UNDRAA Munkhjargal

CULTURE INFLUENCES ON STRATEGY PERFORMANCE OF MULTINATIONAL CORPORATIONS
(A CASE STUDY ON SUBSIDIARIES IN MONGOLIA)

Professional Index
E340400

Master Thesis
Business Administration in Financial Management

Supervisor
Amarsanaa.B /Ph.D/

Ulaanbaatar 2016
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ABSRACT

Expanding overseas, especially to culturally distant locations such as Mongolia, is not a simple process for any multinational corporations (MNC). The aim of this thesis is to examine the cultural aspects that could impact on performance strategies on multinational corporations (MNC) subsidiaries in Mongolia.

This conceptual study seeks to review the literature on multinational corporations (MNCs) strategic management, examine the interactive relations among national culture; subsidiary performance strategy context and knowledge transfer between host countries based subsidiaries and their headquarters. Based on secondary research data, cross-cultural management theories and other studies of international strategic management, I explore to define for understanding the interaction between cultural distance and subsidiary strategic context in the knowledge transfer process within MNCs, and ultimately the impact on the performance of subsidiaries.

Culture was defined as the values that guide members’ behaviors in society and that translate into work-related behaviors and attitudes. Analysis of cultural factors is increasingly addressed in international management literature because it contributes to a better understanding of individual and group behavior in an organization, particularly important in the success of any company.

From a cultural standpoint, the internal environment is the organizational culture, while the external environment is the culture industry and cultural environment. In this paper, based on Hofstede’s model, I think I can identify some correlation between the values recorded cultural dimensions of our country and how the implementation of a strategic management in subsidiary in Mongolia.

In case study, I conducted face-to-face interviews with Managing Directors of respectively 5 MNCs subsidiary companies to understand how those subsidiaries adapted their strategy practices, and which difficulties they are facing with. Through those interviews, the participants described the pressures facing their subsidiaries in Mongolia, how those pressures affected their strategy practices, and how they responded to them.

After generating important themes from the data collected one of the major findings was that, contrary to the literature review, neither participant found the Mongolian culture or work-related attitudes to be influencing factors on strategy practices. While many studies emphasize the influence of culture on organizations as it affects work related values and behaviors, the findings of this study emphasize the influence of culture on the strategy qualities and performance of MNC subsidiaries.

Therefore, this study highlighted the importance of adapting strategy practices to the cultural influences on MNCs subsidiary employees’ workplace practices in Mongolia.

Key words: MNC, national culture, culture influence, subsidiary role, cultural distance, Mongolia
ACKNOWLEDGEMENTS

With this master thesis, I conclude my part-time study of business administration on the University of Finance and Economics Ulaanbaatar. I started this study to increase my knowledge and skills in the area of business administration and thought it was a good addition to my previously gained engineering knowledge. This has proven to be true and I can truly say now that the combination of an engineering degree with a business administration degree provides an excellent basis for working in a managing director function.

It has broadened my perspective and triggered me to actively pursue more knowledge in the future.

It has been a long journey and it did not come for free. I have been supported by several people without them it would be impossible to complete this master thesis.

First of all I would like to thank my professor Amarsanaa.B, who provided me with structured feedback along the way and always found a way to challenge me to take the next steps in the research. I really appreciate all the time you spent to help me improve my work. Secondly, I would like to thank my dear friend and life coach Enkhgerel.M, who provided me with valid different perspectives and good direction in the area of innovation. I would like to thank them for all their support and making themselves available.

Finally, I would like to thank my family for their support. This master thesis consumed the major part of my time in the last year and I thank my parents for their patience and motivating me to finish it. Also thanks to my grandparents, who did see me less in the last year due to my master study. No matter how much I thank you it won’t be enough. I am blessed to be your grandchild! I hope I’ll be as good a parent as you are!

I am sure I only thanked and acknowledged only a small number of people. I am sure there are many whose name is not in here but whose influence is reflected in this work. Thanks a million to all of you!

Undraa Munkhjargal,
Ulaanbaatar,
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INTRODUCTION

More than 80,000 MNCs are engaged in business worldwide, which controls over 800,000 foreign affiliates and have over 73 million employees. Internationalization is becoming a part of every day business, and this is putting pressure on organizational functions and structures. This is a challenging task for managers who face an increasingly complex interdependent and dynamic global environment (Deresky, 2003). Internationalization has accelerated much due to a more borderless world a result of such trade agreements and unions such as NAFTA and the European Union. The rapid internationalization of business and its impact on firms is beyond dispute. The debate in corporate boardrooms now focuses on how to respond to the demand to be globally integrated while also being responsive to various local market needs (Black, 1999).

