# Current Research in International Strategy & Cross-Cultural Management

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# Workshop on International Strategy & Cross-Cultural Management

⌘ Four different tracks

➡ Internationalisation Strategies of Companies (International Strategy)

- (e.g.: Global Strategy, International Market Entry, Cross-Border Mergers & Acquisitions, Innovation Management, Knowledge Management, Strategic Alliances, Greenfields…)

➡ Management Practices of the MNC (HQ-subsidiary relationships)

- (e.g.: Knowledge Transfer, Corporate Control, Mobility Policies, Corporate Governance and Cross-Cultural Management, Shareholder Value vs. Stakeholder Approach, Corporate Finance, Performance Management Practices, International Organisation…)
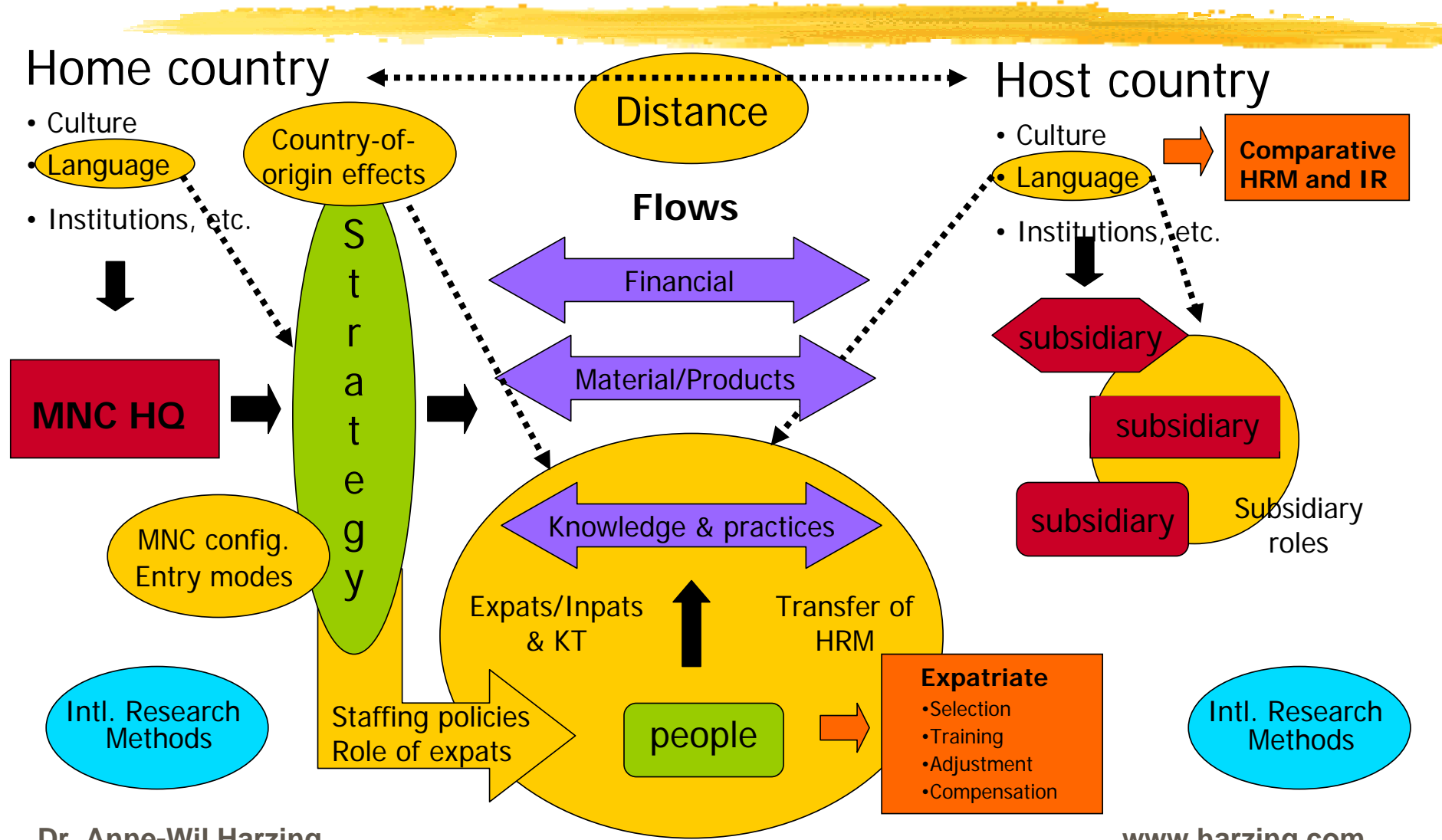
➡ Convergence and Divergence in Management Practices (Cross-cultural management)

