Chapter three

Organizational Cultures and Diversity

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Chapter Objectives

1. **DEFINE** what is meant by organizational culture; discuss interaction of national and MNC culture
2. **IDENTIFY** four most common categories of organizational culture and discuss characteristics of each
3. **PROVIDE** overview of nature and degree of multi-culturalism and diversity in today's MNCs.
4. **DISCUSS** common guidelines and principles used in building team and organizational multicultural effectiveness.

6-2

Questions

1. What is a virtual team of an MNC?

2. Please find four different possible management approach?

3. How to communicate in a global team?

4. Advantages of virtual teams?

6-3

The Nature of Organizational Culture

- **Organizational culture**: shared values and beliefs enabling members to understand their roles and the norms of the organization. There are a number of important characteristics associated with an organization's culture including:

  (1). Observed behavioral regularities as typified by common language, terminology, rituals

  (2). Norms reflected by things such as amount of work to do and degree of cooperation between managers and employees

  (3). Dominant values that the organization advocates and expects participants to share (e.g., low absenteeism, high efficiency)

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Organizational Culture (continued)

(4). A philosophy set forth in the MNC's beliefs regarding how employees and customers should be treated.

(5). Rules dictating do's and don'ts of employee behavior pertaining to areas such as productivity, customer relations, and intergroup cooperation.

(6). Organizational climate, or overall atmosphere of the enterprise, as reflected by the way that participants interact with each other, treat customers, and feel about the way how they are treated by higher level management

(6 characteristics are not all-inclusive but help to illustrate the nature of organizational culture. Problems?)

6-5

Challenge for international management in dealing with multiculturalism within various locations of an MNC

- An effective manager works well in one country may be ineffective in others (England vs. Germany)
- Hoechst AG: Germany and foreign subsidiaries: Brazilian and American managers in 9-member board of high level management; new culture of performance-based pay.
- JCPenney – a giant retailer chain bought control of Renner (Brazilian retail stores,): Penney maintains two cultures, support by backroom operations, logistics, merchandise presentation, branding, capital expansion. Renner 's core values and services, kept up with the market by changing fashion lines 7-8 times/year; provided rapid checkout, credit cards to low-income customers, and interest-free installment plans. Renner bought 30 stores more and gained $300 million up from $150 million.

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Interaction between
National and Organizational Culture

- National cultural values of employees may significantly impact their organizational performance
- Cultural values employees bring to workplace are not easily changed by organization.
- Expl. Upjohn (Kalazamoo, Michigan) merged Pharmacia (Sweden; acquired an Italian firm): vacation season; cultural values

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Dimensions of Organizational Culture
(Hofstede's Diagnosing Organizational Culture for Strategic Application – DOCSA)

Table 6–1
Dimensions of Corporate Culture

Motivation	
Activities	**Outputs**
To be consistent and precise. To strive for accuracy and attention to detail. To refine and perfect. Get it right.	To be pioneers. To pursue clear aims and objectives. To innovate and progress. Go for it.
Relationship	
Job	**Person**
To put the demands of the job before the needs of the individual.	To put the needs of the individual before the needs of the job.
Identity	
Corporate	**Professional**
To identify with and uphold the expectations of the employing organizations.	To pursue the aims and ideals of each professional practice.
Communication	
Open	**Closed**
To stimulate and encourage a full and free exchange of information and opinion.	To monitor and control the exchange and accessibility of information and opinion.
Control	
Tight	**Loose**
To comply with clear and definite systems and procedures.	To work flexibly and adaptively according to the needs of the situation.
Conduct	
Conventional	**Pragmatic**
To put the expertise and standards of the employing organization first. To do what we know is right.	To put the demands and expectations of customers first. To do what they ask.

Source: Reported in Lisa Hoecklin, *Managing Cultural Differences: Strategies for Competitive Advantage* (Workingham, England: Addison-Wesley, 1995), p. 146.
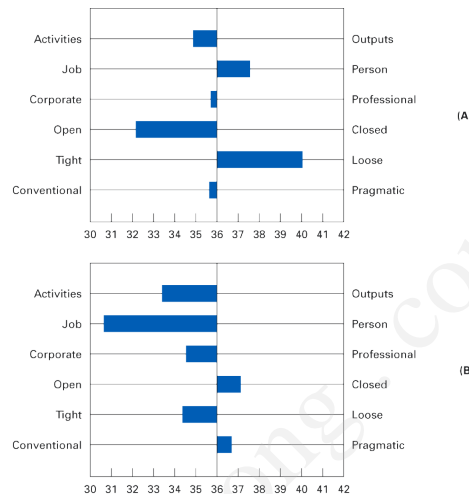
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European Perceptions of Cultural Dimensions of U.S. Operations
(a California-based MNC and its European subsidiaries)

