

International Business Management

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MGM 506

Lecture 3



Learning objectives

Multinational Corporation Definition

Advantages and Disadvantages of MNC's

Explain Culture definition and culture components

Introduction of corporate culture

Six Dimensions of Culture

Cultural Typology of the Organization

- MNCs are huge industrial/business organizations. They extend their industrial/ marketing operations through a network of branches or their majority owned foreign affiliates.
- MNCs produce the products in one or a few countries and sell them in most of the countries.
- Transnational corporations produce the products in each country based on the specific needs of the customers of that country and market these.
- A transnational corporation mostly uses the inputs of the host country where it operates unlike a multinational company

- The survival of an organization depends on its ability to respond to environmental changes and societal demands.
- Corporate culture consists of the assumptions and values created by the manner in which the organization adapts to these changes and demands.
- To survive, the organization must interact effectively with its environment.
- This includes the relationship between corporate culture and the cultural environment. Various aspects of national culture are reflected in the culture of the firm.

- Very seldom can irreconcilable contradictions exist between the two. Any difference is either temporary or a normal variance of the national norms.
- Incongruity between corporate culture and societal values results in the death of the organization.
- The organizations that survive are those that adopt cultures reflective of the major values of the society and its dominant cultural characteristics.

Multinational Corporation Definition

- A multinational corporation/company is an organization doing business in more than one country.
- Transnational company produces, markets, invests and operates across the world.
- It is integrated global enterprise which links global resources with global markets at profit.
- These companies have sales offices and/or manufacturing facilities in many countries. A corporation (MNC) engages in various activities like exporting, importing, manufacturing in different countries

Domestic companies become multinational companies (MNCs) for a number of reasons. They include:

- To protect themselves from the uncertainties and risks of business cycles, political policies and social uncertainties of the domestic country.
- Expanding the operations to a number of foreign countries can offset the negative consequences of domestic effects.
- To tap the growing global market for various goods and services.

Why Companies become Multinational Companies

- **To increase market share:** Firms become MNCs in order to increase their market share by expanding their operations to a number of countries.
- **To reduce costs:** Companies become MNCs by locating their manufacturing facilities close to the foreign customers. This in turn reduces cost of transportation, warehousing etc.
- **To overcome tariffs:** Many countries charge tariffs if the companies export goods from other countries. In contrast, companies need not pay tariffs, if they locate their manufacturing facilities in foreign countries.

Advantages and Disadvantages of Multinational Companies

EXHIBIT 3.1

ADVANTAGES AND DISADVANTAGES OF MNCs TO THE HOST COUNTRIES

<i>Advantages</i>	<i>Disadvantages</i>
• Increases economic activity • Increases industrial activity • Increases employment and income levels • Domestic industry gets the latest technology • Domestic industry gets sophisticated management techniques • Domestic input suppliers get more business • Improves the competitive ability of domestic business due to competition • Domestic business uses outcome of MNC's R&D efforts • Advantages of foreign culture through cultural transformation • Reduction of imports and favourable effect on balance of payments • Domestic consumers have the advantage of consuming a variety of goods and services • MNCs earn foreign exchange by exporting to the neighbouring countries • Utilisation of natural resources of the host countries.	• Technology developed by the MNCs may not suit the needs of host country. • MNCs may not operate within national autonomy and sovereignty. • Monopolistic practices of MNCs may kill the domestic industry. • MNCs may adopt ethnocentric approach in staffing. • MNCs may use the natural resources of the host country indiscriminately. • A large sum of money may flow from the domestic country in the form of dividends and royalty. • MNCs normally concentrate on consumer goods but not capital goods and infrastructure in host country. • MNCs may distort the economic structure of the host countries. • MNCs may interfere in the political activities of the host countries. • MNCs normally provide the out dated technology to the host country industry. • Pollutes the environment of the host countries.

