Chapter 5

INTERNATIONAL CULTURE

Contents

Objectives of the chapter

Places and people differ. The Japanese tend to be very polite, the Australians characteristically blunt. Red means "danger" or "stop" to the British, but in Turkey it signifies death and in China, good fortune. In France getting into a *grande école* tends to guarantee good job prospects whereas in Saudi Arabia the wealth and status of your family is far more important.

Patterns of global diversity and the implications of these differences have been studied from a range of perspectives, by sociologists, psychologists, anthropologists, and political scientists. Here we are concerned with how cultural diversity and related differences in the behavior, norms, and expectations of particular groups of employees, managers, colleagues, or customers affect management decision making and corporate organizations. After an introduction to the kinds of business contexts in which cultural differences do matter, this chapter will describe some typologies of national cultural differences and discuss the implications of these for international managers.

The specific objectives of this chapter are to:

1 *Define* culture and explain the factors that underlie cultural differences.
2 *Show* where and why cultural differences matter to international managers.
3 *Explain* a number of frameworks that help identify important cultural differences.
4 *Examine* how firms can anticipate and cope with cultural differences.

Active Learning Case
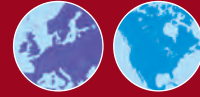
Culture clash at Pharmacia and Upjohn

Despite being part of the same advanced, industrialized world, Kalamazoo (Michigan, United States), Stockholm (Sweden), and Milan (Italy) are worlds apart in many important ways. Senior managers leading the merger between two pharmaceutical firms, Upjohn Company of the United States and Pharmacia AB of Sweden (with operations in Italy), came to realize how significant these differences were after the merger took place in 1995.

Swedes take off most of the month of July for their annual vacation, Italians take off most of August. Not knowing this, US executives scheduled meetings in the summer only to have to cancel many because their European counterparts were at the beach. As the more dominant US firm began to impose its way of doing things on the newly acquired European organizations, international relationships became increasingly strained.

Neither the Swedes nor the Italians were happy with impositions such as the drug and alcohol testing policy brought in by Upjohn, or the office smoking ban. These clashed with local ways of doing things and the more informal work environment that these cultures prefer. Although Upjohn later relaxed many of these work rules, allowing some local practices and preferences to prevail, ill-feeling and a degree of resistance had already developed among European colleagues.

The additional bureaucracy and the command-and-control style imposed by the Americans created more significant problems for the 34,000 employees and managers in Pharmacia and Upjohn Company. The Swedes were used to an open, team-based style of management where responsibilities are devolved; managers are trusted and not strictly monitored or closely managed. Swedish executives also tend to build up a consensus behind big decisions, "getting everyone in the same boat" (*alla aer i baten*) rather than handing orders down the hierarchy. As a traditional US multinational, however, Upjohn was more used to strong leadership and a centralized command-and-control structure. Its CEO, Dr. John Zabriskie, quickly created a strict reporting system, tight budget control, and frequent staffing updates, which clashed with the Swedish organization style. Swedish managers would leave meetings disgruntled, having been overruled by US executives keen to push their vision of the merged company.

The Swedes' own ways of doing things had already clashed with the Italian style of management, following the takeover of Farmitalia (part of Montedison) by Pharmacia in 1993. Italians are used to a distinctive division between workers (and their strong unions) and managers. Their

steeper hierarchies contrast the more egalitarian Swedes. Italians also place a high value on families and will leave work to tend to sick relatives or help with childcare, which the Swedes frown upon. The addition of the Americans from Upjohn to this mix created further cultural confusion. Communication problems, beyond the obvious language differences, became a real barrier to honest dialogue. "You go there thinking you're going to streamline the place," said American Mark H. Corrigan, Pharmacia and Upjohn Vice President for Clinical Development, "and you leave just having added five pounds from some wonderful meals."

These differences, many of them small but important at the local level, quickly began to have an impact on the overall performance of the merged company. In the months and years following the merger unforeseen inefficiencies and added costs began to undermine the potential synergies of bringing together two such companies in the first place. At one level the problems amounted to things like canceled meetings, new organization demands (such as monthly report writing), and a general decline in staff morale. There were also unexpected difficulties integrating the IT systems across the various parts of the merged organization. These and other changes added an estimated $200 million to the predicted costs of the restructuring, taking the total cost to $800 million. Even more seriously, for a pharmaceutical company heavily reliant on its new drugs pipeline to survive, delayed product launches and the loss of key staff (including the head of R&D at Pharmacia) had a longer-term impact. "There was probably an under-appreciation ... of these cultural differences," says Art Atkinson, former Vice President for Clinical Research and Development.

Particular problems resulted from the restructuring of the firm's global R&D structure. Prior to the merger Upjohn owned well-known names such as Rogaine and Motrin and had annual sales of around $3.5 billion, but had a weak new product pipeline and slow sales growth compared to its larger competitors. Similar-sized Pharmacia had a more promising pipeline but weak distribution and sales in the US market, the world's largest. These amounted to a strong rationale for the merger. Together they could challenge the financial power and the larger R&D programs of their competitors. However, integrating and refocusing the various parts of the new R&D structure became a major problem. Rather than place the R&D headquarters in the United States, Sweden, or Milan, a decision was made to establish a new and neutral London-based center for the R&D function. This simply added a

layer of management and a more complex matrix report-ing structure, which further alienated key R&D personnel.

In 1997, after the stock price of the merged corporation had fallen significantly, CEO John Zabriskie resigned. Swede Jan Ekberg, the former head of Pharmacia, took over temporarily and began to rebuild aspects of the merged organization.

After acquiring a major part of Monsanto in 2000, Pharmacia and Upjohn became Pharmacia, which was then itself acquired by the US giant Pfizer in April 2003. This made Pfizer, according to its own Annual Report, the "number one pharmaceutical company in every region of the World."

All this proves is that going global is hard work. Not all of these problems could have been foreseen, but a real lack of awareness of cultural differences did lead to many of the organization difficulties and people problems with a real impact on the bottom line.

Websites: www.accenture.com/xdoc/en/ideas/outlook/1.2000/maa2.pdf; www.pfizer.com; www.pfizer.com/are/investors_reports/annual_2003/review/index.htm.

Sources: R. Frank and T. M. Burton, "Pharmacia & Upjohn Faces Culture Clash; Europeans Chafe Under US Rules," *Wall Street Journal*, February 4, 1997; R. J. Thomas, "Irreconcilable Differences," *Accenture Outlook*, vol. 1, 2000; and Pfizer, *Annual Report*, 2003.

1 What kinds of cultural differences matter when organizations from different countries merge?

2 How well do the characteristics described in the case match the respective, stereotypical national cultures of these countries?

3 What could senior managers have done before and after the merger to alleviate some of the problems that resulted from culture clash?

4 Explain why one organization might want to impose some of its ways of doing things on another, such as an acquired firm or subsidiary.

INTRODUCTION

The number of workers employed by foreign-owned companies has grown significantly over the past 20 years as a result of the expanding activities of foreign affiliates of MNEs around the world. For many people, both employers and employees, this has brought home the realities of globalization. An estimated 73 million people globally (including 24 million in China) now work for foreign companies, nearly three times the number in 1990. Companies such as Motorola, General Motors, British Petroleum, and General Electric are among the largest private-sector employers in economies such as Malaysia and Singapore.[1]

This growing multicultural workforce, part of the increasingly global patterns of exchange and interaction discussed earlier in this book, makes it more and more important to understand how people's preferences, beliefs, and values differ. Understanding international cultural differences allows us to be aware of and adapt to the differences that matter for managers.

WHAT IS CULTURE?

Culture can be defined as "the sum total of the beliefs, rules, techniques, institutions, and artifacts that characterize human populations"[2] or "the collective programming of the mind."[3]

Socialization
The process of enculturation, or the adoption of the behavior patterns of the surrounding culture

Sociologists generally talk about the **socialization** process, referring to the influence of parents, friends, education, and the interaction with other members of a particular society as the basis for one's culture. These influences result in learned patterns of behavior common to members of a given society.

As you can see, definitions of culture vary according to the focus of interest, the unit of analysis, and the disciplinary approach (psychology, anthropology, sociology, geography, etc.).

Table 5.1 World population percentages in terms of home region, language, and religion

Home region	%	Language	%	Religion	%
Asia	58.4	Mandarin	14.4	Christianity, including:	33
Africa	12.4	Hindi	6.0	Catholics	20
Europe	9.5	English	5.6	Protestants	9
Latin America	8.4	Spanish	5.6	Orthodox	4
Former Soviet bloc	5.5	Bengali	3.4	Islam	22
North America	5.2	Russian	2.8	Hinduism	15
Australia and New Zealand	0.6	Portuguese	2.6	Non-religious	14
		Japanese	2.0	Buddhism	6
		German	1.6	Chinese traditional	4
		Korean	1.3	Primal–indigenous	3
		French	1.3	Other	3
		Other	54.4		
		(approx. 200)			

Sources: www.census.gov; www.adherents.com.

This is significant in that studies of cultural differences adopt a specific definition and set of measurable criteria, which are always debatable. Research into culture and its impact in business and management studies is highly contentious and should not just be taken at face value, including the studies described below.

There is a strong consensus, however, that key elements of culture include language, religion, values, attitudes, customs, and norms of a group or society. Table 5.1 shows how the world's population is divided according to geography, language, and religion.

Language is perhaps the most important key to understanding culture in general and the specific values, beliefs, attitudes, and opinions of a particular individual or group. English is widely accepted as the language of business; many global institutions and companies have adopted English as their official language. For many firms, such as Toyota, NEC, Hitachi, and IBM Japan, English-speaking ability is a prerequisite for promotion.[4] However, any assumption that speaking the same language removes cultural differences is dangerous—it normally just hides them. Moreover, a reliance on English by British and American managers, and a lack of other language skills, can weaken their ability to empathize with and adapt to other cultures.

Religion, linked to both regional characteristics and language, also influences business culture through a set of shared core values. Protestants hold strong beliefs about the value of delayed gratification, saving, and investment. The sociologist Max Weber, writing in 1904, saw this Protestant work ethic as the "spirit of capitalism" during the Industrial Revolution.[5] Rather than spending, consuming, and enjoying life now, their religious beliefs prompted the Protestants to look to longer-term rewards (including those in the after-life). There are parallels with the Confucian and Shinto work ethics, which also view spiritual rewards as tied to hard work and commitment to the fruits of industry. Contrasting this, a more stoic attitude among some African populations partly explains their acceptance of the ways things are, because it is the "will of God" (*shauri ya Mungu*).

