15.229 - Managing Global Integration

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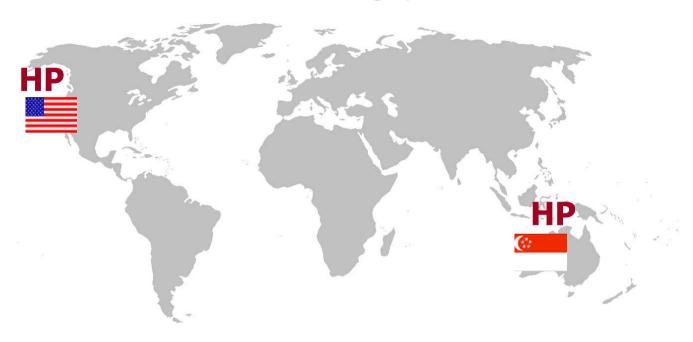
Session 1

MITSloan
MANAGEMENT

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MANAGING GLOBAL INTEGRATION

☐CLASS 1. **How Local Context Matters** – Monday, April 2

Learning Objectives:

    a. What is special about managing a multinational organization

    b. Exploring the local nature of organizations

    c. Preparing for an international management position

HP in Singapore

- "Hewlett-Packard: Singapore (A)," HBS case 9-694-035 (In course reader).

Study Guide Questions:

1. What is different about the local context of HP in Vancouver, Washington, USA, and HP in Singapore?
2. Is HP locally embedded (an "insider") in Singapore? How did it achieve such status?
3. What specific competencies emerged in Singapore? How? Why?

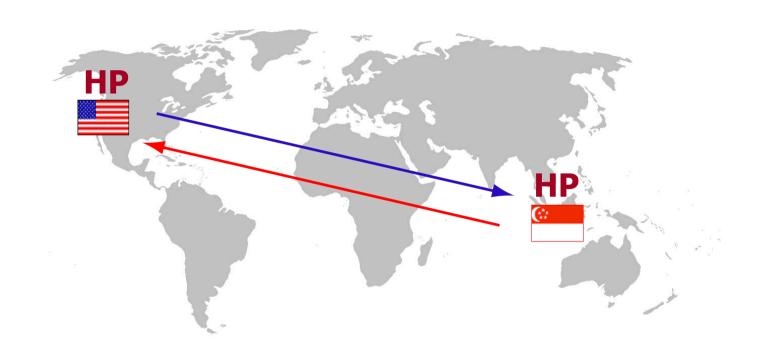# HP Vancouver and HP Singapore: Thousands of miles apart and …

Context	HP Vancouver	HP Singapore
National Culture	Low Power Distance	High Power Distance
	Individualistic	Collectivist
	"Plain-dealing"	"Saving Face"
Education / Learning Style	Articulate	Listen
	Persuade	Demonstrate
	Value inspiration	Pursuit of detail
Teamwork	Individual decision making	Consensus decision making
	Clear task boundaries	Fuzzy task boundaries
Functional	R&D, Marketing	Manufacturing
Within HP	In the home-base of HP; strategic; global mandate for selected printers	Periphery; seeking recognition, legitimacy, and a "higher" position within HP globally

(HP in Singapore, HBS case study)

	Vancouver, U.S.	Singapore

Nature	· looking at possibility
	
	  - going forward whenever finding any possibility of favorable results around them
		· looking at certainty
		
		  - going forward after ensuring certainty in all related things around them

Behaviors	[In development, they]
	· are not unwilling to taking a risk
	[In co-development, they]
	· optimize their own area
	  - addressing coordination afterward
	· value initiation and inspiration for inventions
	[In producing prototypes, vendors are]
	· willing due to focusing on the possibility of future large orders.
		[In development, they]
		· spend much more time in testing
		[In co-development, they]
		· optimize the whole system
		  - addressing coordination in advance
		· emphasize accumulation of facts and knowledge
		[In producing prototypes, vendors are]
		· unwilling due to concerning about the stability of exiting production.

