L’Oréal Masters Multiculturalism

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At the heart of every global business lies a tension that is never fully resolved: Achieving economies of scale and scope demands some uniformity and integration of activities across markets. However, serving regional and national markets requires the adaptation of products, services, and business models to local conditions. As U.S. and European companies increasingly look for customers in emerging economies, both the advantages of global scale and the need for local differentiation will only increase.

It’s easy to get the balance wrong. Some offerings may feel like commodities—think refrigerators and washing machines—yet there are often important variations in the way people use them. An Italian washing machine, for instance, has to be made to rather different specs than a Swedish one. Others, such as restaurants and cafés, come across as intrinsically local, yet global formulas and brands do succeed—think Benihana, Wagamama, and Starbucks.

The tension between global integration and local responsiveness is especially high when product development and marketing require complex knowledge. This kind of knowledge—usually tacit and collective, revealed only in action and interaction—is often the mainspring of a company’s competitive advantage. The trouble is that tacit knowledge functions best within national boundaries, where workers share a language and cultural and institutional norms and can draw on strong interpersonal networks. Without close, face-to-face interaction between knowledge creators and users, an understanding of how bits of information fit together may be lost and the knowledge may become unusable. Further, when tacit knowledge must cross borders, it is often reduced to information that moves easily (words and numbers, for instance) but may then fall prey to local misinterpretations that are difficult to detect from afar.

The French cosmetics giant L’Oréal exemplifies this global-local tension. It has built a portfolio of brands from many cultures—French, of course (L’Oréal Paris, Garnier, Lancôme), but also American (Maybelline, Kiehl’s, SoftSheen-Carson), British (The Body Shop), Italian (Giorgio Armani), and Japanese (Shu Uemura). The company now has offices in more than 130 countries, and in 2012 over half its sales came from new markets outside Europe and North America, mostly in emerging economies, up from only a third as recently as 2009.

In 2012, sales grew in the Asia Pacific region by 18.4% and in Africa and the Middle East by 17.6%, without significant acquisitions. Despite the financial crises in Europe and North America, L’Oréal has been growing and gaining market share, mostly at the expense of its competitors. It is the uncontested world leader in skin care, makeup, and hair color and a close second to P&G in hair care worldwide. Since 2004 L’Oréal’s revenue has increased by half and its profits have almost doubled, with an increase in net profits of 17.6% in 2012 alone.

Yet this remarkable global success was built largely by a management team strongly rooted in its home culture. Traditionally employees became part of management over many years, weaving a dense network of relationships through which knowledge about products, cultures, and how to work together was internalized. Since its inception, more than a century ago, L'Oréal has had only five CEOs (including the founder), all but one with long tenures and all promoted from within. Only a few foreigners have become senior executives. Lindsay Owen-Jones, who was CEO from 1988 to 2006, was one of them. Although an Englishman, he was described by members of L'Oréal's founding family as *Français dans l'âme* ("French in his soul"). For decades, L'Oréal recruited few senior executives from outside. After several years the exceptions took pains to explain that they had worked for L'Oréal for a long time and prided themselves on their perfect French.

As its global-local tensions have mounted, L'Oréal has managed them by deploying professionals with multicultural backgrounds in new-product development, the company's most critical source of competitive advantage. That strategy, according to top management, is the main reason for L'Oréal's impressive success in emerging markets. As the company has transformed itself from a very French beauty products business to a global leader, multicultural executives have come to play a critical role in product development not just in Paris but also in New York, Tokyo, Shanghai, Rio, and Mumbai.

Achieving Global-Local Balance

L'Oréal's main consumer-products categories are all highly sensitive to global economies of scale and scope, yet to win customers they must also be responsive to local preferences. This tension is perhaps most critical in the L'Oréal Paris brand, which is sold in mass markets worldwide and accounts for half the sales of the consumer products division.

L'Oréal also has to maintain a steady stream of new products (every year, roughly 20% are new) in order to extend market share in the face of stiff competition from rivals such as Estée Lauder and Revlon and units of global giants such as Unilever and P&G. L'Oréal, which invests 3.5% of its revenue in R&D, outspends all its major competitors: Revlon, for instance, spends 1.7% on R&D, and Estée Lauder about 1%.

As L'Oréal managers confront those challenges, they must be mindful that their products are much more than chemical mixes. They are global symbols of fashion and sophistication, appealing to the idealized self-image of customers. Technical innovation and responsiveness to local tastes must not undermine the brand.

Traditional approaches to internationalization probably would not have resolved L'Oréal's global-local tensions. Structural solutions, such as setting up largely autonomous subsidiaries and regional entities (which might have compromised economies of scale) or global business units (which might have ignored the richness of cultural differences across markets), would not have worked for most L'Oréal products, given their need for both local responsiveness and global integration. Refocusing the company on either a more local or a more global portfolio would have been tantamount to letting the tail wag the dog, forfeiting L'Oréal's many marketing and distribution advantages.

