MASTER THESIS

THE INFLUENCE OF NATIONAL CULTURE ON THE ORGANIZATIONAL CULTURE IN THE CASE OF AN AMERICAN MULTINATIONAL CORPORATION SUBSIDIARY LOCATED IN GERMANY

Ljubljana, December 2013

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INTRODUCTION

The internationalization and globalization of business is constantly increasing. Some international companies have European, Asian, American, or Middle Eastern subsidiaries, which are shaped by cultural preferences of leaders and employees. With more multinational companies on the market, we are facing the problem of coordinating multicultural work environments. The ignorance of distinctions and differences between cultures within a multinational company (hereinafter MNC) reflects in its business behavior (Lewis, 2006). My research problem is to explore the influence of national culture on organizational (corporate) culture, when MNC’s headquarter and subsidiary are based in different national environment, in this case the country of origin is United States of America (hereinafter USA) and the host country is Germany. Behavioral patterns in multinational business units such as international subsidiaries are influenced by national culture. Therefore, I decided to explore this topic in my master thesis in order to understand the problem of nationalization of corporate cultures by its subsidiaries. The choice of these two cultures was dictated by their strong economic, historical, political, and cultural ties as well as my familiarity with and the interest in both nations, as an employee of an American MNC subsidiary in Germany.

The thesis will be divided into five sections. In order to understand cultural differences, we need to understand the cultural manifestation (Hofstede, 1980; Schein, 1986), which I will describe in the first chapter of my master thesis. Scientists identified different categories and dimensions as heuristic instruments that should help to define intercultural differences (Palazzo, 2002). There have been studies about intercultural differences of business behavior that tried to develop universal models of cultural dimensions (Schein, 1986; Hofstede, 1980; Trompennars & Hamden – Turner, 1998; House et al., 2004). In the second chapter, I will describe cultural dimensions suggested by Hofstede (1980) and later extended by House et al. (2004) study and their significance for both German and American interface as well as their impact on the American MNC subsidiary based in Germany. While it is useful to study differences between the countries, it is also good to explore the extent of similarities between them. Therefore, Hofstede’s (1980) research will provide me with the basic insights into the cultural differences and House et al. (2004) project Global Leadership and Organizational Behavior Effectiveness Research Program (hereinafter GLOBE) will help me to explore the cultural similarities in the world by clustering of societies by its similarities. By familiarizing with the differences and similarities between both national cultures, I will be able to determine the extent of cultural diversity between USA and Germany.

In the third part, I will discuss the concept of organizational (corporate) culture and different effects on it as a consequence of national differences between home and host national culture. I will use GLOBE theoretical model in order to explain the integrated theory, which preposition is that “the attributes and entities that differentiate a specified culture are predictive of organizational practices and leader attributes and behaviors that are most frequent enacted and most effective in that culture” (House et al., 2004, p. 17).
Moreover, in the fourth part I will review relevant literature in the culture of origin effect and their institutional tradition comparing it with the host country. Furthermore, I will extend the research by presenting organizational models of MNCs and by comparing typical American and German national business systems, which will help me to assess the elements of national environments that are most likely to influence MNC behavior. After analyzing the institutional differences between countries, I will present the concept of “isomorphism”, the extent to which organization adopts the same structures and processes of other organizations within their environment (Zucker, 1977).

Finally, in the fifth chapter, I will present a case study, which is relevant for my research problem. I will first present a summary of results from the study of 10 American MNCs based in Germany (Wälchter et al, 2003) and take a specific case studied in order to replicate and test emerging theoretical insights and collect comparative data, which will help me outline the insights of national influences on American MNCs in Germany. The chosen company is Hewlett-Packard (hereinafter HP), which is an American MNCs with subsidiaries in Germany. In addition to the case study presented by Wälchter et al. (2003), I will expand my research by using secondary data from Internet sites, company’s annual reports, articles, etc.

1 CULTURE

“We think our minds are free, but, like captured American pilots in Vietnam and North Korea, we have been thoroughly brainwashed. Collective programming in our culture, begun in the cradle and reinforced in kindergarten, school and workplace, convinces us that we are normal, others eccentric.” (Lewis, 2006, p. 25).

Culture has been defined in a variety of terms. Kroeber and Kluckhohn identified more than one hundred and sixty different definitions of culture in early 1952. One of my favorite definitions of culture is from Kneller (1966, p.1) who wrote that a culture exists at any point in time as recognizable products of organized human life, yet culture is more than a content. Culture is an abstraction, a continuum that is in a state of constant change. An interrelationship between a society and a culture is demonstrated by this constant shaping of that change by human society.

One of the newest and most known definitions of culture is from the researcher Hofstede (2001, p. 4), who describes culture as “the collective programming of the mind or so called software of the mind, which distinguishes the members of one category of people from another”. The word “mind” stands for head, heart, and hands, an explanation of how people think, feel, and act, as part of their beliefs, attitudes and skills. While on the other hand the Project GLOBE defines culture as “shared motives, values, beliefs, identities, and interpretations or meanings of significant events that result from common experiences of
members of collectives that are transmitted across generations” (House et al., 2004, p. 15), this definition applies for both societies and organizations.

Figure 1: Three levels of human mental programming

![Diagram of three levels of human mental programming](image-url)


Furthermore, Hofstede (2001, p. 10) wrote “culture is to a human collectively what personality is to an individual. As personality is a respond of individual to the environment, culture is an interactive aggregate of common characteristics that influences a human group’s response to its environment”. He distinguished three levels in mental programming: universal, collective, and individual level as you can see in the Figure 1 above.

Human nature or as he named it universal level of mental programming is the less unique and basic level of culture as it is shared by everyone. We inherit it as a part of generic information that is common to the entire human species; he even calls it “operation system” of the human bodies. For example, this would be laughing, weeping, etc. Collective level of mental programming are so-called artifacts which we learn. This is the level of mental programming that is shared with some but not all other people. It is common for people that they belong to a certain group or category. Finally, the highest level of mental programming is the truly unique. It is a mix of inheriting and learning process, which makes it specific only to an individual personality. Not even two people are programmed the same way (Hofstede, 2001).
1.1 Culture manifestation

a. Hofstede

To understand cultural differences, we need to understand culture manifestation. Hofstede (2001) pictured the manifestation of culture as four skins of an onion. He used symbols, heroes, rituals, and values to describe it. Culture manifests itself in visible elements through rituals, heroes, and symbols which have been known under the term of practice. These three visible elements of culture are pictured as the layers of an onion around its core, which consists of values (see the Figure 2).

Figure 2: The “onion”: manifestation of culture at different levels of depth

![Figure 2: The “onion”: manifestation of culture at different levels of depth](image)


1.1.1 Values and norms

As we already illustrated in the Figure 1, values are held by an individual as well as by groups. Values are the core element of culture and they are acquired early in our lives. A value is an image of the desired state or as Hofstede (2001, p. 5) described it, it is “a broad tendency to prefer certain states of affairs over others”. On the other hand, we can speak about norms of value, when we deal with collectivity, when values are held by the majority.

Values are invisible until they become evident in behavior. Culture manifests itself not only in invisible elements but also in visible elements of culture, in three following elements: rituals, heroes, and symbols.
1.1.2 Rituals

Rituals are presented in Figure 2 as second inner layer of Hofstede’s onion manifestation of culture. They are collective activities, which are socially essential, because they are keeping the individual bound within the norms of collectivity (Hofstede, 2001).

1.1.3 Heroes

Heroes (as the middle visible element of culture between rituals and symbols) are described as persons or models for behavior, which possess characteristics that are highly prized in culture so-called cultural heroes (Hofstede, 2001; Hofstede et al., 2010).

1.1.4 Symbols

The outer and the most superficial layer symbols are words, gestures, pictures, or objects that carry complex meaning that is recognized as such only by those who share the culture. New symbols are easy to develop and old ones are disappearing. They are often copied by others; that is why they are the most superficial layer of culture (Hofstede, 2001; Hofstede et al., 2010).

b. Schein

On the other hand, Schein (2004, p. 32) describes culture as a set of basic underlying assumptions which define what we have to pay attention to, what things mean, how to react emotionally to what is going on and what actions to take in various kinds of situations. To understand better the culture of a particular group or organization, Schein proposed to distinguish three fundamental levels at which culture manifests itself:

- observable artifacts,
- values, and
- basic underlying assumptions.

Defining basic assumptions as essence – what the culture really is, while values and artifacts are observed manifestations of the cultural essence. His theory says that when a person enters an organization it observes and feels its artifacts, the surface. They include everything from physical layout meaning all the visible products of the group, the dress code, the manner in which people address each other, the smell and fell of the place, its emotional intensity, all those aspects which can be easily discerned, yet are hard to understand. Artifacts also include the organizational processes and structural elements that describe how the organization works.
Beneath artifacts are values and beliefs, which are conscious strategies, goals and philosophies. The degree of consensus results from repeated success in implementing certain beliefs and values we are faced with and we start to believe that nature really works this way. When a solution to a problem works repeatedly, we start taking these basic assumptions for granted. Basic assumptions are tend to be taken for granted by group members and are treated as nonnegotiable, meaning that someone that does not have the same basic assumptions is seen as a “foreigner” or as “crazy”. The longer this solution to a problem is repeating the more likely is that this behavioral pattern will become a part of a company’s corporate culture. That is why Schein’s core or essence of culture is represented by the basic underlying assumptions and values, even though they are difficult to discern due to their largely unconscious level of existence, they are key to understand why things happen the way they do (Schein, 2004, p.25-37).

1.2 Levels of culture

People belong to different groups at the same time that is why we can all carry several layers of mental programming within ourselves corresponding to different levels of culture (Hofstede et al., 2010, p.18). They distinguish between these particular levels of culture:

- a national level,
- a regional and/or ethnical and/or religious and/or linguistic affiliation level,
- a gender level,
- a generation level,
- a social class level,
- an organization or corporation level.

From Hofstede’s and Shein’s manifestation of culture concepts we can see that the values indicate the desires of people, not their perceptions of what is happening. These values, not the attitudes, reflect differences in mental program and national character. Cultural changes can be fast for the outer layers and on the contrary very slow for the core of the onion diagram, labeled values. Values were learned when we were children from parents who acquired them when they were children, they are considered as very stable and hard to change. For example, national value system should be considered given fact. On the contrary new practices, which are the outer layer of onion diagram can be learned throughout one’s lifetime, and tend to be more changeable. The best example is organizational culture whose organization’s members joined as adults. Even though the organizational culture is changeable, does not mean we can change it easily (Hofstede et al., 2010, p.19-20).

In the attempt to connect between the two levels, corporate and national culture Laurent (1986) argues, that the corporate culture can modify first two levels of Schein’s model, the artifacts and values, but will have little impact on the underlying assumptions which will mostly reflect the national culture. This proves the fact that the national culture is the highest
level of culture and when the attitudes are expressed within a specific organization, we are talking about a corporate or organizational culture (Hofstede, 1991). This raises the issue as to whether the behaviours, values and beliefs of corporate culture are merely complied with or truly incorporated. This is particularly important to concerns of “worldview” that employees share and which is the very reason for promoting a strong corporate culture (Schneider, 1988) in order to avoid the negative impacts of cultural diversity, which I will be discussing later in my master thesis.

1.3 Cultural differences

Depending on the national culture, wherein the subsidiary is located, some of the company’s practices may not be appropriate given the beliefs, values and norms of the local environment. That is why companies need to pay attention to the possible clash between assumptions and corporate culture. Companies from some countries with certain cultural values may be able to adapt to local characteristics faster than companies from other countries (Ngo, Turban, Lau, Lui, 1998). Hofstede in his International Business Machines (hereinafter IBM) research recognized the link between the values and nationalities. He argues that societies differ along four major cultural dimensions, which I describe in more details in the next chapter.

2 NATIONAL CULTURE

National system was introduced worldwide very late, in only the mid-twenty century. In the first half of the twentieth century, they start to research the relationship between the culture and the personalities of people in them. What we call national culture now was then called national character or model personality (Hofstede et al., 2010). They distinguished three differences between countries: identity, values, and institutions (see Figure 3), as proof that countries differ in more than just their cultures. In the Figure 3, we can see the horizon arrows only between the “values” and the “institutions” block due to the strong relation between country’s values and the structure and functioning of its institutions.

There are no arrows between the country’s values and identity due to the weak relation between them. Identity is not core part of national cultures as it is rooted in practices (shares symbols, heroes and rituals) the outer layers of culture. Moreover, identity can be shift over a person’s lifetime, on the contrary of values and institutions, which are essential for the culture and cannot be changed. “We cannot change the way people in a country think, feel and act by simply importing foreign institutions.” (Hofstede et al., 2010, p. 24).
2.1. Hofstede’s dimensions of national culture

Hofstede (1994, p.238) wrote that for the next few hundred years countries will remain culturally very diverse, not only will cultural diversity among countries remain with us: it even looks as though differences within countries are increasing. Nowadays even ethnic groups want to increase their identity and fight for a political recognition. A number of researches have studied the effects of national cultures on different organizations but the best and most known study on cultural differences is probably Hofstede’s (1980). His study is about the values of people in more than fifty countries around the world. People included in the survey were employees from more than 40 local subsidiaries of a large MNC IBM.

Table 1: Hofstede’s cultural dimensions scores

<table>
<thead>
<tr>
<th>Cultural dimension</th>
<th>USA</th>
<th>Germany</th>
<th>World average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Power distance</td>
<td>40</td>
<td>35</td>
<td>55</td>
</tr>
<tr>
<td>Individualism</td>
<td>91</td>
<td>67</td>
<td>43</td>
</tr>
<tr>
<td>Masculinity</td>
<td>62</td>
<td>66</td>
<td>50</td>
</tr>
<tr>
<td>Uncertainty avoidance</td>
<td>46</td>
<td>65</td>
<td>64</td>
</tr>
<tr>
<td>Long term orientation</td>
<td>29</td>
<td>31</td>
<td>45</td>
</tr>
</tbody>
</table>

Hofstede (Hofstede, 1993, p.89-91) explored the position of a country on the five-dimensional model of differences among national cultures. He argued that societies differ along five major cultural dimensions: power distance, individualism, masculinity, uncertainty avoidance and long-term orientation. All five dimensions may influence the individual’s perceptions; the implication is that as societies differ with regards to these cultural dimensions, the results or the position of the dimensions for each country allows me to make some predictions on the way specific society operates. This includes the management processes and theories applicable to their management, which helped me, compare both chosen societies on their national level.

In the Table 1, there are the cultural dimension scores for USA and Germany shown. Results show that the only major aspects in which Germany differs from USA is the stronger uncertainty avoidance and less extreme individualism. USA culture profile is below average on power distance and uncertainty avoidance, it presents highly individualistic, highly masculine and short-term oriented.

2.1.1 Power distance

Power distance (hereinafter PD) and uncertainty avoidance (hereinafter UA) are most relevant Hofstede’s (2001) dimensions for the study of management and organization. Organizations are devices for distributing power and they serve to prevent uncertainty by making things predictable. PD is a degree of centralization of authority and a degree of autocratic leadership, from relatively equal - small power distance, to extremely unequal - large PD (Hofstede, 1983). Americans and Germans have both small PD scores meaning that these countries handle inequality better than the societies with large PD.