At the most general level culture can refer simply to the lifestyle and behavior of a given group of people, so **corporate culture** is a term used to characterize how the managers and employees of particular companies tend to behave. But the term is also used by human resource managers and senior management in their attempts to proactively shape the kind of behavior (innovative, open, dynamic, etc.) they hope to nurture in their organizations. Promoting a distinctive corporate culture is also expected to enhance the sense of community and shared identity that underpins effective organizations.
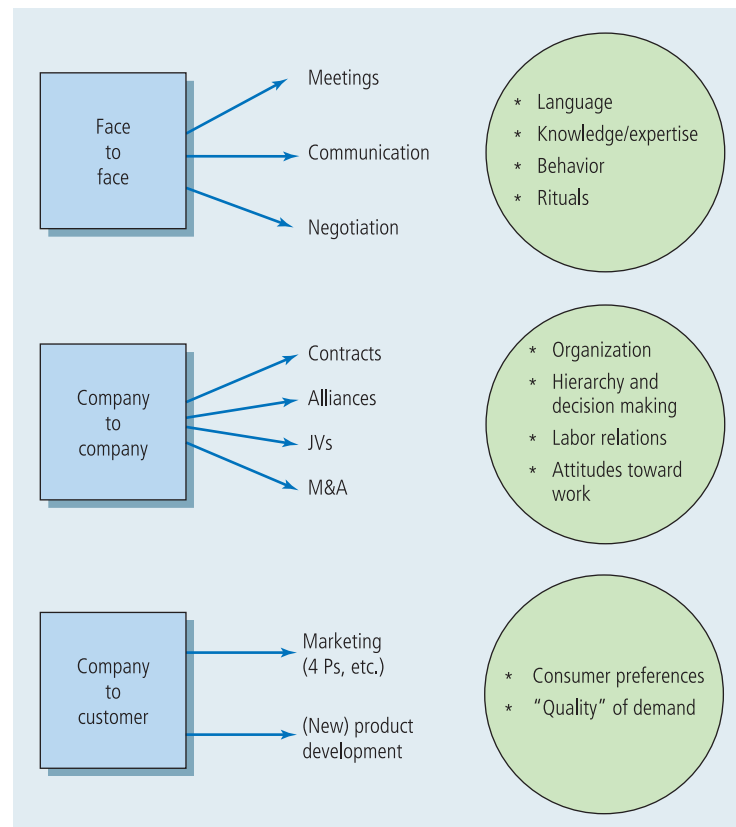
Corporate culture
The shared values, traditions, customs, philosophy, and policies of a corporation; also, the professional atmosphere that grows from this and affects behavior and performance

THE IMPORTANCE OF CULTURE IN DIFFERENT BUSINESS CONTEXTS

Cross-cultural management issues arise in a range of business contexts. *Within* individual firms, for example, managers from a foreign parent company need to understand that local employees from the host country may require different organization structures and HRM procedures. In cross-border mergers and acquisitions (M&As), realizing the expected synergies very often depends on establishing structures and procedures that encompass both cultures in a balanced way. Cross-border joint ventures, alliances, or buyer–supplier relationships *between* two or more firms also require a cultural compromise. Finally, for firms to sell successfully to foreign customers requires culturally sensitive adaptations to products, services, marketing, and advertising.

Figure 5.1 outlines, at the most general level, links between business contexts and particular characteristics of individuals or groups that are influenced by social and cultural norms of a particular region. At the face-to-face level in meetings the language and behavior of different peoples vary and their mutual understanding of each other's culture will influence the effectiveness and efficiency of communication between them. This influences how well multicultural workplaces operate at all levels, from strategy setting at the senior level to plant-floor operations.

Firms also tend to have different organizational and decision-making practices depending on where they have evolved and which cultures and subcultures they encompass. For firms to build successful alliances and partnerships, or for M&A activities to succeed at the company-to-company level, there needs to be an understanding of the organizational

Figure 5.1 Cross-cultural business contexts

differences between them. This covers practically every element of corporate organizations from decision-making structures and systems and management–labor relationships to individual employees' attitudes toward their work and their employer.

Finally, culture influences the behavior and preferences of clients and customers. To sell successfully in a foreign market, a manager needs to adapt his or her product or service to meet the different needs of that particular group of customers. Any alteration in advertising, marketing, product or service features, after-sales support, technical back-up, documentation, etc., will be partly guided by cultural differences.

Failure to do this ends in the kinds of marketing mistakes and communication blunders that become marketing folklore. For example, Ford's low-cost truck was initially marketed as the Feira to Spanish-speaking people, but this means "ugly old woman" in Spanish. The Ford Comet, a high-end car, was sold as the Caliente in Mexico, which is local slang for "prostitute." Unsurprisingly neither model did well in these markets. This reinforces the above point about the importance of language, but also demonstrates how some of the largest and most experienced companies do not appear to do the most basic cultural due diligence (their homework!) when launching products and services in foreign markets. The chapter on marketing strategy in this book examines these kinds of issues more closely.

Across all of the business contexts in Figure 5.1 ignorance of cultural differences represents a common stumbling block for international managers. **Ethnocentrism**, the belief that one's own way of doing things is superior to that of others, can also be a major barrier to good international management. The challenge lies in recognizing differences, combining the advantages that stem from different styles and approaches, adjusting and adapting to succeed with different people, in different partnerships, and in different markets.

Ethnocentrism
The belief that one's own way of doing things is superior to that of others.

✔ **Active learning check**

Review your answer to Active Learning Case question 1 and make any changes you like. Then compare your answer to the one below.

1 **What kinds of cultural differences matter when organizations from different countries merge?**

The definition of culture itself gives some indicators of the kinds of differences that matter. Organizations from different countries will have developed different beliefs, values, and patterns of behavior based on their underlying national culture. A wide range of differences could be important, including attitudes toward work and workplace practices, management–labor relations, the decision-making hierarchy, and division of responsibilities. Cross-border M&A often also requires changes to the marketing and branding of products and services as sales are expanded into new markets. Differences in the language, values, and preferences of customers in different countries also need to be taken into account.

Culture has always been important

Despite the various patterns and processes of globalization, cultural differences still remain important. Even with greater common access, via various media and the Internet, to the same brands, rock icons, and sports stars, differences remain. Terms like **cultural convergence** or, simply, Americanization (the homogenization of global consumer preferences through the ubiquity of McDonald's, Coca-Cola, and Ford) overstate the similarities between groups of people around the world. (See the case **International Business Strategy in Action: McDonald's**.)

Cultural convergence
The growing similarity between national cultures, including the beliefs, values, aspirations, and the preferences of consumers, partly driven by global brands, media, and common global icons

International Business Strategy in Action

McDonald's

When José Bové, a self-proclaimed leader of France's anti-globalization movement, was sentenced for vandalizing a McDonald's restaurant in 1999, he claimed to have the backing of the French people. That might have been an overstatement, but 40,000 French people were there to show their support. It was not only the French, however; in the 1990s McDonald's restaurants were vandalized in about 50 countries. At issue is the worldwide perception that McDonald's represents a particular friendly Ronald-McDonald-type of US imperialism. Traditional lifestyles, critics say, are being eroded by McDonald's marketing practices, its value chain system, its fast-food concept, and the unhealthy food itself.

Yet, McDonald's bends over backwards to blend into local cultures. The company advertises itself to its critics as a global company owned and run by local people. Indeed, the franchise system makes it so that McDonald's Japan is run by the Japanese and Israel's McDonald's restaurants are run by Israelis. Local business owners choose their menu's offerings to fit their culture, find alternative suppliers, and create suitable marketing for their culture. An American in Saudi Arabia might seat single men with families at a McDonald's opening, but a Saudi Arabian owner would know that this is unacceptable and the restaurant will be designed to accommodate the culture.

In the land of José Bové, Asterix, a French comic-strip character who stands for individuality and ironically symbolizes local resistance to imperial forces, replaced the goofy Ronald McDonald in the company's marketing in the early 2000s. In 1999, French McDonald's went the extra mile to prove how local it was by printing advertisements making fun of US eating habits. In one ad, a large American cowboy complains that McDonald's France does not import American beef to "guarantee maximum hygienic conditions." French restaurants are more fashionably and more comfortably designed than North American ones to create an environment where customers may enjoy longer meals in accordance with French tradition. If they want, customers can order a beer from the menu.

In India, where local tastes are very different from those in the United States, the company crafted an entirely different menu that does not use beef or pork due to the mostly vegetarian population. The Indian Big Mac is made of lamb. In Israel, the locally owned McDonald's purchases over 80 percent of its ingredients from local producers, including 100 percent kosher hamburger meat, potatoes, lettuce, buns, and milkshake mix. There are no cheeseburgers in Israel's McDonald's because dairy products cannot be eaten together with meat.

On the other hand, McDonald's does bring its own culture to its foreign operations. In China, where children's birthdays are not traditionally celebrated, a successful McDonald's marketing strategy encouraged birthday parties at their establishments. Not a bad deal for children, but still a cultural effect from a foreign multinational. More mundane things, such as combo meals, are popularized through McDonald's expansion. By promoting its carbonated beverages in India, the firm is unsettling the country's tea culture. The company's presence creates a cultural exchange, not a one-sided cultural takeover.

Beyond reactionary behavior against McDonald's cultural "impositions," McDonald's has had to suffer simply for being born in the United States. Just hours after the United States began bombing Afghanistan in 2001 McDonald's restaurants were vandalized in cities in Pakistan and Indonesia and Muslim clerics asked for the boycott of US products.

For activists and cultural protectors, the most frustrating thing is that their calls go unheeded. Owners of McDonald's franchises continuously remind customers that they too are locals, that their employees are locals, and that their suppliers are mainly local. In Brazil, some anti-war protestors on their way home will stop at a McDonald's for a bite to eat.

Some of McDonald's major troubles, however, are in its most established markets in the United States, Canada, and the UK. Russian and Chinese go-getters might think that a meal in McDonald's puts them in a class above, but in its two major markets of North America and Europe, where the firm derives over two-thirds of all revenue, the food is considered unhealthy. Indeed, both Canada and the UK considered imposing a tax on fatty foods on the grounds that it was damaging to people's health and it costs the health-care system a substantial amount. The tax is unlikely to be imposed because of a strong backlash from poverty groups who argue that this tax would place an uneven burden on those who depend on cheap food for their everyday survival. In the United States, the firm is being sued over claims that it misled parents about the nutritional value of its products, leading their children to become obese and unhealthy. McDonald's in the UK reacted by eliminating supersized options from the menu. A set of healthier options has now been introduced in Europe and North America as the company fends off critics in some of its friendliest markets.

Sources: David Barboza, "When Golden Arches Are Too Red, White and Blue," *New York Times*, October 14, 2001; Tony Karon, "Adieu, Ronald McDonald," *Time.com*, January 24, 2002; Simon Romero, "War and Abuse Do Little to Harm US Brands," *New York Times*, May 9, 2004.

Cultures vary and these variations lead to real and significant differences in the ways that companies operate and people work. Moreover, *because* of globalization more and more firms are coming head to head with the added complexity of doing business globally, which stems from the huge amount of variety in the world that still exists (and arguably will always exist).

Before moving on to examine some typologies of global cultures, here is a word of warning. Much of this section will describe how various kinds of individual and group behavior can be linked to specific cultural groups and associate these cultural dispositions with different business styles and company structures. Acting on the basis of cultural stereotypes is highly sensitive and can be problematic. For example, at the simplest level a banker may be able to prove empirically that Pakistanis are more successful than Jamaicans at starting and running small businesses around the world. Using this insight as the basis for discriminating against Jamaicans wanting bank loans for business start-ups is not only unethical, but in most countries falls foul of race discrimination laws.

