

CULTURAL IMPACT ON BUSINESS EXPANSION: HOW MULTINATIONAL COMPANIES ADAPT TO HOST COUNTRY ENVIRONMENTS

Dr. Michael Chinedu Okonkwo

Department of Business and Entrepreneurship, Kwara State University, Malete, Ilorin, Nigeria

DOI: 10.5281/zenodo.14893968

Abstract

The paper examines the impact of Host Country Culture on business operations of multinational enterprises. The globalization of the world economy has intensified international relationships, with increasing importance of cultural dimensions which has become so important recently as organizations start to look abroad to expand their businesses. As the world becomes more and more interconnected, the global economy has formed business environments that require organizations to look at business from an integrated global perspective. Along with others, one of the biggest challenges faced by organizations that operate in international markets is cultural differences. This, unknown to organizations who are wrapped up with the home culture and assumed they are relevant in other context, can result to conflicts and crises that can consume organizations and their investments outside their home environments. In order to survive, grow and succeed in the international business arena, managers of multinational enterprises should take into account the cultural contexts of their foreign business operations, and seek to align their operations to their foreign business home culture so as to avoid multiple cultural challenges that can cripple and destroy their entire business operations and create a state of entropy.

Keywords: International culture, international business, multinational enterprises, operating environments.

Introduction

Business activities like all other human activities are conducted within the context of societies, and no organization, either big or small operates in a vacuum. Today, the readily available information, speedy advancement in technology, labor cost factor, trade agreements, standardization, sophisticated distribution methods and channels, along with other managerial and operational innovations have paved way to a wave of corporate globalization (Mohammad, 2015). Due to increasing effect of globalization, high technological development and severe competitive pressures, more and more organizations have started looking abroad to expand their businesses. As business organizations expand and diversify their operations, they locate and conduct their operations in societies with people who have different tastes, values, beliefs, customs, attitude and preferences, and other ways of doing things. These cultures which sometimes are foreign to organizations carrying out business organizations outside their homes most often create advantages or serious threats to these organizations. This is because the cultures and environments in which organizations operate constitute some

major factors that drive or hinder the success and survival, or otherwise the failure of any organization as it pursues her corporate goals and objectives.

Every given society has its culture that shapes the ways individuals and organizations carry out their activities and operations. In carrying out business operations in some societies with different cultures, an organization faces various challenges involving differences in culture and how to cope with these differences to create a state of harmony among business units performing internationally (Muhammad, 2013). The ability to adapt, cope, survive, and grow in diverse cultures determines how effective and efficient an organization can be in order to continue to face highly uncertain and chaotic environments caused by capital problems, rapid changes in products and processes, foreign competition, government regulations, increasing importance of skills, quality goods and services and other stresses which call for increased adaptability and flexibility (Amah, 2012; Hall and Funkami, 1979). As Griffin and Pustay (2005:84) succinctly put it, “Virtually all facets of an international firm business-including contract negotiations, production operations, marketing decisions and human resource management policies may be affected by cultural variations. Accordingly, culture can confer a competitive advantage or disadvantage on a business organization”. When organizations operate in countries different from their host nations, they are faced with different cultural differences. For an organization, especially a multinational enterprise to attain its objectives, it must study and understand the prevalent culture existing in the society of the country it is carrying out its business operations, and align such operations to suit the foreign culture, as ignorance of cultural differences can constitute a common stumbling block for international managers. As a growing multicultural workforce becomes part of business organizations in today’s business arena, it has become more and more important to understand how people’s beliefs, values, preferences, and tastes differ and how this can affect managerial attitudes. The ability to understand host country’s cultural differences represent a great milestone in the managerial ability of any manager operating in an international arena, to be aware of, and adapt to the differences that may arise in cause of their business operations. This is because; lack of awareness of cultural differences could lead to serious organizational disadvantages and difficulties. Baridam and Nwibere (2008:308) posit that the secret of successfully understanding and managing organizations in an international arena is in part, dependent on the understanding of the basic elements of both national and organizational culture in that arena.

According to Griffin and Pustay (2004:84), organizations venturing beyond their familiar market will soon realize that foreign business, customs, values, and definitions of ethical behaviors differ vastly from their own. Root (1994) noted that the global economy has formed business environments that require companies to look past the traditional thinking of their home markets, and start instead to look at business from an international global perspective. Therefore, to manage business operations across international boundaries has become one of the

greatest and largest challenge for international businesses today (Deari, Kimmel and Lopez, 2008). Firms that rely on their familiar home culture to compete in a new market environment can jeopardize their international success. Johnston (n.d) points out that when a business does business globally it encounters not only a large market but also confront differences in values, tastes and expectations. Ignoring these differences can harm business and diminish her effectiveness and efficiency as real lack of awareness of cultural differences could lead to many organizational challenges and difficulties which in turn could seriously affect organizational profitability. Firms should therefore be aware of the various elements of culture in their operational environment to avoid dangers of “rejection” by the given society.