Power distance index (hereinafter PDI) inform us about dependence relationship between parent–children, teacher–student, doctor–patient, boss–subordinate and authority–citizen. In my thesis I will focus on relationship in an organization, which is boos– subordinate and try to connect this finding also in relationship between headquarters (hereinafter HQ) – subsidiaries. These dependence relationships are in small PD countries, as Germany and USA limited with the preference for consultation.
Table 2: Key characteristics of low PD

<table>
<thead>
<tr>
<th>SMALL POWER DISTANCE CULTURES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Democratic management</td>
</tr>
<tr>
<td>Management and subordinates treat one another as equals. Mutual respect is given.</td>
</tr>
<tr>
<td>Interdependence between less and more powerful people</td>
</tr>
<tr>
<td>Power is de-centralized</td>
</tr>
<tr>
<td>Subordinates expect to offer their ideas and take initiative (to be consulted)</td>
</tr>
<tr>
<td>Subordinates expect to be consulted</td>
</tr>
<tr>
<td>Status is disapproved</td>
</tr>
<tr>
<td>Social interactions are informal</td>
</tr>
<tr>
<td>Narrow range of salaries</td>
</tr>
</tbody>
</table>

Source: Adapted from G. Hofstede et al., Cultures and organizations: Software of the mind: Intercultural cooperation and its importance for survival, 2010, p. 73–80.

For example in the workplace, subordinates will easily approach and contradict their superior as there is small emotional distance between them. If I focus only on the small PD aspects at the workplace, we can see that in both American and German cultures subordinates and superiors consider each other as existentially equal. Superiors should be accessible to subordinates with a preference for consultations before a decision that affects their work is made. They see the hierarchical system as an inequality of roles, established for convenience, as roles may be changed anytime. Even though both countries score low (see the Table 2), USA does not score extremely low on PD ranked 57–59 and Germany 65–67 out of 76. This is due to subordinate’s medium – level dependence needs, described earlier, which are in case of USA not too high, not too low. American managers find difficult to digest, that the initiatives to participate are taken by subordinates; this represents for them an infringement on their “management prerogative” (Hofstede et al., 2010, p. 53–88). Germany does not necessarily follow these traits despite having a low PDI score. PD in Germany is lower than the World average of 55. The score implies that Germans treat all people no matter if this is society, work or family with equality, encouraging collaboration and a fair cultural environment. German managers and employees are often close, this is reflected in the medium to low PD in German culture, because they believe that they are working together to create a good product.
2.1.2 Individualism vs. collectivism

As I already mentioned above, Germany differs from USA; it is the stronger UA and less extreme individualism (Hereinafter ID). Even though both countries are individualistic, USA has the highest ID score (91) from all the countries in Hofstede’s study of cultural dimensions.

ID and PD are the most relevant dimensions for leadership. High score in individualism index (Hereinafter IDV) means that the society is an individualist. On the other hand, low score in IDV means that the society is a collectivist. In this case, I will focus on ID as more relevant for my thesis. Hofstede defines the dimension ID versus collectivism as the degree of interdependence a society maintains among its members.

Table 3: Key characteristics of individualist culture

<table>
<thead>
<tr>
<th>INDIVIDUALISM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Identity is based on the individual</td>
</tr>
<tr>
<td>Self-actualization by every individual is an ultimate goal</td>
</tr>
<tr>
<td>Relationship employer–employee is a contract supposed to be based on mutual advantage</td>
</tr>
<tr>
<td>Hiring and promotion decisions are supposed to be based on skills and rules only</td>
</tr>
<tr>
<td>Management is management of individuals</td>
</tr>
<tr>
<td>Task prevails over relationship</td>
</tr>
</tbody>
</table>

Source: Adapted from G. Hofstede et al., 2010, Cultures and organizations: Software of the mind: Intercultural cooperation and its importance for survival, 2010, p. 119–122.

People’s self-image is defined in terms of “I” or “We”. In individualist societies people are supposed to look after themselves and their direct family only. In collectivist societies, people belong to a group. Everybody is supposed to look after the interest of his or her in-group. One of the key facts of ID in organization is that culture with high individualism will peruse the employer’s interest only if it coincides with their self-interest, so called “economic persons” (Hofstede, 1983; Hofstede et al., 2010, p.124-127).

Regardless the similarity in individualistic behavior of both societies striving towards distributing resources and rewards on the basis of individual rather than collective achievements, there is still strong influence of different corporate governance system that each nationality is part of. Even though managers and other people within the organization will act by characteristics of high individualism, German leadership will have stronger
influence of societal cultural values on workers’ rights and social benefits. On the other hand American leadership as part of American business system will focus on workers results or performance as the only measurement of success (Hofstede, 1983; Hofstede et al., 2010). IND in USA is a reflected in an essentially calculative, based on self–interest relationship between individual and the organization way. There is in fact a strong link between IND and capitalism, based on the market mechanism and self-interest (Hofstede, 1983).

2.1.3 Masculinity vs. femininity

USA (62) and Germany (66) both have medium high scores, which makes them masculinity societies. What makes them different is that Germans are less willingness to take risks than Americans. Security is for them a powerful motivator. People want security in exchange to perform, which is completely the opposite then Americans, who need to perform, to assert oneself. Man in masculine society are driven by competition, assertiveness and ambitious. They are expected to strive towards career advancement. Failure at school or work emphasizes as disaster. On the other hand, women in masculine society are polarized between the one who strive towards career and those who do not (Hofstede, 1983; Hofstede et al., 2010).

Table 4: Key characteristics of masculine culture

<table>
<thead>
<tr>
<th>MASCULINITY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dominant values in society are material success and progress</td>
</tr>
<tr>
<td>Managers expected to be decisive &amp; assertive</td>
</tr>
<tr>
<td>Stress on equality, competition among colleagues, and performance</td>
</tr>
<tr>
<td>Live in order to work</td>
</tr>
<tr>
<td>Resolution of conflicts by fighting them out (international conflicts should be resolved by a show of strength or by fighting)</td>
</tr>
<tr>
<td>Man are supposed to be assertive, ambitious, &amp; tough while women supposed to be tender &amp; take care of relationship</td>
</tr>
</tbody>
</table>


In the USA as well as in other masculine cultures such as Germany, Britain and Ireland success is being defined by the winner and conflict should be resolved by a good fight: “Let the best man win.” Organizations in masculine societies are result focus and try to reward
achievement on the basis of equity – according to performance while in feminine societies are more likely to reward people on the basis of equality – according to need. Americans are very much goal-driven and deal-focused, they have a strong need for independence, individual decision making and decisiveness. Germans score 32% higher than the world average score for masculinity; despite the high score, they have strong feminine undertones. For example for Germans to earn a good salary is just as important as having working relationship and a high quality of life. For them it is much more important the time off, improved benefits, recognition, advancement rather than rewards. Consequently German corporate governance system allows much longer period of paid vacation and a wide range of parental benefits as pay leave (Hofstede 1983, 2001; Lewis, 2006).

2.1.4 Uncertainty avoidance

UA is a degree to which people from one country prefer structure over unstructured situations, meaning preferences regarding the importance of rules and procedures. We can have countries with strong UA where people tend to have a feeling of “what is different” is dangerous; this society are be called rigid. On the other hand we have countries with weak UA where people tend to be more easy-going or so called flexible society with a feeling “what is different”, is curious (Hofstede, 1983).

Germany has medium to high (65) and USA medium to low (46) score of UA. As Germany and USA have different UA scores, I wanted to emphasize the major differences between them in Table 6.

Table 5: Key differences of weak and strong UA

<table>
<thead>
<tr>
<th>WEAK UA (USA)</th>
<th>STRONG UA (Germany)</th>
</tr>
</thead>
<tbody>
<tr>
<td>More changes of employer, shorter services</td>
<td>Fewer changes of employer, longer service, more difficult work-life balance</td>
</tr>
<tr>
<td>There should be no more rules than strictly necessary</td>
<td>Emotional need for rules, even if they will not work</td>
</tr>
<tr>
<td>Work hard only when needed.</td>
<td>There is an emotional need to be busy and an inner urge to work hard</td>
</tr>
<tr>
<td>Time is a framework for orientation</td>
<td>Time is money</td>
</tr>
<tr>
<td>Tolerance for ambiguity and chaos</td>
<td>Need for precision and formalization</td>
</tr>
<tr>
<td>Belief in generalists and common sense</td>
<td>Belief in experts and technical solution</td>
</tr>
<tr>
<td>Top managers are concerned with strategy</td>
<td>Top managers are concerned with daily operation</td>
</tr>
<tr>
<td>More new trademarks</td>
<td>Fewer new trademarks</td>
</tr>
<tr>
<td>Focus on decision process</td>
<td>Focus on decision content</td>
</tr>
<tr>
<td>Entrepreneurs are relatively free from</td>
<td>Entrepreneurs are constrained by existing</td>
</tr>
</tbody>
</table>
Countries with strong UA as Germany are proven to be more anxious cultures than the weak UA countries. Germany score is 1% above the world average score for UA, thanks to their need for security and avoiding uncertainty. They look for long-term employment and security. These types of cultures have a lot of formal laws, rules, and regulations with which society tries to prevent uncertainties in the behavior of people. They rely on regulations. The need for rules in strong UA is emotional; they have an emotional need for formal structure. On the other hand USA as fairly uncertainty–accepting culture have rules just in case of absolute necessity, they have an emotional horror towards formal rules, they think that problems can be solved without them. USA as a masculinity country with weak UA will have a strong need for achievement and esteem, while Germany as masculine country with medium strong UA will replace the need for achievement for a strong need for security and esteem (Hofstede et al., 2010, p.187-234).

2.1.5 Long vs. short-term orientation

In the 1991, Hosftede added the fifty dimensions Long- versus Short-term orientation. On the contrary of other four dimensions, this one was not based on the IBM survey material but on the results of a study across 23 countries worldwide using the Chinese value survey. This survey brought up a new empirical dimension, as the questions were not the same and uncorrelated with the first four Hofstede dimensions (Hofstede, 2006).

Hofstede results for US (29) as well as Germany (31) score low on this dimension, making it a short term orientation (hereinafter STO) culture. Societies with a STO have characteristics of impatience for achieving quick results and a strong concern with establishing the normative. Furthermore, nationalities with STO side find values oriented towards the past and present, rather than future, like respecting the tradition and fulfilling social obligations.

Table 6: Key characteristics of STO

<table>
<thead>
<tr>
<th>SHORT-TERM ORIENTATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Immediate gratification required</td>
</tr>
<tr>
<td>Traditions are sacred and upheld</td>
</tr>
<tr>
<td>Consumption values are taught</td>
</tr>
<tr>
<td>Spend not save</td>
</tr>
<tr>
<td>Quick profits</td>
</tr>
<tr>
<td>Analytical thinking</td>
</tr>
</tbody>
</table>


Germany with STO is typical for Westernized cultures. Germany is known for its appreciation of efficiency. Germans believe that personal emotions should not deflect the truth from being spoken, they put truth and directness before diplomacy, believing that the fact is very important, this might seem as rude, distant and cold for other cultures that have high long term orientation (hereinafter LTO) score. On the other hand, Americans STO emphasizes more on immediate gains and personal stability. Their orientation strongly reflects in corporate behavior, all the decisions made are for the short-term profits. They put profits before anything else. Consequently, employees of American company show more frustration because they feel that their future depends on market and industry and not on their own professional performance. Therefore, employees become more committed to their profession rather than to their companies (Hofstede, 1993; Kavoosi, 2005).

2.2 A triumph of faith – a failure of analysis

Although Hofstede’s cultural classifications is probably one of the most influential and widely used, inspiring thousands of empirical studies, it is not without limitation. Muller et al. (2004) wrote that Hofstede's cultural values approach is not effective in explaining all factors that influence the company's culture and behavior. Hofstede (1980) work has been criticized due to the simplicity of five-dimension conceptualization. McSweeney (2002), Kirkman et al. (2006) stress out the fact that Hofstede’s sample is limited only to a single company- IBM, moreover he assumed that in IBM there is only one organizational culture. A decade after the initial publication of his analysis he stated to acknowledge that there is a cultural heterogeneity within country culture and between units of the same organization (Hofstede, 1991, 1998). The ignorance of the intra-cultural variation within a country or a company forced Hofstede to redefine organizational culture in terms that would not jeopardize his earlier assumption regarding a single IBM culture. He stated that “national culture and organization are phenomena of different order: using the term ‘cultures’ for both is, in fact, somewhat misleading ...” (Hofstede et al., 1990, p. 313), connecting national culture core with
values and organizational culture with shared practices (1991, p.182-183). Thirdly, Hofstede did not anticipate the extensibility of culture over time (McSweeney, 2002).

In the previous chapter, I focused more on the values as a source of differences by describing each Hostede’s cultural dimensions. Due to critiques on his cultural-values approach, I used additional literature and secondary research in order to fill the gap where Hofstede’s framework is lacking (McSweeney, 2002). This is why I will support Hofstede’s cultural dimensions with additional literature as project GLOBE and later with a case study.

2.3 Project GLOBE

The project GLOBE was designed as a replication and elaboration of the Hofstede (1980, 1991) study. Hofstede’s typology of cultural values is by far the most frequently used. It is one of the four major cross-cultural research projects made in the 1990s. Three less frequently applied are Schwartz’s cultural values, Smith’s et al. and Inglehart’s World values survey (Hofstede, 2006). A new alternative cultural framework is Project GLOBE (House et al., 2004) explained below.

It is based on collected data of cultural values and practices and leadership attributes from 18,000 middle managers in 62 countries, collected by 150 researchers for the past several years (Javidan & House, 2002). GLOBE research expanded the Hofstede model of five dimensions of national cultures to two times nine dimensions, first nine in the form of societal practice – “as is” and the second nine in the form of social values – “should be” (Hofstede, 2006, 2010; Brewer & Venaik, 2010) at the organizational and societal levels. Project GLOBE compares nine cultural dimensions: (a) assertiveness, (b) uncertainty avoidance, (c) power distance, (d) collectivism, (e) family collectivism, (f) gender differentiation, (g) future orientation, (h) performance orientation, and (i) human orientation (House et al., 2002, 2004) described by their definitions below. The first six GLOBE dimensions are based on Hofstede’s (1980) work. House et al. (2004) split Hofstede’s (1980) dimensions individualism-collectivism into institutional and in-group collectivism, and replaced masculinity-femininity dimension by four others: assertiveness, performance orientation, gender egalitarianism, and human orientation. They kept labels PD and UA and renamed LTO to future orientation (House et al., 2004, p.14).

a. **Assertiveness** – is the degree to which individuals in organizations or societies are assertive, confrontational, and aggressive in social relationships.

b. **Uncertainty avoidance** – is the extent to which members of an organization or society strive to avoid uncertainty by reliance on social norms, rituals, and bureaucratic practices to alleviate the unpredictability of future events.

c. **Power distance** – is the degree to which members of an organization or society expect and agree that power should be unequally shared.
d. **Institutional (societal) collectivism** – reflects the degree to which organizational and societal institutional practices encourage and reward collective distribution of resources and collective action.

e. **In-group collectivism** – reflects the degree to which individuals express pride, loyalty and cohesiveness in their organizations or families.

f. **Gender egalitarianism** – is the extent to which an organization or a society minimizes gender role differences and gender discrimination.

g. **Future orientation** – is the degree to which individuals in organizations or societies engage in future-oriented behavior such as planning, investing and the future, and delaying gratification.

h. **Performance orientation** – reflects the extent to which an organization or society encourages and rewards group members for performance improvement and excellence.

i. **Human orientation** – is the degree to which individuals in organizations or societies encourage and reward individuals for being fair, altruistic, friendly, generous, caring, and kind to others.

