Cultural Concepts that affect strategic management decision of Multinational businesses

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By

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Introduction

The globalized economies and the openness of markets have resulted in a new era in business conducts. The removal of trade barriers as well as the globalization of markets and products/services have prompted organizations to adopt a multinational perspective and practice on operations (Brock, 2005). Multinational corporations (MNCs) have been gradually dominating competitive markets and the overall internationalization process of business has become a subject attracting the attention of scholars and practitioners in an attempt to conceptualize a theoretical framework for successful organizational performance (Brock et al., 2000; Drogendijk and Slangen, 2006). One of the most researched and reviewed area regarding multinational strategic management and multinational practices is the influence of culture (national and organizational) on the decision making process. There is a bulk of literature that focuses first on the cultural characteristics or dimensions that eventually affect strategic decisions and second on the degree in which these cultural characteristics provide the fundamental basis for strategy design, formulation and implementation (Brock, 2005; Kostova and Roth, 2002; Morishnik, 2002).

This paper draws upon three different theoretical underpinnings and concepts that relate to the culture’s impact on the multinational enterprises’ strategic management decision. The first theory is four cultural dimensions identified and developed by Hofstede (1991), the second theoretical proposition is the seven –
dimensions or cultural features proposed by Schwartz (1994), whereas the third concept relates to the Institutional Theory that underlines decision making on the basis of culturally, politically, and economically legitimizing business operations in foreign markets (Durand, 2007; Kostova and Roth, 2002). These three presented theories highlight the different cultural features or dimensions that pertain to the influential sphere of multinational strategic decision making.

**Hofstede’s Cultural Dimensions**

Hofsted (1991; 2001) proposed that multinationals’ strategic management decisions need to be considerate of four fundamental dimensions that eventually profile the national culture of the foreign market and adhere to important features that underline the cultural characteristics and the cultural orientation of the particular country. These four dimensions may well pertain not only to the national level but to the organizational level as well (Drogendijk and Slangen, 2006).

The first dimension is power distance and reflects the extend in which people in a given society perceive that the power is distributed unequally amongst individuals as well as the degree in which people accept this distribution or allocation of power as ‘status quo’ (Brock, 2005; Hofstede, 2001). Power distance refers to the perception of the society as a whole towards control, authority, power and decision making as being the prerogative of those in power or of virtually every member of the prospective society. Moving on, the second dimension identified by Hofstede is that of uncertainty avoidance. This characteristic reflects the degree in which people are oriented towards undertaking risks or avoiding assuming responsibilities or risks entailed in situations (Barkeman, 1996; Shenkar, 2001). Societies with high uncertainty avoidance exhibit a declination over risks or unknown contexts and generally prefer well established and
acknowledged business conducts (Brock et al., 2000). On the other hand low levels in uncertainty avoidance imply that individual members of the society in account are more enthused towards new, unknown and probably risk – comprising situations.

The third dimension is the masculinity or femininity facet of the culture. This dimension reflects the orientation of the society towards active or passive perception over interpersonal or business relationships (Kostova and Roth, 2000). In more details, masculine cultures characterise societies whose members are inclined to competitiveness, achievement, assertion and exhibit goal/performance oriented approach. On the other hand, feminine cultures describe societies in which the members are not driven by ambition but predominantly by the need to co-exist with the other members (Brock, 2005; Shenkar, 2001). Feminine societies are interested in nurturing and establishing the fundamental basis for achieving quality in every endeavour (Hofstede, 2001). Finally, the fourth dimension as proposed by Hofstede is the individualism/collectivism approach. In individualistic societies people seek to distinguish and differentiate from the remaining members on the basis of individual (as a unit) performance. The unit is valued whereas the ‘group’ is rather discredited (Drogendijk and Slangen, 2006). In collectivist societies, people place greater emphasis on group orientation or teamwork and tend to place the unit’s (the individual’s) goals and interests below the overall group’s interests.

These discussed four dimensions are perceived by authors, academics and practitioners as important constructs upon which strategic decision making is developed and implemented in the multinational field. Cho and Padmanabhan (2005) argue that as multinational corporations (MNCs) are faced with challenges stemming from multiplicity and diversity of cultures, they eventually need to be sensitive over differentiation and reflective of their consideration of the various cultural
impediments that characterise foreign markets. Brock et al. (2000) indicate that identifying the specific levels of each of the dimensions for a given prospective market greatly enhances multinationals’ decision making in a number of areas including the choice of entry mode, HR practices, marketing strategies as well as management relationships.

