

Research article

MNCs Managing Across Culture

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Abstract

Traditionally, both scholars and practitioners assumed the universality of management. There was a tendency to take the management concepts and techniques that worked at home into other countries and cultures. It is now clear, from both practice and cross-cultural research, that this universality assumption, at least across cultures, does not hold up. Although there is a tendency in a borderless economy to promote a Universalist approach, there is enough evidence from Nancy Adler and other cross-cultural researchers to conclude that the Universalist assumption that may have held for U.S. organizations and employees is not generally true in other cultures. The overriding purpose of this research is to examine how MNCs can and should manage across cultures. The first part of this research addresses the traditional tendency to attempt to replicate successful home-country operations overseas without addressing cultural differences. Next, attention is given to cross-cultural challenges, focusing on how differences can impact multinational management strategies. Finally, the cultures in specific countries and geographic regions are examined.

Key Words: Ethnocentric Predisposition, Simplification, Globalization imperative, Parochialism

1. Introduction

This Research highlights the importance of management across cultures; as per capita consumption of beer in the United States and Europe has declined. In addition, new brands have been popping up everywhere and rivals have been spending substantial sums on promotion. To compete globally, its strength as a global company with global brands, yet adjust and adapt its management and message to different cultures. In particular, it must consider how best to execute programs at the local level, a challenge for all MNCs. To remain viable in the coming years, MNCs must continue to have a plan for managing across cultures.

2. The Strategy for Managing Across Cultures

As MNCs become more transnational their strategies must address the cultural similarities and differences in their varied markets. A good example is provided by Renault, the French auto giant. For years Renault

manufactured a narrow product line that it sold primarily in France. Because of this limited geographic market and the fact that its cars continued to have quality-related problems, the company's performance was at best mediocre. Several years ago, however, Renault made a number of strategic decisions that dramatically changed the way it did business. Among other things, it bought controlling stakes in Nissan Motor of Japan, Samsung of South Korea, and Dacia, the Romanian automaker. The company also built a \$1 billion factory in Brazil to produce its successful Megane sedan and acquired an idle factory near Moscow to manufacture Renaults for the eastern European market. Today, Renault is a multinational automaker with operations on four continents; the challenge the company now faces is to make all of these operations profitable. This will not be easy. Nissan's annual losses have been running in triple-digit millions in recent years, and Samsung has to be brought back from bankruptcy. Meanwhile Dacia is operating in one of Europe's most dismal economies. Fortunately, Renault is grossing over \$40 billion annually from its own businesses, so it has the necessary funds to implement turnaround strategies. Now it needs to straighten out its international operations and get everything working in harmony. One of the recent steps it has taken to do this is the decision to meld its own sales organizations with those of Nissan in Europe, thus creating one well-integrated, efficient sales force on the continent. Another step has been to start producing Nissan models in the Brazilian plant so that it can expand its South American offerings by more efficiently using current facilities. One of the company's long-run goals is by 2010 to have 10 common platforms, or underbodies, that will allow it to build Renaults and Nissans everywhere, while maintaining the look, feel, and identity of their separate brands. At the same time the firm is working to improve its effectiveness in dealing with governments, unions, and employees, as well as to understand the cultural differences in customer preferences in Europe, Asia, and the Americas.

3. Strategic Predispositions

Most MNCs have a cultural strategic predisposition toward doing things in a particular way. This orientation or predisposition helps to determine the specific steps the MNC will follow. Four distinct predispositions have been identified: ethnocentric, polycentric, and geocentric. A company with an ethnocentric predisposition allows the values and interests of the parent company to guide strategic decisions. Firms with a polycentric predisposition make strategic decisions tailored to suit the cultures of the countries where the MNC operates. A regiocentric predisposition leads a firm to try to blend its own interests with those of its subsidiaries on a regional basis. A company with a geocentric predisposition tries to integrate a global systems approach to decision making. If an MNC relies on one of these profiles over an extended time, the approach may become institutionalized and greatly influence strategic planning. By the same token, a predisposition toward any of these profiles can provide problems for a firm if it is out of step with the economic or political environment. For example, a firm with an ethnocentric predisposition may find it difficult to implement a geocentric strategy, because it is unaccustomed to using global integration. Commonly, successful MNCs use a mix of these predispositions based on the demands of the current environment.