Regulations to control MNCs. These include:

- Some industries were not allowed to import technology where the products are not essential and where domestic capacity was adequate.
- The maximum rate of royalty was imposed on technology, imports for those industries which were allowed to import technology.
- Import of foreign capital was allowed but sometimes they were based on administrative decisions.
- Permissible period of agreement was reduced from 10 years to 5 years.
- Exports and other marketing restrictions were imposed.

What Is Culture?

- Culture is a system of knowledge and standards for perceiving, believing, evaluating, and acting.
- It is a process of socially transmitted behavior patterns that serves to relate people to the environment.
- Culture develops over time and is constantly and slowly evolving.
- A simpler definition is offered by Hofstede, who described culture as “the collective programming of the mind which distinguishes the members of one category of people from those of the other.

- Another simple definition of culture is given by Schein who states that “culture is the way in which a group of people solves problems and reconciles dilemmas”.
- Although there is no unified definition of culture, one common denominator is that culture is the way or a system of knowledge/standard that determines the behaviors of people in a society.
- Then the question is what determines the system of knowledge/standard. To answer this, we need to understand the major components of culture.

The Major Components of Culture

Language, ethnicity, and religion are the major components of culture.

Language :

- The language we use to communicate with others structures the way we perceive the world.
- One word in a country may have various meanings if translated into different languages, because people in the world perceive the world differently. For instance, the Korean word “Jeong” can be translated in English as “affection,” “attachment,” or “warm-hearted,” but the meaning may also vary depending upon situations.

- **Ethnicity** refers to as an enduring, fundamental aspect of the self that includes a sense of membership in an ethnic group and the attitudes and feelings associated with that membership.
- As long as ethnicity reflects attitudes and feelings of an ethnic group, it has psychological implications of culture.
- Ethnicity comprises of a number of different components including self-labeling, a sense of belonging, preference for the group, ethnic interest and knowledge, and involvement in activities associated with the group.

Religion :

To better understand a culture, one must have knowledge of its religious foundation. There are several major religions and many minor ones.

- The major religions are Buddhism, Christianity, Hinduism, Islam, Judaism, The three major religions originating from the Middle East—Judaism, Christianity, and Islam—have much in common and share the same basic frame-work.

Six Dimensions of Culture

While there are similarities among cultures, no two cultures are alike. Hofstede identified six cultural dimensions:

- individualism/collectivism,
- masculinity/femininity (gender values differentiation and rigidity),
- uncertainty avoidance,
- power distance,
- long-term/short-term orientation,
- indulgence/restraint..

Corporate Culture

Corporate culture indicates organizationally shared values, beliefs, assumptions, and understandings that are the basis for relevant corporate norms and behavior patterns.

A very simplified definition of corporate culture is

“the way things work around here” .

Cultural phenomena are detectable in organizations at three levels:

1. Overt behavior and other physical manifestations, such as artifacts and literature, are at the first level. Formal communication style and dress code are first-level examples.
2. The second level consists of values, a sense of what “ought” to be. Promoting from within the organization and lifetime employment are examples of the second level.
3. The third level contains the basic assumptions, including methods of coping with the environment. Strategic choices and ways of dealing with competition are the third-level examples.

- Corporate culture is a product of the firm's environment and the interpersonal relationships among its members.
- Initially, the firm's culture is influenced by the culture of the country where it initially was established.
- Once the firm expands its operations outside its borders and the dominance of its home culture, the influence of the host country's national culture becomes a reality.
- The performance of business organizations depends on their ability to maintain internal consistency and external compatibility.

- **Internal consistency:** is the equilibrium and balance between the various internal components of the firm, such as hiring, promoting, and rewarding employees.
- **External compatibility** :is the harmony of the firm with its host environment, including relations with suppliers and ways of dealing with competitors.
- Organizations should be careful not to create too much internal inconsistency when creating external compatibility.
- In an effort to create external compatibility and to represent the cultural diversity of the global market in their corporate cultures, the MNCs may create a morass of cultural mismatch and cause internal inconsistency.