Hofstede’s cultural dimensions of societies constitute an integrated and consistent approach to estimating or measuring the degree of cultural proximity or cultural distance between claimed and common practices and future or prospective practices. Strategic decisions are reportedly largely impacted by the characteristics or features of the national cultures (or organizational sub-cultures as indicated by Brock et al., 2000) as they represent and reflect norms, beliefs and values of the societies in which multinational corporations engage into operations. According to Brock (2005) these dimensions do not only pertain to the national level (which either way is critical to multinational businesses) but are transferred to the intra-organizational level as well; a fact underlining the significant effect that cultural features and characteristics on overall performance.

Schwartz’s Cultural Framework

Schwartz’s (1994) theoretical proposition of cultural dimensions draws heavily upon Hofstede’s indications of the cultural characteristics but expands to a more consistent approach reflecting more generic perspectives on societies and cultures. According to this cultural concept, there are seven disciplines which describe cultures and which - as noted by Drogendijk and Slangen (2006) and Liu et al. (2004) - affect multinational strategic management and decision making.
The first cultural value is conservatism. Conservatism refers to the relationship amongst the individual members of the society and the overall group. Drogendijk and Slangen (2006) stress that conservative societies place emphasis on “propriety and restraining actions or desires that may disrupt the solidarity of the group or the traditional order” (p. 364). In simple terms conservatism reflects societies whose members are maintaining the ‘status quo’ and perceive that any alterations or modifications (such as new concepts or new ideas) eventually harm interpersonal relationships. This value is very critical because it implies that distortion of norms and habits in any contextual environment (national or organizational) may hinge failures in business performance. The second dimension that is proposed by Schwarz (1994) to be important in multinational’s strategic management decisions is the intellectual autonomy. This value refers to the orientation of people in given societies to pursue their own interests through their own and unique personalities. Performance and success are measured on the basis of individuals’ efforts, who are viewed as pure autonomous and distinct by the remaining members of the culture (Liu et al., 2004).

Moving on, the next value is affective autonomy and describes similar to intellectual autonomy characteristics but in the context of people pursuing their interests and overall success through affective domains and positive experiences. As Drogendijk and Slangen (2006) posit such cultures (and consequently organizations) are often welcoming change and accept that different people are differently autonomous and therefore are legitimized to pursue their own interests.

The fourth cultural value, according to Schwartz (1994) is hierarchy, which denotes societies in which people exhibit responsible social behavior under the non-equal allocation of power and authority. This actually means that people in such cultures tend to perceive the individuals as autonomous regardless the degree of
concentrated power and tend to pursue their objectives distinctively. According to Miroshnik (2002) this value refers to the hierarchical organization of power and control in a society and reflects how individual members perceive this hierarchy as being necessary and essential. Continuing, the next cultural characteristic is egalitarianism and relates to the orientation of societies’ members towards placing the welfare of others above individual interests and goals. Liu et al. (2004) suggest that egalitarian cultures emphasize the commitment of people to cooperation and voluntary action that favours the common good and common interests. Mastery is the sixth cultural value that greatly impacts multinational operations and consequently multinational strategic management decisions. Mastery refers to the encouragement on the part of the society and culture to members’ pursuing change, learning and knowledge through leveraging environmental opportunities and external prospects (Miroshnik, 2002). In more details, mastery reflects cultures which enhance individuals to learn and adopt environmental trends in order to provide the basis for individual or group successful performance. Finally, the seventh cultural value in Schwarz’s theory is harmony. Harmony is quite opposite to mastery and reflects societies where people are rather resistant to any changes or alterations due to the fact that they prefer consistency and continuity in their endeavours. These cultures emphasize the need for harmonizing with the overall environment and disregard radical or rapid changes that can jeopardize the fit between the environment and the people (Liu et al., 2004).

Schwartz’s (1984) proposed cultural framework provides a more explicit empirical investigation of cultural characteristics or dimensions that are reflected in different societies. This framework is critical once again to managerial decisions in multinational corporations as it offers a more thorough analysis of the current
practices, values and norms that principally guide foreign markets with regards to both inter-organizational relationships as well as intra-organizational relationships. Drogendijk and Slangen (2006) suggest that these cultural concepts are critical and vital in shaping and developing strategic orientation for multinational enterprises operating in multiple cultural environments mainly due to the fact that they reflect business cultures (in smaller contexts) more than they reflect national cultures.