- (e.g. in the following areas: Investment Strategy and Finance, Marketing, Accounting, Organisation, Research & Development and Innovation Management, Manufacturing and Supply Chain, …)
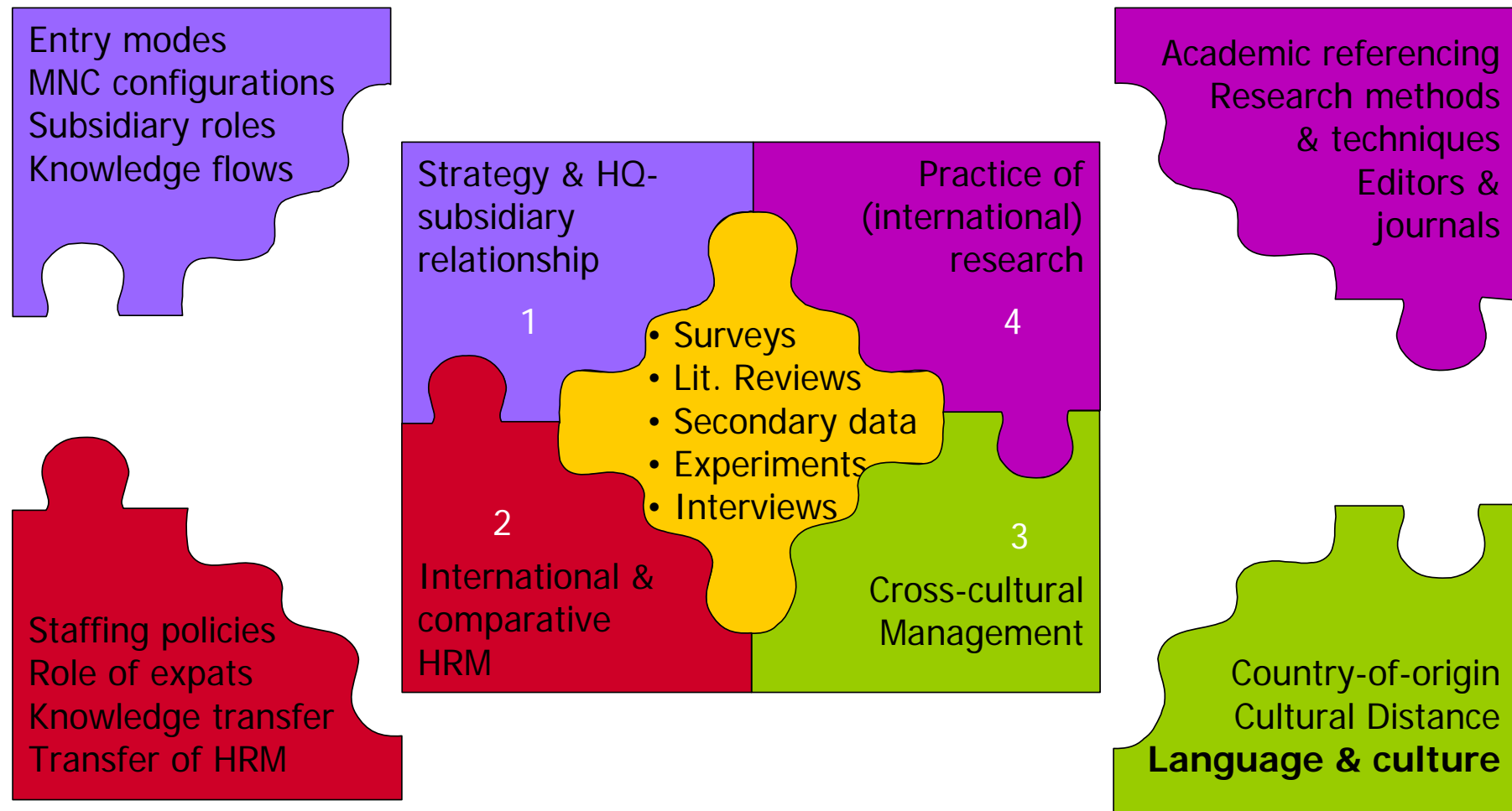
➡ Managing the Human Factor across Cultures (IHRM/CHRM)

- (e.g.: Motivation, Training and Development, Communication and Decision Making, International Mobility, Career Planning, Appraisal Systems…)
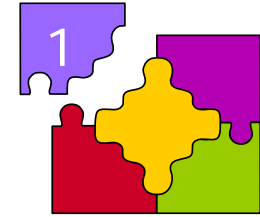
# Strategy, HQ-subsidiary relationships, cross-cultural mgmnt and IHRM/CHRM



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# Overview of research areas

**Entry modes**
**MNC configurations**
**Subsidiary roles**
**Knowledge flows**

**Academic referencing**
**Research methods**
**& techniques**
**Editors &**
**journals**

**Strategy & HQ-subsidiary relationship**

1

**Practice of (international) research**

4

- Surveys
- Lit. Reviews
- Secondary data
- Experiments
- Interviews

2

**International & comparative HRM**

**Cross-cultural Management**

3

**Staffing policies**
**Role of expats**
**Knowledge transfer**
**Transfer of HRM**

**Country-of-origin**
**Cultural Distance**
**Language & culture**

# 1. Strategy & HQ-Sub. relationship: Entry mode choice (1)

⌘ Entry mode research (review by *Brouthers & Hennart, AoM 2006*)