This paper takes a theoretical incursion into the impact of host country’s culture on business operations of multinational enterprises (MNEs), followed by an in depth discussion on the elements of culture and their impact on the international businesses, as well as managerial implications of cultural dispositions of multinational enterprises in foreign operations (MNEs).

Theoretical Background Definition of Culture

No unanimous definition exists for culture. Several authors present various definitions of culture. Terpstra (1994) defined culture as the integrated sum of learned behavioral traits that are shared by members of a society. According to Hofstede (1984) culture is a collective programming of minds that differentiates the members of a human group from another. Ekpenyong (2003:89) defined it as a body of ideas which are shared by a number of people, and may include symbols, ideas, beliefs, values and the whole apparatus which may be described as a design for living. The most basic definition of culture is “the way we do things around here” by Deal and Kennedy (1982). Griffin and Pustay (2005:85) presented culture as a collection of values, beliefs, behaviors, customs, and attitudes that distinguished one society from another. They also noted that a society’s culture determines the rules that govern how individuals and firms operate in that society. In the same line Kuazaqui (1999) posited that culture is a sum of behavior, beliefs, habits and symbols that are passed from generations to represent a model of norms, values, beliefs and attitudes which affects organizational behavior in general.

As Bell and McCulloch (1999) put it, culture is the sum total of the beliefs, rules, institutions, technique and artifacts that characterize the human population. The society’s culture therefore determines how its members perceive things, as well as communicate and interact with one another. The various definitions of culture reflect the variety of cultural phenomena that can be seen and observed in various human societies. Thus, culture is the general and acceptable way of life and behavior of a particular group of people that differentiate them from others. As different countries and societies have culture that differentiate them from others, it then means that there is a

specific culture in each society, region, and at national levels that differentiate them from each other. An important feature of culture is that it is learned and not inherited. It is also “shared”.

A Host Country’s culture is concerned with the cultural similarities and diversities and differences in general behaviors, norms, preferences and expectations of that given society and country and how they affect management decision making and corporate organizations in their market operations. A major problem of understanding a Host country’s culture is that it helps organizations appreciate diversities among its customers and even their employees, as well as help organizations see things from the “third eye”.

As organizations understand the cultural diversities between the home nation and country of their operations, it helps their managers prepare their minds to adjust to terms in such cultures in the way that will help their organizations to succeed. It will be suicidal to believe that what works or what is accepted in a company’s host country will work, or be accepted in another country with diverse cultures. The understanding of the similarities of culture in various countries, as well as the differences that exist therein, can possibly help or ruin an organization’s chances of success., and how its managers can adjust the organization to adapt in these differences is what host country’s look at.

Elements of Culture in International Business

The culture of a society determines how its members communicate, interact and relate to each other. According to Czinkota (2007), cultural factors have an important impact on the flow of business and each society has its own elements of culture. Thus, varieties of these elements create the culture of a society through time, and affect business activities between parties located in different parts of the globe. Czinkota (2007) also identified eight elements of culture as, language, religion, values and attitudes, manners and customs, material elements, aesthetics, education and social institutions. On their own, Griffin and Pustay (2005:86) cited six basic elements of culture as social structure, language, communication, religion, values, and attitude. They argued that the interaction of these elements affects the local environment in which international business operates. According to Czinkota (2007), the adaptation of these elements for an international company depends on its level in the market participation; for example, licensing versus direct investments and the type of the product or service marketed.

Language: Among the various elements of culture, language is perhaps the most important key to understanding culture in general and the specific values, attitude and opinions of a particular individual or group of people. Language organizes the way members of a society see the world. Griffin and Pustay (2005:90) contend that linguistic ties create important competitive advantage in conducting business transactions in the globe. There is a

general tendency that two parties speaking the same language will tend to understand themselves and also believe each other very fast. Ability to master international languages of business is critical for business success and survival. Today, English is widely accepted as the language of business. Many global institutions and companies in Europe, Asia, Latin America, etc have adopted English Language as their official language (Voigt, 2001). This position is supported by Griffin and Pustay (2005). However, the failure of native English Speakers to learn a second language put them and their firms at a disadvantaged position when conducting business operations in foreign territories. The reliance of knowledge of other language skills however can weaken the ability to empathize and adapt to other cultures and this could cripple international business transactions.

