Chapter 82
Cultural Management for Multinational Enterprises

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ABSTRACT

Due to the dynamics in international business, it has become increasingly complex for the Multinational Enterprise (MNE) to find a balance between worldwide standardisation of operational processes and the usage of local advantages. The foreign subsidiary's managers and employees are stuck in the middle of environmental requirements, defined by the parent company on the one hand and the local social environment on the other hand. To ensure organizational efficiency in foreign subsidiaries, the rising conflict between corporate and country cultural characteristics can be solved through active cultural management. This chapter describes fundamentals of culture on corporate and country level and deduces a framework for cultural management. Furthermore, strategies are presented to close the gap between a subsidiary's external requirements and the internal implementation.

INTRODUCTION

Increased business opportunities provided by a multipolar world order with rising markets in China, Brazil, or India involve increasing risks of legal certainty, political decisions, or inhuman labour conditions (Kolodko, 2003). Thus, management is confronted with a growing complexity. This complexity is intensified by an increasing volatility of the markets, as well as by local or global crises such as terrorism, natural catastrophes, or systemic financial and economic crises. The crises follow each other in shorter periods with an increasing impact. The time of constant product life cycles or the possibility to consciously take market risks seems to have concluded (Friedman, 2005; Kotler & Caslione, 2009). Kotler and Caslione describe today's challenge for companies as "[t]he business of managing and marketing in the age of turbulence" (Kotler & Caslione, 2009: title). Hence, to make global business opportunities usable, the complexity of international market activities and global value creation must be decreased

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in terms of controlling the entrepreneurial environment and its heterogeneity. Regional concepts such as local-to-local, near shoring, or the concentration of general manufacturing in industry clusters are becoming more and more popular with Multinational Enterprises (MNE). The massive investment of the German automotive industry in Middle and Eastern Europe is one example of this development (PwC, 2013). For example, the direct investment of German manufacturers in Middle and Eastern Europe is two times higher than in China (Deutsche Bundesbank, 2013; Zuber, 2013).

Lower market entry barriers caused by higher knowledge about specific market conditions and lower cultural distinctions lead to higher regional investment of Small and Middle-sized companies (SMEs) in their function as suppliers of MNEs as well. Higher direct investments in a region lead to higher cross-border resource transfer as well. Besides know-how transfer, the exchange of employees is one of the most discussed topics in the extant literature (Edström & Glabraith, 1977; Hebert & Beamish, 2005). In an international context, this is mostly done to ensure effective value creation in foreign subsidiaries. Although the term 'culture' relates to norms and practices in a company and in countries, most literature concentrates respectively only on one aspect: Research about the effects of country culture focuses on management level and international leading skills, whereas on a corporate level the alignment of two different corporate cultures is discussed in detail (e.g., merger and acquisition or M&A). Hence, the objective of this chapter is to describe the complex field of different cultural approaches and to present a framework of cultural management to overcome the different challenges of country and corporate culture alignment.

The first part of this chapter describes in detail the diversity of culture in MNEs and their environment. Starting with the perspective on the design of international value creation networks (Caves, 1974; Dunning, 1980; Hennart, Kim, & Zeng, 1998; Levy, 1997), it is most important to find the correct balance of local advantages (i.e., low labour costs) and advantages by standardisation (i.e., economies of scale and scope) (Prahalad & Doz, 1987). From the perspective of international neoclassical economic theory, the aspiration for an efficient resource allocation is most important. Regarding the value creation processes in manufacturing, this is mainly measured by X-efficiency under the presumption of optimal performance of workers (Coelli et al., 2005; Leibenstein, 1966). Results from research in industrial psychology and sociology show this presumption excludes a not directly measurable impact of organizational efficiency. Organizational learning ability, efficient team coordination, and the integration of employees are the main factors that make an optimal performance of workers possible (Dodgson, 1993; Gagliardi, 1986; Muchinsky, 2006). These factors are elements of corporate culture. Consequently, the definition of corporate culture, its elements, functions, and impact on corporate performance (mainly discussed since the 1990s) form the basis for the cultural framework from the corporate side (Alvesson, 2002; Cameron & Quinn, 2006; Frost et al., 1985; Smircich, 1983) which is presented here.

The role and effects of corporate culture take on special significance in an international context. The socialisation of managers from the host country conflicts with the norms and practices of employees in foreign subsidiaries (Fayerweather, 1969; Johanson & Vahlne, 1977). Even though cross-cultural studies address the field of management in different cultures (House et al., 2004; Hofstede, 2001; Trompenaars & Hampden-Turner, 2002; Schwartz, 1992), they do not discuss the interaction of the host institution's environment, corporate culture of the foreign subsidiary lived by the employees, and their country-specific mind-sets and behaviours.

Therefore, the effects of cultural management will be discussed on two different environmental levels in the second part of this chapter: requirements from the parent company (e.g., standards for value creation processes, recruitment, or information systems) and requirements from social environment

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