➜ one of the most popular areas of research in International Strategy; 1980-1989: 5 articles, 1990-1999: 48 articles, 2000-2003: 43 articles

➜ traditional focus on laundry list of factors influencing **choice** of entry mode (greenfield, acquisitions, JVs), most studies using transaction cost theory

➜ MNC international experience, cultural distance and risk three most studied independent variables

⌘ Strategy and **management** of entry modes *(SMJ, 2002)*

➜ MNC strategy impacts on entry mode choice; MNCs with a global strategy prefer greenfields, MNCs with a multidomestic strategy acquisitions

➜ Greenfield and acquisitions are **managed** differently; HQ uses more control & of expats, and allows less local responsiveness for greenfields

➜ Over time HQ management of a subsidiary convergences to the management of the preferred entry mode option for that strategy

● For instance if global companies are forced to choose acquisitions over greenfields, they will over time treat their acquisitions more as they would greenfields, e.g. increase their level of control through standardization and procedures and decrease the level of local responsiveness

# 1. Strategy & HQ-Sub. relationship: Entry mode choice (2)
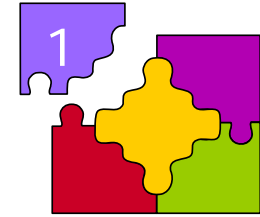
⌘ Fixation on cultural distance *(Advances in IM, 2004)*

➔ Many entry modes studies conflate Country-of-Origin and CD

➔ Revisit psychic distance (incl. geographic, language, economic, legal & institutional distance) instead of focusing on the Kogut & Singh formula

➔ The focus in explaining entry mode choice should be on the manager taking the decision, not some abstract company or country level proxies

⌘ Recommendations for future research *(Brouthers/Hennart, AoM 2006)*

➔ If entry mode choice is a strategic decision; strategic decision making literature needs to be applied; wider theory base is warranted

➔ Strategic decisions are not entirely rational

● Upper echelon theory, TMT composition, manager's risk propensity and propensity to trust can all be used explain entry mode choice

➔ Others try to influence decisions

● Power & politics, social capital/network theory, stakeholder theory can all be used explain entry mode choice

# 1. Strategy & HQ-Sub. relationship: MNC configurations & sub. roles
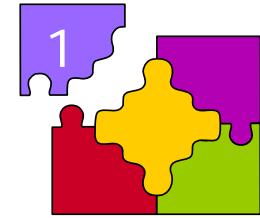
- ⌘ Influential typologies of MNCs and subsidiaries; do they hold up to large-scale empirical verification?
- ⌘ Configurations of MNCs *(JIBS, 2000)*
  - ➔ Tests and extension of the Bartlett & Ghoshal typology of MNCs, which was based on only 9 MNCs
  - ➔ Global, multidomestic & transnational MNCs can be clearly distinguished, while the international type is less clearly defined
  - ➔ Configurations show different and consistent patterns in terms of interdependence, local responsiveness, control mechanisms and expatriate presence
- ⌘ Subsidiary roles *(with Niels Noorderhaven APJM 2006; IBR, 2006)*
  - ➔ Test and extension of the G&G typology of subsidiary roles based on knowledge flows
  - ➔ Roles are associated with different control mechanisms, capabilities and product flows
  - ➔ Increasing level of knowledge flows *between* subsidiaries
  - ➔ Australian and NZ subsidiaries differ from other subsidiaries
    - ● more local innovators, fewer global innovators; more local sourcing, more autonomy, fewer expats, less local R&D/production, different capabilities

# 1. Strategy & HQ-Sub. relationship: Summary

⌘ A focus on strategy is fine, but don't forget the management side, which is where CCM and HRM come in

⌘ Stop the fixation with:

➔ Mechanical measurement of Cultural Distance
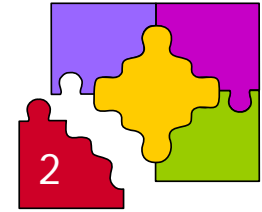
➔ Limited set of theories (TCA, agency theory)

➔ Using **only** secondary data or large surveys

⌘ Not all MNCs are alike, not all subsidiaries are alike

⌘ Knowledge flows are a key theme

# 2. IHRM/CHRM: Staffing policies

- ⌘ Staffing policies *(JIM 1997 & HRM 2001)*
  - ➔ Which factors influence the choice between expatriates and local managers? Based on both secondary (2,500 observations) and mail survey data
    - Country of origin of MNC, level of Uncertainty avoidance in home culture
    - More expats in important subsidiaries (majority-owned, direct reporting to HQ, greenfield, large, young, underperforming)
    - Host country (high political risk, high cultural distance, low level of education) and industry (more expats in financial services)
    - MD more likely to be expat (40%) than finance (17%), marketing (10%) or personnel managers (2%); in British MNCs finance managers are as likely to be expats as MDs
- ⌘ Functions of expatriation *(Empl. Rel. & JWB 2001)*
  - ➔ Expatriation performs three distinct roles (knowledge transfer, management development and control)
  - ➔ These roles differ by home and host country and level of cultural distance
  - ➔ Expatriates play a major role in controlling subsidiaries, through:
    - direct supervision of local managers (bears)
    - socialisation of local managers (bumble-bees)
    - creation of informal communication networks (spiders)