NATIONAL STEREOTYPES AND KEY DIMENSIONS OF CULTURE

Culture at two levels

There are traditionally two different approaches to looking at culture:

Psychic distance
A measure of the similarity or difference between two cultures; also commonly defined as the measurable distance between the home market and a foreign market resulting from the perception of cultural and business differences

■ The psychic or psychological level, which focuses on the internalized norms, attitudes, and behavior of individuals from a particular culture (**psychic distance** is a measure of differences between groups).

■ The institutional level, which looks at national (or group) culture *embodied* in institutions (government, education, and economic institutions as well as in business organizations).

In this chapter we will mainly discuss the first, culture as shared psychology, with a brief reference to national institutional differences at the end.

People who are born in, or grew up in, the same country tend to share similar cultural characteristics. Nordström and Valhne examined a sample of Swedish firms to understand the effects of psychic distance on market-entry strategies and costs.[6] They ranked 20 particular countries according to a range of national characteristics that contribute to psychic distance and found, as you might expect, that Denmark is closest to Sweden (1/20), the UK comes in at 6/20, Portugal at 15/20, Japan 16/20, Brazil 17/20 and Australia 20/20.

Nationality and culture tend to coincide, although nations encompass a wide variety of institutions, religions, beliefs, and patterns of behavior, and distinctive subcultures can always be found within individual countries. The only way to make sense of this wide diversity is to characterize distinct cultural groups through simplified national stereotypes.

Many studies have attempted to create these stereotypes by mapping and comparing the shared characteristics of managers and employees in different countries.[7] Researchers then examine the effects of key differences on business behavior, organization, structure, and ultimately the performance of companies from different countries. The following describes the milestone studies of this kind in the management field.

Hofstede's four dimensions of culture

Geert Hofstede is a Dutch psychologist who conducted one of the earliest and best-known cultural studies in management, on IBM's operations in 70 countries around the world.[8]
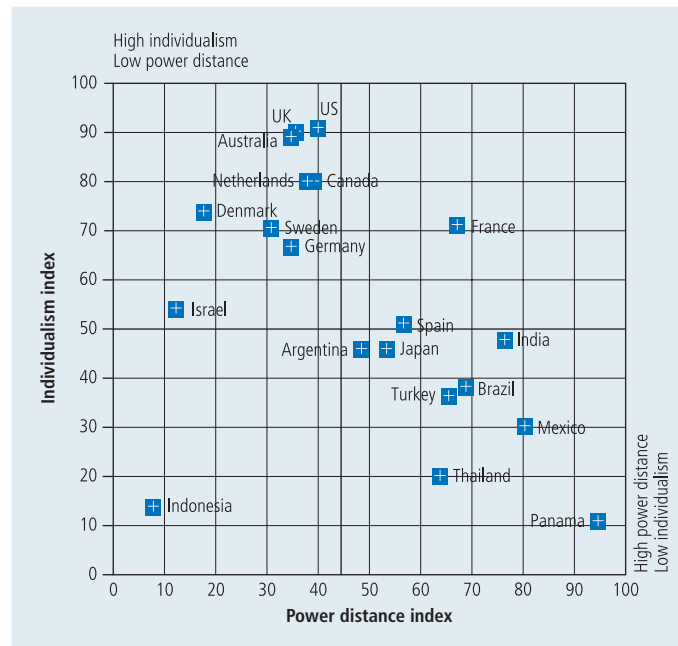
Figure 5.2 Hofstede's power distance against individualism for
20 countries

Source: Hofstede, G. (1983). The cultural relativity of organizational practices and theories,
Journal of International Business Studies, Fall, p. 92. Copyright © Geert Hofstede.

Getting answers to 32 statements from over 116,000 questionnaires, he mapped key cultural characteristics of these countries according to four value dimensions:

Power distance
A cultural dimension that measures the degree to which less powerful members of organizations and institutions accept the fact that power is not distributed equally

Uncertainty avoidance
The extent to which people feel threatened by ambiguous situations and have created institutions and beliefs for minimizing or avoiding those uncertainties

Individualism
The tendency of people to look after themselves and their immediate family only

Masculinity
The degree to which the dominant values of a society are success, money, and material things

1 **Power distance** is the extent to which a culture accepts that power in organizations is distributed unequally. High power distance equates with steep organizational hierarchies, with more autocratic leadership and less employee participation in decision making (see Figure 5.2 for examples).

2 **Uncertainty avoidance** is the degree to which members of a society feel uncomfortable with risk and uncertainty. High uncertainty avoidance (Japan, Argentina, France) will be reflected in the high priority placed on rituals, routines, and procedures in organizations and society in general. Countries with low uncertainty avoidance (Denmark, UK, India, US) tend to emphasize flexibility and informality rather than bureaucracy.

3 **Individualism** is the extent to which people are supposed to take care of themselves and be emotionally independent from others (see Figure 5.2 for examples).

4 **Masculinity** is the value attributed to achievement, assertiveness, and material success (Japan, Mexico, Germany, UK) as opposed to the stereotypical feminine values of relationships, modesty, caring, and the quality of life (Sweden, Netherlands, Denmark), according to Hofstede.

Figure 5.2 illustrates some of Hofstede's findings using two of the most useful dimensions, power distance against the degree of individualism/collectivism. It reflects some general stereotypes of the countries included, with clear grouping of Australia, UK and US as highly individualistic and less hierarchical (small power distance) cultures against Mexico, Thailand, and Panama at the other extreme. We will elaborate on these definitions and their practical interpretation throughout this chapter.

Among his most important contributions, Hofstede provided strong evidence for the significance of national culture over professional role, gender, or race, as a determinant of variation in employees' attitudes, values, and behaviors, accounting for 50 percent of the

differences his study observed. However, his studies have come in for significant criticism, despite widespread adoption of the four-dimensional framework. Three common criticisms are: (1) that the dimensions developed from data collected between 1968 and 1973 were relevant only for that particular period; (2) that corporate cultural and other influences from this one-organization (IBM) study created significant bias; (3) that the sole use of attitude-survey questionnaires was not a valid basis for the resulting values and dimensions his study concluded with.[9]

Although Hofstede has continued to write on culture, organizations, and management[10] it is useful to look more deeply into the work of another well-known Dutch culture guru.

Trompenaars' seven dimensions of culture

Fons Trompenaars built on Hofstede's work by expanding the framework for stereotyping and comparing different national cultures and by focusing more on the management implications of cultural differences. Using initial research involving 15,000 employees in 50 countries, Trompenaars explored the "cultural extremes and the incomprehension that can arise when doing business across cultures," even when people are working for the same company.[11]

Trompenaars arrived at seven distinctive dimensions of culture and used the questionnaire responses in his study to map a wide variety of countries along a continuum from one extreme to the other within each dimension. The key to understanding this mapping approach is to identify where each country or culture is positioned *relative* to others on one or more of these dimensions.

Relative positioning gives insights into the kinds of conflicts, misunderstandings, and organizational and management problems that are likely to arise when individuals, groups, or firms from these countries interact in any of the ways described above.

1 **Universalism** *versus* **particularism**. In universalistic cultures rules and regulations are applied in all situations, regardless of particular conditions or circumstances. The example used by Trompenaars refers to a salesman who does not fulfill his monthly sales quota because he was looking after his sick son. Should he be penalized according to standard company regulations or should he be excused because of the particular circumstances?

According to Trompenaars' findings, Switzerland, Canada, and the United States are among the most universalist. Australia and the UK are also toward this end of the scale. Germany is closer to the center, as is France, but the latter sits on the particularist side of the scale. Korea, Russia, and China are the most particularist of countries. (Note that some of the countries studied by Hofstede, like the strongly particularist Yugoslavia, no longer exist.)

2 *Individualism versus* **collectivism**. This dimension, clearly building on Hofstede, centers on whether individual rights and values are dominant or subordinate to those of the collective society.

The most individualist countries are Canada, the United States, Switzerland, and the UK. Among the most collectivist are Japan, Egypt, and India (and Nepal and Kuwait).

3 **Neutral** *versus* **emotional**. This reflects how much emotions are displayed in the workplace. More importantly it indicates whether emotional or subjective (rather than objective) forms of assessment are thought to be the basis for good decision making in organizations. Some organizations emphasize reports, data, and analytical decision making by managers, whereas others feel that opinions, intuition, and gut feelings are credible or valid criteria. Predictably the most emotional countries include Italy and France and the least emotional groups (in the workplace at least) are the Japanese, Germans, Swiss, Chinese, and Indonesians.

4 **Specific** *versus* **diffuse**. Do work relationships (such as the hierarchical relationship between a senior manager and a subordinate) exist just in the workplace (are they

Universalism
The uniform application of rules and procedures, regardless of situation, context, or individuals involved

Particularism
Judging a situation and adjusting rules and procedures according to the specific situation or individuals involved

Collectivism
The tendency of people to belong to groups who look after each other in exchange for loyalty

Neutral
A preference for unemotional, objective analysis of a situation or a decision and for limited displays of emotions and feelings in the workplace

Emotional
An acceptance of emotion and subjectivity as the bases for some decision making and a preference for explicit displays of emotions and feelings in the workplace

Specific
A tendency to limit workplace relationships and obligations, including relative status and hierarchical position, to the workplace

Diffuse
A tendency for workplace relationships and obligations, including relative status and hierarchical position, to extend into social situations and activities outside of work

specific), or do they extend into the social context outside the workplace (diffuse)? Here a telling example is whether an employee is willing to help paint a senior manager's house over a weekend. Clearly Australian bosses are likely to get a characteristically blunt answer to this request! China, Japan, India, and Singapore display highly diffuse relationships, Australia and the Netherlands the most specific.

Achievement oriented
Where status is earned rather than a right; recruitment and promotion opportunities tend to be more dependent on performance, as in a meritocracy

Ascription oriented
Where status is more of a right than earned; recruitment and promotion opportunities tend to be more dependent on seniority, ethnicity, gender, religion, or birth

Sequential
Cultures that view time in a sequential or linear fashion; order comes from separating activities and commitments

Synchronic
Cultures that view events in parallel over time; order comes from coordinating multiple activities and commitments

5 **Achievement** *versus* **ascription**. This dimension refers to one's status within organizations, contrasting those cultures where status, credibility, authority, and ultimately power tend to be based on merit (achieved) against those where class, gender, education, or age tend to be the defining characteristics (status is ascribed).

Countries where status tends to be ascribed include Egypt, Turkey, and Argentina (and slightly less so, Russia, Japan, and France), and those where it is achieved include Norway, Sweden, and predictably the United States, Australia, Canada, and the UK.