**2.4 Clustering of societies**

Project GLOBE (2004, p.29-48) identified ten cultural clusters of societies. I will focus on two: Anglo- and Germanic Europe cluster. Clusters will provide me with important information regarding societal variation and will help me summarize intercultural similarities as well as differences between USA and Germany, which are part of two different clusters.

The managers involved in the Project GLOBE questionnaire were asked about their perceptions of “As is” practices and on “Should be” values pertaining to the nine societal and organizational dimensions from Project GLOBE. All questionnaire items consisted of 7-point Likert-type scale. The cluster scores are actually the average of the means of the five country samples (House et al., 2004, p.29-32).

Moreover analyzing clusters of cultures provides a useful framework to understand the broader themes and values of culturally similar countries. The Anglo countries are major players on the world’s economic and political fields and serve as the HQ for many of the world’s largest MNCs (House et al., 2004). Consequently understanding the Anglo cluster will help me understand the MNCs and compare it with Germany as part of Germanic Europe cluster.

a. **Anglo cluster**

Anglo cluster is based on research conducted by the GLOBE project, comprised of: England, Australia, South Africa (white sample), Canada, New Zealand, Ireland and USA. They are all developed nations, predominantly English speaking, and were all once British colonies. Today, they are amongst the wealthiest countries in the world.
The scores on the nine dimensions of society practices and values for Anglo Cluster are shown in Figure 4. The line “As is” represents the scores for societal practices. The Anglo cluster scores in the mid-range of all the dimensions except for a low score on gender egalitarianism and a high score for PD. On the other hand, the line “Should be”, which represents the societal values, shows that the Anglo Cluster scores high on values of family collectivism, performance, human and future orientation and scores low on PD. All other dimensions score the mid-range.

b. **Germanic Europe cluster**

Germanic Europe cluster is based on research conducted by the GLOBE project, comprised of Austria, Switzerland, The Netherlands, and Germany (former East), Germany (former West). One of the most distinguished factors of Germanic Europe cluster are specific arrangements of industrial relationships and a focus on co-determination and works councils, which lead to participative leadership. Szabo et al. (2002) titled the article about Germanic Europe Cluster “Where Employees have a voice”, due to the industrial relations models of the countries in the cluster.

Gupta et al. (2002) comparative analysis showed that Germanic Europe cluster has much higher score of performance orientation, UA, future orientation, and assertiveness than other clusters. The analysis also showed that this cluster has relatively low levels of institutional collectivism, group and family collectivism, gender egalitarianism, and human orientation. The PD dimensions shows at a medium level. Germanic Europe cluster is compare to other clusters, characterized by practices with a strong tendency for standardization and rules (Szabo et al, 2002). These finding corresponds with Hofstede (1980) results, high UA for Germany (UA= 65) and masculinity (MAS= 66) uniting gender egalitarianism, which I analyzed in the Table 2.

There are many differences and similarities between both clusters, but one of the most important is the high labour standards in Europe, compared to the USA, which are contributing factors to the problems facing European firms. In contrast, the European firms can best compete with a highly skilled, well-paid and highly trained labour force (Gill, 1996). The high emphasis on authority, power differences and status of Anglo cluster is the result of the influences of the British Empire. Overall Anglo cluster empathize performance and looks towards the future. Anglo cluster countries feel that there should be less reliance on formal rules and procedures, which is quite the opposite from the Germanic Europe cluster (Ashkanasy et al, 2002).

Table 7 and 8 below represents the results, which I adopted from the GLOBE study (House et al., 2004). Each table emphasizes the results for 9 dimensions divided between social values and practices. I wanted to point out the results for USA and Germany as countries of my
research. In order to understand both countries, I needed to investigate their clusters, its similarities and differences, which will help me with the analysis of results.

Table 7: GLOBE cultural dimensions by society practices

<table>
<thead>
<tr>
<th>Country and cluster/cultural dimension</th>
<th>USA</th>
<th>Germany⁹</th>
<th>Germanyᵇ</th>
<th>Average</th>
<th>Anglo cluster</th>
<th>Germanic Europe cluster</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assertiveness</td>
<td>4,6</td>
<td>4,6</td>
<td>4,7</td>
<td>4,1</td>
<td>4,1</td>
<td>4,5</td>
</tr>
<tr>
<td>Future orientation</td>
<td>4,2</td>
<td>4,3</td>
<td>3,9</td>
<td>3,8</td>
<td>4,1</td>
<td>4,4</td>
</tr>
<tr>
<td>Gender egalitarianism</td>
<td>3,3</td>
<td>3,1</td>
<td>3,1</td>
<td>3,4</td>
<td>3,4</td>
<td>3,1</td>
</tr>
<tr>
<td>Uncertainty avoidance</td>
<td>4,2</td>
<td>5,2</td>
<td>5,2</td>
<td>4,2</td>
<td>4,4</td>
<td>5,1</td>
</tr>
<tr>
<td>Power distance</td>
<td>4,9</td>
<td>5,3</td>
<td>5,5</td>
<td>5,2</td>
<td>4,9</td>
<td>4,9</td>
</tr>
<tr>
<td>Institutional</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Collectivism</td>
<td>4,2</td>
<td>3,8</td>
<td>3,5</td>
<td>4,3</td>
<td>4,5</td>
<td>4,0</td>
</tr>
<tr>
<td>Performance orientation</td>
<td>4,5</td>
<td>4,3</td>
<td>4,1</td>
<td>4,1</td>
<td>4,4</td>
<td>4,4</td>
</tr>
<tr>
<td>Human orientation</td>
<td>4,2</td>
<td>3,2</td>
<td>3,4</td>
<td>4,1</td>
<td>4,2</td>
<td>3,6</td>
</tr>
<tr>
<td>In-group collectivism</td>
<td>4,3</td>
<td>4,0</td>
<td>4,5</td>
<td>5,1</td>
<td>4,2</td>
<td>4,2</td>
</tr>
</tbody>
</table>

⁹West Germany, ᵇ East Germany

Source: Adopted from House et al., Culture, leadership, and organizations: The GLOBE study of 62 societies, 2004, p. 31, 239–653.

USA is among the highest ranked countries on assertiveness and performance orientation, and it is in the middle range on all the others. Highly assertive societies such as USA tend to value competition and tend to have a “can do” attitude. Due to the high performance orientation dimension score people believe in taking initiative, American managers are very result-driven and prefer effective and explicit communication, with facts, figures and rational thinking, which are key criteria in decision-making and bring results (Javidan & House, 2001).

Germany is representative of economic force in the Germanic Europe cluster (Szabo et al., 2002). It is the highest ranked country on UA and institutional collectivism and it is among the lowest on human orientation. As I already described under Hofstede’s UA dimension for Germany, this is due to strong tendency towards orderliness and consistency, structured lifestyle, clear specification of social expectation and rules and laws to avoid uncertainty. West Germany scores the lowest on human orientation dimensions, due to the motivation factor of power and material possessions. Self-enhancement is a predominant value.
Table 8: GLOBE cultural dimensions by society values

<table>
<thead>
<tr>
<th>Country and cluster/cultural dimension</th>
<th>USA</th>
<th>Germanyᵃ</th>
<th>Germanyᵇ</th>
<th>Average</th>
<th>Anglo cluster</th>
<th>Germanic Europe cluster</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assertiveness</td>
<td>4,3</td>
<td>3,1</td>
<td>3,2</td>
<td>3,8</td>
<td>3,9</td>
<td>3,1</td>
</tr>
<tr>
<td>Future orientation</td>
<td>5,3</td>
<td>4,8</td>
<td>5,2</td>
<td>5,5</td>
<td>5,3</td>
<td>5,0</td>
</tr>
<tr>
<td>Gender egalitarianism</td>
<td>5,1</td>
<td>4,9</td>
<td>4,9</td>
<td>4,5</td>
<td>4,9</td>
<td>4,9</td>
</tr>
<tr>
<td>Uncertainty avoidance</td>
<td>4,0</td>
<td>3,3</td>
<td>3,9</td>
<td>4,6</td>
<td>4,1</td>
<td>3,5</td>
</tr>
<tr>
<td>Power distance</td>
<td>2,8</td>
<td>2,5</td>
<td>2,7</td>
<td>2,7</td>
<td>2,8</td>
<td>2,5</td>
</tr>
<tr>
<td>Institutional</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Collectivism</td>
<td>4,2</td>
<td>4,8</td>
<td>4,7</td>
<td>4,7</td>
<td>4,3</td>
<td>4,7</td>
</tr>
<tr>
<td>Performance orientation</td>
<td>6,1</td>
<td>6,0</td>
<td>6,1</td>
<td>5,9</td>
<td>6,0</td>
<td>5,9</td>
</tr>
<tr>
<td>Human orientation</td>
<td>5,5</td>
<td>5,4</td>
<td>5,4</td>
<td>5,4</td>
<td>5,4</td>
<td>5,5</td>
</tr>
<tr>
<td>In-group collectivism</td>
<td>5,8</td>
<td>5,2</td>
<td>5,2</td>
<td>5,7</td>
<td>5,8</td>
<td>5,1</td>
</tr>
</tbody>
</table>

ᵃWest Germany,ᵇEast Germany

The striking thing is that seven out of nine GLOBE dimensions between social values and practices form of research have negative correlation. The only dimensions for which social values and practices have positive correlation are gender egalitarianism and in-group collectivism (Hofstede, 2010). The negative correlation between seven GLOBE dimensions bring us back to Hofstede’s statement that there is no positive correlation between cultural values and practices (Hofstede, 2010). The fact that values and practices in a society may be incompatible and sometimes even contradictory; this is major strength that GLOBE clearly discerns between both levels of cultures. Hofstede (1980, 2001) often confused vales in his dimensions, which lead in 1990s to his statement that national and organizational cultures are two different phenomena, connecting national culture with values and organizational culture with shared practices (Hofstede et al., 1990), as mentioned before.

c. Leadership clusters

Beside the cultural dimensions, House et al. (2004) researched about leadership. Leadership will help me understand the leader influence on others to help accomplish group or organizational objectives (House et al. 2004). Figure 6 below gives an overview of the six leadership factors: charisma, team orientation, participation, human orientation, autonomous, and self-protective in a scale between 1 (attribute greatly inhibits a person from being an outstanding leader) and 7 (attribute contributes greatly to a person being an outstanding leader).
Table 9: Leadership dimension scores

<table>
<thead>
<tr>
<th>Country and cluster/Leadership type</th>
<th>USA</th>
<th>Germanyᵃ</th>
<th>Germanyᵇ</th>
<th>Anglo cluster</th>
<th>Germanic Europe cluster</th>
</tr>
</thead>
<tbody>
<tr>
<td>Charismatic</td>
<td>6,1</td>
<td>5,8</td>
<td>5,9</td>
<td>6,0</td>
<td>5,9</td>
</tr>
<tr>
<td>Team Oriented</td>
<td>5,8</td>
<td>5,9</td>
<td>5,5</td>
<td>5,7</td>
<td>5,6</td>
</tr>
<tr>
<td>Self-Protective</td>
<td>3,2</td>
<td>3,0</td>
<td>3,3</td>
<td>3,8</td>
<td>3,0</td>
</tr>
<tr>
<td>Participative</td>
<td>5,9</td>
<td>5,9</td>
<td>5,7</td>
<td>5,7</td>
<td>5,8</td>
</tr>
<tr>
<td>Humane Oriented</td>
<td>5,2</td>
<td>4,4</td>
<td>4,6</td>
<td>5,1</td>
<td>4,7</td>
</tr>
<tr>
<td>Autonomous</td>
<td>3,7</td>
<td>4,3</td>
<td>4,3</td>
<td>3,8</td>
<td>4,2</td>
</tr>
</tbody>
</table>

ᵃWest Germany, ᵇEast Germany


Figure 6: Anglo and Germanic Europe clusters leadership profile scores

In Anglo cluster, the most effective leadership style is a charismatic values-based style, with a need to be visionary and to inspire followers. An effective leader must also use both a team-oriented and participative leadership style. A comparison with the leadership images in other countries shows that charisma is a rather universal concept favored by managers all over the world (Den Hartog et al., 1999). In the contrary team-orientation and participation factors sets apart the Germanic Europe cluster from others. Participative leadership is regarded as highly positive in Germanic cluster as well as in the Anglo (Brodbeck et al., 2000).

As I already described both clusters emphasize the charismatic, team-oriented, participative leadership style and if we comparison the lines on the both figures below we can see that the leadership styles do not distinguish in a great way.
3 ORGANIZATIONAL (CORPORATE) CULTURE

Influence of national cultures on management is the key issue for organizational science. Under the convergence hypothesis that was dominated in fifties and sixties, they were thinking that management was something universal, that the principal of management were the same regardless of the national environments. If national or local practice was divided from these principals, it was assumed that they need to change the local practice. In the future, this kind of theory would lead to societies becoming more and more alike and also the differences between management would disappear. This belief changed later in the seventies when it became inevitable to accept that national cultures are very important for management.

In the eighties after the realization of the importance of national differences, the topic of organizational or corporate culture became more and more popular (Hofstede, 1983, 2001). Consequently, Hofstede (1983, p.75) labelled culture as shared mental software of the people in an organization.

Corporate culture has been described as some kind of “glue” that holds organization together. MNCs are more and more aware of the importance in promoting corporate culture in order to improve control, coordination and integration of their subsidiaries (Kavoosi, 2005, p.3-4). Organizational cultures reflect the societies in which they are embedded, for example organizations with strong UA are found in societies with strong UA. The second finding from the GLOBE research is that the absolute differences between values and practices are larger for societies that for organizations (Javidan et al., 2004).

As MNC subsidiaries around the world are under great influence of local national culture, I will try to present difference mechanisms that MNCs use in order to keep control over their foreign entities. As the underlying basic assumption about people and the world may differ in a great way from the national and corporate culture of the MNCs, it is even more important for the MNCs to increase the interest or decrease the potential clash between two cultures.