Strength	[In general]
	· Breakthrough Innovation
	  -exploring new idea and products
	    e.g. Original Development for Inkjet Printer
	
	[In terms of HP's strategy]
	· Agile development
		[In general]
		· Incremental Innovation
		  -improving existing idea and products
		    e.g. Redesign for Inkjet Printer and replication of the success on other products
		[In terms of HP's strategy]
		· High quality and low cost production

Source: Masanobu Yamaguchi stellar posting

HP in Singapore: Bringing American to Singapore ...
... and bringing Singaporean to the US

Managing a Multinational Organization

Managing *with* and *for* people
from different Peoples (Nations)

(Source: Santos, forthcoming)

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Managing …

[General] Management is the disciplined art of
creating a collective performance
superior to that which would naturally occur.

(Source: Santos, forthcoming)
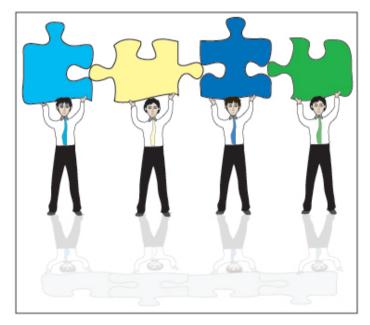
The local nature of Organizations

P.I.T.C.H. *
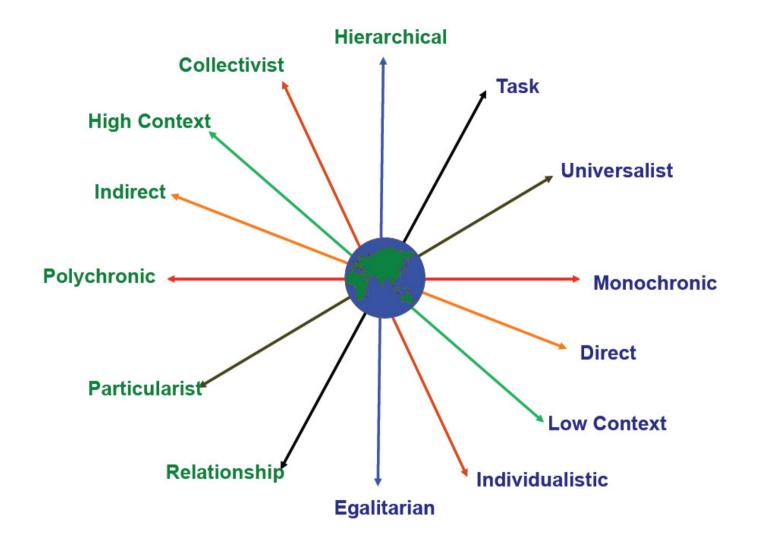

Image by MIT OpenCourseWare.

See 15.220, Session 3

The impact of *National* *Institutions* on Organization

✓ Education systems on individual skills, professional mindsets, …

✓ Corporate law on governance (org. structure, processes, performance metrics)

✓ Labor laws on people (hiring, firing, …) and on incentives (variable pay, promotion rules, …)

✓ Tax systems on incentives (bonuses, …)

✓ National business systems and inter-org. structure and processes

✓ …

The impact of *National Culture* on Organization

- ✓ Power Distance on organization structure
- ✓ Task/Relationship on organization structure/processes/ performance appraisal
- ✓ Individualism/Collectivism on incentives
- ✓ Universalism/Particularism on formalization, process
- ✓ High context/Low context on formalization, communication
- ✓ *Internal/External Control on accountability*
- ✓ …

Selected dimensions of National Culture

N.B. The cultural dimensions above are not orthogonal.