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# 2. IHRM/CHRM: Knowledge transfer
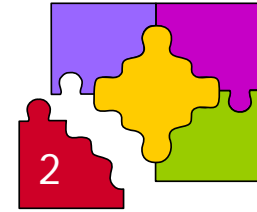
- ⌘ Recent research renewed focus on the **process** of knowledge transfer through expatriation (theory-based rather than descriptive)
  - ➔ Knowledge flows bi-directional: from expat/HQ to subsidiary (knowledge application) and from subsidiary to expat/HQ (expatriate learning)
    - Learning **by** expatriates is an underestimated strategic assignment outcome *(with Barry Hocking and Michelle Brown IJHRM 2004)*
    - Varying combinations of global & local knowledge access & communication are necessary to achieve knowledge transfer and learning *(id., HRM, revision)*
- ⌘ The role of social capital in knowledge transfer for **in**patriates *(with Sebastian Reiche and Maria Kraimer)*
  - ➔ Inpatriates' HQ social capital
    - Structural (network size, number of higher-level ties)
    - Relational (strength of ties, interpersonal trust)
    - Cognitive (identification with HQ organization)
  - ➔ Organizational policies such as mentoring and repatriation programmes moderate the relationship between social capital and knowledge transfer

# 2. IHRM/CHRM: Transfer of HRM practices
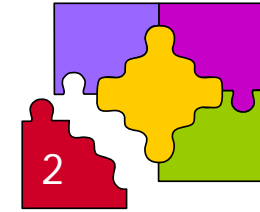
- Comparison of local firms and MNC subsidiaries in Greece *(IJCCM, with Barbara Myloni 2004)*
  - Greek firms firmly embedded in Greek culture and considerable adaptation by MNC subsidiaries to Greek culture
  - Subsidiaries in Greece differ from local firms with regard to *(IJMP 2004):*
    - performance appraisal (less hierarchical)
    - compensation (more flexible/achievement-based)
- Japanese, German, US MNCs in Japan/Germany/US *(with Markus Pudelko)*
  - HQs and different groups of subsidiaries differ in their HRM practices
    - At HQ level most HRM practices differ significantly between Japanese and US HQs, German HQs score in between
    - Subsidiaries of **US** MNCs (in both Germany & Japan) show a mix of transfer and adaptation
    - Subsidiaries of **Japanese** and **German** MNCs (in the US, Germany & Japan) show adoption of dominant **US** practices
  - MNCs transfer only those practices that they consider to be their core competencies
    - German and Japanese MNCs may transfer their production systems
    - German and Japanese MNCs adopt best practices in HRM when they can; more flexibility at subsidiary level

# 2. IHRM/CHRM: Summary

⌘ From expatriation to….

➔ inpatriation, global managers, multicultural project teams

⌘ Role of international assignments

➔ From knowledge transfer to MD & control, back to knowledge transfer, but:

- No longer unidirectional
- Focus on the **process of knowledge transfer/sharing**

⌘ Transfer of management practices is complex

➔ Different mgmt practices might have different levels of transfer

➔ Different home/host countries might have  different levels of transfer

➔ No longer unidirectional, reverse transfer is also possible

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# 3. Cross-cultural mgmt: Country-of-origin effects

- Conceptual article with Niels Noorderhaven *(MIR, 2003)*
  - factors impacting on the strength of the coo effect
    - aspects of home & host culture (cultural homogeneity, high PD/UA stronger coo effect)
    - the size and openness of the home-country economy (small/open weaker effect)
    - diversity of host environments (larger diversity, weaker effect)
    - the international growth path of the MNC (greenfields stronger effect)
- Most US research considers European MNCs as homogeneous group
  - COO effect on a world-wide and European level on internationalisation strategy and control mechanisms (*Org. Studies 2003*)
    - Internationalisation strategy (level of local responsiveness and interdependence) mostly determined by industry and subsidiary size
    - Type of control mechanisms (incl. expatriation) mostly determined by country of origin
  - Palgrave (2002) book chapter: comparison between UK, Germany, US & Japan
    - Japan and US at opposite ends; UK very similar to US; Germany resembles Japan more than the UK
  - Blackwell (2007) *Images of the MNC*: Comparison of COO effect 2002 vs. 1995
    - Some movement of Germany to Anglophone countries in terms of local production & R&D, lower use of expats, but significant differences between Germany and UK remain

