

THE INFLUENCE OF CULTURE ON THE OPERATIONS OF MULTINATIONAL COMPANIES

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Abstract: *The subject of this labor is the influence of culture and cultural differences on the operations of multinational companies. A person is not born with culture but culture learns a person throughout its life, from birth to end of life and acquired in various ways. Culture shapes the person, its way of thinking, attitude, way of speaking and as such makes person different from others. From these differences derive many challenges that multinational companies face during their business globally. The influence of culture in the business world is very large and should not be ignored. The importance of culture in business conditions multinationals to advance preparations for negotiations with foreign partners to accept, understand, respect their culture and adapt to the culture of the interlocutor. International business is a complex process, which tends to be even more complicated if the cultural differences between the interlocutors are expressed. For the needs of the present paper, factors have been analyzed which indicate the most influential cultural classifications and their immediate functioning of multinational companies their and also the guidelines on possible transformations of national cultures impacted by globalization.*

Key words: cultural differences, international business, multinational companies, globalization

JEL Classification: F23

Introduction

Over the last few decades, international business has increasingly expanded globally, linking individuals, institutions and countries all over the world. Consequently, different countries started learning about each other. Each culture attempts to adopt some universal values, such as honesty, hard work, family, responsibility, but also tries to retain some of its unique recognizable features. Naturally, worldwide cultures differ and it is the task of a multinational company manager to meet, understand and accept different cultures. In order to do the business successfully and thus contribute to the success of a multinational company, avoiding the emergence of intercultural conflict, managers should have 1/3 knowledge of the economy, and 2/3 knowledge of other fields, such as culture, religion, tradition, and customs. Apart from that knowledge, managers need to possess intercultural tolerance, sense of cultural differences, experience, and patience. The ability of managers to establish good cooperation with foreign partners, bearing in mind all differences of cultures, is a step forward to expanding their operations globally. Negotiations at the international level pose a significant challenge.

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DOI: 10.29302/oeconomica.2019.21.1.8

In order to elaborate on the topic more deeply, the term *culture* will be defined and its importance in international business; how different cultures affect the process of communication, intercultural studies, such as: Hofstede cultural dimensions, Trompenaars research, Lewis model and GLOBE project, which will further clarify and confirm the impact of culture on the operations of multinational companies.

The influence of culture on international business

The research paper topics are culture (cultural differences) and the operation of multinational companies.

Culture is an integral part of both social and individual life, a set of all important human achievements, material and spiritual, without which there could be no human society not even in the simplest organisational forms. (Jovanović, Langović, 2009). A person is not born with a culture, but acquires it during his/her lifetime. It is taught, divided, conveyed from generation to generation. It strives for continuity, and each person is a part of some culture that teaches him/her what is "the right way of doing something". Culture affects the way in which an individual thinks, his/her behaviour and the relationship and the way in which he/she evaluates certain phenomena. Members of different cultures will differently understand and react to a particular phenomenon, according to their attitude and the value imposed on them by the culture they belong to. Cultural frameworks, which vary from country to country, can be in the form of various social organizations, institutions, and systems. Culture defines the everyday life of an individual, sets his/her goals, and establishes relationships in both private and business world. All these relationships and activities can vary over time, but the essence of a particular culture remains the same.

Different cultures influence profoundly on organizational culture and management styles, especially when it comes to multinational companies. This is reflected in employees' expectations from a company, and what a company expects from its employees, what are the attitudes of managers, relation between a company and the local government, and the most important of all the way culture influences people, that is, their thinking and behaviour.

The influence of culture on the operations of a multinational company can be displayed on the example of one of the largest car manufacturing companies Toyota. The company is known all over the world for the quality of its cars, and this resulted from its focus on *Kaizen*, which means "continuous improvement". Due to Toyota's commitment to quality, repeated car recalling shocked the publicity in the period 2010-2013. At the beginning of 2010, 2.3 million cars were recalled due to a defective gas pedal that did not adhere to the surface, and later 5.2 million cars due to the shuffling of foot pedals into the floorboards. Afterwards, in the same year, 1.5 million cars were recalled due to electricity problems and leakage of brake fluid. Then, in 2012, 7.4 million cars were recalled because of their defective glass windows, and in 2013 more than a million vehicles were recalled due to problems with electric car windows. Naturally, Toyota bore the costs of not just car repairs, but also the claims which amounted to \$1.1 billion. Toyota CEO Akio Toyoda, the grandson of Toyota's founder, did not appear in public to give a statement two weeks after the recalling took place. Eventually, when he did appear in public, his statement was very short, minimizing the problem and saying that the problem had been in the software, not a physical defect. That problem arose just because of cultural misunderstanding. The culture of humility and respect in Japanese companies does not allow subordinates to question the decisions of their superiors, nor to talk about problems, but just respect and do what the superiors say, whether this can lead to a problem or not. Loyalty to the company is something that is characteristic of Japanese culture,

