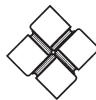


# **Countries, Corporations and Cultures**

## A multilevel approach

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# Management Summary

This study is named '4C-Research': the Cross-Country Corporate Culture Research. It focusses on the quantitative measurement of culture in multinational corporations. 'Quantitative' means that such cultures can be compared with a 'yardstick', or cultural dimension. In this study, five cultural dimensions will be developed, and together they constitute a framework. The 4C-Research connects with the bodies of knowledge of comparing organisational as well as national cultures. This dual approach makes it different from other comparative studies.

First, culture is measured with the same five dimensions at different levels of analysis (in particular the levels of the corporation, country, country organisation, and employee). Thus far comparative studies have mainly addressed differences between national or organisational cultures. For either purpose frameworks with cultural dimensions are available – different dimensions for countries and organisations, that is. The 4C-Research shows that both types of culture can be measured with a single framework of dimensions. These five so-called Multilevel Culture (MLC) dimensions were partly taken from Geert Hofstede's (1980, 1994, 2001) dimensional 'VSM' framework for national cultures – also known as the 'IBM study'. In particular the dimensions called *Individualism* (IDV), *Masculinity* (MAS), and *Long Term Orientation* (LTO) appear to be useful not only at the country level of analysis, but also at the organisation and other levels. Thus, organisational culture is measured with a survey that was known for measuring national culture. In addition, two new dimensions were developed from a survey that was developed for measuring organisational cultures (Hofstede, Neuijen, Ohayv, and Sanders 1990). This so-called 'Organizational Culture Model' (OCM) survey has never become popular, but it proved to be useful for this study. The two new dimensions derived from it are called *Continuation* (CNT) and *Closedness* (CLS). As is the case with IDV, MAS, and LTO, these two dimensions can be used for all levels of analysis.

Second, in the 4C-Research the individualism, masculinity and long term orientation dimensions as found in the IBM study (Hofstede 1980, 2001) are replicated at the country level. One may argue that such a comparison is questionable, because this study is not part of a longitudinal design, but Hofstede developed the Value Survey Module (VSM) dimensions with later replications (of different samples) in mind. For the new CNT and CLS dimensions such a replication logically was not feasible.

Third, in this study cultures are compared by scores on a specific dimension as well as on all dimensions together. The five culture dimensions are more or less orthogonal and make up a five dimensional 'Cartesian' space. Thus every unit at each level of analysis can be described by five coordinates. This applies to individuals, countries, corporations, and country organisations.

Fourth, the MLC vector is used as a starting point for a more qualitative analysis of a country or corporate culture. Two chapters are dedicated to this type of analysis. A quantitative comparison of cultures combined with analysis of observations and literature makes the whole exercise less abstract.

Fifth, the statistics used in this study partly differ from other studies in this field, although this is starting to change (e.g. Zyphur, Zammuto and Zhang 2016). The 'new' thing encompasses multilevel models for all five dimensions. The Markov Chain Monte Carlo (MCMC) procedure that has been employed (through a software package called MLwiN) makes use of the variance of a dimension score at each level of analysis – rather than labelling this variance as 'error'. It is shown that the dimensions are robust at the country as well as the corporate and organisational unit level, and some of them also at the level of the individual.

Sixth, the multilevel models are fairly insensitive to sampling of individuals and corporations. Hofstede (1980, 2001) always has put emphasis on 'matched' sampling if his IBM-study were to be replicated – in particular on percentages of occupations for each country. In the 4C-Research it is shown that replications of the IBM study can be done fairly easily.

Seventh, the study shows that the organisational unit (or country organisation) hardly contributes to the unexplained variance of a dimension score. It can be left out of the multilevel models. The scores on the five culture dimensions of an organisational unit is on average determined by country as well as corporation, not (or at least to a far lesser degree) by the local management of a country organisation. The advantage of leaving out the organisational unit is that the model equations become more parsimonious.

Eighth, one cross-classified model is given for each dimension, with country and corporation as classifications. The culture of an organisational unit proves to be a linear combination of corporate and country culture. This outcome potentially enables making predictions of the culture of an organisational unit even if it is not present in a study – it may even not exist, yet. Thus, the organisational unit is still an interesting level of analysis.