# 3. Cross-cultural mgmt: The language barrier
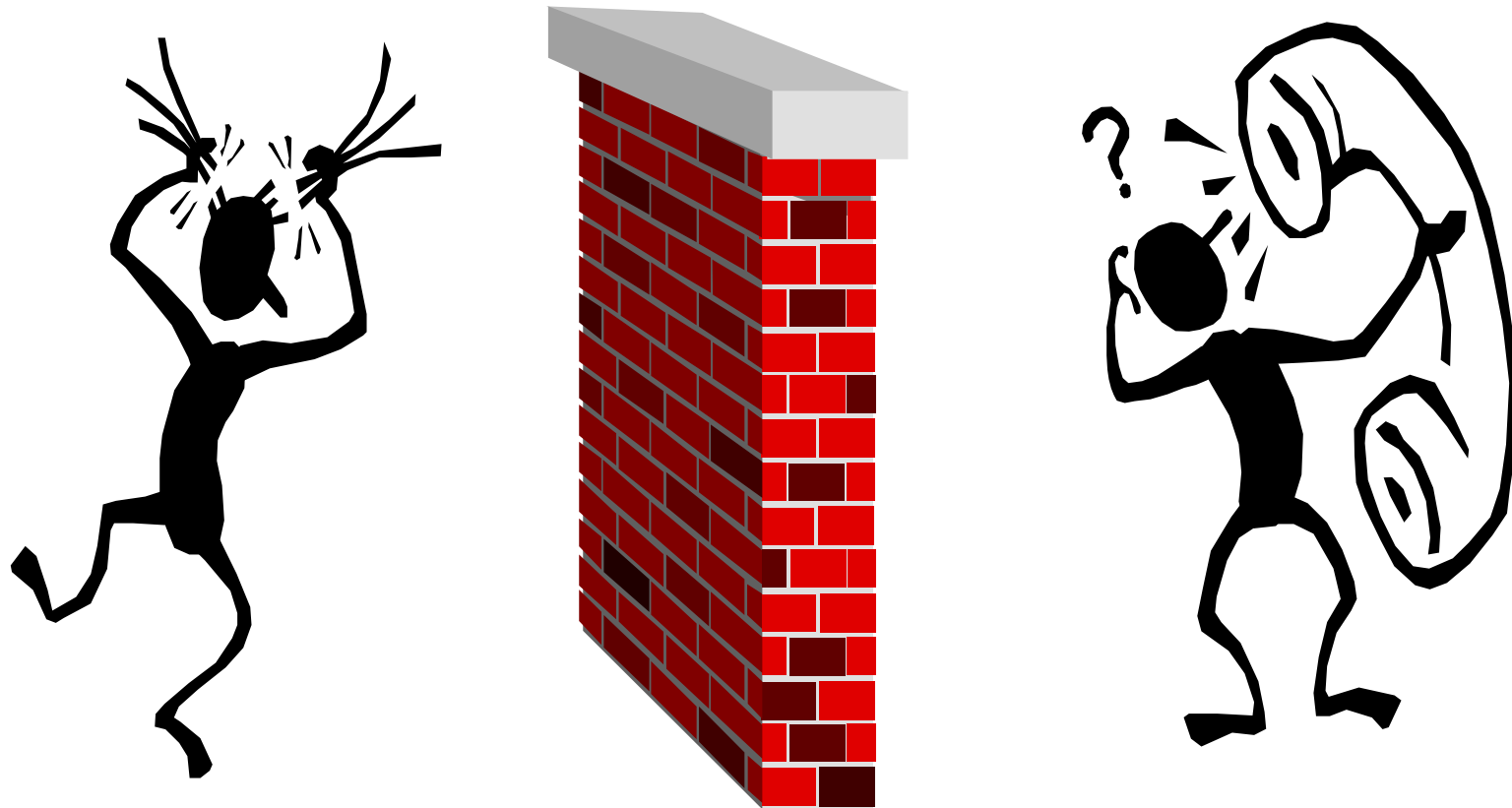
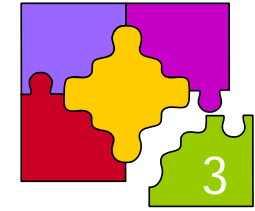# Can anyone make any sense out of this?

⌘ ALOITA TÄSTÄ!

⌘ Tämä kyselylomake koostuu useista kysymyssarjoista. Jokaiseen osaan vastaamiseen on omat ohjeensa. On erittäin tärkeää, että yrität vastata kaikkiin kysymyksiin. Jos et kuitenkaan halua tai osaa vastata johonkin kysymykseen, jätä se mieluummin tyhjäksi kuin että annat minkä tahansa vastauksen.
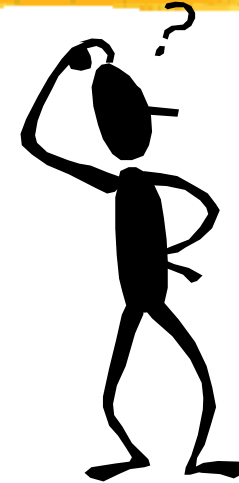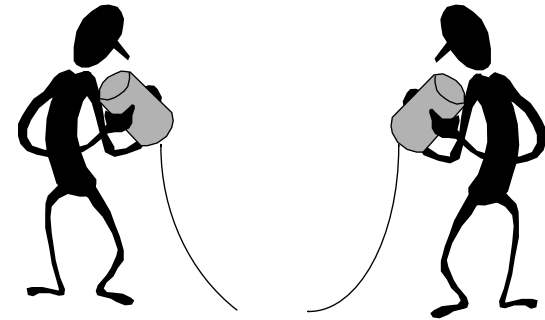
# The language barrier: Where does it occur?