Such factors as technological forces, competitive forces, market forces, government and political forces have influenced the internationalization greatly. Whatever level of involvement, there is a need to understand the global business environment and its influence on the manager’s role. This complex role demands a contingency approach to dynamic environments, each of which has its own unique requirements (Deresky, 2003).

Companies sometimes struggle with the effect that the internationalization has made on the way business is performed and the quality of management has become a key issue (Birchall, 1996). The authors also state that "the world of human nature does not lend itself to simplistic models" but continue on that previous research still can function as a kind of guide when discussing the issue of management. Birchall also says that it is no longer that relevant to discuss national or international management, because most businesses managers deal with international matters on a daily basis both regarding dealing with suppliers and customers and managing an increasingly multinational staff or affiliates.

Similarly De Cieri, Fenwich and Hutchins (2005) state that "As more markets internationalize, more nations become integrated into the international world economy and more businesses choose to expand their operations across national borders". This leads to an increasing importance of people management and development of international managers, because this is critical for the international strategic planning.

According to Gerhart and Fang (2005) much of the focus of the international management literature is based on national differences in cultures.

The definitions of culture are many. Two of them that summarize the essence are Wild et. al who define culture as “the set of values, beliefs, rules and institution held by a specific group of people”(2006) or a more famous one by Hofstede “Culture is the collective programming of the human mind that distinguishes the members of one human group from those of another. Culture in this sense is a system of collectively held values”.

Culture, both national and organizational, is often mentioned as being a common cause of failure in international business. According to a consulting firm in Europe “cultural differences are the biggest source of difficulty in integrating European acquisitions. Another found that 35 percent of senior management ranked cultural differences as the number one
problem in foreign acquisitions (compared with 20 percent who ranked unrealistic expectations, and 13 percent who attributed poor management (Waxin, 2005).

The movement of labour that internationalization brings means that cultures are being mixed and this puts increasing pressure on the handling of those people. Nowadays people in a company commonly are regarded as a resource amongst others and many companies have made an exchange from a personnel department to human resource department which deals with issues of: selection, socialization, training, performance appraisal, compensation and rewards and career development (Schneider, 1997). An effective manager needs to be able to reconcile cultural differences, knowing about them is simply not enough (Birchall, 1996). Within management the decision making process will be affected by culture.

**Statement of the problem**

As discussed in the background culture has an impact on business and management. As Waxin (2005) states "People in different cultures often have different ideologies and such differences are important to an organization". A large boom in the economic success in Japan and other Asian countries have created literature that tries to put global models in use, meaning that there would be one way for managers to behave around the world to create this success (Hofstede, 1994). Studies however show that effective ways of leading people and organizations can differ, depending on the national environment.

Many of the organizational theories studied within business are based on American theories by frequently quoted authors for example Maslow, Hertzberg and McGregor and assumes that the theories apply everywhere (Hofstede, 1993).

Waxin (2005) mentions in connection to this that several authors have questioned how applicable these Western theories are when comparing to other parts of the world. Hofstede (1994) one of the authorities of culture related issues and business, says that "there is still "one best way" tradition in especially American management theory and old habits die hard". The author continues and explains that the culture that an organization works within affects the management process.

The culture, which according to Hofstedes definition is "the collective programming of the mind", will affect both the leaders and those who are led, and effectively the way that decisions are made.

Culture will have different degrees of impact on decisions depending on which part of the world they are taken. Hofstede (1994) says that "in order to function as world citizens we should be able to understand the value differences that come with nationality differences".

There have been attempts to explain management culturally by generalizing different parts of the world, however how accurate such generalizations are can be discussed due to the many variations within the countries. In Europe for example there are 43 independent states, with no way of exactly determining how many languages that exists, and with many different cultures, making it hard to label anything in particular as "European".