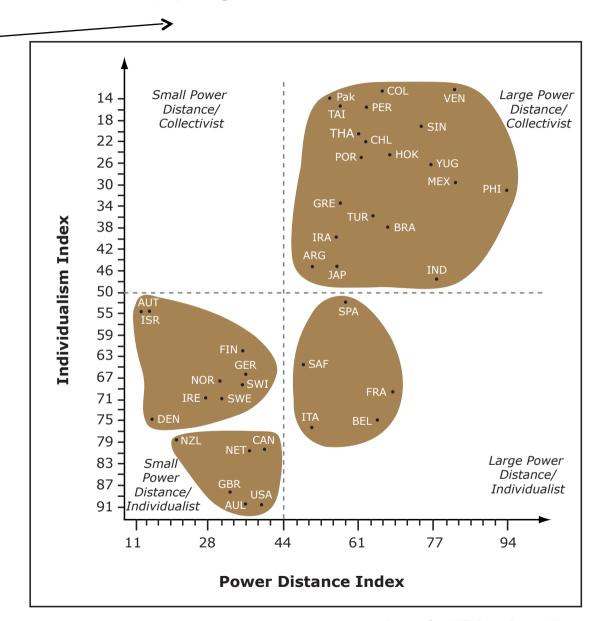*For the SFs at MIT Sloan - © Jose Santos, 2012*

National Culture: Mapping Differences

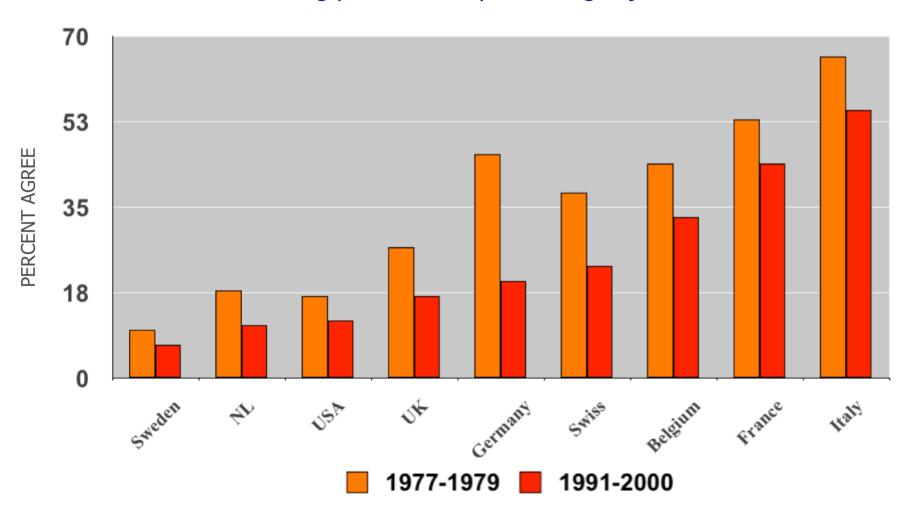Power Distance is the extent to which the less powerful members accept and expect that power is distributed unequally.

Individualism is the degree to which … ties between individuals are loose: everyone is expected to look after him/herself and his/her immediate family.

Image by MIT OpenCourseWare.

(Source: Hofstede, 1980 and later)
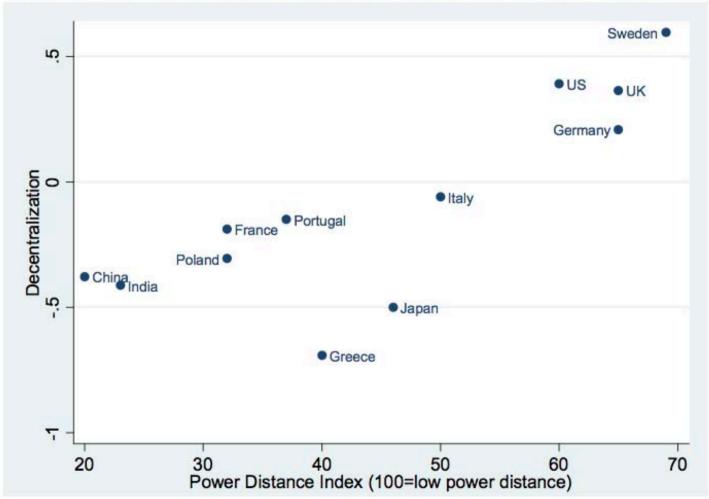
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Different Nations, different managerial mindset ...