Figure 6–1

Europeans' Perception of the Cultural Dimensions of U.S. Operations (*A*) and European Operations (*B*) of the Same MNC

Source: Reported in Lisa Hoecklin, *Managing Cultural Differences: Strategies for Competitive Advantage* (Workingham, England: Addison-Wesley, 1995), pp. 147–148.

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European Management Characteristics

Table 6–2
European Management Characteristics

Dimension	Characteristic			
	Western (United Kingdom)	**Northern (France)**	**Eastern (Germany)**	**Southern (Italy)**
Corporate	Commercial	Administrative	Industrial	Familial
Management attributes				
Behavior	Experiential	Professional	Developmental	Convivial
Attitude	Sensation	Thought	Intuition	Feeling
Institutional models				
Function	Salesmanship	Control	Production	Personnel
Structure	Transaction	Hierarchy	System	Network
Societal ideas				
Economics	Free market	Dirigiste	Social market	Communal
Philosophy	Pragmatic	Rational	Holistic	Humanistic
Cultural images				
Art	Theatre	Architecture	Music	Dance
Culture	(Anglo-Saxon)	(Gallic)	(Germanic)	(Latin)

Source: Reported in Lisa Hoecklin, *Managing Cultural Differences: Strategies for Competitive Advantage* (Workingham, England: Addison-Wesley, 1995), p. 149.

Organizational Cultures in MNCs

- Shaped by numerous factors including cultural preferences of leaders and employees
- Some MNCs have subsidiaries that (aside from logo and reporting procedures) wouldn't be easily recognizable as belonging to the same MNC

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Organizational Culture in MNCs

- Four steps in integration of organizational cultures resulting from international expansion via mergers/acquisitions:
  1. Two groups have to establish purpose, goals, and focus of their merger
  2. To develop mechanisms to identify most important organizational structures and management roles
  3. To determine who has authority over the resources to get things done
  4. To identify expectations of all involved parties and facilitate communication between both departments and individuals in the structure.

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Determinants of MNC organizational culture

1. The general relationship between the employees and their organization.
2. The hierarchical system of authority that defines the roles of managers and subordinates
3. The general views that employees hold about the MNC's purpose, destiny, goals, and their place in them.

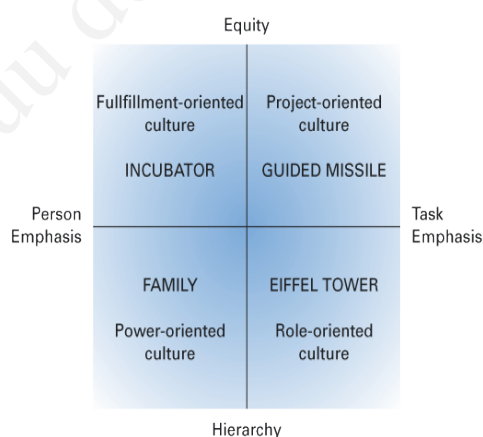6-13

Four Types of Organizational Cultures

Figure 6–2
Organizational Cultures

Equity

Fullfillment-oriented culture | Project-oriented culture

INCUBATOR | GUIDED MISSILE

Person Emphasis | Task Emphasis

FAMILY | EIFFEL TOWER

Power-oriented culture | Role-oriented culture

Hierarchy

Source: Adapted from Fons Trompenaars, *Riding the Waves of Culture: Understanding Diversity in Global Business* (Burr Ridge, IL: Irwin, 1994), p. 154.