MNCs have units across the world but they are still one organization (Spector, 2009). Thus, when establishing their businesses in an international field, MNCs have to account for the local operating conditions of their overseas affiliated companies and to struggle with
multicultural complexity. Summing up, the successful implementation of global strategies requires from multinational players a mastery of organizational change that accounts for modern external developments, on the one hand, and one that “transcends national boundaries” (Hempel P. S., 2009) paying attention to “local variation” (Raz, 2009) on the other. Accordingly, large-scale organizational change in MNCs appears as a international phenomenon, given the global nature of business (Garcia, 2013). While several studies have examined the ways in which subsidiaries adapted their strategy to different cultures, almost none have focused specifically on Mongolian subsidiaries. This study addresses specifically the problem of adapting multinational subsidiary strategy practices to the Mongolian culture.

**Purpose of the study**

The purposes of the paper are:

- To emphasize the importance of making ethical and socially responsible issues to be integral parts of the MNC’s strategic management process; and

- To provide frameworks that outline the formulation of the overall, broad ethical and socially responsible values, goals and strategies at the MNC HQ level (for the overall MNC), and, the detailed specific strategies at the foreign subsidiary level.

The paper stresses the importance of the need to manage and reconcile two opposing forces: (a) the need for a very broad uniform, global ethical and social responsibility approach and standards, and

(b) the need for customizing ethical and social responsibility detailed application of the standards, strategies and programs to each country culture.

The paper makes a case for focusing on continuous evolution of the MNC world-view of global social responsibilities to be broader and more universal, viewing the world as a whole society that has very similar general human values, needs and concerns. At the same time, the MNC must allow for country-specific social responsibility programs and activities that are customized to each country’s unique circumstances. It is appropriate that at the MNC HQ level, the MNC will develop general core values and priorities to help direct organizational resources world-wide. And, within this general global core values and priorities framework, each foreign subsidiary unit should be empowered to tailor-make its own detailed activities and programs as a continuous response to its host country’s changing needs and expectations. Much of the challenge of the executives of MNC headquarters and foreign subsidiaries is to make proper judgments to pursue an effective ethical and social responsibility strategy, both globally and locally, in view of contradictory pressures (as those outlined in the first paragraph of the following Literature Review section) and in view of resource availability with regard to social responsibilities programs.

The purpose of this study is to examine the cultural aspects that could impact on performance strategies on multinational corporations (MNC) subsidiaries in Mongolia. In order to realize that purpose, this study investigated the pressures facing Mongolian subsidiaries from culture perspective and the ways in which strategy responded to them and to identify and understand, from the research available, the ways in which managers of multinational subsidiaries adapted their strategy to the Mongolian culture.
Significance of the study

This study holds significance for both research and practice. In terms of research, it contributes to the limited amount of studies done on subsidiaries in Mongolia. It also identifies gaps in the literature and discrepancies between research and practice, and calls for future studies to address such areas. Regarding practice, this study brings new insights about culture impacts on strategy practices for Mongolian subsidiaries to consider.

Research methodology

For the purposes of this research, in depth interviews were used. In depth interviews are personal and unstructured interviews, whose aim is to identify participant’s emotions, feelings, and opinions regarding a particular research subject. The main advantage of personal interviews is that they involve personal and direct contact between interviewers and interviewees, as well as eliminate non-response rates.

As far as data collection tools were concerned, the conduction of the research involved the use of semi-structured questionnaire, which was used as an interview guide for the researcher. Some certain questions were prepared, so as for the researcher to guide the interview towards the satisfaction of research objectives, but additional questions were made encountered during the interviews.

Choice of methodology by conducting a qualitative case study relates to the type of questions to be asked.

- What are the dimensions of national cultures to the host country which impact the strategy and performance of the international subsidiary?
- How to adapt strategy practices to meet the different national cultures?

Multi-case inductive study approach is used, based on a comparative analysis of four companies.

The study conducted a multi-case study involving five MNCs and their Mongolian subsidiaries. Generally, studies in the field of international management have prioritized analysis of American and European multinationals with units in developed countries. With this study is to do the opposite, opening a new research perspective. Thus, data was obtained from primary sources (semi-structured interviews with executives and in situ observations) and through secondary sources, especially archival research. The interviewees were chosen based upon their senior management posts and different areas of business (IT, HR or Sales). The snow-ball method was used, where managers interviewed indicate the next one, thus facilitating contacts. More than one person per company was interviewed, so as to fill a gap, in which international management research often interviews only one individual by organization.