"Most managers seem to be more motivated by obtaining power than by achieving objectives."

(Source: Laurent , 2003)

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Different Nations, different org. structures …

FIGURE 5 - DECENTRALIZATION AND POWER DISTANCE INDEX BY COUNTRY

(Source: Bloom et al , 2011)

Courtesy of Nicholas Bloom, Raffaella Sadun, and John Van Reenen. Used with permission.

National Culture: Mapping Differences
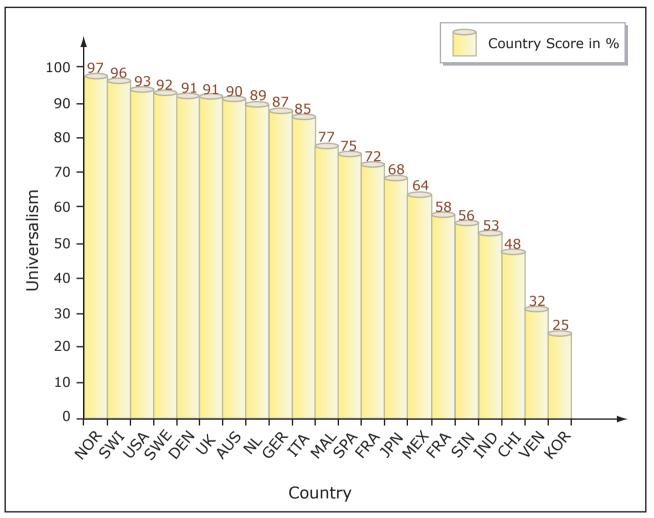
Universalism vs. Particularism

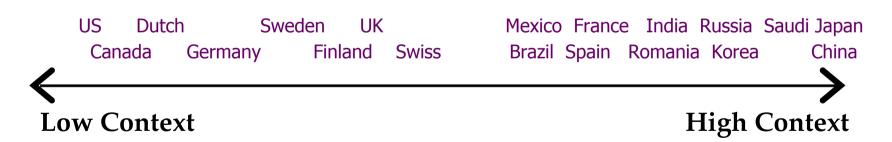Image by MIT OpenCourseWare.

(Source: Trompenaars)

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Time Orientation

German Japan Dutch Czech   Spain   Italy   Brazil   China   Saudi
Swiss Norway US   UK   Slovakia   France   Mexico   Russia Egypt   India

←——————————————————————————————————————→

Monochronic   **Polychronic**

Context

US   Dutch   Sweden   UK   Mexico France India Russia Saudi Japan
Canada   Germany   Finland   Swiss   Brazil Spain Romania Korea   China

←——————————————————————————————————————→

Low Context   **High Context**

(Source: Meyer and others)

Work-Style

US Canada UK   Germany Czech France   Russia India Brazil Saudi
Dutch   Denmark   Italy Mexico Japan Egypt China

←——————————————————————————————→

Task-Oriented   **Relationship-Oriented**

Negative Feedback

Israel Dutch   Danish   Spanish   US   Romania   China   Saudi
Russia   German   French   UK Brazil Mexico India   Thai Japan