- ⌘ With customers and suppliers
  - ➔ An increasing number of companies will need to interact with customers and suppliers in other countries
  - ➔ Although English might be the language of business, it is important to speak the language of the customer, especially in services
- ⌘ Between headquarters and subsidiaries or branch offices in multinational corporations
  - ➔ This is what my own research focuses on
  - ➔ Many multinationals use a corporate language, which often - but not always - is English
  - ➔ The use of English/a corporate language can have important implications in terms of communication barriers, identity and power relations
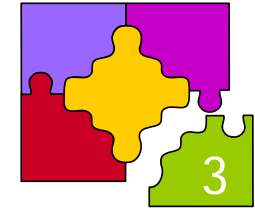
# But doesn't everyone speak English?
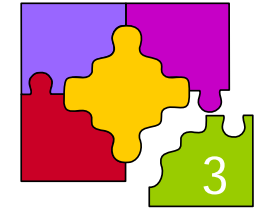
⌘ Well... maybe, but sometimes poorly

⌘ In that case be careful
not to equate English language
fluency with intelligence

⌘ "My IQ has suddenly
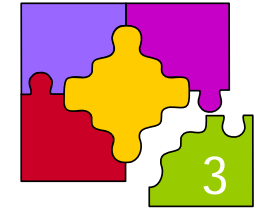dropped 50 points"
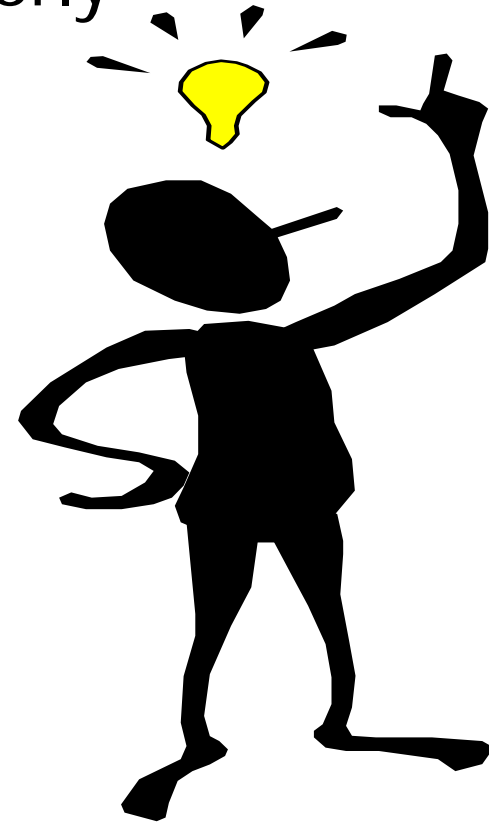
# But doesn't everyone speak English?

- ⌘ Well... maybe, but not fluently

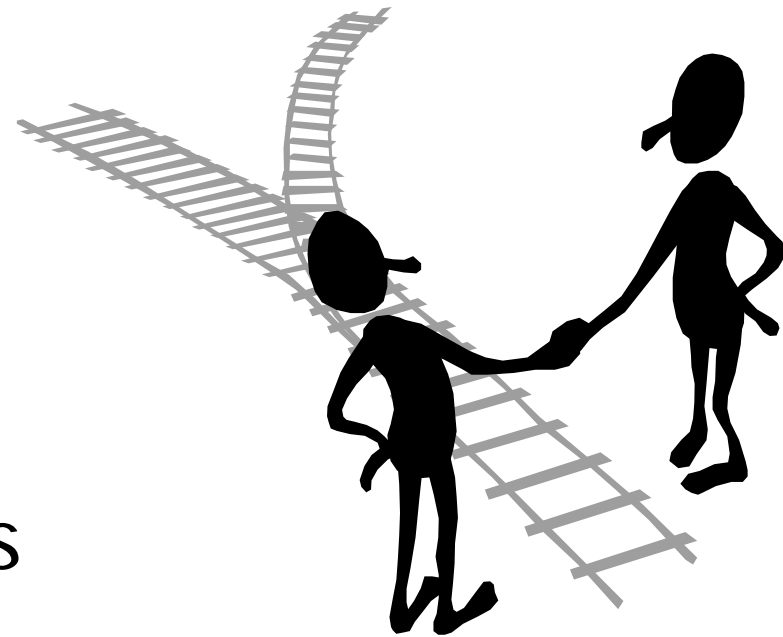- ⌘ Managers may pretend to understand to "save face"

- ⌘ The resulting confusion can lead to suspicion and blaming the non-native speaker for being fickle and unreliable
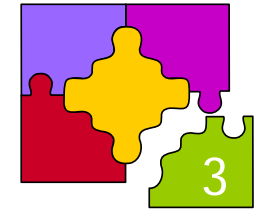
# But doesn't everyone speak English?