Religion is another element that affects the culture of most societies and influences business transactions through a set of shared core values. Griffin and Pustay (2005:98) observed that the impact of religion varies from country to country, according to the legal system of each, the homogeneity of their religions and this also affects the type of products that consumers buy and the seasonality of some purchases. Religion also imposes constraints in the role of individuals in a society. For example, the caste system of Hinduism restricts the jobs individuals may perform, thereby affecting the labor market and foreclosing business opportunities, while restrict adherent Islamic countries like Saudi Arabia and Iran, etc limit job opportunities for women, in the belief that their contact with adult males should be restricted to relatives. Religion, therefore, influences the way in which members of a society relate to each other and to outsiders, and shape the attitudes which its adherents have toward work, consumption, individual responsibility, and planning for the future.

Max Weber (1904) contends that the rise of capitalism in Western Europe was due to the protestant ethic, which emphasizes the value of delayed gratification, savings, constant striving for efficiency and reinvestment of profits to improve future productivity as a means of glorifying God. So rather than spending, consuming, and enjoying life now, the Protestants belief prompted them to look to longer-term rewards. On the other hand, Islam, while supportive of capitalism, places more emphasis on the individual's obligation to society.

According to Islam, profits earned in fair business dealings are justified, but a firm's profit may not result from exploitation or deceit (Griffin and Pustay 2005:96).

Communication: this element of culture is an important factor for an understanding between people. It is a particular important skill for international managers (Griffin and Pustay 2005:93). There are tendencies for misunderstanding each other especially when dealing with people from different cultures. Particularly, the result of using different cultural filters in verbal or nonverbal communication is often a misunderstanding

communication and language goes hand in hand with it and mostly and hardly is separated from each other. For example, a word, facial expression and hand gesture can mean different things for people from different cultures.

Nodding one's head means "yes" in Nigeria and United States but "no" in Bulgaria. People in United States tend to abhor silence at private conversations or meetings with the belief that it reflects inability to communicate. But in Japan silence may mean that the person is thinking or additional conversation would be disharmonious (Griffin and Pustay 2005:94). Among the Igbo tribes of Nigeria, silence during meetings or conversations means agreement to what is said. This may not be the case with people even from other parts of Nigeria. International business people or organizations should avoid gesturing in foreign cultures particularly during negotiations, advertisement, except they are sure of their meanings in that culture.

In addition, use of words, colors, signs and symbols communicate differently in different cultures and can destroy a company's chance of success if the people in such societies are used to perceiving it to mean something else. Red means "stop" or "danger" to the British and Nigerian, but signifies good fortune in China, and death in Turkey. The failure of products can result from lack of knowledge of words or symbols in other cultures. Hill (2001) noted that when an organization is operating international business in other societies, its chances of failure increases if it is misinformed about the other country's culture.

Dimensions of Culture

Several dimensions of culture have been identified by various authors. Prominent among these are Hofstede's four dimensions, Trompenaars' seven dimensions and the GLOBE project's nine dimensions of culture.

Hofstede's Four Dimensions of Culture: Hofstede's attempted to provide a composite picture of culture by examining its subparts, or dimensions. Greet Hofstede identified four dimensions of culture that help to account for how and why people from various cultures behave as they do after his study of 116,000 workers in 70 countries. These are Power distance, Uncertainty avoidance, Individualism/collectivism, and Masculinity/femininity (Hofstede, 1983). Trompenaars' seven dimensions of culture. By building on the work of Hofstede, Trompenaars expanded the framework for stereotyping and comparing different cultures and by focusing on the managerial implications of cultural differences. He identified; Universalism versus particularism, Individualism/collectivism, neutral versus emotional, Specific versus diffused, achievement versus ascription, attitudes toward time and attitudes toward the environment.