←——————————————————————————————→

Direct   **Indirect**

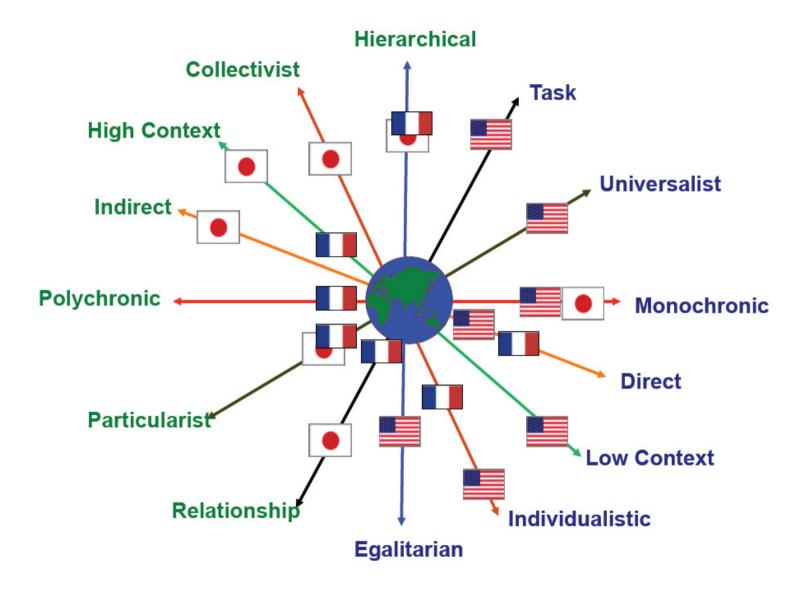*(Source: Meyer and others)*

National Culture and Organization

1) Different nations have different national culture (the C. in the "pitch"). Such differences will impact elements of company performance, namely its organization.

2) The work of Hofstede and others has attempted to map differences across cultures as well as provide some indication of the beliefs and values held by a nation (People). Schneider and Barsoux's book "Managing Across Cultures" is a very good reference on these matters.

3) As an example, take the cultural factor that Hofstede called "Power Distance": the (positive) acceptance by a People of power inequalities in an orderly society. In low PD nations, such as the Scandinavian countries in which power differences have a negative connotation and call for a justification, one may expect, for example, that organizations exhibit a lower number of hierarchical levels than in countries such as Japan or Brazil with other things being equal.

4) When a company such as IKEA exhibits a "flat organization" in which those in lower levels may often request an explanation following a given instruction, in which people of different levels treat each other as equals, and in which some symbols of power (such as a loftier office or a named parking space) are rare or non-existent, all this is not because the leaders of IKEA made particular choices about such features of their organisation – but simply because they were Swedes in Sweden. IKEA is, in this respect, a normal Swedish company. It was just natural to be so (*socially natural*, that is). Indeed, the "corporate culture" of local companies is, by and large, a representation of local (national) culture. (Please note that there is nothing universally superior in having a "flat" organization structure. IKEA's superior performance is not due to being "flat", but to a number of features in its organization and strategy, one of which is being "flat". The belief that "flat" is better because IKEA and other companies succeed with it is, well, superstition.)

5) "Individualism", another of Hofstede's cultural factors, impacts work processes. Teamwork, for example, is more natural in Japan than in the US where so much has to be written and taught about being a "good team player" or the effectiveness of incentive systems (for example, expect bonuses based on individual level performance not to be equally effective in Japan as in the US). "Uncertainty avoidance" impacts investment decisions and entrepreneurship, "masculinity" shapes how we measure success, and so on. (If you want a quick overview of Hofstede's findings, "there is an app for that": google "culture gps" and you will find it).

(Points 1-5 above from 15.220, Session 3)

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National Culture and Organization

6) All cultural traits impact a company's organization. Here are a few more examples. "Universalism" impacts how people believe that company's rules apply to everyone all the time, or depend on the particulars of each case. "Transaction-orientation" has an effect on how people see their job and their relationship with the company, colleagues, clients, and so on. The meaning of "time" has a very noticeable impact on process efficiency. (Try to begin a meeting on time in Italy or Brazil or be late in Denmark or Japan, and you will find out why.)

7) André Laurent has collected lots of evidence on management and local culture by surveying thousands of participants of INSEAD programs over the years. You can see the "answer" to a particular question on power and performance. What such an "answer" shows is its cultural nature. Anglo and Latin managers, for example, seem to value power very differently (mostly in line with their national "power distance" differences). Managerial mindset is cultural.

8) What the same data also shows is that managers' shared beliefs may change over time. Power seems to be less fashionable today then in the past – though national differences remain quite the same. Germany is an exception in this data set, and there may be different explanations for that, including the fact that the Germany of the nineties is a different country from the seventies.