⌘ Yes..., but near fluency doesn't mean someone is culturally similar

⌘ Speaking your language fluently doesn't mean your counterpart shares your norms and values
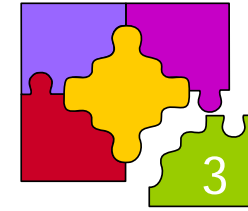
# Language is:
# a source of identity

- *In the universal process of cultural homogenisation, the role of language will remain intact as a key cultural differentiator, while other sources of cultural differentiation will progressively disappear. (Usunier)*

- Respondents accommodate to some extent to norms & values embedded in the language of the questionnaire
  - Study with UG students in 25+ countries *(LICC 2002, IJCCM, 2005)*
  - English-language questionnaires underestimate national differences
  - This is true for questions about cultural norms and values as well as questions about ideal type of jobs preferred
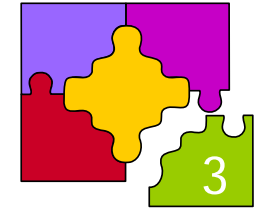
# 3. Cross-cultural mgmt:
## Language & Management style

⌘ Does language influence the way managers **act**?

➔ Range of mgmt practices (e.g. leadership, decision-making, compensation)

- Scenarios in English/local language with choice of solutions
- Does language impact on the solution that is chosen (cultural accommodation)?
- Data collected with (executive) MBAs in 20+ countries, analysis will start in October

➔ Performance appraisal experiment

- Does language impact on the performance appraisal rating
- Profiles with mix of Asian/Western behaviour
- Bilinguals rate performance in either Mandarin or English
- Data collection will start next year
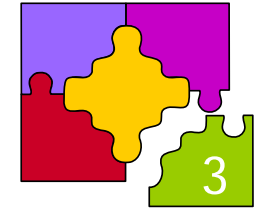
# Language is:
# a source of power

⌘ Parallel information network or shadow organisation structure

➔ Informal communication channels based on language skills rather than position in the company

➔ Possession of language skills leads individuals to have more power than their formal position would indicate
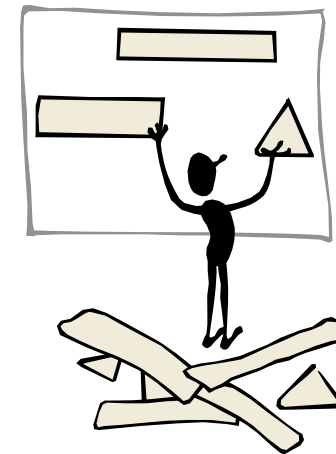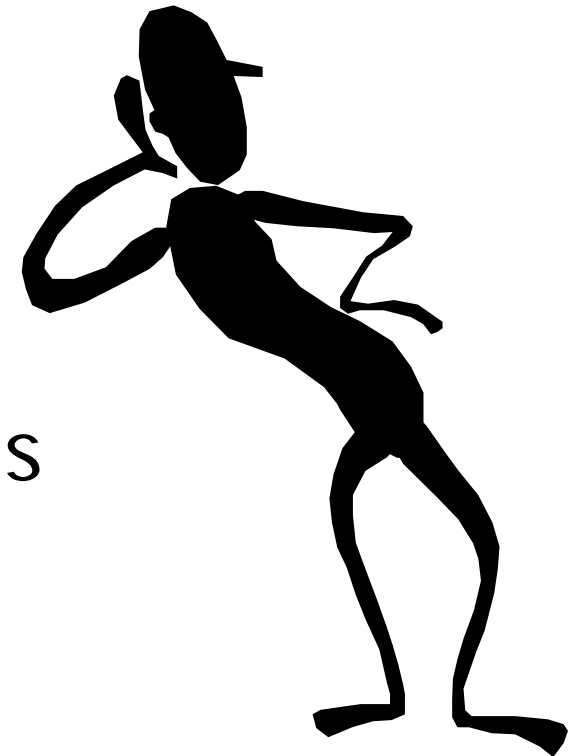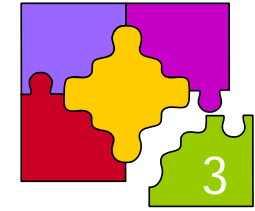
# Language is:
# a source of power

⌘Code-switching

➔ conducting side-conversations
in native language

⌘Mono-linguals cannot
understand side-conversations
and will often feel excluded

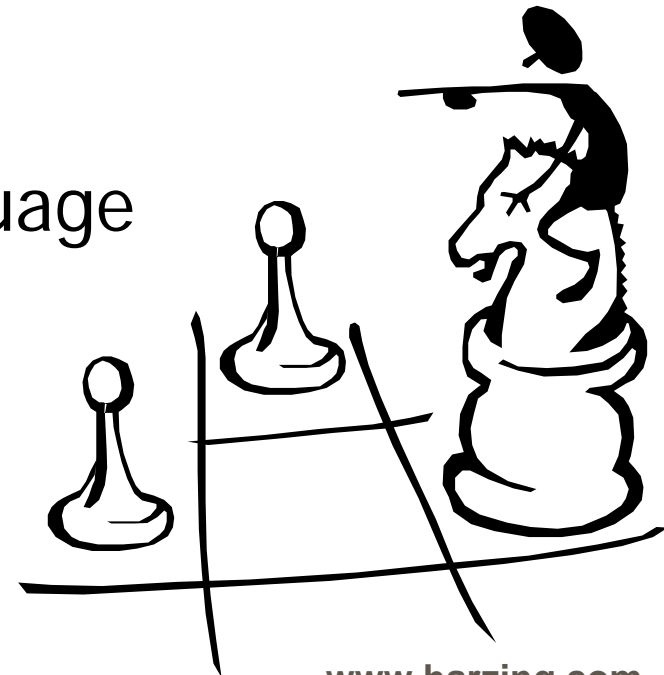➔ Are they laughing about me?