- The challenge is to bring about external compatibility and at the same time manage a culturally diverse workforce without creating internal conflict.
- Many believe that cultural diversity enhances organizational competitiveness.
- Failure to manage cultural diversity properly, however, could lead to increased conflict and communication breakdowns.

- Trompenaars and Hampden-Turner used two dimensions, egalitarian-hierarchical and person-task, to identify four types of corporate cultures.
- The four types are metaphorically named: the family, the Eiffel Tower, the guided missile, and the incubator (see Fig. 3.1). The four types are “ideal types.” In practice, the four types are mixed and overlapping, with one culture dominating.

	Personal/Informal	Task/Formal
Egalitarian/ Decentralized	Incubator (Person/ Fulfillment Oriented) Country: Sweden Business: Small	Guided Missile (Task/Project Oriented) Country: U.S., U.K. Business: Large
Hierarchical/ Centralized	Family (Power Oriented/Dominant) Country: France, Spain Business: Small	Eiffel Tower (Role Oriented/Dominant) Country: Germany Business: Large

Fig. 3.1 Four types of corporate culture. (Source: Trompenaars and Hampden-Turner [36])

The Family Culture

- The family culture is both personal and hierarchical, in which the “father” has much more authority and experience than his children.
- Such a corporate culture is power oriented, and the leader acts like a caring father, who knows what is good for them and acts accordingly. This type of power is intimate and not threatening. The atmosphere of the corporation is much like a home.
- By working hard and resolving conflicts, employees in this corporate culture derive pleasure from such relationships. Pleasing a superior (the father or elder brother) is a reward in itself.

The Eiffel Tower

- The bureaucratic organization with the division of labor and prescribed roles and functions resembles an Eiffel Tower. These roles and functions are coordinated from the top by a hierarchy that is symmetrical and narrow at the top and broad at the base. It is rigid, stable, and robust.
- However, its hierarchy is quite different from that of the family culture. Each level has a clear function, and roles to perform those functions are prescribed in advance.

The Guided Missile

- The guided missile culture is egalitarian and therefore is different from the family and the Eiffel Tower.
- It resembles the Eiffel Tower more because of its impersonal and task-oriented feature. But unlike the Eiffel Tower culture, where “means” are important, in the guided missile culture, the “ends” are vital.
- Everything must be done to accomplish the strategic mission and reach the target. It is a task-oriented organization in which teams or project groups undertake various jobs. These jobs (tasks) are not fixed in advance but will be determined as new targets are established.

- **The Guided Missile** is very costly to have a workforce composed of professionals, guided missile culture is very expensive. The relative value of individual contributions to the project may not be clear as in the Eiffel Tower culture.
- Groups are project dependent; therefore, they are formed and dissolved as needed. However, a functioning organization requires some degree of permanency.
- Therefore, in practice, guided missile culture uses Eiffel Tower as a skeleton to give it stability and permanence

The Incubator Culture

- The metaphor of incubator culture should not be confused with “business incubator.” However, the logic of both is quite similar. In both, the purpose is to enable individuals to be creative by removing the routine and mundane from daily work.
- The incubator culture is both egalitarian and personal.
- There is almost no structure and organization; it only serves as an incubator for the individual’s self-expression and self-fulfillment.
- The minimum structure of the incubator is to provide for personal conveniences such as heat, light, and computer services so that individuals could tap their creative potentials.

- Other people in the incubator culture are important in that they provide the much-needed evaluation and criticism of new ideas.
- They develop, procure, and provide the resources needed to produce the innovative products or services that the organization provides to the clients.
- Typical examples of incubator cultures are found in start-ups in the Silicon Valley, California, and Route 128 around Boston. These firms are usually entrepreneurial or founded by creative teams.