4. Meeting Challenge

Despite the need for and tendency of MNCs to address regional differentiation issues, many MNCs are committed to a globalization imperative, which is a belief that one worldwide approach to doing business is the key to both efficiency and effectiveness. One study, involving extensive examination of 115 medium and large MNCs and 103 affiliated subsidiaries in the United States, Canada, France, Germany, Japan, and the United Kingdom, found an overwhelming preponderance to use the same strategies abroad as at home. The globalization vs. national responsiveness challenge is even more acute when marketing cosmetics and oilier products that vary greatly in consumer use. For example, marketers sell toothpaste as a cosmetic product in Spain and Greece but as a cavity-fighter in the Netherlands and United States. Soap manufacturers market their product as a cosmetic item in Spain but as a functional commodity in Germany. Moreover, the way in which the marketing message is delivered also is important. Meanwhile, in China, McDonald's has worked hard to befriend young children and make them feel special. One way is by recording their names and birth dates in a

special list called "The Book of Little Honorary Guests" and then sending them cards and urging them to drop by their local McDonald's. In some cases, however, both the product and the marketing message are similar worldwide. This is particularly true for high-end products, where the lifestyles and expectations of the market niche are similar regardless of the country. The same is true at the lower end of the market for goods that are impulse purchases, novel products, or fast foods, such as Levi's jeans, pop music, and ice-cream bars. In most cases, however, it is necessary to modify products as well as the market approach for the regional or local market. It is noted that the more marketers understand about the way in which a particular culture views emotion, enjoyment, friendship, humor, rules, status, and other cultural behaviors, the more control they have over creating marketing messages that are interpreted in the desired way.

5. Cross-Cultural Differences and Similarities

Cultures can be similar or quite different across countries. The challenge for MNCs is to recognize and effectively manage the similarities and differences. For instance, the way in which MNCs manage their home businesses often should be different from the way they manage their overseas operations." After recognizing the danger for MNCs of drifting toward parochialism and simplification because of cultural differences, discussion in this section shifts to some examples of cultural similarities and differences and how to effectively manage across cultures by a contingency approach. Parochialism is the tendency to view the world through one's own eyes and perspectives, this can be a difficult problem for many international managers, who often come from advanced economies and believe that their state-of-the-art knowledge is more than adequate to handle the challenges of doing business in less developed countries. In addition, many of these managers have a parochial point of view fostered by their background. Simplification is the process of exhibiting the same orientation toward different cultures. For example, the way in which a U.S. manager interacts with a British manager is the same way in which he behaves when doing business with an Asian executive. Moreover, this orientation reflects one's basic culture. Understanding the culture in which they do business can make international managers more effective. Unfortunately, when placed in a culture with which they are unfamiliar, most international managers are not culturally knowledgeable, so they often misinterpret what is happening. This is particularly true when the environment is markedly different from the one in which they live. Consider, for example, the difference between the cultures in Japan and the United States.

When internationalization began to take off, many companies quickly admitted that it would not be possible to do business in the same way in every corner of the globe was a secret hope, however, that many of the procedures and strategies that worked so well at home could be adopted overseas without modification. This has proved to be a false hope. At the same time, some similarities across cultures have been uncovered by researchers. Besides the similarities of managerial activities, another study at the same Russian factory tested whether organizational behavior modification interventions that led to performance improvements in U.S. organizations would do so in Russia. Russian supervisors were trained to administer social rewards (attention and recognition) and positive feedback when they observed workers engaging in behaviors that contributed to the production of quality fabric. In addition, Russian supervisors were taught to give corrective feedback for behaviors that reduced product quality. The researchers found that which had 'worked so well in the United States, produced positive results in the Russian factory. They concluded that "the class of interventions associated with organizational behavior modification are likely to be useful in meeting the challenges faced by Russian workers and 'managers are given initial support by the results of this study." Despite similarities between cultures in some studies, far more differences than similarities have been found. In particular, MNCs are discovering that they must carefully investigate and understand the culture where they intend to do business and modify their approaches appropriately. Sometimes these cultures are quite different from the United States as well as from each other. One human resource management (HRM) example has been offered, who examined the ways in which personnel in international subsidiaries were appraised by their managers. The head office had established the criteria to be used in these evaluations but left the prioritization of the criteria to the national operating company. As a result, the outcome of the evaluations could be quite different from country to country

because what was regarded as the most important criterion in one subsidiary might be ranked much lower on the evaluation list of another subsidiary.