One of the conclusions of Hofstede’s (1993, p.92) multilevel research has been that culture at the national level and culture at the organizational level, are two very different phenomena. National and organization culture differ primarily in the fundamental, as national culture represents deeper layer of consciousness as explained in chapter one. The invisible values of each national culture are held and acquired by their members in early childhood; consequently, the changes of it are very slow if at all. Whereas organizational culture is much more superficial phenomenon. An organization is a social system of a different nature from that of nation, members of an organization did not grew in it. As well, they have had a certain influence in their decision to join it, and are only involved in it during working hours and can leave it whenever they want. Organization reflects from the visible practices, which are obtained by the members who join the organization (Hofstede, 1993; Hofstede et al., 2010, p.47). Kotter & Heskett (1992) presented visible and invisible parts of culture in organization see Figure 1 in appendix. Although the different national cultural values that MNC needs to
cope with, the one thing that keeps the company together is a corporate culture based on common practices (Hofstede et al., 2010). In the next two subchapters, I will describe the importance of share values and practices within and MNC, furthermore the impact of strong or weak organizational culture.

3.1 Organizational shared values and practices

Basic values of a MNC are determined by the nationality and personality of its founders and later significant leaders. The values and beliefs of a home culture are taken for granted and serve as a frame of references at the head office (Hofstede et al., 2010, p.402). Many researches of organization culture point out that organizations that have tightly share, well communicated and strategically congruent organizational norms and values are more efficient than others are. MNCs with dominant home culture, which has a clear set of basic corporate values are easier to run then international organization with subdominant home culture. As I already wrote values of founders and key leader shape organizational cultures, and the way that these cultures affect its members is trough shared practices. They are the reason that MNC can function. MNC employs personnel from different national origins, which makes it difficult to assume common values for all of them. They use worldwide practices that are inspired by their national origin (American in my case) as a way to coordinate and control their operations. The Institute for Research on Intercultural Cooperation (hereinafter IRIC) study showed considerable differences in practices and much smaller differences in values, while comparing similar people in different organization. IRIC research proposes that practices are features that an organization has and they have an important role in organizational culture. It is very difficult if not impossible to change collective values of members while changing collective practice can be influenced by changing organizational characteristics such as structure and systems. These values enter the organization trough the hiring process when hiring people from a certain nationality, gender, age, education (Hofstede et al., 2010, p.346-405), which I describe in more details in Chapter 4.

While Hofstede argues that societies are differentiated by values whereas organizations are differentiated by practices, GLOBE investigators choose to collect data and measure its core cultural dimensions on both practices and values at both society and organizational level. Evidences from their research are suggesting that: (1) values and practices both serve to differentiate between societies and organization; (2) the values and practices each account for unique variance; (3) the values and practices scales interact; and (4) the dimension of values and practices can be meaningfully applied at both levels (Dickson et al., 2004, p.74-93), which contradicts Hofstede’s (1980, 1991) findings. For them, shared values are enacted in behaviours, policies, and practices (House et al., 2004).
3.2 Theoretical model by project GLOBE

The central theoretical proposition of this model is that “the attributes and entities that distinguish a given culture from another culture are predictive of organizational practice and leader attributes and behaviors that are most frequently enacted, effective, and acceptable in that culture” (House & Javidan, 2004, p.8). Theoretical model is part of the integrated theory, which consists of the prepositions described below and also shown in Figure 7.

Firstly societal (1) cultural norms of shared values and practices affect leaders’ behavior, as founders of organizations (original leader) are immersed in their own societal culture. Original founders transfer the behavior onto the subordinate leaders by use of selective management selection criteria, role modeling, and socialization, which I will present in the subchapter of MNCs control mechanisms later on. Secondly (2) leadership affects organizational forms, culture, and practices meaning the founders of organizations establish the initial culture of their organization (Schein, 1992; Schneider, 1988). Founder and subsequent leaders continue to influence the organizational culture (Schein, 1992).

Thirdly societal cultural values and practice not only affect leaders’ behavior but as well (3) organizational culture and practices. Societal culture has a direct influence on organizational culture, which is the impact of the dominant cultural values, beliefs, assumptions held by members of the culture (Lord & Maher, 1991; House et al., 1997). Consequently (4) organizational culture and practices also affect what leaders do, due to respond to the organizational culture and alter of original and subsequent leaders behavior and leader style over time, which is the fourth preposition of theoretical model (Lombardo, 1983; Schein, 1992; Trice & Beyer, 1984). This leads to the fifth and sixth proposition that (5), (6) societal
culture and organizational culture and practices influence the process by which people come to share implicit theories of leadership. Culturally Endorsed Implicit Leadership Theory (Hereinafter CLT) is developed in response of both societal and organizational culture and practices in each country (Lord & Maher, 1991). The rest of propositions are the organizational contingencies that influence on organizational performance, which consequently affects leaders’ acceptance and effectiveness, (see proposition 7. –13. in appendixes).

3.3 Strong versus weak organizational (corporate) culture

Cultural (organization and national) distance between partners can influence the performance and social effectiveness of MNCs in the host country. It can influences in negative or positive way, depends on the knowledge of the local national culture background as their habits, customs, behavior, values, business behavior, institutional framework, customer preferences, MNC has (Kavossi 1999 p.132). Hofstede's (1980) research demonstrates that even within large MNCs with a strong culture and socialization efforts, national culture continues to play a major role differentiating work values.

All companies have organizational (corporate) culture, but some have much stronger cultures than others, these cultures can have a powerful effect on individuals and on performance. American executives often devote time and energy to create, shape and maintain strong corporate culture. In strong corporate culture, all managers share a set of similar values and methods of doing business. Companies with strong culture are usually seen from the external people as having a certain “style”. Often they include their shared values in a creed or mission statement, so they would encourage all their managers to follow that statement (Kavossi 1999).

Shared values and behaviors give people in the company feeling of a great commitment and loyalty; they feel connected with others by sharing the same values and make them feel good to work for this company. Companies are often establishing rituals, as Friday afternoon volleyball or Friday “beer bust” which symbolize the culture. All of these rituals make employees fell as if they are part of something; they belong to an exclusive club. All this can affect corporate culture, which can be starch from strong to weak. Strong cultures are the one that allegedly limit subsidiary discretion. They export similar management practices, products and administrative routines from HQ to subsidiary. Weak cultures are quite the opposite; they have local autonomy and relative freedom for subsidiary units (Kotter & Heskett, 1992).

During my literature review, I came across a statement from an unnamed CEO of a medium sized company. He said that “I cannot imagine trying to run a business today with a weak or nonexistent culture, why, people would be going off in a hundred different directions” (Kotter & Haskett, 1992, p. 16).
3.4 Levels of impacts on organizational culture

As part of the project GLOBE Dickson, BeShears and Gupta (2004) investigated the impact of societal culture and industry on organizational culture. Regardless myriad factors that effect on organizational cultures creation and evolution (for example as competition presence or absence; local, regional, national, and global economic conditions; the nature of business; and so forth) they categorized the types of effect in three ways (Dickson et al., 2004, p.74-93). They were especially interested in (a) effects in which the nature of the societal culture has an impact on the nature of organization, they named it society effects; (b) effects in which the nature of the global industry has an impact on the nature of organization, they named it industry effects; and (c) effects in which the nature of the industry as it is manifested in a given society has an impact on the nature of the organization, they named it society-by-industry interaction effects.

a. Society effects

It is clear that societal characteristics can and do influence on the characteristics of organizations within the society. Therefore, it is expected to find similarities among all organizations in the same society as well as a clear origin at the societal level for the organizational-level similarities (Dickson et al., 2004).

b. Industry effects

The fact that industries impacts on organizational culture exists. There have been several studies on this topic (Reynolds, 1986) but unfortunately, there is less empirical evidence for this effect than there is for societal effect. Therefore, it is expected to find similarities among most organizations within a given industry across cultures as well as clear evidence that the origin for the organization-level similarities resides at the industry level of analysis (Dickson et al., 2004).

c. Society-by-industry interaction effects

There are different factors (for example national economic system, governmental regulations, development of the industry within the society etc.) that can affect the ways in which a given industry is enacted in a given society.
3.5 Organizational culture effects on MNC performance

Tata and Prasad (1992) proposed a model of organizational design for effectiveness. The model includes the consideration of the effects of the industrial environment, the market, the current technology, and the societal culture. They investigated the impact that all the factors have on the design of an effective organization (Dickson et al., 2004), which is actually a mix of society-by-industry interaction effects.

Many researches came to the conclusion that company’s performance is connected with the appropriate organization culture. One of the things that Kotter’s & Heskett’s (1992) studies show is that corporate culture can have a significant importance on a company’s long-term economic performance. However, the organizational culture is not the only thing that affects the performance of a MNC nevertheless is one of the most important factors as it affects decision making process, human resource and organization respond on the environment.

Cultural strengths can relate in performance of a company as I already described in subchapter 3.3. Peters and Waterman (1982) wrote in his research about the strength of culture that excellent companies are characterized by strong cultures. This strong culture will have very strong influence on individuals, as there will be little room for divergent behavior. They assumed the variety of behavior in more homogenous national cultures will be smaller, meaning there is less likely to question the management of organization, while in heterogeneous cultures culturally transferred practices will be more easily recognized as optional, rather than necessary.

4 MULTINATIONAL CORPORATIONS (MNCs)

“The MNC is the quintessential case of the dispersed firm with individual components located in a number of autonomous political units. These organizational sub-units or subsidiaries are often embedded in highly heterogeneous environmental conditions and have developed under very different historical circumstances.” (Fayerweather, 1987; Robock et al., from Ghoshal & Nohria, 1986).

The national dimensions research by Hofstede, GLOBE, etc. helps me understand the national values between different nationalities. As cultural values are considered to be the core of a culture, as explained in Chapter 1, they determine how member is a society will behave. These facts will help me investigate and understand other influences that MNCs have been facing with while operating in host country environment. In order to investigate these influences we need to understand national practices and institutions.
Most MNCs cover a range of different business and or product/market divisions, in a range of countries. They have to bridge both national and business cultures. The principle of surviving in a multicultural world is that one does not need to think, feel and act in the same way in order to agree on practical issues and to cooperate (Hofstede, 1994). His IBM research has proven that value differences among employees in different countries working for this MNC have been shown to be quite considerable. The fact that organizational cultures are relatively superficial and value-free phenomena, demonstrated in IRIC research, is precisely the reason why international organizations can exist and be composed of different nationalities each with their own different national values. Culture differences in business consist of occupational and organizational components, consequently they reside more in people’s practice than in their values. MNCs meet alien value patterns, but the shared practices (symbols, heroes, and rituals) are the once that keep the organization together. Even though people in organization are very dissimilar on the national culture dimensions of power distance, individualism, masculinity, uncertainty avoidance and long-term orientation they can still cooperate successfully. Yet, people from some cultures will cooperate more easily with foreigners than others (Hofstede, 1994, p.237; Hofstede et al., 2010, p.346-348).

4.1 Models of organization

In the IBM research, Hofstede’s recognized the link between values and nationalities. He argues that values about the desirability of centralization (reflected in PD) and formalization (reflected in UA) affect the implicit models of organizations in people’s minds and to what extent these models differ between the countries. Hofstede’s organizational culture model below presents the favorable structure and the mechanism for coordinating activities commonly adopted by organizations with the associated cultures. The model couples Minzberg’s five configurations of organization: the machine bureaucracy, the professional bureaucracy, the divisionalized form, and the adhocracy. I will be focusing on “the professional bureaucracy”, typical configuration for Germany and “the divisionalized form”, typical for US. The model consists of five mechanisms for coordination with the quadrants of the PD-UA diagram based on five countries, USA, Germany, Great Britain, China, and France (Hofstede et al., 2010, p.302-313).

a. The professional bureaucracy

Configuration of organization of countries with low PD and high UA, positioned in a lower-left quadrant of the diagram (Figure 8), typical for Germany. Hofstede named it “well-oiled machine” model. Preferred philosophy for this model is standardization of skills, which explains the traditional emphasis on the professional qualification of workers (Hofstede et al., 2010).
b. The divisionalized form

Configuration of organization of countries with middle PD and UA score, typical for us. This automatically places the countries in the center position between both cultural dimensions and containing elements of all four models. Preferred philosophy for this model is standardization of outputs, specifying desired results. MNCs that are part of this model, positioned towards the middle of the matrix will have the best possibility to operate successfully in cultural diversify environment (Hofstede et al., 2010).

Figure 8: Hofstede’s organizational culture models


4.2 National business systems

One of the questions is how far MNCs are able to draw from their home business system competitive advantages, which benefit them in their international operations. In the previous chapter I presented models of organizations by Hofstede, which demonstrates that MNCs with nationalities that are positioned in the middle (center) of the diagram, have better possibility to be internationally successful than others. Key to understanding of business behavior is the
interrelationship between market structures, the financial systems, the nature of corporate
governance and control systems (Ferner & Quintanilla, 1998).

4.2.1 American and German business system comparison

American business system represents a unique, historical and institutional configuration of
interrelated elements, which provides a distinctive formative environment for MNCs (Ferner,
2000). Ferner et al. (2004) argued that MNCs are ‘embedded’ in their country-of-origin
business systems, in our case USA. Influences of strong American business origins are likely
to interact with the institutional arrangements of the subsidiary host country. Chandler (1990,
p.12) characterizes the US system as ‘competitive managerial capitalism’. The basic
difference between the US and Germany was that US businesses had to compete for market
share by improving products and production processes and by expanding into new markets,
while German businesses often preferred to negotiate with one another to maintain market
share. Due to the early emergence and consolidation of American systems characteristics
created by the development of mass markets, enabled large American companies to build
“organizational capabilities”. This provided the foundation for American companies’
diversification and international expansion. While in Europe still pre-dominated more
traditional forms of competition, ownership patterns and organizational structures, in America
strong influences of mass production provided the environment for development of new
management movements had significant impact on the organizational changes within large
USA companies (Ferner, 2000; Chandler 1990, Djelic 1998).

American business system is known for the rapid changes of tack at the level of corporate
structure, which is quite the opposite from the more regular business systems facing the same
environmental pressures as German. The greater institutional rigidities of the German system
and companies’ experience of operating in a stable and predictable environment is effecting
the ability of German-based MNC to react to external changes by rapid and flexible changes
within the organizational structure. The institutional framework of Germany system provides
organizational actors as unions and works councils, which have power to resist changes in the
status quo. The role of work councils is one of the biggest differences between American and
German business system. Work councils are part of German legislation, which forces
employers to maintain positive relations with them. Work councils are powerful, employee-
elected bodies legally entitled to con-determination, consultation, and access to important
information, hence restricting the degree of managerial autonomy (Vitols, 2001).

If I sum up the main points of American companies Ouchi & Jaeger (1987) wrote that they
strive towards short term employment, individual decision making, individual responsibility,
rapid evaluation and promotion, explicit and formalized control, specialized career path, and
segmented concern, which is a huge contrast from the German national business system. This
represents a challenge that American MNCs face with in Germany and will talk more about it
in the next subchapters.
4.3 Headquarters- subsidiary relationship

Cultural distance between the HQ and the subsidiary is an important factor which influences the relationship between them. It can bring problems in the relationship due to cultural differences, which will be related to the cultural distance between the culture of HQ and local subsidiary culture. Problems are more frequent the more different the cultures are. In the previous chapters, I was trying to present the cultural differences of USA and Germany, in order to analyze their relationship within American MNC subsidiary in Germany.