which indicates that they are more focused on the company than on customer care and hence the problem arises. Even if the subordinates notice the problem, they avoid criticizing their colleagues or ask for additional financial resources to redesign the car. In their culture they do not want to present the problem in the way it really is, but to minimize it. This results in poor communication with publicity, and they do not empathise with the consumers who have problems with their product. The Japanese are obsessed with quality and expertise, so it is a shame to admit that their product has a physical defect. Another distinguishing feature of their culture is that it is enough for them to apologize for a problem and then continue working. Whereas, the Americans are different, they want to be much more transparent. To sum up, managers have to strive to avoid the negative elements of their culture that could lead to problems and harm their reputation (Luthans, Doh, 2015). The influence of culture in international business is significant and presents a challenge for multinational companies. If a company does not accept and understand different cultures, it will not be able to survive on the market.

The influence of culture can be seen in both successful and unsuccessful companies. In international business there are a lot of interest groups, for example, governments of both countries, suppliers from a domestic country and distributors from a host country, investors, domestic consumers, employees in both countries, etc. (Dobrijević, 2011). Which means that for the company is not enough to worry only about how culture will impact on their company, but also how it will affect its associates. Businesses of multinational companies require understanding, accepting, respecting and adapting to other cultures. Knowing the specific features of other cultures facilitates business, that is, cooperation between companies belonging to different cultures, as well as setting and achieving goals and realizing tasks. The influence of cultural differences on international management can be analysed through some forms of basic beliefs and behaviour of people. These differences were studied by Reynolds (Reynolds, 1996), based on seven different features:

- Informal versus formal procedures. In some countries, more attention is paid to informal procedures, whereas formal procedures are applied in other countries.
- Individual versus group rewarding. In some countries, employees performing more important jobs are rewarded individually, while individual awards are not granted in other countries and cultural norms require a group prize.
- Centralized decision-making versus decentralized decision-making. In some countries, all important organizational decisions are made by top managers, and in other countries, all managers are involved in the process of making important decisions.
- Security versus risk. In some countries, organizational decision-makers avoid risk and do not like to face any insecurity, and in other countries decision-making in uncertain circumstances is considered rather common.
- High degree of loyalty to the organization versus low degree of loyalty. In some countries, employees are fully identified with their organization or employers, and in other countries they identify themselves with their profession.
- Cooperation versus competition. Some countries encourage cooperation among their employees, while others encourage competition between them.

- Stability versus innovation. The cultures of some countries support stability and resistance to change, and other cultures highly appreciate innovation and change.

We should also mention perception and stereotypes in international business, which in some cases are crucial for (non) cooperation. People in different cultures also have different perceptions and stereotypes about other cultural communities, which affects their behaviour as well as decision-making. One example of stereotype has already been described in the paper. Perception is an individual interpretation of the person's view of reality, a specific event, a person, an object, which involves selection and organization of feelings in a single form. Therefore, managers who come from different cultures have a different view of the same problem. The phenomenon of perception and stereotype is common in multinational companies, they encounter them frequently. A number of studies have been conducted so far in relation to these two things. One of these studies was the research conducted by J. Everett and B. Stening. Their research comprised 113 Japanese and 100 British managers employed at London representative offices of 18 Japanese companies. Each manager had to evaluate 18 semantically different features, such as: lazy/hardworking, impatient/patient, mysterious/open, and so on. By analysing the answers, it was found out that the Japanese and the British have the wrong opinions of each other. For example, the Japanese described themselves as very hardworking, honest, cautious, kind, methodical, with which the British agreed. However, the British did not agree with the Japanese self-assessment: determined, flexible, extrovert, and open-minded. When the Japanese were asked to describe themselves the way how the British would describe the Japanese, they could not believe that the British considered them ambitious and mysterious. The Japanese expected that the British, according to the stereotypes, would describe them as: shy, unambitious, indecisive, and introvert. The British considered themselves to be very honest, kind, predictable, ready to cooperate, logical and diligent. The Japanese, however, did not value these features so highly and did not consider the British to be particularly decisive, open-minded, ambitious or flexible. Moreover, they saw the British as, not very careful, methodical, logical, and not very witty, as the British saw themselves. The British considered themselves to be very open-minded, with which the Japanese did not agree (Everett, Stening, 1983).