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Four Cultural Types

1. **Family Culture**: Strong emphasis on hierarchy and orientation to persons resulting in family-type environment. (Turkey, Pakistan, Venezuela, China, Hongkong, Singapore)

- Power oriented, headed by a leader regarded as a caring parent, who know what is best for the personnel.
- Management takes care of employees, ensures they're treated well, and have continued employment.
- When it works well, family culture can catalyze and multiply energies of personnel and appeal to their deepest feeling and aspiration.
- When it poorly works, members of organization end up supporting a leader who is ineffective and drains energy and loyalties.
- Expl.: U.S. managers can not understand why senior-level managers in overseas subsidiaries might not be appear to be the best qualified for the job; Dutch vs. Brazilians

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Four Cultural Types

2. **Eiffel Tower**: Strong emphasis on hierarchy and orientation to the task (Northwestern European countries: Denmark, Germany, Netherlands)

- Jobs are well defined, employees know what they are supposed to do, everything is coordinated from the top
- Culture narrow at top and broad at base like Eiffel Tower
- Leaders holding power at the top can be replaced at any time (different from family culture) without no effects on the work of organization.
- Relationships specific and status remains with job (expl. golf playing)
- Few off-the-job relationships between manager and employee
- Formal hierarchy is impersonal and efficient. (US vs. Germany)
- Each role at each level of the hierarchy is described, rated for its difficulty, complexity, and responsibility, and has a salary attached to it. Personnel department treats everyone equally, and neutrally.

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Four Cultural Types

3. **Guided Missile**: Strong emphasis on equality in the workplace and orientation to the task.
- Organizational culture is oriented to work (unlike Eiffel Tower culture, where job assignments are fixed and limited; in this culture, personnel do whatever it takes to get the job done) .
- Work undertaken by teams or project groups.
- All team members are equal
- All teams treat each other with respect
- Egalitarian and task-driven organizational culture fits well with national culture of UK and US.
- Unlike Family and Eiffel Tower cultures, change in guided missile culture comes quickly. Goals are accomplished, and teams are reconfigured and assigned new objectives. People move from group to group, and loyalties to one's profession and project often are greater than loyalties to the organization itself.

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Four Cultural Types

4. **Incubator Culture**: Strong emphasis on equality and personal orientation
- Organization as incubator for self-expression and self-fulfillment
- Little formal structure
- Participants confirm, criticize, develop, find resources for, or help complete development of innovative product or service
- Change in this culture is fast and spontanous.
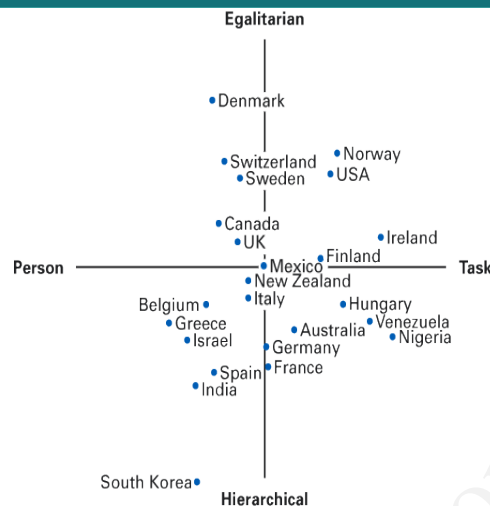
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National Patterns of Corporate Culture

Figure 6–3

National Patterns of Corporate Culture

Egalitarian

- Denmark
- Norway
- Switzerland
- Sweden
- USA
- Canada
- UK
- Ireland
- Mexico Finland
- New Zealand
- Belgium
- Italy
- Greece
- Hungary
- Israel
- Venezuela
- Australia
- Nigeria
- Germany
- Spain France
- India
- South Korea

Person — Task

Hierarchical

Source: Adapted from Fons Trompenaars and Charles Hampden-Turner, *Riding the Waves of Culture: Understanding Diversity in Global Business,* 2nd ed. (New York: McGraw-Hill, 1998), p. 184

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Managing Multiculturalism and Diversity

- Both domestically and internationally, organizations lead workforces with a variety of cultures consisting of largely diverse populations:
  – Women and Men
  – Young and Old
  – Black, White, Latin, Asian, Arab, Indian
  – Many others.

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Phases of Multicultural Development