Kostova and Roth (2002, p.218) made a study about the transfer of a quality management practice from the HQ of a large, privately held American MNC to its subsidiaries worldwide. They define the relationship between a parent organization and a subsidiary through three characteristics:

- dependence,
- trust, and
- identity.

Particularly important in this research is recognizing that a foreign subsidiary is not an independent entity. Dependence of a subsidiary on HQ is defined as the belief held by subsidiary managers that the subsidiary relies on, and is contingent on, the support of the parent organization for providing major resources, including technology, capital, and expertise.

For example Kavoosi (2005, p. 33) wrote in one of his researches that, “the degree of control of subsidiaries is affected by the nationality of a firm”. Other factors that can affect the power of control are the size of subsidiary, the function, qualification of subsidiary managers, age of subsidiary, distance, legal conditions, etc.

When cultural difference between HQ and subsidiary is high then it is more difficult to establish cultural control. In case we have similar cultures, cultural control might not be necessary as a high degree as in case of high cultural differences, as the shared values fill the gap (Harzing, 1999). Furthermore, Kavoosi (2005) also researched conflicts between HQ and their subsidiaries. He outlined the control of the subsidiary as one of the major issue of conflict in his research. The organization of the multinational corporations and the relationship with their subsidiaries is a function, which is part of adaptation process to the globalization. As I already explained with Hofstede’s dimension, the relationship between two cultures will depend on the cultural differences between them; due to the differences MNC adopt different models of control and leadership. Ghoshal and Nohria (1989) characterized the exchange of relation between the MNC HQ and subsidiary as a “fit” governance structure consisting different combinations of structural elements such as
centralization of authority, formalization of rules and systems, and normative integration of members, which is described in more details further down.

4.4 Country of origin and host country effects

Country of origin or as well home country effect suggests that firms carry specific sets of attitudes and behaviors forged in their home environment into their global operations and influences on MNC subsidiary (Ferner, 1997; Ferner and Quintanilla, 1998; Harzing, 1999; Almond et al. 2005). MNCs originate from the USA strive to implement business policies and practices in their subsidiaries operations that are consistent with those found in the USA system, rather than ameliorating their home-country behaviors to conform to the host context (Ferner, 1997; Edwards & Ferner, 2002). USA MNCs emanating from traditionally anti-union environment will have a negative influence towards unions’ recognition, regardless the industrial relation system their subsidiary is located (Ferner, 1997, 1999; Almond et al., 2005).

The culture boundaries of home-country management theories are important in the training of managers for assignments abroad. For example, USA PD score will have an influence on centralization and formalization of HQ – subsidiary relationship model. Moreover, the strength of national culture of country of origin of a MNC can affect a foreign subsidiary, which is under an influence of a host country national culture. That is why we need to understand how strong the cultural diversity between two cultures is, in order to avoid or minimize possible negative effects with adopting corporate strategy.

Kostova, & Roth (2002) examined the adoption of an organization practices by subsidiaries of MNCs. The fact that companies practice is always mandated by the HQ and the subsidiaries are obliged to comply, makes all the subsidiaries independent entities. As foreign subsidiaries reside in a host country with its own institutional patterns specific to that domain, they are confronted with the isomorphic pressures (described below). The need to maintain legitimacy within both the host country and the MNC Kostova and Roth (2002) referred to as situation of institutional duality. The institutional profile of a host country may affect the adaptation of practices of foreign subsidiaries through institutional pressures or subsidiary employees, as institutional elements enter organization through the people working in them.

Foreign subsidiaries are in addition to pressures from the external institutional environments in the host country of subsidiaries confronted as well with pressures within their MNCs, as they need to conform to organization-based structures and practices. Influences from home country institutes are indirect as they are channeled through a parent organization to the foreign subsidiaries.
4.4.1 Isomorphism

Isomorphism is the extent to which organization adopt the same structures and processes as other organizations within their environment (Zucker, 1977).

Rosenzweig and Singh (1991) argue that the degree of HQ influence over different aspects of subsidiary management is the outcome of rival coercive isomorphism pressure on the subsidiary. This is the consequence of the combinations of international control and consistency emanating from HQ and the influences of the local environment encouraging subsidiaries to replicate the practices typical for the country in which they operate. Their findings reveal a strong country of origin effect: the degree of local isomorphism varies significantly with the MNC parent country, they wrote that “the parent company is embedded in an institutional environment located in the home country”.

- Local isomorphism: the subsidiary behaves much like other organizations within the host country environment (Ferner & Quintanilla, 1998).
- Corporate isomorphism: HQ pressures for international conformity within the corporation.
- Cross-national isomorphism: an extension of corporate isomorphism to include the parent-country institutional frame.

4.5 Centralization, standardization and formalization

There are also other nationally specific variations in corporate structures, as the degree of authority, control and formalization of policy making, which will be described in the subchapter.

Centralization and formulation are one of the central constructs in the analysis of internal relations structure in complex organizations. Hofstede’s (1980) research recognized a link between the values and nationalities. He argues that “values” are reflected through cultural dimensions affect the implicit models of organization, what I presented in the chapter two. If we connect the cultural dimensions with the models of organization, we can see that PD is a reflection of values about the desirability of centralization. Centralization refers to a governance mechanism in which decision-making process is hierarchically organized with the HQ making major strategic and policy decisions. Larger PD is associated with centralization in management, moreover the higher level of control on the decision making and the lower PD the more trust in subordinates. On the contrary, UA is reflection of desirability of formalization, which is interpreted as the routinization of decision-making and resource allocation. Higher UA the higher is the demand for details in planning and enforcement of controlling process (Ghoshal, & Nohria, 1989; Hofstede et al., 2010).
As I wrote before PD is the reflection of values about desirability of centralization. The score of PD for USA tells us through the degree of centralization of authority, degree of autocratic leadership and the dependence relationship, what kind of model of organization will MNCs have, more centralized or more decentralized. On the other hand, desirability of formulation is reflected through the nationality UA, which score tells us about the level of importance of rules and procedures people have in one country. Does the specific country prefer structural over unstructured situation?

MNCs need to balance the global integration and the national responsiveness. They balance it through the model of organization which they choose according to their culture and goals. We have different models of organization, from decentralized to centralize, as presented above. Many of the multinationals have been adopting an integrated network model, which is structured in the way companies can cope with the rapid changes in the environment. HQ and other subsidiaries all from part of an interdependent network, meaning they are in a sense all dependent on each other. This model is based on a strong national subsidiary management. Large organizations cannot be managed effectively from the center, one of the reasons is that managers cannot cope with the amount of information required for the centralized decision-making, so they are more decentralized in comparison with small organizations. The line managers in the subsidiaries are responsible of planning, they need to analyze the demands of the local market and the responsibility of the headquarters personnel is to be involved in the process of coordinating it (Kavoosi, 2005).

Some of the researchers like Ferner et al. (2004) studied the balance between the centralization policy-making and subsidiary autonomy in American MNCs. They wrote that the degree of centralization depends not only from values and nationalities but also from structural variables such as the:

- relative size of subsidiary and HQ,
- the importance of the subsidiary for the HQ’s overall performance,
- the age of the subsidiary, and
- the degree of international integration of operations.

They concluded that USA companies tend to be considerably more centralized on broader strategic management decisions concerning production scheduling, pricing, and the introduction of new products. Moreover, Young et al. (1985) found, on the basis of a survey of more than 150 foreign subsidiaries, that US companies had more centralized control over financial, production, and marketing decisions, and to a lesser extent over employment and personnel decisions on hiring and the recruitment of senior managers. Harzing’s study (1999) of control mechanisms in subsidiaries found that USA companies tend to use more formalized methods in general, and are less reliant on ‘personal’ control through expatriates than are, for example, German companies, more about this topic in the Chapter 4.6.1.
4.5.1 Authority of MNC headquarters- subsidiary

Cultural values are important to leadership behavior, as Hofstede (1984) pointed out, “leadership is a compliment to subordinateship” (p. 257). Leadership is one of the most frequent conducted types of trainings in organizations. Some researchers also call it management development program (Kuckinke, 1999). The USA and Germany, although belonging to the same cluster of countries, differ among three Hofstede (1980) dimensions. The USA was reported to be higher in PD and IND, lower in UA, and about equal in masculinity and long-term orientation (see Table 1), which has an effect on the type of leadership the MNC will choose.

Germany and USA are countries with smaller PD for which is typical that the initiatives are taken by the subordinates, as I already mentioned in chapter about Hofstede’s dimensions. In most literature about leadership, it’s written that leaders can not choose their style at will, but it largely depends on leader’s subordinates’ cultural conditioning. In Figure 7 below we can find types of subordinateship (if other things being equal), a leader can expect to meet in societies at three different levels of PD- subordinateship to which a leader must respond. The middle level is what we would most likely found in the USA leadership, see Table 2 in appendix.

In the case of USA and Germany, we are facing a problem as the USA managers are operating in an environment with the PD norms lower than his/her own (USA with 40 and Germany with 35 PD score, see table 1, p.12). If we sum up Hofstede’s cultural dimension for USA in case of leadership we can conclude that subordinates are sufficiently independent to negotiate meaningfully with the manager (not-too large PD), the performance is important for both subordinates and managers (high masculinity) and they are both willing to take risk (weak UA). However, the only difference is that Germany scored considerably higher on UA, due to their lower tendency towards risk and ambiguity compare to USA (Hofstede, 1980).

The researcher Bernard M. Bass (1985) developed a transformational leadership theory distinguishing between transformational and transactional leadership. Based on the German history heritage and experiences German society implemented a very contractual forms of governance and management, where the rights and duties of each member of society were clearly defined. This rule-bound behavior, anchored in company policies and guidelines can be seen even now as a reflection of their transactional style of leadership, in which desired behaviors are elicited through a process of negotiation, offering subordinates rewards in exchange for the attainment of specific goals and completion of agreed-upon. Due to these facts transformational style of leadership was shunned in Germany until recently and the role of transactional way of managing still appears as dominate in German organizations. Quite the opposite was the transformational leadership style widely accepted in USA during the 1980s and 1990s, consequently Kunchinke focused on the research of differences in leaderships between these two countries (Bass, 1985; Kuckinke, 1999).
a. Typical American manager

This extremely high IND score of US reflects strongly on the managerial behavior of American manager, which is focus on individual contribution and benefit to self or department. Two of the dominated managerial values also are efficiency and pragmatism. Efficiency is often defined as a time consciousness-time is money and is not to be wasted. They have a tendency to make fairly simple judgments of whether a particular project worked. They are very self-reliance they are willing to take on personal responsibility. They are short term oriented and very competitive, always striving to do better due to a common belief that being successful is a worthwhile perusing. The ability to move upward through the organization is the best measurement of success. Successful American managers emphasize the progress and not the failure; they are positive and optimistic about the future. They also believe in hard work, they justify their success in terms of their personal willingness to be task-oriented. By being willing to work beyond the normal forty-hour working week, they justified that they earned the extra status and financial returns connected by “moving up the ladder” (Peterson, 1993, p.20-22).

b. Typical German manager

On the other hand one of the German managerial values is the service to the commonweal. Service to the commonweal is reciprocal responsibility for the common good between the common man and various social institutes. The responsibility of the greater society for the common man became shared by the German state, government and social institute. Today these social benefits include the right to an education, health care, liberal annual paid vacations, retirement pensions, disability programs and others. These responsibilities that industry has for the common man have been institutionalized in workers' rights. Industry even implemented or administrated certain social programs responsibilities, which in other societies might be left to the government. A strong value on the rights of workers and the guarantee of certain social benefits for the workers is very well known for the so called German corporate governance style. In the German culture, management has a moral and legal obligation to be responsive and sensitive to workers' rights. One of the dominate managerial values is strong pride in work, strong sense of professionalism, tendency towards authoritarian leadership style and paternalistic commitment to the country’s welfare, described before (Peterson, 1993, p.97-100). Result of the European Institute of Business Administration (INSEAD) multi-company study: “German managers, more than others, believed that creativity is essential for career success. In their mind, the successful manager is the one who has the right individual characteristics. Their outlook is rational: they view the organization as coordinated network of individuals who make appropriate decisions based on their professional competence and knowledge.” (Laurent, 1986, p. 96).
One of the dominate managerial values are strong pride in work, strong sense of professionalism, tendency towards authoritarian leadership style and paternalistic commitment to the country’s welfare, described before (Peterson, 1993).

German management is not exclusively autocratic. While the vertical structure in each department is clear, considerable values is placed on consensus. Germans welcome close instructions: they know where they stand and what they are expected to do. They are task-oriented; use of time resembles the Americans: meeting on time, appointment are strictly observed, later arrivals must be announced before, and time is linear and should not be wasted. Each department is responsible for its own tasks and there is far less horizontal communication between equals across the division of a German company than there is in American companies, see the Figure 7 below showing the leadership styles for both countries (Lewis R. D., 2006, p.4).

Figure 9: Leadership style for USA and Germany

![Diagram showing leadership style for USA and Germany]


### 4.5.2 Control of MNC headquarters- subsidiary

HQ control is often associated with the national institutional constrains. The literature indicates that national subsidiaries of MNCs are less controlled by HQ within the host countries where the institutional context in which they operate is tightly regulated (Edwards et al., 2013). They explored the influences of MNC control on employment practice, first the influence of the function of the national subsidiaries within the wider companies, the role of host-country constrains, and the structure of the MNCs.
Anglo-Saxon MNCs prefer the “bureaucratic” model of subsidiary control rather than »social«, this reflects in the prevalence in their policies as the area of performance appraisal and remuneration of managers (Harzing, 1996, p.19).

We can connect dependence of a subsidiary on HQ with subordination and control, as I already mentioned before. Dependence between them reflects the non-symmetric due to their hierarchical nature of relationship, as subsidiary relies on and is contingent on, the support of the parent organization for providing major resources (technology, capital, and expertise). Trust can be related to the level of uncertainty and ambiguity that foreign subsidiary may have in its patent organization. Finally, identity is defined as the level of employees feeling that he/she is a part of the parent organization. Individual identification with an organization is a consequence of strong belief and acceptance of the value and goals (Kostova & Roth, 2002).

4.6 Human resource practices of American MNCs

Corporate culture has been discussed as control means for HQ over their subsidiaries (Baliga & Jaeger, 1984). Following this theory, the corporate culture serves as a behavioral control. HQ are instilling norms and values to subsidiaries trough the corporate culture and sending them a message “the way things are done around here”.

There are different phenomena at the MNC level that HQ uses in order to control their subsidiaries, they use international strategy, international control strategy, human resource policies, international relations, communication systems, etc. (Ferner, 1997).