Intercultural researches

Intercultural researches began to be conducted in the field of management only after professor Geert Hofstede began his research.

Geert Hofstede is a Dutch social psychologist who was employed in IBM, one of the world's leading computer technology companies. The basis for his research was the vast IBM database on its employees. Since this is a multinational company and it operates in all continents and in a large number of countries, it enabled Hofstede to use the data from approximately seventy countries (<https://www.geert-hofstede.com>). The main result of his research is the theory of five cultural dimensions based on which cultures differ from one another. Each of these dimensions has its own two extremes, and between the two extremes Hofstede determined the position for each particular culture by each dimension (Janićijević, 2013). The five dimensions are (<http://geerthofstede.com>):

1. The power distance index - shows the extent to which less powerful members of organizations and institutions are ready to accept that the power is distributed unequally. (average value 55)

2. Individualism/Collectivism - shows the extent to which people feel independent, and how much they depend on the membership of some larger entities. (collectivism < 43 < individualism)
3. Masculinity/femininity shows how the roles are divided among the genders. (female < 50 < male)
4. Uncertainty avoidance index - shows how much a society is ready to accept uncertainty. (average value 64)
5. Long-term-short-term - how much the members of a society are focused on long-term, and how much on short-term goals. (short term < 45 < long term).

The Hofstede research was criticised a lot. The main downsides of the research are the facts that he used the data from only one area and only one company (the field of computer technology, IBM).

Trompenaars research - another Dutch researcher, Fons Trompenaars, expanded Hofstede research during a ten-year study to 15,000 managers in 28 countries. Apart from the parameters that correspond to the Hofstede dimensions (except the last one), the researcher also developed additional ones that relate to the attitudes towards weather and environment. His approach was focused on helping business people, and not just for the sake of theory, and resolving practical business problems in different cultures. The parameters are (Griffin, Pustay, 2015):

1. Universalism/Particularism - Universalism is the belief that the same rules apply to everyone, regardless of the circumstances, since the rules are more important than interpersonal relations, that is, that people adhere to signed treaties. Particularism is the belief that everything depends on the situation and based on it certain rules are applied, people are more dependent on mutual relations and trust, while the signed contracts are applied in situations where partners know each other less or have not met at all.
2. Individualism/communitarianism - In individualism, people view themselves as individuals, trying to achieve goals themselves, while in communitarianism people view themselves as members of a particular group, making decisions and achieving goals together.
3. Neutrality/emotionality - Cultures that are neutral subdue their emotions, while cultures which are more emotional like to laugh, speak louder, express emotions ...
4. Specificity/Extensibility - When it comes to cultures with a high degree of specificity, individuals have a large public space with they share with the others and a small private space that they share only with the closest person, which means they separate business from private life. In other cultures where there is extensibility, private and business relations are mingled.
5. Competence/Position - In some cultures, an individual acquires his/her status by the achievements and competences, while in other cultures an individual acquires a status based on who he/she is and who he/she knows.

6. Time relation - There are two relations: synchronous and sequential. As for the first group, people do things at once, plans and schedules constantly change, while the other one does one thing at a time and strictly meets the deadlines.
7. Relation to nature - On the one hand, people control their destiny, and on the other hand everything that happens is not always controlled by a person, and he/she has to adapt to the situations.

This research is important as a starting point for adjusting to other cultures, and the adjustment depends on the business line of a company, as well as the countries in which it operates.

Lewis model - another approach to the classification and comparison of different cultures. Having visited 135 countries and worked in more than 20 countries, Lewis conducted a survey, which was done on a sample of 50,000 managers and 150,000 online questionnaires in 68 countries (<https://www.crossculture.com>). He concluded that cultures can be divided into three groups (Lewis, 2006):

1. Linear - active cultures - These are the cultures whose native language is English - North America, Great Britain, Northern Europe, Germanic countries ... They are patient and silent; non-verbal communication is limited; private life is separated from social life...
2. Multicultural cultures - These are cultures in southern Europe, India, South America, Mediterranean countries, and Pakistan ... They are distinguished by the fact that they are not interested in schedules; they do more things at a time; speak different languages; family ties are important ...
3. Reactive cultures - These cultures are present in the largest Asian countries, Finland and Turkey. They are distinguished by careful listening; they do not like to discuss much; they want to hear others' opinions first; they think a lot and plan slowly; they are honest ...
4. Although all three types of cultures are quite different, each of them has the characteristics of the remaining two cultures.