Table 6–4
**The Evolution of International Corporations**

Characteristics/ Activities	Phase I (Domestic Corporations)	Phase II (International Corporations)	Phase III (Multinational Corporations)	Phase IV (Global Corporations)
Primary orientation	Product/service	Market	Price	Strategy
Competitive strategy	Domestic	Multidomestic	Multinational	Global
Importance of world business	Marginal	Important	Extremely important	Dominant
Product/service	New, unique	More standardized	Completely standard-ized (commodity)	Mass-customized
	Product engineering emphasized	Process engineering emphasized	Engineering not emphasized	Product and process engineering
Technology	Proprietary	Shared	Widely shared	Instantly and extensively shared
R&D/sales	High	Decreasing	Very low	Very high
Profit margin	High	Decreasing	Very low	High, yet immediately decreasing
Competitors	None	Few	Many	Significant (few or many)
Market	Small, domestic	Large, multidomestic	Larger, multinational	Largest, global
Production location	Domestic	Domestic and primary markets	Multinational, least cost	Imports and exports
Exports	None	Growing, high potential	Large, saturated	Imports and exports
Structure	Functional divisions	Functional with international division	Multinational lines of business	Global alliances, hierarchy
	Centralized	Decentralized	Centralized	Coordinated, decentralized
Primary orientation	Product/service	Market	Price	Strategy
Strategy	Domestic	Multidomestic	Multinational	Global
Perspective	Ethnocentric	Polycentric/ regiocentric	Multinational	Global/multicentric
Cultural sensitivity	Marginally important	Very important	Somewhat important	Critically important
With whom	No one	Clients	Employees	Employees and clients
Level	No one	Workers and clients	Managers	Executives
Strategic assumption	"One way"/ one best way	"Many good ways," equifinality	"One least-cost way" simultaneously	"Many good ways"

Source: From *International Dimensions of Organizational Behavior*, 2nd Edition by Nancy J. Adler, 1991, pp. 7–8. Reprinted with permission of South-Western, a division of Thomson Learning: www.thomsonrights.com.

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Locations of Cross-Cultural Interaction

Figure 6–4

Locations of International Cross-Cultural Interaction
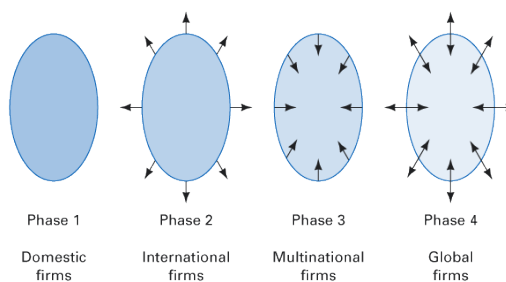
Phase 1 — Domestic firms
Phase 2 — International firms
Phase 3 — Multinational firms
Phase 4 — Global firms

Source: From *International Dimensions of Organizational Behavior*, 2nd Edition by Nancy J. Adler, 1991, pp. 7–8. Reprinted with permission of South-Western, a division of Thomson Learning: www.thomsonrights.com.

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Types of Multiculturalism

- Domestic Multiculturalism
  – Multicultural and diverse workforce operating in MNC home country
  – Group Multiculturalism
    - Homogenous groups
    - Token groups
    - Bicultural groups
    - Multicultural groups

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Potential Problems Associated with Diversity

- **Perceptual problems**
  – When cultural diverse groups come together, often bring preconceived, erroneous stereotypes with them
- **Inaccurate biases**
- **Inaccurate communication**
- **Attitudinal problems**
  – May cause lack of cohesion resulting in unit's inability to take concerted action or be productive

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Advantages of Diversity

- Enhance creativity
- Lead to better decisions
- More effective/productive results
- Prevent groupthink
- Can facilitate highly effective teams under right conditions

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Managing Multicultural Teams

- Select team members for task-related abilities, not solely based on ethnicity
- Team members must recognize and prepare to deal with their differences
- Team leader must help identify/define overall goal
- Mutual respect among members is critical
- Managers must give team positive feedback on process and output

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Review and Discuss

1. In which of the four types of organizational cultures – family, Eiffel Tower, guided missile, incubator – would most people in U.S. feel comfortable?
2. Most MNCs need not enter foreign markets to face challenges of dealing with multiculturalism. Do you agree or disagree?
3. What are some problems to be overcome when using multiculturally diverse teams?
4. What are some basic guidelines for helping diverse teams more effective?

6-27

Review and discussion guidelines

1. Some researchers found that when Germans work for a U.S. MNC, they become more German, and when Americans work for a German MNC, they become even more American. Why would this knowledge be important to these MNCs?

- Because, the conventional wisdom stated that people will adapt to the organizational culture in which they are working, it is now realized that tremendous impact that national cultures have on individual's behavior. It is important for an MNC to be able to understand and predict what will happen as different types of people are forced to participate in organizational cultures that they either donnot understand or are not used to . Understand the dynamics of this process will allow MNCs to deal with potential problems before they happen.

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Review and discussion guidelines

2. When comparing the negotiating styles and strategies of French versus Spanish negotiators, a number of sharp contrasts are evident. What are three of these, and what could MNCs do to improve their position when negotiating either group?