The only alternative to internationalizing the structure was to internationalize the management team. That is what L'Oréal did, but with a twist. The rapid infusion of foreign executives would have disrupted the tightly knit community of senior managers so critical to L'Oréal's success. Relying on global teams—whether function- or project-based—would have been equally difficult. Culturally diverse teams often experience the so-called Tower of Babel syndrome: Their members talk past one another, and teamwork breaks down. Companies quickly realize that little knowledge is actually shared; even seemingly universal and explicit knowledge, such as mathematics, is open to interpretation.

L'Oréal has dealt with these shortcomings by recruiting and building teams around individual managers, who by virtue of their upbringing and experience have gained familiarity with the norms and behaviors of multiple cultures and can switch easily among them.

International Talent

Since the late 1990s, when L'Oréal started to recruit internationally for positions at headquarters, L'Oréal Paris—the unit where we conducted our research—has placed executives from mixed cultural backgrounds in its most critical activity: new-product development. These managers account for a small proportion of L'Oréal Paris employees but for more than a third of the unit's product development team managers—a balance the unit has maintained for more than 10 years.

L'Oréal Paris generally has about 40 product development teams, each working on a different concept. A team consists of three or four people, two of whom may be multicultural. For example, in a team we spoke with that is working on women's hair-care products for Latin America, a Lebanese-Spanish-American manager was in charge of hair color while a French-Irish-Cambodian was in charge of hair care. They shared an office so that they could exchange ideas.

Developing a new product takes at least a year of knowledge exchanges among the product development team, regional subsidiaries, and functional units in France, such as R&D. In addition to interacting with their peers, who may come from different cultures, team managers must discuss their work with top management, formally and informally, as it progresses.

Once a new-product concept is ready, the team presents it at Réunion Internationale, the consumer products division's annual event, held at the Paris headquarters. The teams pitch their launch action plans to regional directors from around the globe, who come looking for ideas that might be ready to hit the market in one or two years.

The multicultural managers are drawn from three pools. The most seasoned come from the company's international subsidiaries and have at least five years of experience in sales and marketing. A few are recruited from other global companies. The third and youngest group consists of graduates of leading international business schools. The recruits undergo a 12-month training program in Paris, New York, Singapore, or Rio, followed by management development programs at Cedep, an executive education consortium in France.

After spending two or three years in global product development at headquarters, the more experienced managers usually return to their home regions as directors, responsible for managing a brand or function. Most of those recruited from business schools remain for another few years in product development at headquarters. After this second tour they, too, usually go to a regional office at the director level, though some remain in Paris. Their promotion prospects, like those of all employees, depend on performance.

An increasing number of multiculturals are starting to find their way into senior management in the company—a sign of the success of the approach. Among the people we met, one Hong Kong–British–French project manager (recruited at headquarters) was subsequently promoted to lead the team developing all facial products for the East Asian market, and an Indian-American-French project manager (recruited from the Indian subsidiary) moved to another division with a significant promotion.

In sum—and there is an important message here for other multinational companies—L'Oréal nurtures a pool of multicultural managers, placing them at the center of knowledge-based interactions among brands, regions, and functions. Let's look at what these young men and women offer the company in return.

The Advantages of Multiculturals

A person rooted in more than one culture is usually able to spot and reconcile differences in understanding and communication, serving as a buffer both within teams and more broadly in the organization. In addition, he or she will probably be more open to adapting to multiple mind-sets and communication modes; it's well known that people find it easier to learn new languages if they have grown up speaking more than one. These skills equip L'Oréal's multiculturals to play five critical roles.

Emulating Multicultural Managers

Recognizing new-product opportunities. L'Oréal Paris finds that multiculturals are better placed than others to draw analogies among cultural groups. According to a director who worked with multiculturals for five years, “Their background is a kind of master class in holding more than one idea at the same time. They think as if they were French, American, or Chinese, and all of these together at once.”

This very flexible perspective can lead to unexpected opportunities for product innovation. For instance, a French-Irish-Cambodian manager working on skin care noticed that many tinted face creams in Asia had a lifting effect, which minimizes wrinkles. In Europe, creams tended to be either tinted (and considered as makeup) or lifting (and considered as skin care). Drawing on his knowledge of Asian beauty trends and their increasing popularity in Europe, he and his team developed a tinted cream with lifting effects for the French market, which proved to be a success.

Although people rooted in one culture can also uncover such opportunities, multiculturals are more likely to do so—and to do so faster—because they have been dealing with cultural complexities since childhood. As an Indian-American-French manager in a team that launched a men’s skin care line in Southeast Asia explained, “I am able to do this because I have a stock of references in different languages: English, Hindi, and French. I read books in three different languages, meet people from different countries, eat food from different countries, and so on. I cannot think about things in one way.”