To summarise, the MLC framework links with previous studies and it bridges the body of knowledge of comparative studies of countries with that of corporations. As such it has the potential to become a consulting tool for comparing organisations within and across countries.

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# 1 Introduction

The subject of national and organisational culture in times of globalisation has intrigued me for a long time, partly because of the rising popularity of literature on international management, but mainly because of events in my personal life. In the 1990s I worked as a police captain in Amsterdam. In those years I had many international encounters with other police forces. Although ‘police-speak’ is rather similar all over the world, I often noticed significant cultural differences. Police officers in the UK even today remain proud not to carry side arms, while in the Netherlands 9-mm guns have replaced 7.65s a long time ago. Furthermore, in my home town Amsterdam the results of continuous immigration of over 40 years are undoubtedly visible. Not to mention the daily portion of international business people and tourists who pay the Dutch capital a visit. The large airport and main Internet hub in Europe have attracted foreign capital. The various ethnic and national cultures seem to get along fairly well, despite the rise of an anti-immigration party. An example of successful international co-operation at the shop floor can also be seen high in the sky: the crew of an aircraft I took had crew members from the Netherlands, Turkey, Surinam and China, and the service was in my experience better than on most flights with an all-Dutch crew.

Another stimulus for indulging in a research on national and organisational culture came from a close friend who used to work in a diesel-engine manufacturing company that expanded its activities at a rapid pace throughout the globe. They had bought many local manufacturers and later faced huge losses. The acquisitions had been justified by the strategic plan, which predicted heaven on earth. We concluded that top management could have saved costs by applying knowledge about the various perspectives on organisational, local, national and global culture that may collide but merge within their organisations. This fact is widely recognised: Eurofound<sup>1</sup> (2008) estimates that 50% of cross-border mergers perform below expectations. For example, the acquisition of KLM and AirFrance has mainly made losses for over a decade, mainly due to the average costs per employee. So, reducing costs is urgent, to avoid bankruptcy (Wester 2016). This has led to within-company tensions, resulting in strikes. Indeed, most employees in most mergers and acquisitions will at some time suffer from decision outcomes that are perceived not to be fair: relocation, loss of prerogatives and decision power, lay-offs there is hardly a limit to the list (Melkonian, Monin, and Noorderhaven 2011).

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1 Eurofound, the European Foundation for the Improvement of Living and Working Conditions, is a European Union body based in Dublin.

This inspired to formulate the (provisional) central question of this study:

**To what extent is work culture the result of blending of national and corporate culture?**

Culture has many layers that are mutually influencing each other, as can be observed in international corporations. Volkswagen is not just a German company, nor is it monolithically international. It has a strong corporate culture, rooted in German history. But in China, where VW has the largest market-share, it is definitely also Chinese. For local management the challenge is to show that they are part of Volkswagen and that they are Chinese. Is it possible to be as Chinese as the Great Wall within such a strong corporate culture that has its roots in a different country? The essence of international management seems to be bridging cultural differences. Bridging cultural differences is an important challenge to modern governments as well. For example, the UK leaving the European Union can be perceived by many as a triumph of nationalism (Calhoun 2016). During my work as an international consultant for a Swedish Human Resources consultancy I was in need for an instrument that would allow me to do so-called 'quick scans' in corporations, in such a way that cultural differences could be measured across countries within a single corporation to see which country organisations matched with the corporate culture and which did not. Also, comparisons between different firms within a single country were to be made, because the game of benchmarking is important to consultancies. After some digging in libraries and databases I found out that no such instrument existed. In fact there were two different types of cultural measurement tools available; those for organisational cultures (that leave out the influence of national culture), and those for national cultures (and which does not take organisational culture into account). This thesis aims to bridge the gap between the two types of instruments. *The main objective of this study is to find a culture measurement framework that can be used for countries and organisations simultaneously.*

This study sets off in chapter 2 with a literature overview of comparative studies of countries as well as corporations, leading to the central question based on possible multilevel models that include national and corporate culture. In the third chapter the data gathering process as well as sample characteristics at different levels of analysis will be discussed. Chapter 4 contains a confirmatory factor analysis as well the usual 'replication-by-equation' of the VSM dimensions at the country level. Most analyses are conducted at multiple levels, and partly within single units of analysis. Finally, it is scrutinised how the five VSM dimensions act in concert.