Answer: The first part of the chapter lists several contrasts between French and Spanish negotiators. This is just one illustration of why it is so important to understand the perceptual process when doing business with different cultures. To improve their position when negotiating, it is important for MNCs to understand how the culture that they are negotiating with perceives different events. For example, the Spanish view the contract as a long-lasting formal document, as opposed to a simple transaction tool. The understanding of cultural differences will allow an MNC to present proposals and solutions in a way so as to not offend the other party.

6-29

Review and discussion guidelines

3. In which of the four types of organizational cultures- family, Eiffel Tower, guided missile, or incubator- would most people in the United States feel comfortable? In which would most Japanese feel comfortable? Based on your answers, what conclusions could you draw regarding the importance of understanding organizational culture for international management?

Answer: In answering this question, it is neccesary to justify based upon the previous culture dimensions by Hofstede and Trompenaars. For example, one could argue that because the United States values individualism, the incubator culture would be the ideal culture for Americans. On the other hand, the emphasis in Japan on the group would make the family culture the ideal one in Japan. There is no one right answer to this; it depends on which dimension to be focused on. What is important for international management purposes is to recognize the clashes that can occur if individuals from a particular national culture are thrown, unprepared, into an organizational culture that doesn't work for them.

6-30

Review and discussion guidelines

4. Most MNCs need not enter foreign markets to face the challenge of dealing with multiculturalism. Do you agree or disagree with this statement? Explain your answer.

Answer: This was at one time a guideline followed by some firms. Now, with the emergence of the global economy and diverse work groups at home, almost all organizations need to deal with the issue of multiculturalism. At home, this is primarily because of demographics. The workforce is much more diverse than it used to be. Therefore, organizations that conducted business inside their own borders no longer have a homogeneous group of workers to manage.

- Another reason concerns the advancement of technology. Organizations are able to market their products abroad much more easily and cheaply, even if they don't have a specific international division. This means that people of different cultures need to interact.

- Finally, you might discuss how the increased use of groups and teams in the workplace are forcing organizations to focus more on diversity training.

6-31

Review and discussion guidelines

5. What are some potential problems that must be overcome when using multicultural, diverse teams in today's organizations? What are some recognized advantages? Identify and discuss two of each.

Answer: The increased use of self-managed teams and groups are forcing organizations to focus more attention on diversity and multiculturalism in order to have successful workgroups.

- As discussed in the previous question, you might point out how technology and demographics will only make this issue more important in the coming decades.

- Most of the problems center around individual perceptions. Because people from different cultures react and behave differently to different situations, the traditional dynamics associated with homogenous workgroups are a thing of the past. Therefore, look for such negatives as mistrust, stereotypes, and inaccurate communications to be present in a diverse team. The cited benefits of diverse teams is that they can enhance creativity, lead to better decisions, generate more ideas, and reduce the possibility of groupthink.

- The solution is proper multicultural training. In addition to reducing conflicts, this training will help ensure that organizations see the benefits of diverse workgroups.

6-32

Review and discussion guidelines

6. A number of guidelines can be valuable in helping MNCs to make diverse teams more effective. What are five of these? Additionally, what underlying principles guided NUMMI in its effective use of multicultural teams? Were the principles used by NUMMI similar to the general guidelines identified in this chapter, or were they significantly different? Explain your answer.

Answer: A number of suggestions were listed at the end of this chapter. What is important for students to understand is that diverse workgroups are here to stay. Therefore, successful MNCs will have to recognize that these steps are necessary in order to remain competitive.

- The NUMMI example is a practical illustration of how taking the proper steps to make multicultural teams more effective actually improve performance. You may want to discuss what would have happened had these steps not been taken.

(NUMMI – New United Motor Manufacturing – a joint venture between General Motor and Toyota that transformed an out-of-date GM plan in Fremont, California, into a world class organization)

6-33

IN THE INTERNATIONAL SPOTLIGHT: JAPAN

1. Based on their home country, how might the organizational cultures of the four companies mentioned be distinct from one another, and in what ways could they be the same?

Answer: Organizational culture can be defined as the shared values and beliefs that enable members to understand their roles and the norms of the organization. Zara is a Spanish based company and in Spain a contract is viewed as a long-lasting relationship and trust is developed on the basis of frequent and warm interpersonal contact and transaction. In Spain, social competence is very important. Spain migrates towards the family culture with some incubator culture qualities. However, in France, intellectual competence is very important. A contract is viewed as a well-reasoned transaction and trust emerges slowly and is based on the evaluation of perceived status and intellect. France would be considered to be in the Eiffel Tower culture or Role-oriented culture, but also has qualities of the family culture. The United States tends to migrate more towards the guided missile culture, and Sweden migrates more towards the incubator culture.