6 *Attitudes toward time.* **Sequential** (time as a sequence of events) versus **synchronic** (several events juggled at the same time) views of time tend to relate to punctuality for meetings and deadlines. Swedes and other northern European cultures tend to be punctual and plan according to specific timetables. Many southern European, Latin American, and Arabic cultures see punctuality and chronological precision as far less important. They also tend to naturally cope with a range of issues simultaneously, rather than one by one.

7 *Attitudes toward the environment.* This dimension reflects the emphasis a particular culture places on people's relationship with nature and the natural environment. On the one hand some cultures emphasize control and subjugation of environmental forces, whereas others emphasize the need to work with nature, in harmony with the environment. Clearly religious and philosophical differences around the world influence differences within this dimension.

Trompenaars' seven dimensions have been used in a variety of ways to gain insights into the kinds of problems that might arise in the contexts (face to face, company to company, and company to customer) outlined in Figure 5.1. In general they indicate the organizational characteristics we can expect from firms based in particular countries or dominated by certain nationalities. They are also used to measure changes in cultural values and behavior over time. Research shows that in both Japan and China, for example, achievement orientation is on the increase alongside some elements of individualism.[12]

The Japanese are moving away from a reliance on collectivism in the form of the state, large firms, and group associations and placing more value on personal responsibility and individual performance. In China there is a shift in companies toward performance-related rewards and individual initiative, built on the changing views of the growing urban elite. But there are also wider concerns regarding the social costs as well as the benefits of self-interest.

The GLOBE project's nine dimensions of culture

More recent research has built on the Hofstede and Trompenaars research. The Global Leadership and Organizational Behavior Effectiveness (GLOBE) project began in 1992 and continues today. It has involved 150 researchers collecting data on cultural values and management and leadership attributes from 18,000 managers across 62 countries in the telecommunications, food, and banking industries.[13] In the same way as Hofstede and Trompenaars before them, the researchers place countries along a standard 1 to 7 scale. The GLOBE project, however, ends up with nine key cultural dimensions:

1 *Assertiveness.* The United States, Austria, Germany, and Greece are high; Sweden, Japan, and New Zealand are low.

2 *Future orientation.* A propensity for planning, investing, delayed gratification: Singapore, Switzerland, and the Netherlands are high; Russia, Argentina, and Italy are low.

3 *Gender differentiation.* The degree to which gender role differences are maximized: South Korea, Egypt, India, and the China are high; Hungary, Poland, and Denmark are low.

4 *Uncertainty avoidance.* A reliance on societal norms and procedures to improve predictability, a preference for order, structure, and formality: Sweden, Switzerland, and Germany are high; Russia, Bolivia, and Greece are low.

5 *Power distance.* Russia, Thailand, and Spain are high; Denmark, the Netherlands, and Israel are low.

6 *Institutional collectivism (individualism vs. collectivism).* Promoting active participation in social institutions: Sweden, South Korea, and Japan are high; Greece, Argentina, and Italy are low.

7 *In-group/family collectivism.* A pride in small-group membership, family, close friends, etc.: Iran, India, and China are high; Denmark, Sweden, and New Zealand are low.

8 *Performance orientation* (much like achievement orientation). Singapore, Hong Kong, and the United States are high; Russia, Argentina, and Italy are low.

Humane orientation
Cultures that emphasize helping others, charity, and people's wider social obligations

9. Humane orientation. An emphasis on fairness, altruism, and generosity: Ireland, Malaysia, and Egypt are high; Germany, Spain, France, Singapore, and Brazil are low.

As you can see, many of these dimensions match those of Hofstede and Trompenaars, and the overall GLOBE framework is very much an extension of their approach.

The GLOBE researchers have examined the HRM implications of these cultural differences for practicing managers and looked at ways to avoid the pitfalls of ignorance and insensitivity.[14] A similar long-running study by the CRANET network has focused on European cultural differences and reports similar findings.[15]

As with the other cultural mapping studies by Hofstede and Trompenaars, GLOBE has faced some critical appraisal, which helps us understand the strengths and weaknesses of its concluding framework. A recent set of debates has usefully raised some methodological issues associated with these kinds of studies, and provides interesting points of contention we should be aware of, rather than blindly accepting the above kind of research.[16]

Applying the national culture frameworks

Different styles of communication and interaction result from the cultural differences listed above. These can lead to workplace misunderstandings, poor interpersonal and inter-group relationships, inefficiency, and higher costs. Three examples provide some insights into how we can apply the above typologies.

US managers, according to all of the above studies, are highly assertive and performance oriented relative to managers from other parts of the world (they come around the mid-point on all the other dimensions). Their interaction style is characteristically direct and explicit. They tend to use facts, figures, and logic to link specific steps to measurable outcomes, and this is the main focus of workplace interaction. Greeks and Russians are less individualistic, less performance oriented, and show lower levels of uncertainty avoidance (are less driven by procedures) than the Americans. When Russian and Greek managers, employees, customers, suppliers, or public-sector officials interact with US counterparts, they may well find their approach too direct and results focused. For them communication is likely to be more about mutual learning and an exploration of relevant issues than an explicit agreement about specific expectations and end results. Similarly, the Swedes may find the US style too aggressive and unfriendly, working against the relationship-building process that for them is a major objective of workplace interaction.

The Koreans and Japanese have highly gender-differentiated societies with males tending to dominate decision making and leading most face-to-face communication. The agenda

for discussion is likely set by males, and traditional language forms differ according to whether a man is addressing a woman or an older person talking to a younger person, and vice versa. Gender- (and age-)related roles, responsibilities, and behaviors are therefore deeply embedded in language and customs.[17] Poland and Denmark lie at the other end of the continuum on the gender-differentiation dimension. Perhaps even more than other Western managers, their lack of awareness of this cultural difference runs the risk of both embarrassing female employees and offending and alienating senior Japanese male managers. This kind of clash can make negotiations and interaction of all kinds between these groups that much more difficult.

Certain kinds of HRM techniques are inappropriate for organizations that show high power distance ratings. Companies and management consultancies in the UK, the United States, and northern European countries have developed fairly participative management systems to improve productivity, based on their characteristically low power distance and flat organizational hierarchies. Techniques such as 360-degree feedback systems for developing management–employee relationships are not likely to work, however, in Mexican, Panamanian, Thai, or Russian organizations, which have high power distance and steep hierarchies. Subordinates are uncomfortable being asked to evaluate senior managers, and managers would not see subordinates as qualified to comment on their performance. More than this, to employees in some countries this kind of consultation can give the impression that senior managers do not know what they are doing! The employees may lose faith in senior management's ability and leave!

Ethnocentric
A belief in the superiority of one's own ethnic group; the dominance of the home-country culture in decision making, human resource management, and overall corporate culture in a multinational firm

None of the above examples means that international managers should (or ever could) entirely change their behavior to suit local values and practices. Like many of the challenges facing managers, cultural sensitivity and cross-cultural effectiveness come from striking a balance between one's own norms, values, and principles and those of the "foreigner." The lesson for multinational firms is that **ethnocentric** corporate cultures and completely standardized HR systems do not work. The key challenge is to adapt to get the best from local differences.

✔ Active learning check

Review your answer to Active Learning Case question 2 and make any changes you like. Then compare your answer to the one below.

2 **How well do the characteristics described in the case match the respective, stereotypical national cultures of these countries?**

According to the above frameworks they match reasonably well. The US culture is characterized as individualistic, achievement/performance oriented, and assertive. Most of these traits clash with the "feminine" (in Hofstede's characterization) values of relationships, modesty, caring, and the quality of life emphasized by the Swedes. Hofstede finds US managers less hierarchical than most cultures, which is not indicated in the Pharmacia–Upjohn case. However, as Figure 5.2 shows, both countries have a low power distance and high individualism rating, relative to other countries, but the United States has slightly higher power distance (steeper management hierarchy) than Sweden. Sweden also has a relatively high uncertainty avoidance ranking, preferring order, structure, and formality, which does not stand out in the case study. Swedes are also high on institutional collectivism but low on family or small-group collectivism. The Italians are the opposite. Unlike the Americans, the Italians are not at all oriented toward achievement (Trompenaars) or performance (GLOBE). They are also more emotional than the Swedes and Americans according to Hofstede and have a relatively low future orientation (GLOBE).

"The way we do things here": the implications of cultural differences for organizations and managers
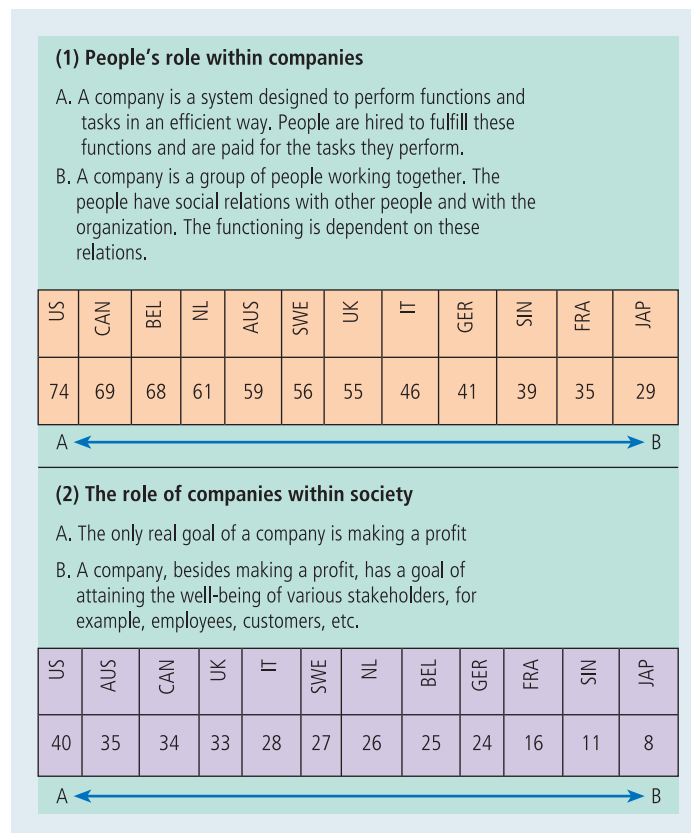
Mapping out a variety of national cultural typologies using the various dimensions of culture described above gives us some insights into the kinds of differences that exist among different groups of managers, employees, and organizations.

Two key questions about the role of the individual in a firm and the role of a firm in a society from Trompenaars' study give us a starting point to explore the management implications of cultural differences. The responses in Figure 5.3 reflect the degree of support for the particular proposition A or B for each of these questions.

Americans clearly display what has been termed (originally by the sociologist Max Weber) a mechanistic and functional view of the firm as an organization (A) and a shareholder-driven, profit-oriented view of this organization in society (although more than half the US vote in Figure 5.3 was for option B). The Japanese tend to have a more organic view of the firm, emphasizing the importance of social networks and the obligation of the firm to a wider constituency of stakeholders (although this is a characteristic of traditional Japan that has been strongly tested in the recent recessionary environment).

A wide range of factors within organizations are influenced directly or indirectly by the cultural predispositions of managers and employees. We know from the above studies and a wide range of other research that these factors include:

■ The general relationship between employees and the organization: their roles and responsibilities, obligations, and loyalties and the link this has with life outside the workplace.