Chapter 5 presents multilevel models for the five VSM dimensions (IDV, MAS, PDI, UAI, and LTO). In chapter 6, five new dimensions are extracted with a principal components analysis on items of the OCM questionnaire. Similar to chapter 5, multilevel models for these five dimensions will be presented.

In chapter 7, five out of the ten VSM and OCM dimensions will be selected to form the MLC framework. Attention is also paid to levels of analysis other than country, corporation, country organisation, and individual. For example, a level beyond country is the 'cluster' or 'civilisation' – a group of countries that have a language or religion in common. Some analyses will be conducted within single units of analysis, which until now has been considered as a taboo. Also, construct validity of the dimensions will be discussed, together with some sampling issues. Finally, it will be scrutinised how the five MLC dimensions act in concert

Chapter 8 presents extended multilevel models. Sample characteristics in comparative studies on cultures are often a bone of contention to embrace or reject outcomes of a study. Although the MLC dimensions appear – according to these multilevel models – to be rather insensitive to unbalanced sampling, the extended equations enable to correct for it. Strictly speaking, this chapter mainly serves as a 'firewall' to overheated discussions.

The subsequent two chapters can be seen as a first attempt to use the MLC vectors in practice. Chapter 9 aims to validate the MLC vector of a country with qualitative data, such as observations, quotes from interviews as well as literature – and even press articles. The MLC vectors allow for clustering countries and comparing them with country clusters that have been found (or defined) in other studies. Chapter 10 has the same approach for the corporate level. Moreover, it tries to understand the meaning of a MLC vector at this level by classifying clusters of corporations within the qualitative framework of Whitley (2001). Chapter 10 recognises that country organisations hardly contribute to the unexplained variance of the MLC dimensions. The chapter looks at the 'odd men out' in the context of country as well as corporation. Chapter 11 wraps the study up and gives some suggestions for further research as well as potential users of the framework.

Embarking on a journey of discovery also has a more spiritual background. Like most people I still recall what I did and where I was at '9/11'. My first thought was: has the clash of civilisations begun? Coincidentally, a day later I officially launched this research project, hoping that I could make a humble contribution to bridge culture gaps.

Writing a dissertation may be interesting and challenging, the outcome is often a technical product that is mainly of interest to fellow experts. Unfortunately this is also partly the case with this piece of work. Nevertheless I believe that the results are useful to non-scholars as well. The Multilevel Culture (MLC) framework is also intended to help managers to come to grips with corporate and national culture.

This study will be referred to as the '4C-Research', which stands for 'Cross-County Corporate Culture Research'. Such a name makes it easier to discuss the relationships with other studies, which as a rule also have a name.

# 2 Literature Overview and Central Question

Multinational Corporations (MNCs) are enterprises that own and control production or service facilities outside the country in which they are based (Sorge, Noorderhaven and Koen 2015). As such they are key players in the process of globalisation. Can countries resist the cultural power that such corporations exert on national work culture, or are corporations adapting to local culture? This chapter aims to provide the building blocks for a quantitative instrument that measures the contribution that MNCs are assumed to have on work culture in countries – and vice versa. Because culture is multi-layered and organisational culture theory is quite different from theories addressing national culture, the concept of culture will be discussed first. The emphasis will be on how culture is measured in countries and organisations. Finally, the stage will be set for the development of an integrative framework that measures culture in a uniform manner in countries, organisations, country organisations, cultural clusters, and individuals.

## 2.1 Globalisation and Work Culture

‘Globalisation’ has become *the* academic and media buzzword of the early 21<sup>st</sup> century (Lewellen 2002). It refers to a growing interdependence between countries, as reflected in the increased cross-border flow of goods, services, capital and know-how (Govindarajan and Gupta 2001). Local cultures are influenced by globalisation, but they can also oppose it. For example, Lewellen (2002) includes *resistance* in his definition of globalisation: “Globalisation is the increasing flow of trade, finance, culture, ideas, and people brought about by the sophisticated technology of communications and travel, and by the worldwide spread of neoliberal capitalism, and it is the local adaptation to and resistances against these flows”.