CHAPTER.1 LITERATURE REVIEW

An MNC (Multinational Corporation) is a corporation that has its management headquarters in one country, known as the home country, and operates in several other countries, known as host countries. As the name implies, a multinational corporation is a business concern with operations in more than one country. These operations outside the company's home country
may be linked to the parent by merger, operated as subsidiaries, or have considerable autonomy. Transnational company produces, markets, invests, and operates across the world. It is integrated global enterprise which links global with global market at profit. These companies have sales offices and/or manufacturing facilities in many countries. A corporation (MNC) engages in various activities like exporting, importing, manufacturing in different countries. MNCs have worldwide involvement and a global perspective in its management and decision-making.

1. MNCs consider opportunities throughout the globe through they do the business in a few countries.

2. MNCs invest considerable portion of their assets internationally.

3. MNCs engage in international production and operate plants in the number of countries.

4. MNCs take managerial decision based on a global perspective. The international operations are integrated into the corporations overall business.

MNCs are huge industrial/business organizations. They extend their industrial/marketing operations through a network of branches or their majority owned foreign affiliates. MNCs produce the products in one or few countries and sell them in most of the countries. Transnational corporations produce the products in each country based on the specific needs of the customers of that country and market these. A transnational corporation mostly uses the inputs of the host country where it operates like a multinational company. Large corporations having investment and business in a number of countries, knows by various names such as multinational corporations, international corporations and global corporations have become a very powerful driving force at the world’s economy.

A multinational corporation MNC is a corporation that is registered in more than one country or that has operations in more than one country. It is a large corporation which both produces and sells goods or services in various countries. It can also be referred to as an international corporation. They play an important role in globalization. Arguably, the first multinational business organization was the Knights Templar, founded in 1120, this organization was existed for nearly two century during middle age, and it was officially indorsed by Catholic Church around 1129, and was defunct by 1312.

MNC’s are huge industrial organizations which extend their industrial and marketing operations through a network of their branches or their Majority Owned Foreign Affiliates. MNC’s are also know as Transnational Corporation (TNC’s).

Multinational corporations are sometimes perceived as large, utilitarian enterprises with little or no regard for the social and economic well-being of the countries in which they operate, but the reality of their situation is more complicated. When a company operates in a home nation established its subsidiary in other nation it becomes an MNC and there starts the process of globalization where in a local company serves the entire worlds with its products and services.

Multinational corporations are viewed by many as favoring their home operations when making difficult economic decisions, but this tendency is declining as companies are forced to
respond to increasing global competition. The modern multinational corporation is not necessarily headquartered in a wealthy nation.

The MNC: The Internalization Process

→ Foreign involvement
→ Export via agent or distributor
→ Export through sales representative or subsidiary
→ Local packaging or assembly
→ FDI
→ License
→ Time

A multinational corporation (MNC) or enterprise (MNE) is a corporation or an enterprise that manages production or delivers services in more than one country. It can also be referred to as an international corporation. The International Labour Organization (ILO) has define an MNC as a corporation that has its management headquarters in one country, known as the home country, and operates in several other countries, known as host countries.

Some multinational corporations are very big, with budgets that exceed some nations' GDPs. Multinational corporations can have a powerful influence in local economies, and even the world economy, and play an important role in international relations and globalization.

1.1. MNCs Structure

→ Subsidiary in foreign countries
→ Stakeholders are from different countries.
→ Operations in a number of countries
→ High proportion of assets in or/ and revenues from global operations;

Following are the some of the important features/characteristics of MNC’s:

1. AREA OF OPERATION: -The MNCs operate in many countries with multiple products on large scale. A MNC may operate both manufacturing and marketing activities in a number of countries. Some MNCs operate in several countries, whereas, others may operate in a few countries. Mostly MNCs from developed countries dominate in the world markets.

2. ORIGIN:-The development of MNCs dates back to several centuries, but their real growth started after the Second World War Majority of the MNCs are from developed countries like U.S.A, Japan, UK, Germany and European countries. In recent years MNCs from countries like Korea, Taiwan, India, China, etc. are operating in the world markets.

3. COMPREHENSIVE TERM: - In general, the term MNC is a Comprehensive term and includes international and transnational corporations. The term global corporation is also included in the list of MNC.
4. PROFIT MOTIVE: MNCs are profit oriented rather than social oriented. Such corporations do not take much interest in the social welfare activities of the host country.