Monolithic, Plural, and Multicultural Organizations

On the basis of cultural diversity, business organizations could be categorized as monolithic, plural, and multicultural. We examine these organizations using the following six factors:

- acculturation,
- structural integration,
- informal integration,
- cultural bias,
- organizational identification, and
- intergroup conflict

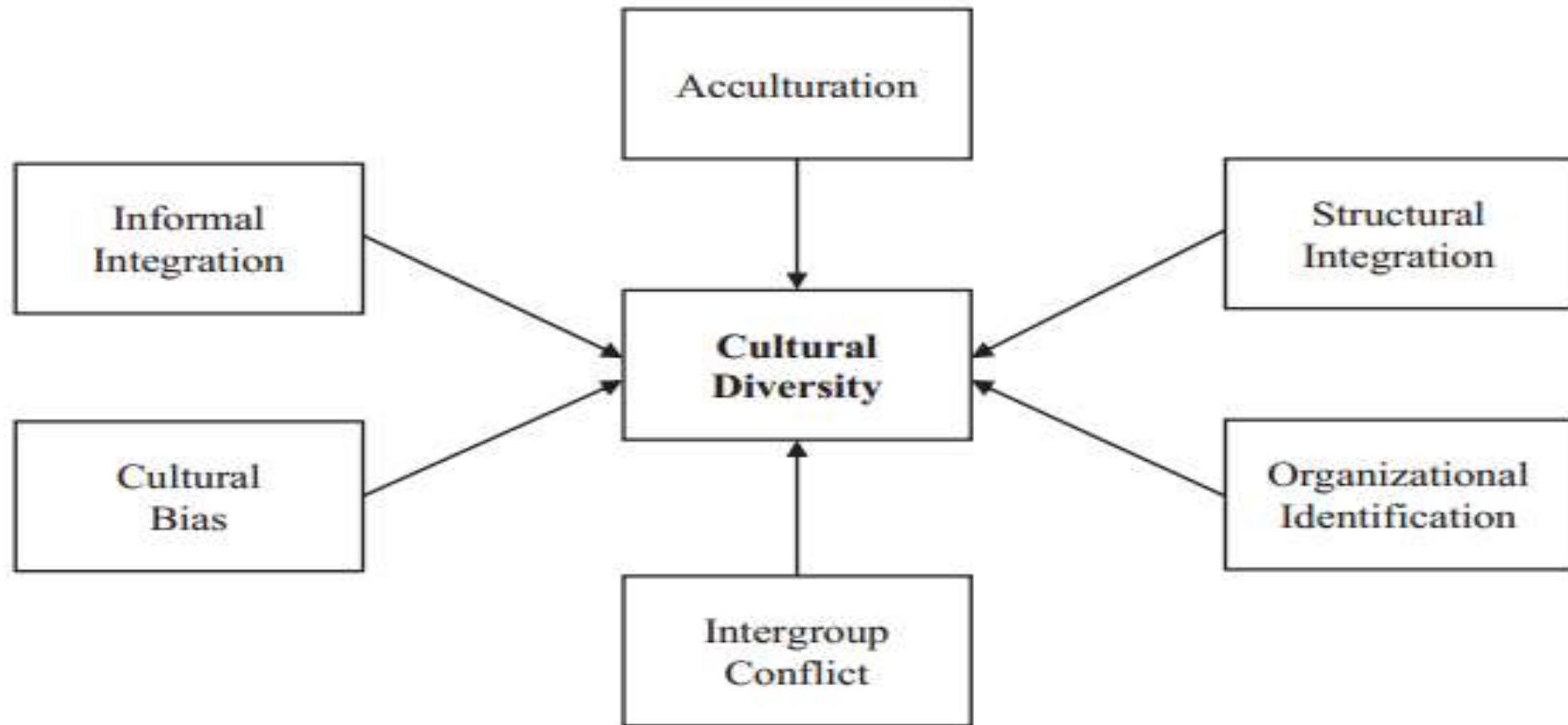


Fig. 3.2 Factors influencing the cultural diversity of the organization

1. **Acculturation:** is the method of resolving differences between the dominant culture and any minority culture.
2. Acculturation could be by assimilation, the unilateral adoption of the norms and values of the dominant culture by other cultural groups; by pluralism, combining some elements of the dominant and any minority cultures; or by separation, where there is a little adoption from either culture.
2. **Structural integration is the presence of members of different cultural groups in various organizational levels.**