The above definition is strong in the sense that globalisation is fuelled by international business economics – and that it will have a large impact on culture. Guillen (2015) argues that the global economy becomes more networked. The number of connections between institutions – which are called ‘nodes’, and can be countries or institutions – has soared, which caused increased complexity. The European Union is an example of an extremely complex network. Guillen (2015) argues that complex networks can absorb shocks, which causes stability. However, this changes if the coupling between nodes becomes very tight, as is the case in the Eurozone. MNC can also be nodes in this network. Whitley (2001) signals that the increasing number of MNCs represent a qualitative shift in the organisation

of economic activities throughout the world. Frenkel (2008) sees MNCs as entities that transfer management processes and technologies across borders, where they are applied in a different context than the place where they have been created. As a result, MNCs induce changes in the economic, political and cultural characteristics of the receiving society.

Others point at the cultural characteristics of countries, and connect MNCs with globalisation of work culture, which they define as “the shared understanding of the visible rules, regulations and behaviours, as well as the deeper values and ethics of the global work context”. Employees of global corporations need to communicate and coordinate their activities with others, thus bringing in a medley of cultures (Shokef and Erez 2006). This will lead to a super-ordinate ‘global culture’ that can bridge the gap between national cultures. Such a global culture – independent from nationality – already can be found within global multicultural teams of MNCs (Shokef and Erez 2008). Boussebaa, Morgan and Sturdy (2012) argue that global culture exists at the systems- and practices levels, but national contexts remain a key determinant of MNCs. Rousseau and Schalk (2000) emphasise the importance of national culture in combination with organisational culture, rather than global work culture on its own merits. For example, the educational system and other cultural factors shape the national workforce. However, they do not fully constrain the skills and motivation of employees within a particular organisation. The reason is that efforts to implement its business strategy can vary by country, as well as by the organisation’s relationship with a specific part of the workforce (Rousseau and Schalk 2000).

Despite the widely recognised concept of globalising culture and the role that MNCs take in this process, national culture has been treated as a relatively stable and essentialist characteristic in the majority of studies. It reflects a shared knowledge structure that reduces the variability in values, norms and behaviours (Erez and Earley 1993; Haslam and Wilson 2000). In other words, national culture is supposed to last, otherwise it would not exist, although some scholars disagree with this static view (e.g. Rokeach and Ball-Rokeach 1989, Olivás-Lujan, Harzing & McCoy 2004, Fink and Mayrhofer 2009).

Some theories (e.g. Inglehart 1997, Welzel and Inglehart 2005) assume that values can and will change, albeit over generations. They argue that most societies have moved away from ‘constraint’ towards ‘choice’. Evidence for this view was found by Ralston, Egri, Stewart, Terpstra, and Kaicheng (1999), who compared three generations in China, showing that the younger generation is more individualist and less long-term orientated in comparison with older generations. Huntington (1996) proclaims that national cultures can change within a short timeframe. For instance, the defeat of Japan and Germany in World War II changed these militaristic societies into the world’s most pacifistic ones.

Taras and Steel (2006) underscore that many countries have witnessed dramatic changes in their economic and political systems. Allen, Ng, Ikeda, and others (2007) found a large culture shift in East Asia between 1982 and 2002, while Booth (2008)

exhibits that the English culture has transformed immensely over the past three decades. The culture of India may serve as a profound example of culture change. As a result of technology, the average income in the country has increased, whereas most children receive education and do not die of starvation anymore. The number of youth in India has increased immensely, and many of them migrated to cities for a job (Singh 2000). Vladi (2010) shows how the access to mobile phones has put the Indian society upside down. Productivity has increased immensely, because people have to spend less hours walking to customers for asking if they have any jobs for them. Or it gives members of the 'untouchable' pariah caste the opportunity to talk to visitors to their village face to face. The picture from such a conversation (taken with the built-in camera) gives other locals proof that they are not untouchable.

Fang (2009) considers globalisation as a paradoxical inductor of change. On the one hand, emergent global cultures and management practices transcend national and corporate boundaries. On the other hand, the synchronising power of the Internet, wireless technologies, and various cultural carriers (e.g. multinational corporations) provide local cultures with global exposure. House, Hanges, Javidan, Dorfman, and Gupta (2004) observe that because of this the cultures of the world become more interconnected. But they argue that when cultures come in contact, they could converge in some aspects while their idiosyncrasies may amplify.