One of the most known methods is human resource practices. It is accomplished by different methods as recruiting “like-minded” individuals, socialization trough trainings and personal interaction, lifetime employment, stock option plans, recreation and housing facilities, rotations, etc. These methods are used frequently by so-called excellent companies such as Intel, IMB, HP (Pascale, 1984). In order to control the subsidiaries that a MNC has in a different “host” county they need not only a strong corporate culture but as well good organizational control practices, an instrument keeps control that all the units of the organization strive towards common organizational goal (Harzing, 1999). In addition, the HRM behavior of MNCs is significantly influenced, directly or indirectly, by country of origin national business systems (Fener & Quintanilla, 2010).

Researcher Andre Laurent’s (1986) found out that managers working for MNCs show significantly greater cultural differences than managers working in their native. He believed it is due to the resistance employees may have towards company’s culture if it is counter to the beliefs of their own national one. However, some MNCs prevent this with the combination of target hiring processes and employee self-selection, which I mentioned in subchapter of HR practices and control mechanism. With this, MNCs try to establish that foreign workforces are
more in harmony with the respective corporate culture. In case of a good hit, employee usually stay within the company, and in case of a bad fit employee either do not get hired in the first place or leave within a few years, those who fit will stay (Katz, 2005).

4.6.1 Control mechanisms

To promoting corporate culture is one the ways that MNCs are controlling their subsidiaries worldwide. Important part in the process of integration of the corporate culture in the subsidiaries have different corporate practices, which help decrease the clash between two levels of culture. There are three ways to promote MNCs corporate culture, through

a. selection,
b. socialization, and
c. expatriated transfers

They are the major “tools” that help multinationals developing and promoting their corporate culture in order to keeping control over the local national culture of the subsidiaries (Schein, 2004).

a. SELECTION

In order for a company to promote their corporate culture, they need to train and develop their human resources in the way they will select the people that will “fit in” to the existing corporate culture, assessed for their behavioral styles, beliefs and values. Selection is one of the major tools for developing and promoting corporate culture (Schein, 2004, p.117). Human resource practices of profiling and screening of all the potential candidates is an HR standard process. For example candidate that applies for a position must have following characteristics: open-minded, active, “nothing is impossible” behavior, very social, etc.

b. SOCIALIZATION

Subsequent socialization in the organization is a matter of learning the practices: symbols, heroes and rituals, as most superficial level of culture (Hofstede et al., 2010, p.7). Socialization is another powerful mechanism of promoting corporate culture trough practices as picnics, sporting events, songs and other rites. These practices are embedded in the companies training programs, which give feelings of togetherness and supposed to strengthen the identification with the company (Trice & Beyer, 1984). For example yearly “boot camp”, periodic reward ceremonies, etc. In my experiences while working in Intel’s subsidiary in Germany, we have had special days as “Oktoberfest” and “Mayfest” when employees can come to work in traditional Bavarian clothes “Drindl” and “Lederhose”, we also have had a
summer party for all employees, their partners and children, volleyball tournaments, Christmas dinners, etc.

c. **EXPATRIATED TRANSFERS**

Expatriated transfers involve selection and socialization. These transfers create a flow of information and managers between HQs and subsidiaries which are thought to achieve control through socialization as well as formal reporting (Edstrom & Galbraith, 1977). The rotation of expatriates from HQs to subsidiaries and the other way around occur for different reasons usually in order to transfer skills, knowledge and technology. In order to socialize the locals to the “head office” culture, HQs send a manager every two to three years to their local subsidiary, which will provide subsidiary with the required skills (Schneider, 1988, p. 20).

### 5 CASE STUDY

Theoretical work of my thesis heavily relies on cultural-values approach of Hofstede's (1980) research, which helped me emphasize all the differences and similarities between both national cultures. Unfortunately, Hofstede's cultural-values approach is not effective in explaining all factors that influence the company's culture and behavior (Muller-Camen et al., 2004). Due to the critiques on Hofstede's cultural-values approach described in chapter 2, I had to use additional literature and other research methods in order to collect and investigate my research problem empirically. I decided to support the theoretical basis of my master thesis with a case study approach as an appropriate research method for my topic. I used case study for an explanatory purpose, which helped me explain the phenomenon in question. Yin (2010, p. 20–21) stresses out the importance of analytical generalization, which is the follow of the findings or results from the single case study. Yin (2010) explains that analytical generalization is a two-step process, as it helps the investigator to show how the case study findings support theoretical part of its research. Secondly, analytical generalization applies the same theory to involve other similar situations. I used grounded theory-building, which helped me systematically collect, organize and analyze data using an iterative process based on inductive reasoning by comparing existing literature, secondary data and the emerging theory.

My research interest was initially sparked by the observation while working for an American MNC subsidiary in Germany, which is the European HQ. In specific, my attention was drawn by the way some typical German national characteristics influenced on the corporate culture of MNC. Typical Bavarian and German traditions, customs and habits were present in German subsidiary, for example, Bavarian events and holidays, presence of works council, hiring process by German legislation, mostly Germans as regional and senior managers, etc.
Case study “The country-of-origin effect in the cross national management of human resources: results and case study evidence of research on American multinational companies in Germany”, by Hartmut Wächter et al. (2003) is the starting point source of my empirical part of the research.

First, I chose and presented one specific company named Silicom from the above mentioned case study. It is an imaginary name that authors gave to the corporation in order to preserve anonymity. In my thesis, I used the real name of the corporation which is HP. In addition to data from the interview transcripts collected by Wächter et al. (2003), I expanded the research with secondary data, which I found on company's website, Internet pages, annual reports of the HQ and German subsidiaries, articles, etc. Secondly, I presented a summary of results for all ten studied companies. I presented data through analytical framework, which I used as a guideline through the case study analysis (see Figure 11).

HP as it is one of the most successful USA companies, which placed the management of its corporate culture at the forefront of its organizational and HR strategies for more than forty years. “HP Way” is one of the most know management philosophies or the successful ways to manage a corporate culture on the long run. Bill Hewlett stated that “it is a rather unique, and I think, effective way of working with our people” (Collins and Porras, 1996, p. 206).

5.1 Hewlett-Packard

HP is a multinational, high-tech company specializing in developing and manufacturing informational technology (hereinafter IT) and imaging products and services for consumers and business customers. It was founded in 1935, establishing its global and regional HQ in Palo Alto in California USA, the city of many Silicon Valley high-technology companies (Wälchter et al, 2003, p.27). As many other famous and highly successful computer companies today, HP follows the same story. The company – called “godfather of Silicon Valley” was started in a garage by two Stanford Engineering graduates, Bill Hewlett and Dave Packard. HP is one of the leader within the global personal computers (hereinafter PC) market, the company also sells tablets, printers and printer accessories, scanners, a range of software and also offers a range of photo printing and other services (Hewlett Packard).

The company employs approximately 332000 people, with Germany being the most important location outside the USA, with 11500 employees. HP operations are organized into seven major business segments (HP Annual Report 2012, p.4): Personal Systems, Printing, Services, Enterprise Servers, Storage, Networking, Software, HP Financial Services, and Corporate Investments.

Table 11 illustrates HP sales from 2012 to 2006 in USA, EMEA and Germany. We can see that Global sales increased for 24% from 2006 to 2012 and that the sales in Germany are
increasing, which definitely impact the importance of German market. Consequently, this reflects as well in the increasing number of HP employees shown in Table 12, except the workforce reduction in the beginning of the nineties, due to the worldwide economic recession and major changes within this sector of industry.

Table 10: HP sales for USA and EMEA in millions ($)

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<tbody>
<tr>
<td>Net revenue</td>
<td>120.4</td>
<td>127.2</td>
<td>126.0</td>
<td>114.6</td>
<td>118.4</td>
<td>104.3</td>
<td>91.7</td>
</tr>
<tr>
<td>USA</td>
<td>42.1</td>
<td>44.1</td>
<td>44.5</td>
<td>41.3</td>
<td>36.9</td>
<td>34.8</td>
<td>32.2</td>
</tr>
<tr>
<td>% of USA to total sales</td>
<td>35%</td>
<td>34.7%</td>
<td>35.3%</td>
<td>36%</td>
<td>31.2%</td>
<td>33.4%</td>
<td>35.1%</td>
</tr>
<tr>
<td>EMEA*</td>
<td>46.5</td>
<td>47.2</td>
<td>44.2</td>
<td>47.5</td>
<td>42.3</td>
<td>36.5</td>
<td></td>
</tr>
<tr>
<td>% of EMEA to total sales</td>
<td>36.6%</td>
<td>37.4%</td>
<td>38.6%</td>
<td>40.1%</td>
<td>40.1%</td>
<td>39.8%</td>
<td></td>
</tr>
<tr>
<td>Germany</td>
<td>8.9</td>
<td>8.6</td>
<td>7.7</td>
<td>6.1</td>
<td></td>
<td>7.9</td>
<td></td>
</tr>
<tr>
<td>% of Germany to total sales</td>
<td>7.4%</td>
<td>6.8%</td>
<td>6.2%</td>
<td>5.3%</td>
<td></td>
<td>8.7%</td>
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*Europe, the Middle East and Africa


Table 11: Number of employees at HP from 1998–2013 (in 1,000)

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<tbody>
<tr>
<td>Total</td>
<td>331800</td>
<td>349600</td>
<td>324000</td>
<td>304000</td>
<td>156000</td>
<td>86200</td>
<td>88500</td>
<td>84400</td>
<td>124600</td>
<td></td>
</tr>
<tr>
<td>Germany</td>
<td>11500</td>
<td>9872</td>
<td>9523</td>
<td>9360</td>
<td>8525</td>
<td>8200</td>
<td>5900</td>
<td>5700</td>
<td>7687</td>
<td>6956</td>
</tr>
</tbody>
</table>


In table 11 and 12, there is some data missing as I could not find it. In the table 11, you can see information for EMEA sales in 2012 and as well for Germany in 2008 and 2007. In addition in table 12 there are missing numbers of HP employees for 2008, 2009 and from 2005 until 2002.

5.1.2 Hewlett-Packard Germany

In 1959, after the company went public the founders of HP were enthusiastic by the potential growth and started to consider possible expansion. In the same year, a branch office in Switzerland and the first production site outside USA, in the southwest of Germany was established (Packard 1996, p. 77).
The German subsidiary is organized as a GmbH (LTD – public limited company). German subsidiary HP GmbH is the seventh largest American MNC company in Germany, with 6.6 billion euro revenue in 2012 (AmCham, 2011). With over 11,000 employees in 2013 based in overall fourteen subsidiaries over Germany, HP GmbH is the most important location outside the USA (Hewlett Packard). Even though Germany is the most important location outside the USA, HP has its HQ for European market in Geneva, due to fiscal reasons. German subsidiaries since the production move abroad, focus solely on marketing and selling activities within the different customer 'organizations' (Wälchter et al., 2003, p.30-33).

German subsidiary development decision was based on high labour costs, which were the reason for the relocation of production abroad. Due to the high labour cost in Germany company had to start concentrate more on business units, which had the potential to add value to the company. The growth of IT services was the target that impacted the decision that German subsidiary will be Internet-oriented and that the German future rests with the knowledge products (Wälchter et al., 2003, p.30-31).

As I already mentioned HP has fourteen subsidiaries in Germany (see the figure 10). They are spread all over Germany, with their main office in Böblingen.

Figure 10: HP Subsidiaries in Germany

5.1.2 Company structure

In the fifties the company only operated in USA, consequently, the organizational structure was centralized. With the growth of the company and upcoming product diversification, decentralization was significantly stressed. This lead to several product divisions, each with their own responsibility. In the sixties when the company opened first branch offices outside USA number of divisions increased to twelve. Company was faced with new decentralization structure, which also conflicted with the HP Way. They did not anticipate the expanding and operating changes due to the internationalization would reflect in the company’s mission, objectives or vision statements. New divisions did not share any common services; they all had different customers and target groups, due to the increased independency between each business segments. The technology was implemented differently in each segment, firstly their management structure was different, and secondly each segments had its own set of distribution channels. Both facts lead to the decrease in coordination within the company and increase in fragmentation across units (Beer & Rogers, 1995).

HP’s organizational structure was designed to give responsibility and authority to the divisions responsible for each market segment. Decision-making is decentralized. The fundamental business unit at HP has been the product divisions. Today, three divisions focus on products while the others are directed towards customer groups. HP strives to keep all its product divisions relatively small. Each division is an integrated self-sustaining organization with a great deal of independence. Each division contained the six basic functions of R&D, manufacturing, marketing, quality assurance, finance and personnel. The divisions overlap in a kind of matrix structure, although they do have a specific field of responsibility. Company’s functions like HR, finance, administration and public relations are organized horizontally (Forster, 2002; Wälchter et al., 2003, p.28-41).

HP’s executive team consists of Chief Executive Officer (CEO) Meg Whitman, who is a CEO of HP since 2011, supported by six Executive vice presidents HR, Chief Financial Officer (CFO), General Counsel, General Manger-Enterprise Group, Technology Officer, Chief Marketing and Communication Officer, Printing and Personal Systems, Technology and Operations, HP Software and Chief Strategy Officer (CSO).

In Germany, there is no longer any major production, so the subsidiary focuses solely on marketing and selling activities within different customer “organization” (Wälchter et al., 2003, p.32). Germany represents the biggest foreign market for HP (FAZ 2000a), which strengthens the position of the subsidiary, but still there is a degree of centralization reflected on the subsidiary due to the German manager dispute in 2001. For example, the decision of where to lay off people, are ultimately made on the European level, even if there is still some coordination with the countries. Important decisions, which in former times were made by the countries, now have to be negotiated and maybe adjusted to different demands (Wälchter et al., 2003, p.32-33).
5.1.3 Corporate culture

“It is necessary that people work together in unison toward common objectives and avoid working at cross purposes at all levels if the ultimate in efficiency and achievement is to be obtained.” — Dave Packard

HP has been guided by a strong values system since the inception of the company. Company values were first documented in 1957 when the company went public and Packard wrote down the management beliefs he and Hewlett shared. Documents were referred to as the “framework” for the corporate objectives and included a respect of and trust in employees, and environment that fostered creativity, and a flat management hierarchy. Developed managerial concepts and principles that evolved into a directing set of corporate objectives and a business style became known as the “HP Way”, and served as a model for company culture. Overtime, the HP Way became synonymous with a culture that incorporates flexible work hours, great employee benefits, creative freedom, etc. Due to this positive culture, employees were prepared to give their all to the company. For example they would take pay cuts to avoid layoffs, or show their loyalty to the company when other offers came their way. By the mid-nineties HP Way was known worldwide as a model for entrepreneurial corporate culture and as an outstanding example of a company that succeeds in exploiting values to reach corporate goals (Wälchter et al., p.33-35, 2003; Elsback et al, 2012). Bill Hewlett came to described this as the “Four Musts”:

“The company must attain profitable growth; the company must make its profits through technological contributions; the company must recognize and respect the personal worth of employees and allow them to share in the success of the company; and the company must operate as a responsible citizen of the general community.”(Collines & Porras, 1996, p. 207).