3. Informal integration is the inclusion of members of minority cultures in informal networks and activities taking place outside the ordinary work activities.
4. Cultural bias is the existence and practice of prejudice and discrimination in the organization.
5. Organizational identification is the extent to which the workforce identifies with the firm.
6. Intergroup conflict refers to friction, tension, and power struggles between various cultural groups within the firm

Monolithic Organization

- Monolithic organizations are highly homogeneous with little structural integration. They consist of one dominant cultural group. If members of other cultural groups join the firm, they must adopt the existing cultural norms to survive.
- There are prejudice and discrimination against the members of the cultural minority because of the lack of structural and informal integration. Consequently, organizational identification among the host country personnel is very low.
- But there is little group conflict because of the homogeneity of the workforce.

Plural Organization

- The norms and values of other cultures are usually well represented inside plural organizations because these businesses try to include host country citizens in their workforce.
- Human resource management practices often change because they need to tap local knowledge to learn about the host market. Also, some governments require the employment of local personnel.
- As a result, MNCs gain a higher level of structural integration than monolithic firms, leading to a plural organization that is culturally heterogeneous.

Multicultural Organization

- Both plural and multicultural firms are culturally heterogeneous. Plural organizations, however, do not value their cultural diversity, while multicultural firms do.
- They recognize the value of cultural heterogeneity and understand the potential contributions of cultural diversity to organizational performance.
- Multicultural organizations adopt a synergistic approach to management and have overcome the shortcomings of plural firms.

- **Multicultural organizations** :are characterized by full structural and informal integration, an absence of prejudice and discrimination, and minimum intergroup conflict.
- Members of minority cultures identify with the organization, and acculturation happens because all participating cultures are integrated into a synergistic whole.
- It is doubtful whether many MNCs have reached their goal of multiculturalism, but probably the global market's competitive environment will force MNCs to adopt a multicultural posture.

The Benefits of Multiculturalism

- Until recently, most organizations were primarily concerned with the problems and costs created by the ethnic and gender diversity of their workforce.
- They ignored the potential benefits of cultural diversity.
- the diversity of the workforce could be a source of competitive advantage.

The following are the major potential advantages of multiculturalism:

1. Reduced costs:

- There is evidence that as the cultural diversity of firms increases, so does the cost of poor integration.
- The experiences of minorities and women at work indicate that when cultural minorities are not fully integrated into the workforce, they tend to have lower job satisfaction and higher absenteeism and turnover.
- Firms that properly manage cultural diversity could have a cost advantage over those that do not, because of lower absenteeism and turnover rates.

2. Resource acquisition:

- With the increasing globalization of business, competition for qualified personnel has become more intense.
- Firms with a good reputation for handling cultural diversity attract more and better-qualified personnel.
- This benefit of cultural diversity is especially critical to an MNC's international expansion.
- A well-qualified pool of managers adds expertise and knowledge to the firm.

3. Marketing advantage: The insight and cultural sensitivity of the multicultural workforce improve marketing efforts.

- Multicultural personnel enables MNCs to understand and adopt the cultural perspectives of their multiple markets.

4. Creativity: Creativity flourishes when there is a diversity in perspective and less emphasis on conformity.

Multicultural organizations are potentially more hospitable to creativity.

5. Problem-solving:

- Multicultural firms have access to a broader and richer base of experience. Heterogeneity allows a wider range of perspectives and a more thorough critical analysis of issues.
- Therefore, heterogeneous groups have the potential for making better decisions.

6. Organizational flexibility: Research has demonstrated that bilinguals have a higher level of divergent thinking and cognitive flexibility

Resources:

- **Kamal Fatehi & Jeongho Choi**

International Business Management Succeeding in a Culturally Diverse World, Second Edition

- **Dr. P. SUBBA RAO**

International Business Environment. Second Edition



Thank You