**Institutional Theory on Multinational Corporations**

The Institutional theory suggests that the characteristics as well as the values of the cultural environment of the host country or the foreign market are essentially influencing practical strategic managerial decisions of multinational corporations. According to Durand (2007) concepts of territorial embeddedness mix with the need of legitimatizing activities on the part of multinational enterprises in the markets they expand to.

The Institutional theory explains the need for multinationals adaptation or adjustment of strategies and practices to the foreign markets on the basis of aligning the corporate disposition with the cultural, social and political infrastructure of the host environment. Kostova and Roth (2002) state that every country, market, or even organization within a foreign environment is principled by particular institutional relations that reflect cultural and societal values. These institutional relations stem from the institutions that affect the external as well as the internal environment of firms. Durand (2007) further explains that multinational corporations when entering a foreign market are automatically becoming subjects to institutional norms and institutional relations which gradually determine the degree of legitimization of the multinationals’ operations in that market.
Legitimization with institutional norms – pertaining to cultural and societal norms – is critical for providing the prospects for successful multinational corporations’ performance in the host environments. In that sense, strategic management decision needs to be oriented towards conforming to the cultural or institutional values and characteristics in order to achieve acceptance by the market. According to Kostova and Roth (2002) the influential sphere of institutions expands more than the inter-organizational environment to the relationships between the multinationals and other stakeholders (such as suppliers, customers or any other actors that carry particular cultural norms/values and therefore expect relationships to be of conformance to those norms). It is therefore the multinationals’ role to be considerate of those norms and eventually implement strategies, operations and practices within the boundaries or within the framework of ‘accepted’, ‘valued’ and ‘acknowledged’ norms.

The institutional theory largely emphasizes the relationship between multinational corporations in particular foreign environments and institutional actors of that environment. Durand (2007) stresses that institutional actors can be political regulation, consumer cultures and consumer markets, supplier relations, distribution networks, competition and virtually every concept or area that is influenced by cultural premises or that reflects cultural characteristics differentiating it from other foreign environments or markets. Multinational enterprises that seek to maximize fit between organizational practices and cultural values or characteristics therefore need to take into serious considerations these actors and gradually adapt to the foreign environments cultural norms.

According to Durand (2007) this theory draws heavily from the concept of territorial embeddedness of multinational firms. Territorial embeddedness is the
degree in which multinational enterprises are ‘anchored’ to the foreign environments’ socio-cultural and political infrastructure or norms. This notion explains that multinationals’ strategic management is not only influenced by the host environments’ characteristics but predominantly embeds those characteristics in decision making. As multinational corporations need to ensure successful operations and successful performance in the foreign countries they consequently need to put aside some critical perspectives that abide to their country of origin influence and adopt new perspectives that incorporate cultural values and cultural norms existing in the foreign markets (Kostova and Roth, 2002).

The institutional theory as well as the notion of territorial embeddedness, suggest that multinational strategic management should be aligned and integrated with the practices and the norms underpinning the new cultural environments. Both theoretical propositions underline the relationship of multinational firms to the external environment and more specifically to the cultural or institutional actors of that environment. In order to legitimize and increase the prospects of success for their businesses therefore multinational enterprises must conform to the norms, respect cultural beliefs and values and embed to the cultural dimensions or cultural orientation of the foreign country.

Conclusion
Multinational corporations (MNCs) are subject to cultural barriers that stem from the cultural distance faced in various foreign countries in which they establish their business and operate. Culture reflects more than just mentality and orientation of a given market; it reflects the set of beliefs, common practices, values, norms and overall disposition of people. Aligning operations in order to fit the cultural environment of host countries is vital not only for multinationals’ success but mostly for multinationals’ survival (Cho and Padmanabhan, 2005; Shenkar, 2001). It is rather self-explanatory thus that the cultural underpinnings and cultural characteristics of a given society greatly influence the strategic management decisions of multinational firms in a number of areas.
This paper has presented three fundamental theoretical propositions that explain the notion of cultural distance (or cultural proximity) and further expand on building upon the need for strategic management being oriented towards considering cultural characteristics in the overall decision making. These three theories cover a wide range of issues that are critical to management’s decision and pertain to the most important cultural values or norms that govern not only societies as wholes but organizations as well.

References