Preventing losses in translation. Even when there’s a common syntax or language, as in mathematical and chemical formulas, cross-cultural semantic differences can cause confusion. What the person initiating a communication means is not necessarily what the person receiving the communication hears. The problem thus shifts to who interprets what, and how accurately—a critical issue in the design of new products.

For instance, a French manager’s product test failed because he asked a German colleague in the laboratory to translate the characterization of some hair features. Through conversations with an English-French-German manager, the French manager discovered that there had been a gap between what he meant and what the German heard. It was a nuanced difference: The words were the same, but their meaning was not. He had to run the test again, at significant cost. Since then, the multicultural manager who spotted the difference has been called on frequently to decode communications between headquarters and the German office.

Integrating outsiders. Teams staffed with people who are not multicultural find it hard to assimilate newcomers with different behaviors and modes of communication, particularly when the team has developed its own norms or its members belong predominantly to one culture. Given the intensity of a team’s internal interactions, incumbent team members can quickly resort to stereotypes about a newcomer, and the situation can become toxic. The presence of a multicultural member can help prevent this dynamic from taking hold.

Consider the experience of a Hong Kong–British–French director: “After a new person joined my team from the Shanghai office, a member complained that she was ‘very rude.’ I said, ‘Let’s give her more time to adjust. Maybe she’s not being rude and that’s just how she expresses herself. Why don't you also try to adapt to her?' When I went to Shanghai, I had a meeting with my new team member and found she was not being rude. The way she expressed herself was direct, without bad intention. I didn't tell her about the complaints but gave some advice on how to better work with people whose cultures are different. When I returned to HQ, I told my group about my experience with the new member. Things became much better."

If a newcomer is disruptive because of personal style or personality, there may be little anyone can do. But if the issue originates in cultural differences, which it often does, multiculturals can help integrate the outsider. They can perform this function because they are adept at moving from one mode of interaction to another. They grew up doing so—switching from one parent to another, or from school to home.

Mediating with bosses. The role of cultural buffer is important at L'Oréal Paris, especially for reducing the potential for conflicts between the multicultural product-development teams and the people they report to, who are, for the most part, French. Here's how a multicultural manager explained one aspect of his role as team leader: "My French boss never starts meetings on time. So whenever we have a meeting planned with him, we can get frustrated if we are not flexible. If I am running behind myself, I make sure to tell my team members in advance why I am behind and ask them for their next availabilities. Conflicts may still exist in my team, but we handle them more tolerantly."

Bridging differences between subsidiaries and headquarters. Multicultural managers have frequently defused acrimonious communications between a subsidiary and L'Oréal Paris. For example, on a project to develop an organic shampoo for the European market, the product development team in Paris asked the Indian unit to find a rare local plant that would provide a key ingredient. The Indians told the team that they would "do their best" but sat on the request. As the team's Indian-American-French leader told us, "Eventually the Indian manager said, 'We need confirmation that this ingredient can really please consumers.'"

At this point, the team leader understood that the initial "We'll do our best" (which the French interpreted as a clear yes) was actually a polite way of saying that they wouldn't do anything. The "We need confirmation" follow-up signaled that the request was too difficult—but the Indians did not want to come out and say that and thus fail to honor a commitment. The leader realized that if he told headquarters that India wouldn't come up with the goods, he risked triggering open conflict between the two parties. Instead, he worked with both to explore other ingredients that would not be so challenging to source.

The team leader grasped that there had not yet been enough collaboration or social interaction between the two teams to allow them to decode each other's expressions of expectations. He could also see that this particular misunderstanding might undermine trust and make more-important tasks harder. (Ultimately he found a substitute ingredient and dropped the matter.) This manager could play a bridging role because he had deep knowledge about both Indian and French ways of expressing commitment, strong communication skills, intense cultural sensitivity, and high flexibility—a bundle of qualities seldom found among managers rooted in just one culture.

For a global company to deploy multiculturals strategically, HR should appoint a manager to lead a program for developing and nurturing them. This manager should obviously be knowledgeable about the competence and skills of these individuals and how they differ from those of other employees. Because of considerable variation among multiculturals themselves, the manager needs to tailor a training system to each one. With this support, commitment to the program from top managers, and the granting of some autonomy in their work, multicultural managers can make a huge difference in whether a company is able to balance global and local imperatives by learning from cultural differences—or instead suffers from them.

As markets and competencies have become more dispersed and differentiated with the strategic thrust into emerging regions, companies need to reverse the old knowledge flows (from their home country to far-flung subsidiaries) and instead learn how to learn from their peripheries. Culturally this is difficult. It calls for a shift from an ethnocentric approach to a truly global network. L'Oréal's strategic use of multicultural managers provides a shortcut: These managers can integrate knowledge from many locations to develop successful new products and minimize conflict between home-country and international executives. It's an approach that can transfer easily to other industry and functional contexts in which complex knowledge from multiple cultures must be coordinated and shared.