GLOBE project - The following research has been one of the largest and most influential intercultural researches over the last decades. It is the GLOBE project, conducted by one of the most renowned researchers, Robert House. More than 200 researchers from 62 countries worldwide participated in several phases and with the complementary use of quantitative and qualitative methodology; the interaction between a national culture, an organizational culture and leadership was analysed. The findings of the research program are based on the answers of 17,000 medium-level managers from 951 organizations, from three industries: food industry, telecommunications and financial services. The selection of these industries was made based on the logical assumption that they exist in almost all economies. The focus was to perceive cultural practices and values at social level, but also in some organizations. The GLOBE project differs from Hofstede research, because in addition to those basic dimensions, there are three more dimensions that are important to international business: focus on results (how much a company rewards and encourages good results), orientation towards humanity (how much a society values righteousness, generosity, kindness to others) and assertiveness (how much individuals are persistent and confident regarding interaction with others). The most important results of this project are: classifying the explored

cultures into different clusters and gathering interesting findings on individual cultures (<http://www.globalproject.com/>).

1. Anglo cluster (England, Australia, South Africa - sub-population of the white population, Canada, New Zealand, Ireland and the United States). It is characterized by accomplishing personal goals, individualism and tolerance of uncertainty; rewards obtained according to merit.
2. Latin Europe (Israel, Italy, Portugal, Spain, France, Switzerland - French speaking area). They are characterized by a high level of collectivism and low regarding friendship, and generosity.
3. Nordic Europe (Finland, Sweden and Denmark). It is characterized by individualism, avoidance of uncertainty; emphasis on cooperation and security.
4. German Europe (Austria, Switzerland, Netherlands, Germany - former Eastern Germany, Germany - former Western Germany). They are characterized by assertiveness, avoidance of uncertainty.
5. Eastern Europe (Hungary, Russia, Kazakhstan, Albania, Poland, Greece, Slovenia and Georgia). They are characterized by avoidance of problems and lack of initiative.
6. Latin America (Costa Rica, Venezuela, Ecuador, Mexico, El Salvador, Colombia, Guatemala, Bolivia, Brazil and Argentina). Characterized by collectivism and a great power distance; family ties are very important.
7. Sub-Saharan Africa (Namibia, Zambia, Zimbabwe, South Africa - a sub-population of the black population and Nigeria). It is characterized by righteousness, goodness, and friendship.
8. Middle East (Qatar, Morocco, Turkey, Egypt and Kuwait). They are characterized by the importance of family; men are the protectors of the family; Allah's will leads their lives.
9. South Asia (India, Indonesia, Philippines, Malaysia, Thailand and Iran). It is characterized by high collectivism and power distance; justice and friendship are highly valued.
10. Confucian Asia (Taiwan, Singapore) - great power distance; orientation towards the future; rewards and goals are group-oriented. (<https://cultureplusconsulting.com>).

The research is important for multinational companies because they sometimes instinctively use this approach in formulating their international strategies. The proximity of culture can influence the way of entering a foreign market, therefore, companies choose a culture which is similar to their own culture.

Conclusion

The influence of culture and cultural differences is becoming more important in the operations of multinational companies. Each country has its own culture. There are differences in culture between countries which are more or less visible. Understanding and respecting different cultures is a prerequisite for companies that want to expand their business horizons beyond the borders of their countries. Cultural differences can be noticed in the simplest form of communication, such as the way of greetings, dressing, and body posture. The business activities of each company bring along some complexities, and this complexity of business activities is even more emphasised in multinational companies that operate globally. Due to the complexity, the need arises that the person conducting the negotiations, in addition to his/her professional knowledge, should have the knowledge of the culture of the other person, and possess the traits such as tolerance and patience to achieve business success. International business poses a number of challenges to its participants, so multinational companies should always be ready to respond to these challenges.

Summarizing everything that has been stated above, it can be concluded that culture is very important in the business world; it should be accepted, understood and respected. Respecting the culture and cultural differences of business partners leads to faster and easier business operation in the global market.

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