(1) People's role within companies

A. A company is a system designed to perform functions and tasks in an efficient way. People are hired to fulfill these functions and are paid for the tasks they perform.

B. A company is a group of people working together. The people have social relations with other people and with the organization. The functioning is dependent on these relations.

US	CAN	BEL	NL	AUS	SWE	UK	IT	GER	SIN	FRA	JAP
74	69	68	61	59	56	55	46	41	39	35	29

A ◄──────────────────────────────────────► B

(2) The role of companies within society

A. The only real goal of a company is making a profit

B. A company, besides making a profit, has a goal of attaining the well-being of various stakeholders, for example, employees, customers, etc.

US	AUS	CAN	UK	IT	SWE	NL	BEL	GER	FRA	SIN	JAP
40	35	34	33	28	27	26	25	24	16	11	8

A ◄──────────────────────────────────────► B

Figure 5.3 Excerpts from Trompenaars' cultural attitudes survey

Source: Hampden-Turner, C. and Trompenaars, F. *The Seven Cultures of Capitalism: Value Systems for Creating Wealth in the United States, Britain, Japan, Germany, France, Sweden and the Netherlands* (New York: Doubleday, 1993).

■ Hierarchy, power and authority, and the accepted routes to attaining these, including factors that underpin status and credibility in different societies and organizations.

■ The role of formal rules and regulations versus the informal communication, personal networks, and hidden "rules of the game."

■ The accepted basis for decision making, including rationale, scientific, mechanistic, and objective versus subjective, tacit, rule of thumb, etc.

■ The degree to which employees act and are treated as individuals or groups and the role of interpersonal relationships.

■ Motivation and rewards systems.

■ Interaction and communication mechanisms.

Work attitudes and the appropriate management of work attitudes have a significant influence on productivity and innovativeness in a company. Managers and employees who are motivated by their core social values to work hard and continually strive to improve their company's products and services and the processes by which they are produced are clearly a source of competitive advantage. It is interesting to note how social norms may drive a strong work ethic despite individual dissatisfaction with workload or job responsibilities. This has been shown in several companies between US and Japanese factory workers where the Japanese are found to be more loyal and aligned with company objectives but far less satisfied individually.[18]

Table 5.2 compares interview responses from sample workforces in seven countries. The resulting ranking of what it is that employees value most from their jobs shows that "interesting work" is what tends to engage most people, beyond everything else.

Table 5.2 Average and intra-country ranking of work goals: a seven-nation comparison

Work goals	Belgium	UK	Germany	Israel	Japan	Netherlands	United States
Opportunity to learn	5.8[a]	5.55	4.97	5.83	6.26	5.38	6.16
	7[b]	8	9	5	7	9	5
Interpersonal relations	6.34	6.33	6.43	6.67	6.39	7.19	6.08
	5	4	4	2	6	3	7
Opportunity for promotion	4.49	4.27	4.48	5.29	3.33	3.31	5.08
	10	11	10	8	11	11	10
Convenient work hours	4.71	6.11	5.71	5.53	5.46	5.59	5.25
	9	5	6	7	8	8	9
Variety	5.96	5.62	5.71	4.89	5.05	6.86	6.10
	6	7	6	11	9	4	6
Interesting work	8.25	8.02	7.26	6.75	6.38	7.59	7.41
	1	1	3	1	2	2	1
Job security	6.80	7.12	7.57	5.22	6.71	5.68	6.30
	3	3	2	10	4	7	3
Match between the people and the work	5.77	5.63	6.09	5.61	7.83	6.17	6.19
	8	6	5	6	1	6	4
Pay	7.13	7.80	7.73	6.60	6.56	5.27	6.82
	2	2	1	3	5	5	2
Working conditions	4.19	4.87	4.39	5.28	4.18	5.03	4.84
	11	9	11	9	10	10	11
Autonomy	6.56	4.69	5.66	6.00	6.89	7.61	5.79
	4	10	8	4	3	1	8

[a]First row shows average rank on a scale of 1 to 10.
[b]Second row shows ranking of work goals within each country, with a rank of 1 being *most* important and 11 being *least* important.

Source: Adapted from Itzhak Harpaz, "The Importance of Work Goals: An International Perspective," *Journal of International Business Studies, vol* . 21, no. 1 (1990), p. 81.

CROSS-CULTURAL MANAGEMENT

Three key areas capture many of the factors covered by the above typologies and cultural stereotypes, where cultural differences can make a significant difference at the company-to-company and face-to-face levels. These are organization, leadership, and communication (see Figure 5.4).

Organization

Organization styles range from organic, informal, or people oriented to systematic or mechanistic, formal, or task oriented, in keeping with some common organizational dimensions described by sociologists throughout history (such as Max Weber and Emile Durkheim). Organizations that operate very much around personal relationships and social networks contrast those that are much more functional and logical. In fact different cultures and different firms display elements of both these characteristics, but the balance varies considerably and can create tensions when groups of people or firms from different ends of the spectrum interact or try to cooperate.

As an aid to predicting differences among individuals, groups, or firms, and understanding the significance of these variations, *relative* differences among countries, organizations, and groups of people are important, rather than any absolute scores. For example, family companies are characteristically directive, individual oriented but organic. Multinational firms are usually more autocratic and mechanistic. Consulting and professional services firms are often mechanistic and emphasize individual performance and rewards but may also be fairly team oriented. Entrepreneurial new ventures will usually be organic, unsystematic, and group oriented.

Leadership

Leadership styles range from individual oriented, directive, autocratic, top down, or authoritarian to group oriented, participative, democratic, bottom up, or egalitarian. Again, cultural groups and corporations often encompass both kinds of leadership but tend to reflect one dominant style.

Individual managers from cultures that score high on the power distance or assertiveness dimensions are likely to be viewed by those from other cultures as autocratic and directive but will tend to view others as indecisive and too compromising. They will not want to spend too much time discussing issues to achieve a consensus. If they also reflect an organic
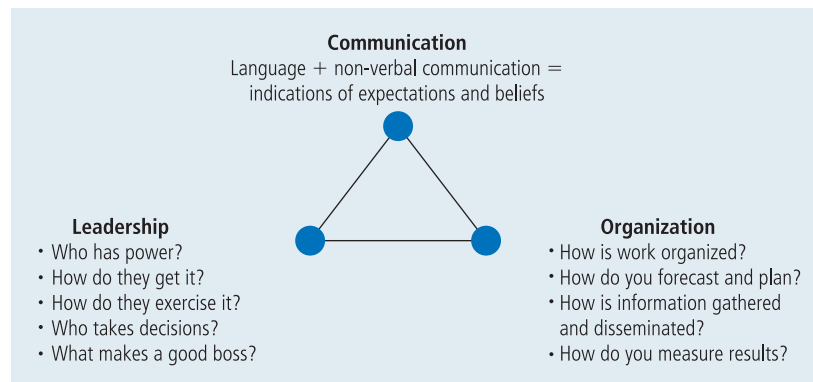
Figure 5.4 Management dimensions of culture

or informal (low uncertainty avoidance) culture, this will result in an instinctive or unsystematic decision-making and implementation style, and they might be viewed as an unpredictable autocrat. This contrasts the combination of high power distance and high uncertainty avoidance, which results in a more directive and mechanistic style. Such leaders prefer established formal routines and a command-and-control bureaucracy, while other managers are likely to see this as over-regulated and inflexible. The Pharmacia and Upjohn case demonstrates a range of these styles and the problems that result from the imposition of a new style of organization and leadership within a corporate merger.

Communication

Clearly, at the face-to-face level language differences can be the most prominent barrier to communication and therefore to cooperation and coordination. English speakers tend to have an advantage in many situations since English has emerged as the main language of business globally. However, this has led to complacency among some indigenous English speakers, notably the British and the North Americans. First, less effort is often made to learn other languages and their associated cultures, which normally limits a manager's understanding of foreign colleagues, workers, or customers. Second, the assumption is often made that once the language barrier is broken cultural differences are also removed, whereas these may remain, causing miscommunication and misinterpretation. As for much of this chapter on culture, preparation and awareness are the best starting points for minimizing differences that can create problems.

It is through efficient communication that two parties steer toward an understanding—a mutually agreed basis for doing business. The signs and signals on this route to an understanding are strongly influenced by culture. Different groups have different ways of displaying approval or of showing frustration in negotiations and different ideas of what constitutes a final agreement. The Japanese do not really have an equivalent word for the English "no" and indicate disapproval in a range of non-verbal ways. The Japanese word *hai* does mean "yes" but it often means "yes, I understand what you are saying" not "yes, I agree with what you are saying." Germans place a lot of emphasis on written communications and documented evidence rather than verbal interaction, compared to the Spanish and Italians to whom verbal interaction and agreement is recognized as binding in some contexts. The Americans prefer legal contracts and have armies of lawyers to make agreements highly specified. Other, more organic business cultures tend to work toward a relationship in which trust and understanding replace the need for legally binding contracts. Again, awareness through preparation and anticipation of differences is the best starting point for avoiding **culture clash**.

The corporate response

How have MNEs responded to the challenge of managing across cultural boundaries? What kinds of organization structures, HRM procedures, and corporate cultures have been developed to cope with the enormous differences among people and to unify this diversity toward a common purpose?

At a very general level good transnational firms develop an *awareness* and appreciation of cultural differences among their managers and employees. They also take steps to encourage *adaptation* of personal behavior or organizational practices, or products and services, to suit the changing mix of cultures within the firm, in subsidiaries and in key markets. Training programs, including a range of activities at the induction stage, when new recruits join a firm or existing personnel take up a role in a new country, are a standard way for firms to do these things. Job rotation, with a focus on developing international managers with personal experience in a variety of different countries, is also practiced by a number of firms. It is

Culture clash
When two cultural groups (national or corporate) meet, interact, or work together and differences in their values, beliefs, rules of behavior, or styles of communication create misunderstandings, antagonism, or other problems

normally very difficult to assess such practices using any form of cost–benefit analysis. The costs are usually easily identifiable, but the benefits are very often intangible. For many experienced international companies, such as Shell or Nestlé, a long-term commitment to (and investment in) cultural awareness is simply accepted as a necessary part of being global.

Beyond awareness and adaptation, the best firms aim to *leverage* the diversity of cultures within their organizations and combine the best aspects of different ways of doing things. Corporate culture, a shared identity spanning culturally diverse groups of employees, provides a way to do this. Companies can usefully invest in their own socialization mechanisms, such as social events alongside regular meetings and conferences. Company magazines, intranets, and even in-house television channels for corporate communications can all support this process. These may not only improve cross-cultural awareness, but also promote shared values, symbols, and even language to help bind employees together.[19]

Here is a list of other useful strategies for managing cultural diversity distilled from a number of research studies:[20]

1 Recognize diversity. Identify and map the various national cultures and ethnic groups within the firm and use this to understand which elements of consistency and standardization can or should be promoted.