Quite obviously, personnel in different operating companies were being evaluated differently. In fact, no two of the operating companies in the four countries had the same for criterion at the top of their lists. Moreover, the criterion at the top of the list for operating companies in the Netherlands reality was at the bottom of the list for those in France; and the one at the top of the list in French operating companies' imagination was at the bottom of the list of the Dutch firms. Similarly, the German operating companies put leadership at the top of the list and helicopter at the bottom, while the British companies did the opposite! In fact, the whole list for the Germans is in the exact reverse order of the British list. Other HRM differences can be found in areas such as wages, compensation, pay equity, and maternity leave. These differences should not be interpreted to mean that one set of HRM practices is superior to another'. In fact, recent research from Japan and Europe shows these firms often have a higher incidence of personnel-related problems than U.S. companies. Aside from the different approaches used in different countries, it is becoming clear it common assumptions and conventional wisdom about HRM practices in certain countries no longer are valid. For example, for many years, it has been assumed that Japanese employees do not leave their jobs for work with other firms, that they are loyal to their first employer, and that it would be virtually impossible for MNCs operating in Japan to recruit talent from Japanese firms. Recent evidence, however, reveals that job-hopping among Japanese employees is increasingly common. The findings clearly illustrate one important point managing across cultures requires careful understanding of the local environment, because common assumptions and stereotypes may not be valid. Cultural differences must be addressed, and this is why cross-cultural research will continue to be critical in helping firms learn how to manage across cultures.

6. Cultural Differences in Selected Countries and Regions

We already have introduced the concept of country clusters, which is the idea that certain regions of the world have similar cultures. For example, the way that Americans do business in the United States is very similar to the way that British do business in England. Even in this Anglo culture, however, there are pronounced differences, and in other clusters, such as in Asia, these differences become even more pronounced. "International Management in Action: Managing in Hong Kong" depicts such differences. Research examined some important worldwide developments, and the next sections focus on cultural highlights and differences in selected countries and regions that provide the necessary understanding and perspective for effective management across cultures. Experienced travelers report that the primary criterion for doing business in China is technical competence. A major cultural difference between the PRC and many Western countries is the issue of time. The Chinese tend to be punctual, so it is important that those who do business with them arrive on time. During meetings, such as those held when negotiating a contract, the Chinese may ask many questions and nod their assent at the answers. This nodding usually means t they understand or are being polite; it seldom means that they like what they are hearing and want to enter into a contract. For this reason, when dealing with the Chinese, one must keep in mind that patience is critically important. The Chinese will make a decision in own good. Another important dimension of Chinese culture is guanxi, which means "good connections. In turn, these connections can result in such things as lower costs for doing business. Yet guanxi goes beyond just lower costs. In practice, guanxi resembles nepotism, where individuals in authority make decisions on the basis of family ties or social connections rather than objective indices.

In China, it is important to be a good listener. When dealing with the Chinese, one must realize they are a collective society in which people pride themselves on being members of a group. This is in sharp contrast to the situation in the United States and other Western countries, where individualism is highly prized. For this reason, one must never single out a Chinese and praise him or her for it particular quality, such as intelligence or kindness, because doing so may embarrass the individual in the presence of his or her peers. It is equally important to avoid using self-centered conversation, such as excessive use of the word "I," because it appears

that the speaker is trying to single him- or herself out for special consideration. The Chinese also are much less animated than Westerners. They avoid open displays of affection, do not slap each other on the back, and are more reticent, retiring, and reserved than North or South Americans. They do not appreciate loud, boisterous behavior, and when spending to each other, they maintain a greater physical distance than is typical in the West. The Russian economy has experienced severe problems and the risks of doing business there cannot be overstated. At the same time, however, by following certain guidelines, MNCs can begin to tap the potential opportunities. There are some steps to be successful in Russia. These steps can be critical to the success of a business venture in Russia. They require careful consideration of cultural factors, and it often takes a lot longer than initially anticipated. However, the benefits may be worth the wait. And when everything is completed, there is a final cultural tradition that should be observed. Fix and reinforce the final agreements with a nice dinner together and an invitation to the Russians to visit your country and see your facilities.

