; Matveev & Milter, 2004). This is reflected in interviews with research participants. Many of them brought examples to situations where identifying, understanding and working through cultural differences brought about positive change in their organisations, in terms of putting in place new regulations or strengthening their image.

Definitely you can see differences between countries and the different cultures in how things are done and you must understand this, that this might be the common way in that country and not to judge it based on your own standards (Participant no 11).

Participants talked about that they gradually built up a body of knowledge through interaction with people from other cultures, and that they constantly have to take into account what is appropriate in different cultural settings. This is reflected in Graf's model of intercultural competences, who refers to the interplay of emotional, behavioural and cognitive dimensions in intercultural interactions, and highlights the importance of appropriateness and effectiveness on the part of the individual (Graf, 2004). It is not surprising therefore that many participants found it interesting, important and entertaining to find out about the culture of one another.

The process of learning to work through various reference systems, such as cultural differences, is part of the process of learning how to learn – in this case, about each other's cultures. Indirectly, this competence contributes towards establishing a learning organisation (Miller & Stewart, 1999).

3.6 Remote employment

Two of the research participants have been working remotely for their respective companies. Obviously, distance has been a significant factor of work not only for themselves but also for their managers and co-workers.

We are very far apart, but we can still work together closely (Participant no 6).

Employees working remotely agreed that maintaining regular, structured communication was important with their immediate colleagues. Managers pointed out that it was hard to find employees within Iceland with a specialised skill-set, for example, in the field of programming. This has been the main reason why they opted for hiring remote workers, as well as offering flexibility to employees by allowing them to keep their job in spite of moving abroad. Managers also mentioned that in order to support the remote worker, there was a need to organise work agendas differently, with additional planning ahead. Also, time zone differences may greatly effect such a working relationship. All participants concerned with this issue agreed that it was important to find occasion for real-time communication, which can be hard to arrange if time zones are too far apart. The value of cross-cultural competences really show in adverse circumstances like remote work in multicultural, virtual teams, as it enables individuals to be effective and engage in positive interactions with people from diverse backgrounds (Graf, 2004; Johnson et al., 2006; Matveev & Milner, 2004).

Remoteness always involves a certain level of cultural distance. Johnson et al. (2006) specify cultural distance as a negative moderating influence in cross-cultural competences, as it makes interactions between individuals harder in many ways that need to be tackled and planned for. Findings seem to reflect these suggestions: there seemed to be an agreement about that the success of remote working depends on how well the company manages to organise the work and maintain a constant communication with the remote worker. If the company is not ready to make these adjustments, there is little that the employee can do on its own to improve working conditions.

Remote work is a model that is still fairly new among Icelandic companies, the ones participating in the research have started with it less than twelve months ago. This is in line with tendencies described by researchers: Scroggins (2010) advocates for increasing the role of international models of work and the increasing mobility of labour markets.

3.7 The start-up context

The start-up context has some key characteristics that have more been implied than said by participants, for example, high flexibility in organisational structure, flat hierarchies and a constant and free flow of information among co-workers. These are helpful in an organisation as knowledge can be shared easier, contributing to a higher likelihood of identifying opportunities (Sarasvathy et al., 2010; Schön, 1991; Wang & Ahmed, 2002).

A sense of empowerment could also be observed. As participants spoke about their work, they seemed involved, competent and willing to invest the effort it takes to achieve the best performance possible. They also seemed to be willing to shape the future of their companies, expecting to influence key decisions by sharing their knowledge and collaborating with their colleagues. These characteristics are similar to how Nelson and McCann (2010) described knowledge workers in a learning organisation.

Another theme that seemed to pop up in every interview has been the limited availability of resources that start-up companies have access to. Most often, limited resources have been mentioned in relation to knowledge and to time. Participants shared that the lack of knowledge may impact strategic decisions regarding the future of the business, and even impacting its long term survival. This is explained by Shane (2003) in a way that entrepreneurial success is the interplay of the context, opportunity and decisions, referring to how the lack of knowledge may result in unsuccessful decisions and indirectly even to business failure (Kobia & Sikalieh, 2010).

Everything is new and nobody is too sure what's going on. Everyone just learns to adapt everyone's strengths and weaknesses and then you can either succeed or leave, so that's how it works (Participant no 6).

Similarly, the dilemma around taking the right decisions has been mentioned by participants in relation to prioritising the work:

We have limited resources and time – we have 500 things we could do, but which one of those will impact the most our customers, sales and the future of the company? That's really the uncertainty (Participant no 3).

Cross-cultural competences are important in the process of agreeing on common priorities and settling on a consensus or a compromise. People from differing cultural backgrounds may see different priorities and this also affects their preferred ways of work. Some participants have reported times of disagreements over work priorities possibly stemming from cultural differences, when they had to take a step back and re-evaluate work situations. Cross-cultural competences are helpful in being able to express one's own view, listen to the view of others and demonstrate cooperation in finding a common solution (Graf, 2004; Johnson et al., 2006; Matveev & Milter, 2004).