2 Build diversity issues into recruitment, HRM planning, strategy, location decisions, alliances, and partnerships. This helps avoid clashes and inefficiency and supports cultural awareness.

3 Identify where and to what degree local divisions should be encouraged or empowered to take the lead in expressing and managing diversity. Some degree of devolution of responsibility away from the center of the firm allows local divisions to identify aspects of diversity that are most important to them and their operations.

4 Encourage cross-border discussion and interaction as well as focused training. Include specific kinds/combinations of international experience for fast-track managers.

5 Aim for a cultural balance in particular areas of strategic and tactical decision making (such as brand changes for foreign markets). Ensure a (numerically) balanced pool of managers or appropriately diverse inputs into decision making.

6 Lead from the top. Aim to match the geographic diversity of the firm's businesses with a culturally mixed senior management group and board of directors (as in the case of Sony and Unilever).

✔ Active learning check

Review your answer to Active Learning Case question 3 and make any changes you like. Then compare your answer to the one below.

3 What could senior managers have done before and after the merger to alleviate some of the problems that resulted from culture clash?

A simple starting point would be to review the various frameworks (Hofstede, Trompenaars, and GLOBE, for example) to understand some generic differences between the national cultures involved in the merger and anticipate some of the likely problems. It would have also helped to examine the potential areas of organizational conflict with senior managers from each company and/or with managers with some experience of two or more of the countries and their ways of doing things. Some degree of cultural training or induction plus an investment in joint meetings and events to get to know each other could also have improved understanding and morale. However, the cost–benefit trade-off for these kinds of pre- and post-merger activity is difficult to precisely assess.

Multinational organization structures: imperialist or independent?

A key dilemma for international firms is the degree to which they promote or even impose a common, standardized corporate culture across the organization. Although this will create economies of scale and be more efficient in a number of respects, it will also stifle diversity and create clashes with local cultures and ways of doing things around the organization.

Firms respond to this dilemma in different ways, with different outcomes. At the simplest level we can map out a range of responses from what is termed *imperialist*, where a common culture is imposed wherever a company has a presence, to *federalist* or *independent* structures, where each national subsidiary bases its own culture on local norms and values. There are problems associated with either of these extremes and most firms try to steer a middle line, standardizing some elements across the whole organization to centralize and simplify some practices and unify employees, while allowing differentiation where necessary. This *transnational culture* allows for a compromise in work styles, values, and approaches, harnessing the strengths that lie in diversity.

Table 5.3 illustrates a range of organization types. In particular, it links elements of organization structure and design with cultural orientation, for example, in the relationship between headquarters and regional subsidiaries. It specifically extends the ethnocentric, **polycentric**, and **geocentric** typologies introduced by Perlmutter in the 1960s.[21]

Polycentric
Each subsidiary, division, or function reflects the culture of its host country; local managers' cultural predispositions and decision making dominate over those of home-country managers in a multinational firm

Geocentric
Neither home- nor host-country culture dominates decision making, human resource management, and overall corporate culture in a multinational firm

- *Ethnocentric* firms are where top management is dominated by home-country nationals, and procedures and management styles are transferred from the head office and imposed on regional subsidiaries in place of local ways of doing things.
- *Polycentric* firms tend to act like a federation of semi-autonomous organizations with financial controls or strict reporting structures holding them together. Subsidiaries are able to reflect the local cultural norms, and headquarters appreciates the need for different organization designs, procedural norms, rewards systems, etc., as long as profits flow to the center.
- *Geocentric* firms are seen as the ideal, collaborative, and meritocratic form of global organization. (Unilever is seen as an example based on the above statement.) An equal sharing of power and responsibility between headquarters and subsidiary; senior management promoted according to ability rather than nationality; subsidiaries that share worldwide objectives with managers focusing beyond national market interests.

In the geocentric organization the *benefits* of cultural diversity, such as knowledge of local customers and business practices, are harnessed for the good of the firm as a whole. The *costs* of diversity, such as language and communication problems, different values, and attitudes toward work, are minimized. Firms moving toward this more balanced, geocentric approach have to recognize diversity and its effects and identify which elements of consistency in regulations and values should be promoted, where and when. Local divisions must identify

Table 5.3 Organization types reflecting cultural predispositions

	Imperialist	Interventionist	Interactive	Independent
Organization	Ethnocentric	Ethnocentric	Geocentric	Polycentric
Structure	Steep hierarchy	Flat hierarchy	Network	Federation
Strategy	Dictated	Centrally decided	Jointly specified	Locally specified
Decision making	Centralized	Distributed	Shared	Devolved

aspects of diversity that are most important to them and their operations and take the lead in expressing and managing these differences. Discussion, interaction, cross-divisional teamwork and job rotation, support, awareness, and understanding go alongside training programs, language courses, and cultural assimilation.

Unilever is an example of a firm that has closely examined the range of cultures it encompassed and made a deliberate attempt to use cultural differences as a strength rather than a weakness for fulfilling its strategic aims. As part of a high-profile internal campaign the company described itself as a *multi-local multinational*, and this was used to explicitly inform employees of its cultural tolerance. According to a statement from a Unilever board chairman, one of the firm's objectives was to "Unileverize our Indians and Indianize our Unileverians."[22]

Culture clash in cross-border M&A and joint ventures

The range of organization styles in Table 5.3 also reflects the range of ways multinational firms approach the management of joint ventures or of firms acquired through merger and acquisition (M&A). They can either impose their own style of management on these organizations or allow them the independence to reflect their own cultural norms and existing corporate cultures.[23]

Cultural differences often prove to be a significant post-merger barrier for managers looking to realize the synergies and added value of pooling the resources and capabilities of two companies from different parts of the world. The Pharmacia–Upjohn case above illustrates this clearly. Culture clash and its impact on the bottom line are often complex and difficult to predict. More often failure to anticipate culture clash results from the lack of awareness on the part of senior managers and deal makers driving the M&A strategy. Financial analyses that focus the due-diligence process of counting up assets and identifying cost-cutting benefits tend to miss any estimation of cultural and organizational synergy (or lack thereof). Anticipating such problems and preparing for the development of effective relationships between people from both sides of an M&A or an alliance is central to maximizing the rewards.

Daimler-Benz ran into these problems when it merged with Chrysler. A number of senior-level US managers either were asked to leave or left because they were unhappy about the style of management imposed by Daimler. Among these early leavers were members of the design team responsible for the PT Cruiser and other Chrysler successes of the late 1990s. Many went to arch-rival General Motors, which is not an unusual outcome. One study showed that on average 20 percent of a firm's top management will leave within one year of being acquired and 70 percent will go within five years.[24]

Cultural awareness and some degree of organizational adaptation can limit the number of key people who do leave following a cross-border M&A. Understanding how to predict and mitigate the negative effects of cultural differences should be on the agenda for all managers. Despite this, in some cases an ethnocentric, imperialist approach is precisely what is needed to drive a newly merged organization forward. When Carlos Ghosn led the partial takeover of Nissan by Renault, he imposed a very non-Japanese way of doing things on the firm. In terms of the firm within its broader economic and social context, breaking *keiretsu* ties and laying off employees were radical steps to take. Internally he instituted performance-related pay and promotion and cut through a range of traditional rituals around HRM, budget control, and decision making that were underpinned by the traditional Japanese culture of the company. These were the kinds of changes that needed to be made to reverse years of losses and indebtedness. It was also, arguably, impossible for the incumbent Japanese management to make such changes. (Chapter 17, on Japan, contains the full Nissan–Renault case.)

At the other end of the spectrum, reflecting again on Table 5.3, Tata Tea Limited, owner of 54 tea estates and the second-most popular tea brand in India, provides us with an

International Business Strategy in Action

Danone and Parmalat—going international, staying local

The dairy industry, in the main, is a local industry. Most dairy products sold at local supermarkets come from processing plants within a 500 mile (800 km) radius. However, this does not mean that these firms are all small, local operations. On the contrary, there are a small number of very large MNEs in this industry that do business worldwide and target their dairy offerings to local demand. The best known of these is Nestlé, which began operations in 1904 when it opened evaporated milk factories in both Europe and the United States. Today the company is the largest dairy company in the world and has operations in 86 countries. There are a couple of other large competitors as well, although they do not compete on as broad a scale.

One of these is Danone, a French MNE with annual revenues of €14.3 billion ($13.2 billion, which make it one of the world's 500 largest firms. The company's product line is not as broad as Nestlé, but it is just as big as the Swiss MNE in the dairy sector. Danone has operations in 120 countries and employs over 86,000 people. However, its primary base is Europe where it generates 24 percent of its revenues in France and another 35 percent throughout the rest of Europe.

Danone was originally a Spanish yogurt producer that merged with the French firm Gervais in 1967. Then in 1973 the company merged with BSN, a glass manufacturer, and adopted the packaging capability of the glass system to the food business. However, the glass business was dropped in the late 1970s, and since then Danone has focused on defining its place in the dairy industry and determining how it can better address the cultural demands of its local customers. With the decision to focus most heavily on Europe and to take advantage of the expanding EU, Danone set up centralized purchasing and research departments in order to obtain economies of scale in food distribution across that continent. At the same time the company looked to gain a greater presence in other markets, including North America, subsequently taking a 40 percent stake in Stonyfield Farm, an organic yogurt maker based in Londonderry, New Hampshire. Although Stonyfield continued to operate autonomously, the firm's strong customer relations program and its expertise in marketing fast-growing organic products provided Danone the opportunity to further increase its US market share to exploit the strengths of its new acquisition.

And to ensure that it continues to focus on its main business of dairy food, Danone has sold off its grocery business and withdrawn from brewing and packaging. Today the company's efforts are being directed most heavily

Source: Corbis/Lucas Schifres

toward the distribution of French-made dairy products. So in both Europe and its worldwide markets, Danone is working to answer the question: how can we develop and market French-made dairy products that meet the needs of the local market?

The other major global rival to Nestlé was the Italian MNE, Parmalat. Like Danone, Parmalat marketed a wide variety of dairy products including milk, yogurt, desserts, butter, and cheese. Yet the company was best known for its development of ultra-high-temperature (UHT) pasteurized milk that allows milk to last up to six months without refrigeration. By specializing in the production and distribution of UHT milk across Europe, Parmalat was able to cut both production and distribution costs and to increase its profitability. At the same time, and unlike Danone, the company was more vigorous in its international expansion. In addition to moving into France and Germany in the 1970s, the company began expanding into North and South America soon thereafter. As a result, Parmalat earned 32 percent of its revenues in Europe, 31 percent in North and Central America, and another 29 percent from South America. Australia and Asia accounted for the remaining 8 percent.

Like its two other competitors, Nestlé and Danone, Parmalat carefully targeted its products to the local market and sought to acquire local companies that had established markets. For example, Parmalat purchased Ault Dairies, one of Canada's largest operations, as well as Beatrice Foods, another major Canadian firm. Parmalat subsequently became that country's largest dairy firm. Parmalat also had its subsidiaries employ the company's food expertise to exploit their local markets. For example, drawing on its UHT technology, Parmalat's Australian subsidiary was able to export milk products throughout the ▶

Asian market, and the company's Argentinean subsidiary, which specialized in UHT milk products, was able to create export markets in Brazil and Venezuela. In addition, in catering to local tastes the company developed a wide variety of products such as a dessert called *dulce de leche*, which it exported to a large number of countries including the United States, the UK, Russia, Spain, Uruguay, and Venezuela.