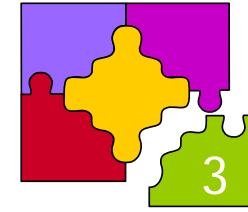➔ JV negotiations

# Language is: a source of power

⌘ Anglophone subsidiaries of non-Anglo multinationals may have advantage if corporate language is English

⌘ "Speaking the corporate language or language of HQ is important for your power and influence in this MNC"

➔ 85% agreed

# 3. Cross-cultural mgmt:
## Language, Identity, Power & Strategy

⌘ The role of language in MNCs
- ➜ Constructing a conceptual model of the language barrier
  - Drivers of misunderstanding (loss of rhetorical skills, loss of face)
  - Creating group boundaries (group identity, attribution, cognitive schema)
  - Reinforcing group boundaries (parallel information networks, code switching, power-authority distortion)
- ➜ Interviews in Germany and Japan conducted by Kathrin Koester

⌘ Implications of language for HQ-sub relationships
- ➜ How does language difference impact on:
  - Control mechanisms (focus on centralisation/output control instead of formalisation and socialisation?)
  - Expatriation (increased use of expatriates for control and communication?)
  - Entry modes (use greenfields to reduce language barrier?)
- ➜ Initial test using data from 2002 survey with Niels Noorderhaven
- ➜ Large scale survey in subsidiaries of German, Japanese, British and US MNCs, data to be collected in 2007/2008

# 4. The practice of (intl) research (1)
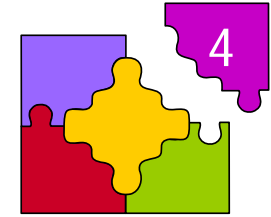
⌘ Inadequate academic referencing

➔ Myth of high expat failure rate caused by careless referencing *(IJHRM 1995)*

➔ Are our referencing errors undermining our scholarship & credibility? *(JOB 2002)*

  • 12 guidelines for academic referencing and how each of them are regularly violated

⌘ The challenge of international mail surveys

➔ How to conduct IMS (*IBR, 1997*)

➔ Differences in response rates between countries (*IMM, 2000*)

⌘ Language of survey instruments

➔ English-language questionnaires underestimate differences between countries (*LICC 2002, IJCCM 2005*) through cultural accommodation

➔ Native-language questionnaires usually lead to use of fuller range of answer alternatives (more extreme responses) (*IJCCM 2006*)

⌘ Differences in response styles between countries (*IJCCM 2006*)

➔ Variance in the level of acquiescence, middle and extreme response styles

➔ Are we measuring response style differences rather than substantive differences?

# 4. The practice of (intl) research (2)
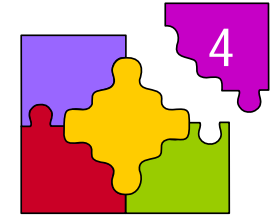
⌘ Impact of timing of data collection *(IJCCM 2005 with Olivas-Lujan & McCoy)*

➔ US data on norms & values and ideal jobs before and after September 11, after 9/11

- Higher level of hierarchy/power distance
- Lower level of cosmopolitanism
- Ideal job with security & opportunity to serve country preferred over variety & adventure
- So: in multi-country country projects world events might impact on results if data are not collected at the exact same time

⌘ The publication process: editors, authors and journals

➔ Australian academic output: high volume, low impact? (*AJM, 2005*)

➔ Factors impacting on female editorial board participation

- 60 journals, 4 data points (1989/94/99/04), 10,000 EB members, 10,000 articles
- Subject area (IB), origin (Europe), editor (male, non-rotating) all show impact

➔ Factors impacting on international diversity in editorial boards

➔ Editorial standing

- Gender, geographical, time differences, publication and citation patterns
- Relation with journal quality rankings (ISI impact, peer opinions)

➔ Knowledge flows between academic journals (social network analysis)

# Overall conclusion

- ⌘ Don't work in isolation, strategy and (cross-cultural and HR) management are related

- ⌘ Be critical, but constructive

  - ➔ Don't get drawn into paradigm or methods wars

  - ➔ Europeans might have a natural advantage to do more qualitative, process-based research, which can generate unique insights

  - ➔ But qualitative research needs to be rigorous too and in all fairness many European scholars can learn a lot from top NA scholars there

- ⌘ Consider using multimethods in one study

  - ➔ My language project uses: local surveys with individuals, interviews, quasi-experiments, world-wide surveys with key informants

  - ➔ Most PhDs in Melbourne use at least two methods in their PhD