In addition, many research participants noted that working for a start-up company is a lot of fun, never boring and offers opportunities for personal development, which is another notion that Nelson and McCann (2010) consider significant in the retention of knowledge workers.

3.8 Organisation

Organisation seems to have a key role in the survival of start-up businesses. Many of the research participants mentioned that once a certain level of development has been reached, it is important to create firmer structures and more organised processes than before, that can support the company to grow and maintain quality standards. The Global Entrepreneurship Monitor for Iceland has also pointed out that a lack of preparation is a weakness of start-up businesses in Iceland (Hansson et al., 2002).

There is a turning point in companies if they succeed and become stable. At some point you need people to be more organized and become more methodical about things. But at the early stage, a lot of the sort of conservative values, they seem to be getting in the way, at least partially (Participant no 9).

Research on start-up businesses suggest that establishing a new business in Iceland is relatively obstacle-free, compared to other countries (Hansson et al., 2002; Ottóson et al., 2009; Starting a business, 2011). This might be a reason for that new businesses in Iceland do not necessarily need to be well-organised and perfectly thought out at the very beginning, which is a clear advantage on one hand, but from the point of view of achieving organisation and developing smooth processes, it may be a draw back. In addition, the challenges and changes in global and European finances and struggling economies may place additional burdens on businesses in general, which equally affects start-ups. Being well organised and prepared for uncertainty in the environment helps business in doing better (De Buck, 2011).

Some participants expressed that their business became more organised as a result of hiring and working with foreign co-workers, who cultivated a more structured working style partly as a result of their previous experiences, and partly as part of their adjustment process. Matveev and Milter (2004) share that coordination and control is essential in a multi-cultural team to reach high performance, among other factors such as communication and managing cultural diversity. Being organised seems to contribute to all of these factors.

Other participants gave examples of instances when the business was forced to become more organised through external influences, such as pressure from foreign markets or customers, that can be linked to the ever increasing influence of globalisation (Daniels et al., 2011; Nordhaug, 1998).

3.9 Innovation

Creating something new is often talked about as the central element to start-ups, although a big part of such businesses is not based on innovation. Three companies who participated in the research were developing an entirely new product. Participants mentioned creativity and careful inquiry as main components in the process of innovation. Luger and Koo (2005) point out that new ideas of start-ups can stimulate economic growth, therefore supporting these ideas is important to achieve economic growth.

It really is an incremental process. We make a change to the product, one at a time. We don't really know exactly where we want to end up, that's maybe a problem. We just have to do it very slowly – add a little bit of information, do a little bit of work (Participant no 3).

Nelson and McCann (2010) name interpersonal relationships and collaboration and a respect for people as facilitators for innovation on the long term, and these elements can equally be traced in the quote above and in other interviews with participants.

4 Conclusion and recommendations

Findings are now summarized to give an answer to the research question “What is the role of cross-cultural competences in start-up companies?”. The purpose set out for the research was to explore the role of cross-cultural competences in start-up businesses from a qualitative, exploratory perspective. With the drawing of a conclusion and giving recommendations, an inclusive approach was chosen with attention to all relevant pieces of information from the findings.

The research revealed a wide range of inter-related findings that connect to the core topic of cross-cultural competences. A lot of various discussion points and themes emerged in relation to cross-cultural competences, in the context of start-up companies. Still, the level of detail and importance of these themes has been varying, some proved to be more dominant with a more significant influence in the role of cross-cultural competences in start-up companies than others. Eventually, three main findings stand out from the discussion that shed light on what kind of a role cross-cultural competences plays in start-up businesses.

Firstly, cross-cultural competences enable start-ups to benefit from the contributions of foreign work force. Research findings suggest that cross-cultural competences such as flexibility, openness, adaptability, adjustment, perseverance, and in addition, communication and teamwork skills, support companies in working with foreign employees. The success of utilising the contributions of foreign workforce depends on focused communication, an understanding of cultural differences and an open mindset to accept new perspectives. Cross-cultural competences help companies to take into account and adjust to the needs of foreign employees, for example, by speaking in English or by organising the workload in a way that a job can be performed remotely. This translates to a better access for start-ups to the international job market and to skilled employees. Many start-ups need specialised skills that can be hard and costly to find on the Icelandic job market. Apart from the educational background, it can be a challenge to attract employees with the required practical experience and tacit knowledge, therefore, attracting employees from other countries is worthy of consideration in Icelandic start-ups.