Parmalat, however, tended to maintain locally known brands, rather than replacing them with its own. In the UK, for example, Parmalat owned the Loseley yogurt brand, which was well regarded as quite an upmarket brand. Similarly, consumers in Canada and Australia may be surprised to hear that their favorite brands, such as Beatrice or Pauls, were owned by Parmalat.

Danone and Parmalat are good examples of companies that sell products that are culturally influenced. In Danone's case, it has chosen to do so by staying primarily in Europe. Parmalat, on the other hand, has been much more active in the larger international arena. Both, however, have been

successful because they have been able to blend their expertise with the needs of their specific markets.

In the case of Parmalat this success now appears to have come to an end. It reached sales of $9.4 billion in 2002 and managed acquired brands in 30 different countries. But in December 2003, with talk of fraud scandals in Italy, it was revealed that Parmalat had a reported $11 billion debt and $5 billion in cash missing. By 2006, although the group still operates in the dairy industry, it is a much reduced in scale and global scope. It has sold off numerous national businesses and still faces ongoing litigation.

Websites: www.danone.com; www.parmalat.net; www.nestle.com.

Sources: Danone, Annual Report, 2006; http://www.danone.com; Parmalat, Annual Report, 2006, http://www.parmalat.net; Adrian Michaels, "Judge seeks Parmalat settlement," FT.com, December 6, 2006; "A Small Town's Big Cheeses," *The Economist*, May 29, 1997; Nikhil Deogun, "Danone Groupe Scoops Up 40% Stake in Stonyfield Farm," *Wall Street Journal*, October 4, 2001, p. B9; and Deborah Orr, "Who Gets Parmalat's Milk and Cookies?" *Forbes.com*, December 24, 2003, http://www.forbes.com/2003/12/24/cz_do_1223parmalat.html.

example of a successful M&A which followed the "independent" approach vis-à-vis its newly acquired subsidiary. In March 2000 it bought one of the UK's top tea brands, Tetley Tea, some say on the basis of profits at Tata Consulting Services, the successful IT and software arm of the $9 billion Tata conglomerate. Coming more than 50 years after the end of 200 years of British colonial rule that had supported British ownership of tea estates in India, this shift of power is an appropriate symbol for the twenty-first Century. But the take over was barely noticed by the British public. In stark contrast to the imperialist approach of the British in India all those years ago, Tata took a hands-off approach, allowing the existing management, with its local knowledge and experience, to continue running Tetley. A federal structure with devolved decision making is supported by a polycentric organizational style.[25]

✔ Active learning check

Review your answer to Active Learning Case question 4 and make any changes you like. Then compare your answer to the one below.

4 **Explain why one organization might want to impose some of its ways of doing things on another, such as an acquired firm or subsidiary.**

Standardizing ways of doing things across the overall organization, to a certain extent, can be more efficient. Differences can create difficulties in communication, teamwork, motivation, or coordination, and the impact on company performance can be significant. It is important to make the distinction between the values, beliefs, and norms, plus the associated work practices and management structures that stem from the dominant national culture (the imposition can then be described as ethnocentric) or from the corporate culture. In the latter case the firm will be aiming to derive the benefits of having a shared culture that bridges the national cultural differences across the overall organization.

Cultural differences between groups of people in the one firm, or between the employees of two firms engaged in a joint venture, are not necessarily a problem. However, when they do create difficulties in terms of communication, teamwork, motivation, or coordination, the impact on company performance can be significant, despite the fact that clear cause-and-effect relationships are often difficult to identify precisely. Rather than a single "best practice" for dealing with this, the examples above suggest that solutions are context specific.

CULTURE EMBODIED IN NATIONAL INSTITUTIONS

The second level at which we can analyze cultural differences and their effects is at the institutional level, where national cultural characteristics are *embodied* in institutions from government agencies and governance mechanisms to the education system, economic institutions, and business organizations.

Firms engaging in cross-border joint ventures or M&A need to take account of the national context in which the new partner or acquired firm is situated. Similarly, when marketing and selling products in a new national market, these broader differences matter. A country's distinctive political, legal, and institutional context partly reflects its dominant national culture. Education systems, labor laws, environmental regulations, capital markets, and the relationships between private-sector businesses and public-sector organizations will vary accordingly.[26]

Trompenaars uses his findings simply to divide various countries into subgroups reflecting shared characteristics stemming from common cultural influences (Figure 5.5).

■ *Western pluralism* emphasizes individual competitiveness, commonly represented by separate ventures competing in price-defined markets for success. Survival of the fittest is the catchphrase, and companies tend to be run as meritocracies.

■ *Command economies* are centrally planned hierarchies with less individualism and less individual incentive. Clearly, as global politics changes, countries are tending to move out of this category. For example, Poland is now an emerging capitalist country reflecting the characteristics of Western pluralism more than a command economy.

```
                         Hierarchy
                             |
       I. Command Economy    |   II. Organic Ordering
       Poland,               |   Japan, Singapore,
       former East Germany   |   France, Italy, Spain
Analyzing ––––––––––––––––––––+––––––––––––––––––––– Integrating
       III. Western Pluralism |   IV. Structured Networks
       Sweden, UK, Netherlands,|  Germany
       US, Australia, Canada  |
                             |
                         Equality
```
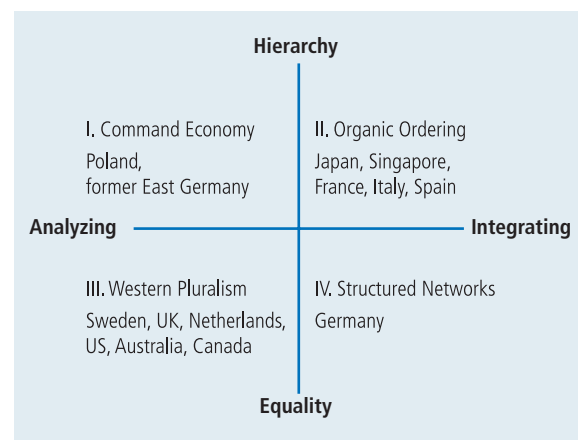
Figure 5.5 Shared characteristics stemming from common cultural influences

Source: Hampden-Turner, C. and Trompenaars, F. *The Seven Cultures of Capitalism: Value Systems for Creating Wealth in the United States, Britain, Japan, Germany, France, Sweden and the Netherlands* (New York: Doubleday, 1993).

■ *Organic ordering* refers to the family-centered hierarchies of Asia, southern Europe, and Latin America. Inter- and intra-organization interaction will be based around information sharing and collaborative competition.

■ *Structured networks* reflect the more equal, structured relationships between companies and with public-sector organizations that exist in some countries.

France, with some comparisons with other Western economies and organizations, provides an example, giving a snapshot of some of the main characteristics that stem from the country's cultural distinctiveness.

France: cultural and social characteristics that create a national distinctiveness

National characteristics

■ Central planning, national protectionism for domestic industry, and strong government intervention in the market (compared to other European economies) lie at the heart of the French system. Civil servants are intellectual and respected as in Japan (but not the UK) and well paid (unlike Japan).

■ Communication tends to be vertical (up–across–down). Bypassing official channels is not common: uncertainty reduction tends to predominate.

■ Hierarchy is important, bureaucracy respected. Clear hierarchy, divisionalization, and rules and regulations guide behavior. However, this exists alongside a respect for maverick gestures and individuals or groups that overcome the obstacles and beat the system.

■ Government-to-business links are formal and informal, with the elitist groups from the *grande écoles* bridging public and private sectors at the senior level. Ascription dominates over achievement compared to the UK or the United States, again with parallels with Japan.

■ Competition occurs at school age when success determines assignment to a particular *cadre* or *echelon* inside and outside the workplace (depending on the school attended as much as individual performance).

Mittelstand
About 3.4 million small and medium-sized firms defined as having less than €50 million turnover that make up the heart of the German economy

■ France has a large number of family-owned and managed firms. It does not have the **Mittelstand** (small technical and engineering firms) that underpin the chemical and machine tool industries in Germany.

■ Capital markets are competitive but are not as "short-termist" as in the UK and the United States, with an overwhelming emphasis on share values and dividends. France does not have the strong interfirm networks that exist in Germany and Japan (*keiretsu*), which include links between financial institutions (banks, institutional shareholders) and the companies they fund.

French organizations

Esprit de corps
The spirit of a group that makes the members want the group to succeed

■ French companies also tend to be hierarchical, bureaucratic, and well structured, but there is a strong view of the company as a social entity (an **esprit de corps**) with an emphasis on obligation and loyalty rather than individual gain.

■ Despite moves toward a more equal relationship, French managers continue to have a supervisory role over workers. German and Japanese managers, by comparison, tend to be more collegiate and cooperative across levels of the hierarchy, including mentoring arrangements between senior and junior managers.

■ Hierarchical relationships are diffuse (in Trompenaars' terminology) rather than limited to the workplace (France ranks highest among European countries along this dimension). Companies have a responsibility toward the wider society, and managers, because of their professional status, have a role to play in society.

Gestion
The skill or practice of controlling, directing, or planning something, especially a commercial enterprise or activity

■ Scientific management techniques, termed **gestion**, dominate, which parallels German zeal for quantification and measurement to guide performance improvement.

■ There is a premium on technical and on-the-job training (similar to Germany and Japan). Marketing and accountancy skills are less valued than in the UK and the United States.

■ A surprise to many observers is that one-fifth of the labor force is unionized. French labor law (*Code du Travail*) is comprehensive and enforced. Companies are relatively loyal to their employees compared to British or US firms, but there is not the strong social contract that exists in Japan.

KEY POINTS

1 Culture can be defined as "the sum total of the beliefs, rules, techniques, institutions, and artifacts that characterize human populations."

2 Cultural differences can have an important effect at the face-to-face or company-to-company levels and need to be taken into account in dealing with different groups of customers around the world.

3 Culture can be analyzed at two levels: the psychic distance between groups of people, and the differences in culture embodied in national institutions and socio-economic systems.

4 Hofstede, Trompenaars, and the GLOBE researchers have constructed useful frameworks for understanding broad differences between national cultures which underpin differences in the design of organizations and the behavior of managers and employees.

5 Differences in organization, leadership, and communication can be used to measure differences in groups and individuals and help managers anticipate when and why cultures may clash.

6 Company responses to the challenges of managing diversity range from the imperialist to the independent approaches.

7 Ethnocentric firms impose a common culture on all subsidiaries, polycentric firms allow subsidiaries to reflect local ways of doing things, and geocentric firms maintain a balance between center and subsidiary.