5. MANAGEMENT: The Parent company works like a holding company. The subsidiary companies are to operate under control and guidance of parent company. The subsidiaries functions as per the policies and directions of parent organization.

6. MANUFACTURE AND MARKETING ACTIVITIES: MNCs undertake both Manufacturing and Marketing Activities and they are predominantly engaged in hi-tech and consumer goods industries. Majority of the MNCs are engaged in pharmaceutical, petrochemicals, engineering, consumer goods, etc.

7. QUALITY CONSCIOUSNESS: MNCs are quality and cost conscious and managed by professionals and experts. They have their own organisation culture and systems. MNCs believe in the concept of total quality management.

8. BRANDING STRATEGIES OF MNCs IN INTERNATIONAL MARKETS: In today’s global marketplace, MNCs need to set up effective branding strategies in order to be competitive. Depending on the structure of the company and the products offered, MNCs can use different strategies.

9. Their main aim is to obtain the HIGHEST POSSIBLE PROFIT

10. They invest LARGE SUMS OF MONEY

11. THEY AID LOCAL COMPANIES & attain their benefits

12. They OPERATE IN MORE THAN ONE COUNTRY at the same time

Other characteristics are:

→ Big size
→ Huge intellectual capital
→ Operates in many countries
→ Large number of customer
→ Large number of competitors
→ Structured way of decision making
→ Single managerial authority control
→ Worldwide integration, better profitability
→ Global perspective
→ Close coordination in parents & affiliates
→ Worldwide market.

OBJECTIVE

→ To expand the business beyond the boundaries of the home country.
→ Minimize cost of production, especially labour cost.
→ Capture lucrative foreign market against international competitors.
→ Avail of competitive advantage internationally.
→ Achieve greater efficiency by producing in local market and then exporting the products.
→ Make best use of technological advantages by setting up production facilities abroad.
→ Establish an international corporate image

Advantages of MNC’s to the Host country:

1. Research and development activities: Developing countries lack in research and development areas. Expenditure on research and development is essential for the promotion of technology. Multinational corporations have greater capability for research and development activities in comparison to national companies. Multinationals survive in the international market through their advanced research and development activities.

2. Far-reaching effects on the economic, social and political conditions of the host country: Multinational corporations provide a number of benefits to the host country in the form of
   a) Economic growth;
   b) Increased profits;
   c) Developing of new products;
   d) Reduced operational costs;
   e) Reduced labour costs;
   f) Changing social and political structure, etc.
   g) Thus, it helps in the exploitation of resources of host countries for their own economic advancement.

3. Product innovation: Multinational corporations have research and development departments engaged in the task of developing new products, diversification in the product line, etc. Their production opportunities are far greater as compared to national companies. (4)Marketing superiority: Multinational corporations enjoy market reputations and faceless difficulties in selling their products by adopting effective advertising and sales-promotion techniques.

4. Financial superiority: Multinational corporations generate funds in one country and use such funds in another country. They have huge financial resources at their disposal as compared to national companies. Moreover, multinational corporations have easier access to external capital markets.

5. Technological superiority: Multinational corporations can participate in the industrial development programmers of underdeveloped countries because of their technological
superiority. They can produce goods having international standards and quality specifications by adopting the latest technology. Generally, multinationals transfers technology through joint venture projects.

6. Potential source of capital and advanced technology: Economically backward countries invite multinational corporations as a potential source of capital and advanced technology to generate economic growth and to create employment opportunities.

7. Expansion of market territory: Multinational corporations enjoy extension of activities beyond the geographical boundaries of their countries. Multinational corporations can enhance their international image by expanding their operations activities.

8. Creating employment opportunities: Increase in the scale of operations results in more job opportunities. The entry of multinational corporations helps in creating employment opportunities in production and marketing activities.

9. Lower cost of production: Multinational corporations carry on operations on a large-scale, which ensure economics in material, labour and overhead costs.

Disadvantages of MNC’s to the Host country:

1. MNC’s may transfer technology which has become outdated in the home country. Obsolete technology may be used in the host country.

2. As MNC’s do not operate within the national autonomy, they may pose a threat to the economic and political sovereignty of host countries.

3. MNC's may kill the domestic industry by monopolizing the host country's market.

4. In order to make profit. MNC's indiscriminately may use natural resources of the home country indiscriminately and cause depletion of the resources.