Table 12: HP values and corporate objectives

<table>
<thead>
<tr>
<th>HP’s shared values:</th>
<th>HP’s corporate objectives:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trust and respect for individuals</td>
<td>Customer loyalty</td>
</tr>
<tr>
<td>Achievement and contribution</td>
<td>Profit, Growth</td>
</tr>
<tr>
<td>Results through teamwork</td>
<td>Market leadership</td>
</tr>
<tr>
<td>Meaningful innovation</td>
<td>Commitment to employees</td>
</tr>
<tr>
<td>Uncompromising integrity</td>
<td>Leadership capability</td>
</tr>
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<td></td>
<td>Global citizenship</td>
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</table>

Source: Hewlett-Packard values and corporate objectives, 2013.
The HP Way involved a participative management style that supported individual freedom and initiative while emphasizing unity of purpose and teamwork. As the company grew, a great effort was put into retaining the sense of purpose, informality and closeness that HP enjoyed when it was a small company. The HP Way reflected a faith in people to use their own discretion to make decisions and, along the way, to make some mistakes as well as contributions.

HP is referred as an outstanding example of a company that succeeded in exploiting values to reach corporate goals (Wälchter et al., 2003, p.41). The corporate culture of HP appears to be the most important coordination mechanism within the company, as former CEO stated: “As a matter of fact, values are transportable, something which I have assured myself of. Even if our office in Shanghai is arranged by local standards, it just takes 15 minutes until you feel you are sitting in a regular HP office” (citated by Meier and Bacher, 1996, p. 63).

HR practices of HP are taking into account the local differences; even if some principles are similar in some fields, the innovative character of the company allows the variations in others. For example the policy, which applies in USA, of including “domestic partners” – of the same or opposite sex in some HP benefits (quoted from the company’s web-page). In Germany, even if a comparable family services were offered, it would not be to such an extent, as local realities are taken into account. The identical worldwide principles strategy has a side effect, which allows some degree of local flexibility in order to create innovative HR practices. Company’s structure and HP corporate culture foster the ability to innovate. Innovations play a decisive role within the company. A German observes commented: “Outstanding within HP is the creative and innovative character of the companies’ personnel and social policy. The company pursues a determined development of products, systems and methods. Similarity it mobilizes the potential to innovate in order to progress in personnel policy” (Gaugler cited by Bachmann, 1996, p. 124). HP was one of the first USA companies that introduce flexible working hours, casual clothing, informality and first names (Forster, 2002). Packard (1996) pointed out himself that HP in the USA adopted the flexi-time model from Germany and not the other way around, which is again proof that HP is institution of codetermination.

5.2 Wächter et al. (2003)’s analytical framework of American MNCs in Germany

Wächter et al. (2003) presented the results of their research in an analytical framework of American MNCs in Germany (Figure 10). The case study data ware primarily collected through semi-structured interviews in 10 companies (see Table 2 in the appendix). A total number of 59 people were interviewed in German and British subsidiaries. In the second last column, there are interviews which were conducted with external people, who are personnel of American institution (for instance the American Chamber of Commerce) in order to understand the effect and the perception of the German system in American MNCs.
Figure 2 depicts the institutional perspective on HRM. The inner circle illustrates the interdependency of strategy, structure and HRM in a company. Contingency factors as for example the type of industry, size or age of the company, are all possible variables of explanation. While on the other hand outer circle highlights that institution and culture as external factors shape HRM of the company.

Consequently, I will focus in HP case on the extent to which American MNCs are informed by their country-of-origin institutional framework in the management of their HR in Germany and how the cultural differences impact on the success of the institutional adaptation.

Figure 11: The institutional perspective on HRM (based on Tichy et al. 1982)

Source: H.Wächter et al., The country-of-origin effect in the cross-national management of human resources: results and case study evidence of research on American multinational companies in Germany, 2003, p. 6.

Figure 10 illustrates the USA as the country of origin and Germany as the location of subsidiaries as the case study example. The dotted line indicates that the US Business system and US MNCs have an influence on Germany and other host countries. This reflects in management practices, as it means that they are filtered by host country institutions when they are transferred (Wächter et al., 2003, p.5-8). This can be seen as well in the case of HP when HRM strategies and practices adapt to the German market, as unions attention is higher, the strategy and the structure decisions and changes in the subsidiary.
With this framework, I wanted to emphasize the American MNCs transfer of their HRM and American industrial relations strategies and practices to the German national business system. While American MNCs were found to share a number of common patterns of HRM behavior, at the same time, they do tend to adopt different approaches to the German business systems. With the case of HP, I show also the USA MNCs learnt to use the advantages of the German system to achieve success and productivity gains.

5.3 Analyzing the results

I explain the case study of HP and how it relates to the research problem of my master thesis through grounded theory building. This approach helped me systematically collect, organize and analyze data using an iterative process by comparing existing literature, one's data and the emerging theory. I used inductive reasoning to develop three propositions as a result of my case study. Firstly, I focus on how HP corporate culture can be explained through Hofstede’s (2001) ‘onion’ manifestation of culture. Secondly, I describe strong HP corporate culture and its strong manifestation in German and finally the third proposition is focusing on the fact that HP’s corporate culture of trust and cooperation is their economical strengths.
5.3.1 Grounded theory-building

I described the Hofstede’s (2001) theory of ‘onion’ model in Chapter 1. I start with the values as the essence of every culture and the invisible part of it described Kotter & Heskett (1992) and also presented in Figure 1 (in Appendixes).

Basic values of a MNC are determined by the nationality and personality of its founders and later significant leaders. The values and beliefs of a home culture are taken for granted and serve as a frame of references at the head office (Hofstede et al., 2010, p.402). HP values were first documented in 1957 when the company went public and Packard wrote down the management beliefs he and Hewlett shared. Documents were referred to as the “framework” for the corporate objectives and included a respect of and trust in employees, and environment that fostered creativity, and a flat management hierarchy.

Organizational culture affects its member’s through its shared practices, which are in Hofstede’s (2001) onion model represented as rituals, heroes, and symbols. As HP employs personnel from different national origins, which makes it difficult to assume common values for all of them. That is why HP established worldwide practices that are inspired by their national origins (Hofstede et al., 2010), in HP case it is American as this are the founders’ national origin, in order to control and coordinate their operations. HP developed managerial concepts and principles that evolved into a directing set of corporate objectives and a business style became known as the “HP Way”.

The HP way can indeed be transferred to work in other cultures. The main idea by not making HP so detail oriented rules and processes was that each values is being conveyed, this allows that the values can be implemented in ways that are customary to the various of the foreign countries. The non-detail oriented HP Way enabled that the values stand as a general guideline or ethic for working for HP but as well ensuring that foreign work processes can be adapted into the HP subsidiaries while maintain the HP Way. HP really did a good job in heeding that “what works at home will not always work abroad”, and planned accordingly. Giving the flexibility to HP Way gave company possibility to effectively transplant and modify a corporate culture for diverse workers and environments (Franklin & Mujtabe, 2007).

To establish this common set of values exceptional ingenuity in approach, trust and openness in relationships was required, all this became part of the HP Way. In addition, HP’s culture also served as a control device. The framework of values encouraged self-directed employees to develop personal autonomy, goal setting, self-learning and self-discipline. HP Way also allowed flexibility and adaptability of the part of its employees. Packard as the founder of the company once stated: “There is something very useful in not being too precise - a value in fuzziness. If the HP Way weren't fuzzy, it would be a rule! This way leaves room for judgment. Without that, there wouldn't be room for the constant micro-recalculations needed in a changing world. This is designed to be an adaptive company.” (HP’s Corporate
Objectives, 1995) and as well a statement from a former CEO: “As matter of fact, values are transportable, something which I have assure myself of. Even if our office in Shanghai is arranged by local standards, it just takes 15 minutes until you feel you are sitting in a regular HP office” (Meier & Bacher, 1996, p. 63).

HP follows a consistent HRM approach, which is globally applied. The personnel policy in different subsidiaries works in line with identical principles, even if practices are adapted to local standards or legal requirements (Wälchter et al., 2003, p.35). The following examples show some of the practices, which in principle apply globally (Wälchter et al., 2003, p.35):

- Compensation: performance-oriented compensation system with broad bandings; comparable positions are assigned to the same salary group; worldwide company performance bonus (6–9% of the base salary if goals are met), share ownership plans.
- Recruiting: top-management positions are internally advertised every 3 years.
- Employee communication: yearly dialogue between management and employees about individual performance and options for a self-development plan; management by objectives; employees’ surveys every two years.
- Social security benefits: retirement and health care packages, an accident insurance.

Shared values and behaviors give people in the company feeling of a great commitment and loyalty; they feel connected with others by sharing the same values and make them feel good to work for this company. HP has a lot of established rituals, which makes employees felt like they are part of the company and at the same time symbolize the culture of the company. HP is known as a initiator of this practices. Event-thought HP corporate culture is strong there have been local influences on the rituals, symbols and heroes of the subsidiary culture, on which they had to adapt.

Formal and informal communication of a company’s values as well helped to transfer and maintain its corporate culture. HP has used a variety of techniques in order to foster the communication between the company and its employees. They were one of the initiators of the “open door” principle that enabled even the most junior employees’ direct access to senior managers in the company, which has also been reflected in a company-wide, open office system. In addition, company supported the communication through ritual coffee breaks and “Beer Busts”, which enables that managers and employees, came together and got to know each other, discussed projects and problems. Based on the logic presented above, I propose the first proposition of my master thesis:

Proposition 1: HP corporate culture can be described by Hofstede’s ‘onion’ manifestation of culture.

As I already mentioned in subchapter 3.3, American executives often devote time and energy to create, shape and maintain strong corporate culture. Kavossi (1999) wrote that companies
with strong culture are usually seen from the external people as having a certain “style”. In the subchapter 3.2 I described theoretical model by project GLOBE which emphasizes that founders constantly influence the organizational culture, they transfer the behavior onto the subordinate leader by selective management selection criteria, role modeling, and socialization (Schein, 1992; Schneider; 1988). These are HR principles or mechanisms that MNCs use to keep control over their corporate culture.

Human resource management as I already mentioned before is an integral part of HP’s business strategy. A large amount of value created in the company can clearly be attributed to the innovative management of people. In subchapter 4.6, I described control mechanisms that MNC have in order to preserve its culture. HP has its own, so-called “Packard’s Law” ability to select and recruit the right person and it is one of the most important outcomes of company’s HR strategy. Collins (2001, p.54) describes “Packard’s Law” as follows: “No company can grow revenues faster than its ability to get enough people to implement that growth and still become a great company. If your growth rate revenues consistently outpace your growth rate in people, you simply will not indeed cannot- build a great company.”

One of them is selection of new recruits who either share or can easily adapt to the company’s values. HP has always been very selective in considering job applications and has used a variety of techniques as part of its selection process, for example “thick screening process”. CEO of HP Europe stated: “Everybody we hire, we hire forever. We don't hire somebody for specific short-term skills. Given our fundamental objectives that we will promote from within and grow our own management people, grow our own supervisors and grow our own technical people. We are always on the lookout look for people who have a lot of growth potential.”

Many of well-known researchers stress out the importance of excellent corporate performance can only result from a close fit between the company’s main business strategy and virile, adaptable culture (Schein, 1992, 2004; Kotter and Hasketh, 1992). HP has remained so successful for more than half a century due to its product strategy reflected its culture. Over 90% of division general managers at HP hold technical degrees (Collins and Porras, 1996). HP achieved the top in technology innovation by recruiting the cream of engineering.

One of the most important tools for communicating corporate culture has been through the telling stories of the company or so called word of mouth method. The stories can have important symbolic function when describing important historical moments in the HP’s history, it clarify as well as communicate the values and attitudes that are important within the company (Forster et al., 1999). For example during the seventies due to the business downturn all the companies in USA were laying off employees except HP. Every employee in HP took a 10% pay cut and took every other Friday off to prevent any lay-offs. With this action, company’s massage is clearly that they care about their employees’ welfare and job security. That to company as a whole make sacrifices together when they encounter difficulties.
Management by wandering around (hereinafter MBWA) and management by objectives (hereinafter MBO) were unique elements of HP’s corporate culture, which were establish in order to improve communication and establish long and short term objectives. This was accomplished by MBWA system tactics where managers would spend part of the day walking and talking with subordinates and with other departments (Beer & Rogers, 1995). MBO system is one of the “tools” HP is using in order to guide employees actions by the company’s values. It was introduced in the fifties in order to give the employee as much freedom as possible in working towards the well-defined objective, as well as motivating them by recognition of the individual contribution throughout the organization (Collins & Porras, 1996). MBO gave individual employees freedom to establish their short and long-term objectives and determine how they will achieve their goals, which were aligned with the corporate and group objectives. Due to the managers setting division targets as their personal objectives, this means that MBO has been the main control system over the product division. Consequently, the responsibility was forced down to a divisional level (Forster, 2002).

Due to the extreme growth of the company and the internationalization in seventies it became difficult to pass the culture by example and word of mouth. This lead to the development of the “Working at HP”, a week-long course for new recruits, covering HP history, HP Way policies and information about HP operations. Thus:

**Proposition 2: Strong corporate culture of HP enables a stronger manifestation of the American culture in a German subsidiary.**

In order to preserve strong corporate culture it was important for the HP to widely share its values throughout the company as I already explained in proposition 1. Internationalization influences lead to the decreased application of HP practices throughout the firm, both domestically and internationally. In addition, the institutional system and national culture of Germany as a host country played the role in adapting their HRM strategy in order to succeed. In addition of a great combination of HRM, which is integrated in their business strategy and the innovative management of people gives the company a large amount of value. HP as well succeeded in using both the advantage of a global company and the local flexibility within different countries. In case of Germany this manifests in dealing with the works council, by including them in many decision processes, the company practices co-determination. Due to the differences between American and German business systems HP was faced with some institutional restrictions in Germany. HP had to adapt in a way to their corporate governance, the institutions of industrial and labour relations and workforce training. With all the adaptation processes, HP gains the advantage of far-reaching support among the workers, which impacted the company in the periods of economic weakness and acquisitions the company went through.
Firstly, I would like to point out the innovation management of people which give the company a large amount of values and economical strength during the major changes within the sector of industry in the nineties. While main American competitors had to lay-off a lot of their employees (Rüßmann, 1992, p.71), HP survived this global recession without damages. The ex HP CEO stated a few years after: “It is a matter of two or three years of different assessment – and bingo: You are looser or winner!” (Meier & Becher, 1996, p.62). The essence of their success was HP’s introduction of a new structure of computer, based on simple but extremely fast processor and ‘open system’ together with the introduction of new inkjet printer, a major product breakthrough at that time begin (Wälchter et al., 2003, p.30).

Collins & Porras (1996) pointed out that the HP product strategy is reflected in their culture, particularly the technically oriented no-nonsense approach of its founders. Over 90% of division general managers of HP hold technical degrees. HP founders constantly emphasized the importance of research, innovation and development, thus producing products that were cutting-edge and gaining market share through innovation, rather than cost cutting (Forster, 2002). HP has accomplished this edge in technological innovation by recruiting the cream of engineering and other technical graduates from top US Universities, which brings them ahead of its rivals and the lead of corporate success.