8 When in Japan, do not throw your *meishi*!

Key terms

● *grande école*
● culture
● socialization
● corporate culture
● ethnocentrism
● cultural convergence
● psychic distance
● power distance
● uncertainty avoidance
● individualism

● masculinity
● universalism
● particularism
● collectivism
● neutral
● emotional
● specific
● diffuse
● achievement oriented
● ascription oriented

● sequential
● synchronic
● humane orientation
● ethnocentric
● culture clash
● polycentric
● geocentric
● Mittelstand
● esprit de corps
● gestion

Review and discussion questions

1 In your own words, what is meant by the term *culture*?

2 In what way do ethnocentrism and misconceptions about other cultures inhibit those doing business internationally?

3 Why is language so critical in understanding international culture? How can this problem be dealt with effectively?

4 Why are cultural differences an important factor when adapting products for new overseas markets?

5 Use Trompenaars' seven dimensions of culture to compare and contrast your own national stereotype to another.

6 Why are work attitudes of importance to MNEs? Cite and describe two examples.

7 What kinds of reward systems are likely to be effective in more individualistic and achievement-oriented cultures like the United States?

8 Explain how the GLOBE project has extended the dimensions of national culture beyond the work of Hofstede and Trompenaars.

9 In the Pharmacia–Upjohn merger how did employment practices and workplace regulations differ among the Americans, the Swedes, and the Italians, and what impact did these differences have on the operational efficiency of the merged company?

10 Show with examples how managers in multinational firms could improve their employees' awareness of the important differences among cultures.

11 What are the benefits and the problems for a polycentric MNE?

12 Why is an understanding of the institutional norms, regulations, and practices of other countries important for international firms? Give examples to illustrate your answer.

13 What does the French term *gestion* mean?

Real Case
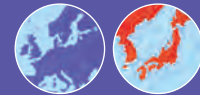
Do not throw your *meishi*!

Some time ago the Competitiveness Division of the Department of Trade and Industry (DTI) in the British government commissioned research on British small and medium-sized enterprises (SMEs) that had managed to set up successful businesses in Japan, one of the toughest (though lucrative) global markets to break into for foreign firms (see Chapter 17). Numerous success stories from the study show how some firms managed to adapt to the differences in culture, society, and business practices that can act as barriers to foreign firms. But there are also numerous tales of the blunders that some managers made that undermined their efforts to establish themselves in Japan.

Meishi is Japanese for "business card," but has a deeper significance in Japan than elsewhere as a representation of the employee's allegiance to and respect for his or her company. The strong emphasis placed on loyalty and obligation between employees and their firms, lifetime employment based on a moral contract (rather than a price-based contract), and a manager's position as a member of a collective all have a strong influence on his (sometimes her) behavior when interacting with others. *Kaisha-in* literally means "company person," but it also denotes the individual as a representative of "our company" in the sense of a shared group consciousness. The company name comes first, before the individual's name on the *meishi* and when making introductions. The exchange of *meishi* also establishes relative rank within the strict corporate and social hierarchy and therefore guides the correct behavior and even form of

language used for interacting. Overall for the Japanese exchanging *meishi* is an important symbolic ritual.

A senior technology manager from Scotland on his first assignment to Japan was attempting to establish a strategic alliance with a local firm as a starting point for marketing and selling his firm's products locally. In his first meeting he faced six senior executives from the Japanese firm, ranged across a board room table traditionally in order of seniority. Almost the first act of the Scottish manager was to *throw* his newly printed *meishi* across the table to each of the Japanese executives in turn!

There is no way of knowing how significant this single act was in undermining this firm's market entry in Japan. It failed in its attempt to forge an alliance with this particular Japanese firm and with others, eventually leading it to abandon its attempts. What we can say for certain is that a small amount of preparation by this manager to build even a basic understanding of business etiquette in Japan would have improved this company's chances of building a successful business in Japan.

The overall study, including 30 detailed case studies of successful British firms in Japan, demonstrates very clearly that managers need to understand the cultural and social norms that underpin business practices in different countries if they are going to do business in those countries. The lesson applies to firms engaged in cross-border mergers and alliances, expanding into new markets through foreign direct investment activities, or even at the simple level, when hiring new recruits from overseas, outsourcing to foreign countries, or selling products and services abroad. Cultural awareness is critical to making business relationships work, at the face-to-face level or at the company-to-company level.

Sources: S. Collinson, *Small and Successful in Japan: A Study of 30 British Firms in the World's Most Competitive Market* (London: Avebury Press, Ashgate Publishing Group, 1996); C. Nakane, *Japanese Society* (Tokyo: Charles E. Tuttle, 1973).

1 Explain what kinds of broad cultural differences we are likely to find between the Japanese and the British.

2 What impression do you think the Scottish engineer made on the Japanese executives?

3 What steps could the Scottish firm have taken to avoid this kind of mistake?

4 How easy is it to do a simple cost–benefit analysis on investments into improved cultural awareness among employees?

Real Case
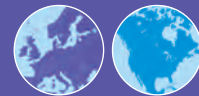
Sport can be local *and* global: Manchester United

For most sports there appears to be a natural connection with the cultures and communities of particular locations and even individual venues. Often history plays a strong role, even when sports are played internationally. St Andrews Links Course, Lord's Cricket Ground, and Wembley Stadium all have a particular symbolism to players and fans of golf, cricket, and football (soccer) in and beyond the UK.

These contrast with more "placeless" global sporting events, particularly the Olympic Games, which involve most nations of the World. Rather than creating a sense of common identity such events can reinforce national cultural identities through international competition.

Other sports remain local: Japanese Sumo Wrestling, Aussie Rules Football, and Hurling in Ireland, for example, where the connection with national culture, community and history are strongest. American football is played in several countries but only seriously in the United States. It is not only a huge commercial enterprise but, like basketball and baseball, strongly embedded in local communities through schools and colleges, as an important symbol of US cultural identity.

Source: Getty Images/AFP/Javier Soriano

Some sports could be defined as regional, such as baseball which is predominantly based in North America, but also popular in Japan and played little elsewhere. A few sports are marked on a global basis, although not all parts of the triad are fully involved. Golf, tennis, and soccer have

global television audiences and advertising revenues. Among these, soccer is recognized as the biggest, played by an estimated 240 million people with 1.5 million teams and 300,000 clubs worldwide. Many countries, from Brazil to Cameroon, Italy to South Korea, would claim the game as an important part of popular national culture. But soccer is not a major sport in North America, where it ranks well behind American football, baseball, hockey, and car racing.

Europe hosts some of the major soccer club brands, with 52 leagues and a combined income of over $13 billion. Within this the English Premiership league is worth $3 billion. Perhaps the leading club in the Premiership is Manchester United. Not your average soccer club, but certainly one of the best illustrations in the sporting world of the evolving mix between local cultural heritage and international business.

Born in 1878, Manchester United long epitomized the connection between the local team and the local community. Its fan base was dominated for over a hundred years by local people, with Trafford Park and the Manchester Ship Canal, one of the world's first industrial centers, at its heart. The grassroots, blue-collar, working-man's passion and fierce loyalty remain at the cultural heart of the club today. Rather than symbolizing English culture it demonstrates the strength and persistence of the regional subculture of England's industrial north-west. This is reinforced by strong rivalry with other leading clubs such as Liverpool, Arsenal, and Chelsea. Now the brands of these teams are very multinational.

In the early 1990s, despite strong growth in international merchandising sales through Manchester United Merchandising, over 90 percent of revenues to the club still came from the domestic UK market. But a growing global fan club, the international spread of *Manchester United Magazine*, and the growing availability of televised games beyond the UK (particularly via Rupert Murdoch's global media networks) led to an export drive in the late 1990s and early 2000s. Countries with national teams but few big league teams, like Ireland, Scandinavia, and a range of Asian countries, where soccer is watched by millions on TV, became the club's best markets. By 2002 the global club membership had grown to 200 branches in 24 countries and with profits of over $25 million on turnover of over $100 million, it was considered the world's wealthiest club. MUTV, the club's own TV channel, and a large range of Internet sites fueled interest in the team. By 2003 Manchester United had attracted an estimated global fan base of 53 million.

Major sponsorship deals with Nike and later Vodafone (at $15 million per year) boosted its finances and its global

brand footprint. The cross-border takeover by the US-based Glazer family in 2005 made the club even more international by any definition. Boosted by wins in the Premiership, the FA Cup and the European Champions League, the club's fan base had grown to an estimated 75 million worldwide. Significantly, 40 million of these were in Asia, compared to 23 million in Europe. In 2006–2007 Manchester United generated revenues of $212 million, second only to Real Madrid's $236 million. There were seven British clubs in the top twenty and four in the top ten, the others being Chelsea ($191 million), Arsenal ($177 million), and Liverpool ($134 million). The others in the top ten are Barcelona ($195 million), Bayern Munich ($150 million), Inter Milan ($131 million), and AS Roma ($106 million).

By this time the club had a range of regional sponsors, with PepsiCo, Anheuser-Busch and Schick in North America, Ladbrokes in Europe, and Fuji Film and Air Asia in Asia. These were co-branding partners alongside global sponsors such as AIG, Vodafone, Nike, and Audi (and a few local partners like Dimension Data in South Africa). In some cases these have been the route to joint products and services, such as content services delivered by mobile phone to Manchester United fans through Vodafone. Pretax profits for the club reached $60 million in 2006 and turnover, including merchandising and media partnerships, was over $400 million.

Despite the fact that, on average, over half the team comprises foreign players who play against the England national team in the World Cup, and despite the fact that the clubs fan base is (in terms of pure numbers) more Asian than English, the passion for the club is still as strong as ever around Manchester. Global sports teams like Manchester United are embedded in local folklore, passionately discussed in bars and clubs around the world, part of the cultural identity of communities, but at the same time they are multinational businesses with global brands and international strategies.

Sources: A. Rugman, *The End of Globalization* (London, Random House 2001); R. Bennet and J. Blythe, *International Marketing*, 3rd ed. (London: Kogan Page, 2002); W. Manzenreiter and J. Horne, *Football Goes East: Business, Culture and the People's Game in China, Japan and South Korea* (New York: Routledge, 2004); G. P. T. Finn and R. Giulianotti *Football Culture* (New York: Routledge, 2000); "Neo-imperialism at the point of a boot", *The Economist*, March 11, 2007, pp. 56–56; http://www.manutd.com/; "Real top Man Utd in rich league," *BBC News*, February 14, 2008, http://news.bbc.co.uk/2/hi/business/7242490.stm.

1 What makes a sport local, regional, or global?
2 What major drivers are responsible for the internationalization of Manchester United?
3 How important are Manchester United's strong local roots to its international success?

(Oxford: Hart Publishing, 2001); R. Whitley, *Competing Capitalisms: Institutions and Economies* (Cheltenham: Edward Elgar, 2002); R. Whitley, *The Multinational Firm: Organizing across Institutional and National Divides* (Oxford: Oxford University Press, 2001); R. Whitley, *Divergent Capitalisms: the Social Structuring and Change of Business Systems* (Oxford: Oxford University Press, 1999).

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