5. A large sums of money flows to foreign countries in terms payments towards profits, dividends and royalty.

6. Remittance of dividends and profits that can result in a net outflow of capital.

7. MNCs engage in anticompetitive activities such as formation of cartels and dumping.

8. MNCs offer higher wages to its employees in the host countries, which is much more than any other domestic firm.

On the home country:

→ Loss of jobs.

→ Loss of tax revenue.

→ Flexibility of operation is reduced in a foreign political system and thus causes instability.

→ Competitive advantage of multinationals over domestic firms.
1.2. MNCs Subsidiary roles

1. Horizontally integrated multinational corporations: Horizontally integrated multinational corporations manage production establishments located in different countries to produce the same or similar products. (Example: McDonald’s)

2. Vertically integrated multinational corporations: Vertically integrated multinational corporations manage production establishment in certain country/countries to produce products that serve as input to its production establishments in other country/countries. (Example: Adidas)

3. Diversified multinational corporations: diversified multinational corporations do not manage production establishments located in different countries that are horizontally nor vertically nor straight, nor non-straight integrated. (Example: Hilton Hotels)

Following (Ghoshal, 1986) study of innovation processes identifying the role of the subsidiary in generating innovations for diffusion across the organization; researchers began investigating the different roles that subsidiaries play within MNCs.

What emerged from this research was recognition that subsidiaries are assigned different roles based on their unique resources and capabilities, and that some subsidiaries enjoy considerable autonomy over the development of their own role (Bartlett, 1989).

*Figure 1. Subsidiary Management Research*

The shift in emphasis highlighted in Figure 1, towards setting the multinational subsidiary as a unit of analysis and, to some extent, taking the headquarters as an external factor, allowed researchers to take a detailed look at the various strategic roles of those subsidiaries (Patterson, 2002).

It was this change in emphasis, which became the foundation of the most recent research themes.
Although it is true to say that there is an acknowledged lack of coherent analysis of how the field has evolved in recent years, following the lead of Birkinshaw and Pedersen (2009), it is possible to divide the themes into four subheadings of the subsidiary role stream as outlined in Figure 2.

**Figure 2. Subsidiary Role Research**

![Subsidiary Role: Sub-Streams Diagram]

*Source: Adapted from Patterson and Brock (2002) and Birkinshaw and Pedersen (2009)*

The concept that subsidiary units may differ considerably in their roles based on the extent of their responsibilities, the importance of served markets, their network position and their competencies and resources is now well established in the literature. In the last twenty years this research has extended to capture the complexities of specialized subsidiary roles, such as the emergence of centre’s of excellence (COEs) – units responsible for specific functional activities core to the MNC (Fratocchi, 1998) (Sulemont, 1998) (Holm, 2000).

The perception of subsidiary autonomy or the ability to take independent decisions at a local level has evolved over time within this stream. Initially viewed from an agency perspective (Roth, 1996), subsidiaries are perceived as pushing for autonomy, while their headquarters push for more centralization (Patterson, 2002). However, recent studies identify autonomy more as an important input that drives subsidiary potential for development (Johnston, 2007).

Managers at the corporate headquarters (HQ) generally have a strategy for each of their foreign subsidiaries. Objectives have been set, possible long and short-term paths have been determined. Therefore, these strategies should influence the evaluation of the degree of success of a foreign subsidiary. Yet, Pedersen, (2009) argues that there is often a weak connection between the subsidiary’s strategy and the performance measure used. Thus, each subsidiary’s strategy will serve as a guide to which measures should be selected and how much weight each measure should be given.
The management of the parent firm is interested in short-term absolute gains; therefore, they would assess the degree of success of the subsidiary with a greater emphasis on the financial dimension. Accordingly, for the sales/profit growth strategy, financial measures (i.e., profit based measures and ROA/ROI) are the most important because they assess the earnings that the subsidiary has produced. Second, market share and performance relative to competitors assesses the position of the firm within the industry. Third, product/service quality assesses if there was any quality change in the product after the expansion.

The literature on international strategy management has employed a resource and capability approach to understanding MNC strategy and subsidiary roles (Birkinsaw, 1995). Gupta and Govindarajan’s (2000) study explicitly illustrates the linkage between organizational knowledge and the strategic roles of subsidiaries.