As an example of cultural carriers, Peterson and Thomas (2007) focus on MNCs, which they consider as more than legal or fiscal constructs, since they link departmental differentiation to a culturally and institutionally diverse environment. MNCs are considered as central agents in the process of globalisation, since they coordinate and control operations in many parts of the world (Whitley 2001).

Since MNCs are built out of specific national contexts, organising across national boundaries has not led to a single model of organising. MNCs are exposed to a tension between their global reach and their country of origin, and as a rule share characteristics with other organisations from their home country (Glenn Morgan 2001). Taken together, there exists no blueprint for MNCs and how they internationalise.

Lewellen's views on globalisation (2002) help to understand globalisation processes. He distinguishes the hyper-, evolutionary and sceptical theses of globalisation. The 'hyper-globalisation' thesis sees globalisation as a rupture with the past. Because the time horizon of human beings is rather short, this is not strange. A narrative that supports the hyper-globalisation thesis could be:

*"The recent creation of the European single market has a significant impact on investment decisions across the continent. An increasing amount of foreign direct investments in Europe comes from Asian and American companies. Corporations with a strong presence in Europe decide in large numbers to centralise operations and are now focusing on the entire continent. The focus includes activities like product development, production, marketing and customer support".*

Schneider and Barsoux (1997) support the hyper-globalisation thesis by reasoning that many managers have a strong belief in the convergence of management practices, which will eventually lead to the creation of a 'global village'. Thence, standard culture-free business practices will emerge, whilst inefficiencies and complexities associated with divergent beliefs and practices will disappear (Leung, Bhagat, Buchan, Erez, and Gibson 2005). Kitayama (2002) proposes a 'system' view on culture, in which individuals flexibly adapt their behaviours to the surrounding social-cultural environment. Such a view makes convergence of cultures – even at the level of the individual – a logical outcome in a world where many people travel freely, and have access to the Internet.

In Lewellen's 'evolutionary' thesis (2002), globalisation of the economy has been a process of centuries. Indeed, global corporations emerged from the 17<sup>th</sup> century on. Schefter (2007) shows that the process of globalisation already was strong in the 18<sup>th</sup> and 19<sup>th</sup> century, when Irish, Polish and Italian people migrated as a result of population growth, famine and industrialisation. Myers, Kakabadse, McMahon, and Spony (1995) expect that the mobility of the labour force will cause convergence with regards to preferred leadership styles within the European cluster (i.e. not necessarily on a global scale). Mayrhofer, Morley and Brewster (2004) see convergence of human resource policies across countries. Another argument in support of a gradual convergence of cultures comes from the idea that American management practices have become dominant and are supposed to work all over the world. Management trainees and MBA students read the same American management books everywhere (Blunt and Jones 1997).

Van Nimwegen (2002) takes the stance that convergence of culture is also a matter of design, since corporate values are formulated by the MNC's board, which as a rule consists of male middle-aged managers. In a single-corporation study in 19 countries he found that employees of different nationality perceived newly-formulated corporate values by and large as similar, which is an indication that corporate culture may be a strong unifying force.

Over the past decades the world has faced an increase in ethnic politics, religious fundamentalism and local organising which gives credibility to the 'sceptical' thesis of globalisation (Lewellen 2002). It assumes that cultures will not change their relative positions toward one another or even will diverge over time. Undeniably, many scholars (e.g. Thomas and Peterson 2015) have their doubts about how strong the process of globalisation of culture really is, or whether it exists at all (Hirst and Thompson 2004, Van Rossem 2000, Firebaugh 1999). Pfaff (2010) theorises that civilisations are *not* progressing toward a common culture. Lervik (2008) argues that a general, unified theory of culture and institutions is "nowhere near in sight". This is because institutions and cultures do not change quickly – and they rarely change in ways that are the same for all countries (Brewster and Mayrhofer 2008). This causes (at least economic) instability in tightly-coupled networks, such as the European Union (Guillen 2015). The recent event of the United Kingdom leaving the European Union (also known as 'Brexit') may prove that these authors were right.