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IN THE INTERNATIONAL SPOTLIGHT:
JAPAN

2. If the first two companies and the last two companies want to form joint ventures (Zara with H&M, and Louis Vuitton with Tiffany & Co.), what could be some potential ways the organizational cultures interact?

Answer: According to Hofstede's research, the national cultural values of employees have a significant impact on their organizational performance, and that cultural values employees bring to the workplace with them are not easily changed by the organization. Zara and H&M both have people-oriented cultures; however, Spain tends to be more hierarchical structured; whereas, Sweden seems to be structured more on equity. Louis Vuitton and Tiffany & Co. both emphasize the task at hand. However, France is more role-oriented and the U.S. is more project-oriented.

6-35

IN THE INTERNATIONAL SPOTLIGHT:
JAPAN

3. What types of problems might the culturally diverse top-management team at headquarters create for the joint venture? Give some specific examples. How could these problems be overcome?

Answer: There are a number of possible problems for the joint venture. One is that each has a different attitude towards authority. The Japanese ascribe status to parent figures; the Americans give it based on contribution of the individual to the project. Another is the ways in which each group thinks and learns. The Japanese tend to be intuitive and error-correcting; and the Americans are problem-centered and practical. Each of these approaches can result in problems because each party to the joint venture is accustomed to doing things a different way.

6-36

IN THE INTERNATIONAL SPOTLIGHT:
JAPAN

4. How could work structures and schedules of these companies at their respective headquarters affect operations in Japan? In what ways are they different or similar?

Answer: According to research performed by Hofstede and supported by Laurent, when employees work for a multinational corporation, it appears that Germans become more German, Americans become more American, and Swedes become more Swedish. This could affect operations in Japan because of cultural differences. When working for a multinational corporation, people need to adapt to the differences. Some differences in culture will cause coordination problems. The *Wall Street Journal* reported that "Swedes take off the entire month of July for vacation, virtually en masse, and Italians take off August."

6-37

YOU BE THE INTERNATIONAL CONSULTANT:
A GOOD FAITH EFFORT IS NEEDED

1. What do you think some of the main organizational culture differences between the two companies would be?

Answer: Using Figure 6-3 as a basis for comparison, it is easy to see that there are a number of cultural differences between the two groups. The Americans tend to be highly decentralized, while the Spanish are highly centralized; and the Americans tend to be formal, while the Spanish are informal. Simply put, the two are used to operating from totally different cultural patterns.

6-38

YOU BE THE INTERNATIONAL CONSULTANT:
A GOOD FAITH EFFORT IS NEEDED

2. Why might the cultural diversity in the Spanish firm not be as great as that in the U.S. firm, and what potential problems could this create?

Answer: The main reason why the amount of cultural diversity might be less in the Spanish firm is that they tend to use a Family Culture in which people work together as a team and are bonded to each other. Additionally, when there is a problem or mistake, they tend to mute criticism and promote harmony. In contrast, the Americans tend to be much more individualistic, put greater focus on goal attainment by individuals and groups, and deal with problems by focusing on what went wrong and how it can be corrected.

6-39

YOU BE THE INTERNATIONAL CONSULTANT:
A GOOD FAITH EFFORT IS NEEDED

3. What would you recommend be done to effectively merge the two organizational cultures and ensure they operate harmoniously? Offer some specific recommendations.

Answer: One of the first things that need to be done is for both sides to examine their goals and agree on what they collectively want to achieve if they move forward with their current plan of action. A second is to discuss their operating management styles and see how they can be merged, or at least modified, so that they can work together effectively. A third is to see how each can have some of their people work in the other's organization and thus gain a better understanding of how things are done there and why it works well for this particular group.

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Presentation topics

Chapter 3.

– **Managing Multiculturalism and Diversity (Textbook, PP. 180-187)**

– **Two cases: Textbook, pp. 190-191**

Chapter 4. Cross-Cultural Communication and Negotiation

- **Achieving Communication Effectiveness (PP.212-215)**

- **Managing Cross-Cultural Negotiations (pp.215-223)**

- **Case: Coca-Cola in India (pp.232-237)**

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