9) As is usual in such complicated matters as shared beliefs and values or culture, data is to be taken carefully; the managers that come to INSEAD are not exactly "average" samples of their countries. They tend, for example, to be more "international" in their experience and outlook, which makes the differences in the data even more remarkable. And they tend to be more influenced by readings and studies about business and management. It so happens that the most influential academic and popular literature, schools, and consultants on business and management are American … a country where we have observed quite an attempt over the recent decades on changing the image and the practice of management to a more "leader, not boss" and "flat is cool" models. The data hints on how such US-centric cultural beliefs about management have been imposed elsewhere.

10) *Recall that people (yourself included) are naturally unaware of "their" culture, that is, the culture of the People to which they belong. Like fish, we don't know water.* In order to know what water is, a fish must come out of the water – usually not very good news for the fish. And so do we. (Allow me the quasi-universal metaphor of "fish.")

National Culture and Organization

11) Working and managing abroad for, say, three years or more, will make you aware of what your own People is about (tourism or studying abroad won't do it for you). It was by living and managing abroad, in Italy and elsewhere, that I eventually discovered what it meant to be a Portuguese. Now I know – and that made me different from my fellow Portuguese … we can't win on this one, can we?

12) Reading about national culture is, of course, a limited but wise alternative to an experience abroad – and a perfect complement to such an experience. As a manager you should seek the advice of those who study culture. Companies can (should?) hire anthropologists, historians, philosophers, or artists in order to find out more about their own organization and people, customers, competitors, and so on, be it at home or abroad.

13) Culture and History (the C.H. of a nation's "pitch") are the most invisible of all the contextual factors. Perhaps it is our natural human limitations relative to such factors that make them the more intriguing of environmental influences on companies and management. As long as you manage a local company in a local business, perhaps you may do well without caring for local culture and history. Being *parochial* – believing that the world is made of "we" and "they" and that "them" are like "we" – won't hurt your managerial performance nor the company's performance. But if your comypany is in a global business or if your company becomes international, then parochialism or otherwise discarding cultural differences will damage performance at various levels.

14) We need to be careful about the implications of national context, especially culture, for management in general and international management in particular. A cultural norm in one nation does not mean that such a norm is "good" or "bad" for business or your company. National culture is not there to optimize company performance. Indeed, we know that superior performance comes with *differentiated* strategy and organization – that is, in business it pays to be not normal. The question lies with what you choose to be different from the norms, be it the industry norms *or* the country norms.

15) If you are in a country where organizations tend to be flat, such as Sweden, your company may well succeed with a non-flat structure. That will depend on the business and on other features of your *company*. Sure, a non-flat structure in a low "power distance" nation will not be natural – and therefore call for managerial energy and added cost.

National Culture and Organization

16) Equally unnatural is a "flat" structure that a company may bring as a "best-practice" to a high "power distance" country. One can of course make a flat structure work in Brazil or bring incentives on individual merit into a Japanese company. But keeping local cultural norms at bay is anything but easy. One may have to find the company in dire straits, or hire special locals, or train them specifically, or use particular measures. Not easy, but possible; risky, but potentially valuable.

17) Just note that if you make a company too alien to its local environment it may be unable to work well with its local customers (namely in B2B), fail in attracting local talents and end up with "lemons", or otherwise be hampered by local opinion makers, unions, politicians, or government. This has nothing to do with behaving outside the law, but against the culture. Performing well while acting in a counter-cultural way may be valid but is seldom appreciated, namely in more conservative cultures. One can make matters worse by bragging about the foreign company values as superior or by criticizing local culture or institutions as unfit or old-fashioned. This is not only generally invalid, but also annoying to most locals. If you are managing abroad, always remember that you are there *not* to manage a nation, but just a company.

18) However, *the top challenge when it comes to national culture and management is the general inability to recognize what attributes of the organization or its business strategy were culturally shaped, and which ones are strictly local and not essential, even detrimental to the company's superior performance elsewhere*. When the company would face another national culture, it could then keep what is essential and let the local culture shape non-essential attributes.

Selected dimensions of National Culture

N.B. The cultural dimensions above are not orthogonal.

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Spring 2012