The pattern of knowledge flows can be captured by focusing on the directionality (i.e., inflow or outflow) and the magnitude (i.e., low or high) of these flows that a subsidiary engages in. Based on the knowledge flow pattern, subsidiary roles then can be classified into four categories:

→ The "global player" subsidiary (high resource outflows, low resource inflows) serves as an overall resource supplier to the rest of the MNC. This role fits well with what Birkinshaw (1995) labels as global market initiatives, and Gupta and Govindarajan’s (2000) label as global innovator in terms of knowledge. Historically, the host-country subsidiary utilized unskilled or semi-skilled labour in the international market, whereas the knowledge creation took place somewhere else in the MNC network, e.g., in the home countries of MNCs (Roth, 1996).

→ The "transnational player" (high outflows, high inflows) is the typical position of a subsidiary within an MNC that has a transnational strategy. Furthermore, the subsidiary is encouraged to take global market initiatives. The economy of learning - associated with developing, producing, and marketing international products - is one determinant for the levels of inflows and outflows of resources. Pedersen, (2009) argues that MNC’s dispersion of centers for knowledge creation relates in particular to the way creative assets in different countries enhance the MNC’s overall competitiveness. These creative assets are location-specific, such that the MNC needs a significant host-country presence in order to tap into these unique capabilities.

→ A "local implementer" (low outflows, high inflows) subsidiary role typically fits in with an MNC with an emphasis on global strategy. In fact, in the early history of many MNCs the host-country subsidiaries usually served as implementers (Gupta, 2000). Such a subsidiary needs to emphasize capability exploitation, and entrepreneurship within the subsidiary usually takes the form of local market initiatives.

→ The "multi-domestic player" (low outflows, low inflows) subsidiary fits well within an MNC with a multi-domestic strategy. Such a subsidiary might take significant local initiatives or innovations, but with limited potential for transfer to the rest of the MNC network. The four subsidiary roles (see Figure 3) should provide further insight on developing effective strategies for MNC subsidiaries.
### Figure 3. Subsidiary strategic contexts: a knowledge flow-based framework

<table>
<thead>
<tr>
<th>Outflow of resources</th>
<th>High</th>
<th>Low</th>
</tr>
</thead>
<tbody>
<tr>
<td>from the focal subsidiary to the rest of the MNC network</td>
<td>Global player</td>
<td>Transnational player</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Low</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inflow of resources from rest of the MNC network to the focal subsidiary</td>
<td></td>
</tr>
</tbody>
</table>

*Source: Gupta and Govindarajan, 1991*

### 1.3. Subsidiary corporate governance

Subsidiaries have long been part of the organizational make-up of corporations. They often serve only to create tax efficiencies or to expand businesses into broader geographic or regulated areas. Over the years, as companies grew in size and scope, their structures became more complex as subsidiaries quickly proliferated the corporate landscape. Often they came as part of an acquisition, when the target company came with a number of other legal entities hanging off its corporate chart. In other cases, they became the means by which companies created autonomous business units or divisions to download accountability by either product line or geography.

There are several reasons why companies create subsidiaries. Some are created as a means to cleanly execute a business transaction with a third party, such as the sale of real estate or part of the business others are joint ventures that can become subsidiaries. Some countries may require that foreign corporations do business through a domestically incorporated entity.

The bottom line is that there will always be a need to use subsidiaries or special purpose entities (SPEs) as a means to conduct business.

There are companies that use subsidiaries as a vehicle to mitigate risk and protect the parent company from litigation. This may be true at a purely transactional level but not necessarily so at a broader corporate level, especially in areas of public or social interests.

A Corporate Parent is often a holding company or sometimes a corporate identity holder. It is a name that the public and investors can identify with. Names such as Ford Motor Company, Bank of America, IBM and Daimler Chrysler are easily identified and we can chose to buy their products or invest in their stock because they are sound well run companies with solid historical performance.
Subsidiaries and SPVs are creating scepticism, rather than presenting a corporation as well managed and structurally efficient.

Companies will need to show that they have sound governance practices throughout the organization. This will take a rethinking of governance policy, it will take conviction on the part of senior management and in some cases it will take resources. This last point is not to suggest there is a need to hire more corporate secretaries, but rather, in most large organizations, may require technology and people dedicated to subsidiary corporate governance.

Regulators, analysts, investors and even employees now want to understand more about subsidiaries and how the parent company oversees and entrenches sound corporate governance concepts across its empire.