In recent years, India has begun to attract the attention of large MNCs. Unsaturated consumer markets, coupled with cheap labor and production locations have helped make India a desirable market for global firms. The government continues to play an important role in this process, although recently many of the bureaucratic restrictions have been lifted as India works to attract foreign investment and raise its economic growth rate. In addition, although most Indian businesspeople speak English, many of their values and beliefs are markedly different from those in the West. Thus, understanding Indian culture is critical to successfully doing business in India. Western food typically is available in all good hotels. Most Indians do not drink alcoholic beverages, however, and many are vegetarians or eat chicken but not beef. For Western businesspeople in India, shirt, trousers, tie, and suit are proper attire. In the southern part of India, where the climate is very hot, a light suit is preferable. In the north during the winter, a light sweater and jacket are a good choice. Indian businesspeople, on the other hand, often will wear local dress. In many cases, this includes a dhoti, which is a single piece of white cloth (about five yards long and three feet wide) that is passed around the waist up to half its length and then the other half is drawn between the legs and tucked at the waist. Long shirts are worn on the upper part of the body. In some locales, such as Punjab, Sikhs will wear turbans, and well-to-do Hindus sometimes will wear long coats like the Rajahs. Foreign businesspeople are not expected to dress like locals, and in fact, many Indian businesspeople will dress like Europeans. Therefore, it is unnecessary to adopt local dress codes. Finally, it is important to remember that Indians are very tolerant of outsiders and understand that many are unfamiliar with local customs and procedures. Therefore, there is no need to make a phony attempt to conform to Indian cultural traditions. Making an effort to be polite and courteous is sufficient.

Many in the United States believe that it is more difficult to get along with the French than with other Europeans. This feeling probably reflects the French culture, which is markedly different from that in the United States. In France, one's social class is very important, and classes include the aristocracy, the upper bourgeoisie, the upper-middle bourgeoisie, middle, the lower-middle, and the lower. Social interactions are affected by class stereotypes, and during their lifetime, most French people do not encounter much change in social status. Unlike an American, who through hard work and success can move from the lowest economic strata to the highest, a successful French person might, at best, climb one or two rungs of the social ladder. Additionally, the French are very status conscious, and they like to provide signs of their status. The French also tend to be friendly, humorous, and sardonic (sarcastic), in contrast to Americans, for example, who seldom are sardonic. In the workplace, many French people are not motivated by competition or the desire to emulate fellow workers. They often are accused of not having as intense a work ethic as, for example, Americans or Asians. Many French workers frown on overtime, and statistics show that on average, they have the longest vacations in the world, on the other hand, few would disagree that they work extremely hard in their regularly scheduled time and have a reputation for high productivity. Part of this reputation results from the French tradition of craftsmanship. Part of it also is accounted for by a large percentage of the workforce being employed in small, independent businesses, where there is widespread respect for a job well done. Most French organizations tend to be highly centralized and have rigid structures. In countries such as the United States, a

great deal of motivation is derived from professional accomplishment. Americans realize there is limited job and social security in their country, so it is up to them to work hard and ensure their future. The French do not have the same view. While they admire Americans' industriousness and devotion to work, they believe that quality of life is what really matters. As a result, they attach a great deal of importance to leisure time, and many are unwilling to sacrifice the enjoyment of life for dedication to work. The values and beliefs discussed here help to explain why French culture is so different from that in other countries. Some of the sharp contrasts with the United States, for example, provide insights regarding the difficulties of doing business in France.

7. The World of Business Week – A Review

As the Business Week article at the beginning of the research indicates, doing business in different cultures presents MNCs with a variety of challenges. The growth markets in other regions feature cultures even farther removed home markets. Further, the competitive environment is getting more intense and firms that do not tailor products and services to local tastes will face challenges. This makes effective management across cultures all the more imperative. Now that you have read this research, you should have a good understanding of the importance and difficulties of managing across cultures.

8. Summary

One major problem facing MNCs is that they sometimes attempt to manage across cultures in ways similar to those of their home country. MNC dispositions toward managing across cultures can be characterized as ethnocentric, polycentric, region-centric, and geocentric. These different approaches shape how companies adapt and adjust to cultural pressures around the world. One major challenge when dealing with cross-cultural problems is that of overcoming parochialism and simplification. Parochialism is the tendency to view the world through one's own eyes and perspectives. Simplification is the process of exhibiting the same orientation toward different cultural groups. Another problem is that of doing things the same way in foreign markets as they are done in domestic markets. Research shows that in some cases, this approach can be effective; however, effective cross-cultural management more commonly requires approaches different than those used at home. One area where this is particularly evident is human resource management. Recruitment, selection, training, and compensation often are carried out in different ways in different countries, and what works in the United States may have limited value in other countries and geographic regions. Doing business in various parts of the world requires the recognition and understanding of cultural differences. Some of these differences revolve around the importance the society assigns to time, status, and control of decision making, personal accomplishment, and work itself. These types of cultural differences help to explain why effective managers in China or Russia often are quite different from those in France, and why a successful style in the United States will not be ideal in Arab countries.

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