Secondly, I would like to point out the internationalization and local flexibility of HP within different countries. HP as American MNC emanating from traditionally anti-union environment would normally have a negative influence towards unions’ recognition and industrial relation system their subsidiary is located explained Ferner (1997, 1999) and Almond et al. (2005). Due to the HP strategy of shared values, which are based on trust and cooperation between employer and works council, this was not the case. HP evolves works council in the decision process right from the beginning. Trustfulness and flexibility in weaker economic period in the past reflected in the USA – German employer works council relationship in the personnel planning, which was always geared towards the goal of long term employment and stability. As a former HR manager in Germany commented: “For HP layoffs are a no, no, no. We would rather sacrifice profits” (Behrens, 1985, p. 42). The trustful relationship also manifests in a high number of “Betribsvereinbarungen” (work agreements) that are done with German subsidiaries (Wälchter et al., 2003, p.37-38). In the interview made by Wälchter et al. (2003) senior HR manager from HP stated: “... we signed some work agreements which were not in line with them. You then have a deal with some problems, but once it is signed there is nothing they can do about it ... We had to negotiate an ‘interessensausgleich’ (balance of interest) with the works council and we had to explain to the employees why the split made sense ...”

The negotiations with the management are described as fair, despite the fact that even the works council seems to be affected by the fast moving environment and the pressure on the company. The job of work council has become more intense in the course of time. Therefore, the final proposition is as follows:
Proposition 3: HP corporate culture is based on trust and cooperation, which is their economical strength.

6 DISCUSSION AND CONCLUSION

In my master thesis, I investigated and determined the influence of the national culture on the organizational culture, in particular a case of American MNC subsidiary in Germany. The results are part of my theoretical and empirical research. My theoretical part is based on findings of researches made by Hofstede, project GLOBE, Shein, Herzing, Kavossi, etc. In my empirical part, I used a case study of HP that helped me emphasize all the facts that impact on American MNC located in Germany. MNC needs to adapt the organizational culture to be consistent with its strategy, structure and systems in order to fit with the different national cultures of their subsidiaries to assure successful performance of their business.

6.1 Theoretical contributions

The first set of theoretical contributions of my master’s thesis are related to my theoretical investigation of the interplay of the role of national and organizational cultures in an MNC subsidiary. MNC stands for multinational corporation consisting of employees from different national origins, which have different national values from those of the company. Many MNCs use employee corporate ethical guidelines, handbooks, value definitions, and other tools for their employees worldwide in order to drive the same corporate culture. Through the theoretical part of my thesis, I wanted to point out the cultural diversity between USA and Germany, which has been proven to be small, as the shared values fill the cultural gap between them. Consequently, this means that American MNC does not have a problem controlling its subsidiary in Germany.

USA certainly stands out with its strong preference for individualism, and existence of a wide range of company cultures. Hofstede (2001) pointed out that an organizational culture may reflect the personality and preferences of its founders or founding team, as with HP. In spite of cultural differences between the nations, MNCs HR practices helped HP maintain a fairly homogenous culture across their foreign locations.

There were insufficient research results available in this field for a conclusive answer, however, the research results have shown that organizational cultures are also shaped by many other influences beside national culture as isomorphism and HR practices, which is also emphasized in the case study of HP. Therefore, the second set of theoretical contributions of my master thesis relates to the grounded theory-building and derives from the propositions that I have developed based on inductive reasoning.
With the propositions, I emphasized how theoretical part of present thesis works in practice, in the case of HP subsidiary in Germany. Through Hofstede’s onion manifestation of culture I described the manifestation of HP culture and indicated the impotency of HP shared values and practices that play major role in company’s worldwide success. Secondly, I described the importance of HP mechanisms in order to retain strong-shared values in practices in their subsidiaries. Finlay the importance of trust and cooperation between HP and employees as the main values of HP’s corporate culture bring the economical strength to the company.

All three propositions help me indicate that overall factors that have a major role in success of an American MNC corporate culture while operation abroad. Moreover, it helps me emphasize the importance in adaptation and mechanisms that MNCs use in order to keep control over their foreign operation.

6.2 Practical implications

Findings of my master thesis suggest that multi-national organizations need to pay attention to the following:

- Cultural diversity of the host country and its institutional differences that MNCs need to be aware of while choosing the country of its foreign subsidiary. Managers need to educate themselves about the national culture of the host country in order to avoid the possible cultural clashes. For example, MNCs should offer cross-cultural management trainings to their employees.
- The importance of a strong and flexible corporate culture as in case of HP. MNCs should work towards establishment of shared values and practices, which give to the employees feeling of a great commitment and loyalty, which will reflect positive on the company performance.
- To remember that, the vision, mission and overall objective of the company shall always remain the same in order to grow successfully in the domestic and global environment.
- The importance of the MNCs to have in mind how they can effectively transplant and modify a corporate culture for diverse workers in diverse environment and take into account that “what works at home will not always work abroad” and plan accordingly.

6.3 Limitations and future research directions

Due to the single case study, I would point out the concern about the case study’s generalisability. The findings or results from a single case study are to follow analytic generalization (Yin, 2010, p. 20–21). In order to avoid the concern of generalization I would suggest that in the future research multiply case studies are used in order to get more
comparable data. I suggest comparing results from different American MNCs corporate cultures success or failure stories while operating in Germany.

Secondly, I would like to point out the concern of limitation related to the use of secondary data only. Due to the fact that my master thesis findings are based on secondary data, my future research suggestion is to include primary data, with conducting an interview or a survey, using both qualitative and quantitative date, and avoid the concern of literature limitation.

I would like to conclude my master thesis with a quote that came across while reading the book “Software of the mind”, which is: “Our own culture is to us like the air we breathe, while another culture is like water – and it takes special skills to be able to survive in both elements.” (Hofstede et al., 2010, p. 23). The quote reflects how important it is for the MNCs to understand the cultural diversity while working in the foreign countries.

REFERENCE LIST


and case study evidence of research on American multinational companies in Germany. Munich: Hampp.


APPENDIXES
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<tr>
<td>5</td>
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</table>
APPENDIX 1

Figure 1: Culture in organization

APPENDIX 2

List of prepositions of Integrated theory in Theoretical model

1. Societal cultural norms of shared values and practices affect leaders’ behaviour.
2. Leadership affects organizational forms, culture, and practices.
3. Societal cultural values and practices also affect organizational culture and practices.
4. Organizational culture and practices also affect leaders’ behaviour.
5. Societal culture and organizational culture and practices influence the process by which people come to share implicit theories of leadership.
6. Strategic organizational contingencies (organizational environment, size, and technology) affect organizational form, culture, and practices.
7. Strategic organizational contingencies affect leader attributes and behaviour.
8. Relationships between strategic organizational contingencies and organizational form culture, and practices will be moderated by cultural forces.
9. Leader acceptance is a function of the interaction between (CLT) and leader attributes and behaviours.
10. Leader effectiveness is a function of the interaction between strategic organizational contingencies and leader attributes and behaviours.
11. Acceptance of the leader by followers facilitates leader effectiveness.
12. Leader effectiveness, over time, will increase leader acceptance.
APPENDIX 3

Table 1: Subordinateship for three levels of PD

<table>
<thead>
<tr>
<th>Subordinateship</th>
<th>Small PD</th>
<th>Medium PD (US)</th>
<th>Large PD</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Subordinates</strong></td>
<td>have weak dependence needs.</td>
<td>have medium dependence needs.</td>
<td>have strong dependence needs.</td>
</tr>
<tr>
<td><strong>Superiors</strong></td>
<td>have weak dependence needs towards their superiors.</td>
<td>have medium dependence needs towards their superiors.</td>
<td>have strong dependence needs towards their superiors.</td>
</tr>
<tr>
<td><strong>Subordinates</strong></td>
<td>expect superiors to consult them &amp; may rebel or strike if superior are not seen as staying within their legitimate role.</td>
<td>expect superiors to consult them but will accept autocratic behaviour as well.</td>
<td>expect superiors to act autocratically.</td>
</tr>
<tr>
<td><strong>Ideal superior</strong></td>
<td>to most is a loyal democrat.</td>
<td>to most is a resourceful democrat.</td>
<td>to most is a benevolent autocrat or paternalist.</td>
</tr>
<tr>
<td><strong>Laws &amp; rules</strong></td>
<td>apply to all &amp; privileges for superiors aren’t considered acceptable.</td>
<td>apply to all, but a certain privileges for superiors is considered normal.</td>
<td>Everybody expects superiors to enjoy privileges; laws &amp; rules differ for superiors &amp; subordinates.</td>
</tr>
<tr>
<td><strong>Status symbols</strong></td>
<td>are frowned upon &amp; will easily come under attack from subordinates.</td>
<td>symbols for superiors contribute moderately to their authority &amp; will be accepted by subordinates.</td>
<td>Status symbols are very important &amp; contribute strongly to the superior’s authority with the subordinates.</td>
</tr>
</tbody>
</table>

## Table 2: Overview of case study companies

<table>
<thead>
<tr>
<th>Corporation pseudonym</th>
<th>Industry</th>
<th>Number of employees Total/ Germany/ UK</th>
<th>Mode of entry Germany/ Greenfield</th>
<th>Year of Establishment USA/ Germany/ UK</th>
<th>TNI¹ (Year)</th>
<th>People interviewed Germany/ UK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bor-Tec</td>
<td>Machinery equipment</td>
<td>&gt;25000/ &gt;3000</td>
<td>Greenfield/ Greenfield</td>
<td>1900s/ 1950s</td>
<td>58.6% (1999)</td>
<td>1</td>
</tr>
<tr>
<td>Consumer-bankcom</td>
<td>Banking</td>
<td>&gt;200000/ &gt;3000</td>
<td>Brownfield/ 1910s/ 1920s</td>
<td>12.9% (2000)</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>EngCo</td>
<td>Machinery equipment</td>
<td>&gt;40000/ &lt;100/ &gt;5000</td>
<td>Greenfield/ Brownfield</td>
<td>1910s/ 1960s/ 1950s</td>
<td>37.1% (2001)</td>
<td>1</td>
</tr>
<tr>
<td>Chemcom</td>
<td>Chemical</td>
<td>&gt;90000/ &gt;12000/ &gt;11000</td>
<td>Greenfield/ Greenfield</td>
<td>1800s/ 1970s/ 1950s</td>
<td>41.3% (1999)</td>
<td>1</td>
</tr>
<tr>
<td>Itco</td>
<td>IT Equipment and Services</td>
<td>&gt;320000/ &gt;26000/ &gt;10000</td>
<td>Greenfield/ Greenfield</td>
<td>1880s/ 1910s/ 1950s</td>
<td>53.7% (1999)</td>
<td>3</td>
</tr>
<tr>
<td>Household</td>
<td>Cleaning supplies</td>
<td>&gt;10000/ &gt;100/ &gt;650</td>
<td>Greenfield/ Greenfield</td>
<td>1880s/ 1950s/ 1910s</td>
<td>unquoted</td>
<td>1</td>
</tr>
<tr>
<td>FMCG</td>
<td>Photographic Equipment</td>
<td>&gt;75000/ &gt;2000/ &gt;4000</td>
<td>Greenfield/ Greenfield</td>
<td>1880s/ 1890s/ 1890s</td>
<td>44.1% (2000)</td>
<td>3</td>
</tr>
<tr>
<td>Silicom</td>
<td>IT Equipment and Services</td>
<td>&gt;80000/ &gt;5000/ &gt;4000</td>
<td>Greenfield/ Greenfield</td>
<td>1930s/ 1950s/ 1960s</td>
<td>53.1% (1999)</td>
<td>4</td>
</tr>
</tbody>
</table>

¹ TNI: Total Number of Interviews
APPENDIX 5

POVZETEK

V magistrski nalogi sem raziskovala vpliv nacionalne kulture na organizacijsko kulturo v primeru podružnice ameriške multinacionalne korporacije v Nemčiji. Rezultati ugotovitev so del teoretičnega in empiričnega raziskovanja. Moj izbor ameriške in nemške kulture temelji na prepletanju gospodarskih, zgodovinskih, političnih in kulturnih vezi med obema kulturama. Za raziskovanje navedene teme v magistrski nalogi sem se odločila tudi zaradi mojega dobrega poznavanja in zanimanja za obe kulturi, saj sem opravljala dvoletno pripravništvoto podružnici ameriške korporacije v Nemčiji.


Empirični del magistrske naloge temelji na primeru multinacionalnega ameriškega IT podjetja Hewlett and Packard (HP), skozi katerega sem pikazala in dokazala ugotovitve iz teoretičnega dela naloge. V prvem delu empiričnega dela sem predstavila podjetje, njegovo kulturo in strukturo ter analitični okvir medsebojnega vpliva med različnimi nacionalnimi kulturami znotraj enega podjetja, ki so ga razvili Wälchter et al. (2003). Proučila sem tudi uveljavljene prakse, ki jih HP kot ameriško multinacionalno podjetje, uporablja z namenom prilagoditve svoje organizacijske kulture na tujem trgu, tako v pordružnicah v Nemčiji kot tudi po celem svetu. V drugem delu sem predstavila metodologijo raziskovanja in sicer “Grounded theory building”, ki sem jo zasnovala na treh predlogih in jih prestavila na primeru podjetja HP.

<table>
<thead>
<tr>
<th>External interviews</th>
<th>4</th>
</tr>
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<tbody>
<tr>
<td>Total</td>
<td>59</td>
</tr>
</tbody>
</table>

¹The transnational index (TNI)

Source: H.Wächter et al., The country-of-origin effect in the cross-national management of human resources: results and case study evidence of research on American multinational companies in Germany, 2003. p.107.
Multinacionalna podjetja se morajo prilagoditi nacionalnim in institucionalnim razlikam ameriškega in nemškega poslovnega sistema, zato da bodo lahko uspešno delovala na nemškem trgu. Ugotovila sem, da morajo multinacionalna podjetja, ko delujejo na tujem trgu, za uspešno poslovanje upoštevati sledeče:


Multinacionalno podjetje mora znotraj podružnice v tuji državi razvijati močno in prilagodljivo organizacijsko kulturo z vrednotami in praksami, ki dajejo zaposlenim občutek pripadnosti, predanosti in zvestobe do podjetja, kar pozitivno vpliva na uspešnost in učinkovitost podjetja.

Pomembno je tudi dejstvo, da ostanejo vizija, misija in dolgoročni cilji multinacionalnega podjetja nespremenjeni, saj to zagotavlja, da bo podjetje uspešno poslovalo tako v domačem kot tudi v tujem okolju.

Kot zadnje bi izpostavila pomembnost zavedanja, da kljub temu, da organizacijska kultura multinacionalnega podjetja uspešno deluje v domačem okolju, še ne pomeni, da bo uspešno uveljavljena tudi na tujem. Potrebno je upoštevati, da prakse in tradicije, ki so uveljavljene in omogočajo uspešno delovanje podjetja doma, ne bodo vedno delovale in učinkovale v enaki meri v tujem okolju in jih mora zato multinacionalno podjetje v tujem okolju temu primerno prilagoditi.