Concept of Multinational Enterprise

Multinational enterprises are businesses that are headquartered in one country but have operations in other countries. Multinational Enterprises are involved in business transactions across national borders for the purpose of satisfying individual and organizational needs, and have their major objective as profit maximization. Multinational Enterprises have extensive Involvement in International Business across the globe. Some of the reasons for involvement in business activities in other countries by international business organizations are basically two. Griffin and Pustay (2005:12) identified these two broad reasons as strategic imperatives, which motivate globalization, and environmental changes, which facilitate it. The strategic imperatives include, leveraging core competencies, acquiring resources and supplies, to seek new markets, and to better compete with rivals. Put generally, the factors influencing foreign direct investment of most multinational enterprises are supply factors (production cost, logistics, availability of natural resources and access to key technology), demand factors (customer access, marketing advantages, exploitation of competitive advantages, and customer mobility), and political factors (avoidance of trade barriers, and economic development incentives) Griffin and Pustay (2005: 179). Tayeb (1998) states that the decision to become involved in international business depends among others, on the size of the company's domestic market, its production capacity and capability, and the financial and other resources that the foreign market requires. According to Root (1994), manufacturing and service companies that enter international markets at home are growing faster, and others may basically follow their home customers who are going international.

Implications of Culture on Operations of Multinational Enterprises in Host Countries

Organizations that do business globally encounter not more than just larger markets, they confront differences in attitudes, tastes, preferences, values and expectations. Overlooking these differences, no matter how small, can destroy an organization's chance of adaptation and survival in foreign markets with varying cultures. As organizations act commercially in several countries, they should adjust to the laws, policies, habits, tastes and the preferences of these countries in order to become more effective and efficient. Thus, culture moderates the very business activities and operations that are carried out in a country or a given society within the globe. Failure to understand different culture is a guarantee of business failure and other business challenges. To do business in a society with another culture, multinational enterprises should seek to understand and follow some rules that guide business activities in the place they are locating their operations in. Companies which do not completely understand the culture of target regions often devise marketing strategies and advertisement which do not attract consumer's attention and they fail from the start. For example, using a snake or vulture in an advertisement in Nigeria will be frowned at, as they are considered evil, or using an owl in an advertisement in India where it is

thought to be a bad luck symbol is considered a misnomer. Similarly, advertising alcoholic drink in the core northern Nigeria will be waste of effort and resources, unlike in the southern part where more advertisement will result in more purchases and serious patronage by consumers.

To successfully operate business activities abroad, multinational enterprises require culturally sensitive adaptation to products, services, markets, advertising and packaging. The importance of understanding cultural differences in international business transactions by multinational enterprises is crucial to their survival, success and effectiveness in their foreign operations. A business cannot simply rely on its current method of conducting business when it decides to take its business to the international level. It must consider differences in culture.

Culture is so important that ignorance of cultural differences between various societies and countries represent a common stumbling block for international managers. Managers should therefore learn and study other cultures especially in areas they want to establish their operations as this will help them determine the attitudes or feelings of the locals. To sell successfully in foreign markets, MNEs managers need to adapt their organizations' products or services to meet the needs of that particular group of customers. Additionally, managers need to meet the different needs, tastes and preferences of a given society. Thus, organizations in international operations should understand that the challenge of cultural differences lies in recognizing cultural differences, and adjusting to succeed with different people in different markets. Managers in international operations should watch out for ethnocentrism; the belief that one's way of doing things is superior to that of others, as it can constitute a major barrier to effective and efficient management of international business organizations' workforce and production procedures and methods.

Managers of multinational enterprises should note that they are operating in foreign lands with cultures which are not necessarily the same with their home countries' cultures, and therefore must attempt to behave according to the rules of the culture at hand as culture influences the behavior, taste and preferences of their customers and clients. To understand the cultural differences and adjust to them, is a requirement for the success of any manager in international markets.

Conclusion and Recommendation

Understanding cultural differences is critical to the success of multinational enterprises and other firms operating in international business arena. As an organization moves into a region with different cultures, it faces many challenges residual in the culture of that given society. If the organization does not align itself with the prevailing culture, it will not reap the benefit of expansion into the international arena. It is therefore necessary for managers

to understand the culture of the region they want to move into as culturally incompatible marketing strategies can backfire and damage an organization's reputation in various and many ways. The different elements of culture that impact on multinational enterprises include: language, religion, value, communication, and societal structure. Adapting and incorporating these elements into a company's strategy is essential if the organization must survive in a given foreign society. While many countries share similar cultures, the differences that exist in the cultures, no matter how small can affect business behavior in numerous ways and can often lead to cross-cultural misunderstandings and disadvantages to international business organizations. Therefore to minimize the negative impact of culture on business operations of multinational enterprises in foreign arena, managers in international arena must remember that they are foreigners and must attempt to behave according to the rules of the culture at hand. They should also not try to force their home country's culture (taste, preference, attitude, etc) on other cultures but must try to achieve cultural literacy. Organizations should study the culture of the society they wish to enter into in order to avoid cultural mismatch which may spell doom for the organization as they may not be able to attract consumers' attention and may fail right from the start.

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