A second conclusion of the research is that cross-cultural competences support start-up companies in understanding, adjusting to and communicating with foreign markets. Most start-ups in Iceland depend in one way or another on foreign customers, whose needs and wants set the trend for the development of products and services. The ability of start-ups to understand the needs of their customers directly affects their success, but it is only a first step towards gaining a market share. Being able to satisfy these needs is a next step, by adjusting ways of work where necessary. On the long run, start-up companies also need to be able to use cross-cultural competences in interactions with their audience. This requires that employees in start-ups have an understanding of various needs and are ready to step out of their comfort zone to attend to expectations of different sorts. To be able to engage in positive interactions with their foreign customers, it is important that employees possess cross-cultural competences.

Thirdly, cross-cultural competences can increase the ability of start-up business to learn, by enabling employees to notice and voice different perspectives and to propose a negotiation on important work matters by raising various questions. Thus cross-cultural competences support employees in building consensus through integrating differing views. It is valuable for businesses to be open to new influences, learn from mistakes and encourage employees to work in collaboration by sharing knowledge. Employees who possess cross-cultural competences seem to be able and ready to cope with the change that this constant questioning and negotiation process generates. This is how cross-cultural competences can contribute towards cultivating an organisational culture that promotes learning.

In addition to the three main conclusions listed above, further findings complement the understanding of the role of cross-cultural competences in start-up businesses. Research results suggest that innovation is positively affected by cross-cultural competences, which is key in creating comparative advantage for many of the new businesses. Another aspect of cross-cultural competences relates to change: start-ups have the advantage that they are rather small in size, which makes it easier for them to change any aspect of the business. However, for changes to happen it is also necessary that the organisational culture is open to listening to constructive criticism and encourages different views to emerge – cross-cultural competences support this process as well.

Findings also suggest that cross-cultural competences allow for quality communication, making exchanges of information smoother, faster and more effective. Likewise, cross-

cultural competences seem to strengthen relationships among co-workers, hence contributing to a stable team at the workplace and to harmonious external relations.

Scholars debate whether it is possible to develop and train cross-cultural competences. They seem to agree that once an individual shows openness and possesses a basic level of cross-cultural competences, it is desirable and profitable to improve them. On a daily basis, employees of start-ups have many possibilities for cross-cultural interactions, either with their co-workers or their customers. Therefore they could especially benefit from human resource development interventions that build on the experiences of employees as well as reflective practices.

Finally, a few conclusions and recommendations emerged in relation to the research itself. To gain a fuller picture on cross-cultural competences in start-up companies, it has proved beneficial to research multiple employees within the same company, who at times had rather differing views.

At first sight, all research findings seem to be transferable to well-established businesses, not only start-ups. However, the sense of urgency, the limited nature of resources and the uncertainty concerning the future of the business still make cross-cultural competences a valuable resource that enhances efficiency in start-ups.

Further research of the field could be conducted not only among companies who succeeded in their business, but also of start-ups that eventually did not survive. The findings may bring interesting results that could uncover typical mistakes of start-ups. Finding the root causes for failures could bring valuable knowledge to support new businesses and help them avoid the typical pitfalls and mistakes.

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Appendix: List of interview questions

Introduction questions

- How would you describe the main activity of your company?
- How would you define your position within the company?
- How old is your company?
- Would you say that your company is Icelandic, Icelandic with imports abroad, international, multinational or global (maybe something else)? Why?
- How many employees do you work with on a weekly basis and which countries are they from?
- Definition of cross-cultural competences: know-do-be
- Purpose of research: CCC in start-ups

Interview Questions

- What role does international relations play in your business (international customers, products sold externally, international employees)?
- What do you need to know or do to serve the needs of this international aspect of your business?
- What arrangements do you make specifically for this international aspect?
- Do you see a connection between your job and cross-cultural competences? Why? Why not?
- Does cultural diversity impact your job day-to-day, e.g. do you use multiple languages, time zones?
- How is it to work with a multicultural workforce/clientele?
- If we look at the success of your company so far, what relevance do external circumstances, employee competences and opportunities have? Why? Which of these was the biggest factor?
- Has there been a strong external factor that forced your company to change, and how did you cope with it?
- Is this typical as to how your company copes with uncertainty or change in the environment?

- Is uncertainty in the working environment an issue to you? How do you cope with uncertainty in your job?
- In your company, does perseverance of employees have a role in daily work?
- What is the role of flexibility in your company/in your job, how does it show? Can you give examples?
- What are the most important competences of employees in your company and why?
- How do you pass on knowledge in your company?
- How does knowledge of different cultures play a role in your company?
- How does employees' understanding of cultural difference affect work in your company?
- What role do your knowledge, skills and personal characteristics play in helping you succeed in your job?
- Do you perceive yourself as an entrepreneur? In what way?

Questions to managers

- How do you prepare yourself / your employees to achieve the goals of your company/business?
- What are the (3 main) goals of your business for the next year? Is there an international aspect among them?
- Do you see it as your role to manage culture or cultural differences at work?

Question to international employees

- Are there cultural differences that affect your daily work? How do you bridge cultural differences at work?