Corporate Governance once focused mainly on the caring and feeding of the main board and corporate record keeping. Today, the world of the Corporate Secretary is evolving into a key strategic player in corporate decisions and matters of governance.

Like many other core functions that support corporations, both big and small, the Corporate Secretary’s department has evolved considerably. Supporting the main board and other stakeholders is still a key activity, but increasingly there are pressures both internally and externally to support downstream corporate governance. Large operating subsidiaries need to shore-up their governance and start behaving more like their parent companies.

The OECD defines corporate governance as follows;

“Corporate Governance is the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides a structure through which the company objectives are set, and the means of attaining those objectives and monitoring performance”.

This is a fairly comprehensive definition of corporate governance and articulates in broad terms the framework in which governance exists. The challenge we face is to extend sound corporate governance practices and policies downstream to the subsidiaries. This challenge embodies many dynamics that must be embedded in creating a harmonious governance system.

Large organizations need a Corporate Gatekeeper, someone who will manage the life cycle of its subsidiaries. There needs to be policies and boundaries for who can create a legal entity and the reasons for creating it.

A problem that plagues many conglomerates, is keeping track of the subsidiaries they have and why they exist in the first place. Most corporate secretaries or general counsel will agree that creating a legal entity is usually much easier than getting rid of it. In fact, most subsidiaries that are sitting inactive or dormant are there because nobody knows what to do with them. If organizations went through their structure, entity by entity, they would likely find an opportunity to clean house and dissolve or amalgamate numerous entities.
Cleaning up the corporate chart is only the beginning. There needs to be a mechanism in place that will control the very creation of the entity in the first place. Depending on the nature of each business, specific rules should be implemented, stipulating the conditions for creating a subsidiary. The business case for creating a new entity needs to be clear and factual and justify a real need. In most cases, it should be driven by tax, legal or regulatory requirements of the jurisdiction that will house the subsidiary.

Subsidiaries cost money to own and manage. Even a dormant subsidiary is costing money just sitting on the shelf.

Some entities require annual returns to be filed and possibly other regulatory filings. Costs will vary greatly, depending on whether or not the subsidiary has an active board with regular meetings and whether the Corporate Secretarial and legal support is provided in-house or outsourced. Either way, there is a cost associated with it.

Costing a subsidiary:

- Systems costs – GL, Finance & Accounting
- Legal & Regulatory – Filings / Returns
- Records & Administration – Articles, Resolutions, Minute book
- Governance (Operating Subsidiaries – Board Meetings, Material Costs, Time)
- Audit – Internal and External
- Financial Reporting – Must roll up somewhere
- Risk – Assess a dollar figure based on contribution or purpose
- Staff Costs – Somebody has to deal with this entity

Technology needs to play a key role in any framework that will harmonize governance and oversight across subsidiaries. This is essential for large companies, especially if they are multinational.

Best in class companies around the world maintain a common central database for all their corporate records. One system, one place to hold, store and retrieve information from. This will become even more important as regulators look for increased reporting of subsidiary business.

While technology in itself is not the solution to achieving better governance in subsidiaries, it is the most significant component of a total governance framework. Choosing the right system and the right supplier are critical to the success and viability of own governance system. Subsidiary Board Composition should be given similar care and scrutiny as the directors of the parent board.

Depending on the size and nature of the business, it is important that directors bring the right skills to the table to offer effective oversight. The size of the board will ultimately depend on the size and complexity of the subsidiary’s operations. Representation from key functional areas such as Finance, Tax or Law may be justified where size and scope of the business warrant. For increased objectivity, it may be advisable to have a director from outside the
business unit or from another division. This will vary from entity to entity and each board should be assessed according to the size and scope of the subsidiary, its geographic area (to respect the rules of independent mind and management), regulatory relationship and financial impact of the subsidiary on the parent.

Directors on subsidiary boards have the same fiduciary responsibilities as those of the parent board. The board must supervise management but not supplant it. It should review the strategic plans, assess the risks and controls, review internal policies and ensure sound governance. The board is responsible for the stewardship of the subsidiary and owes a duty to act in its best interest with due regard for the interests of the parent, the ultimate shareholder.

Just as with the main board, subsidiary directors need orientation, guidance and support. Some officers may be experienced and familiar with their responsibilities on internal boards, others will need assistance. An internal support structure, including a Director’s Guide should be written to support internal directorships. Not only will this serve as a reference tool for them, but it should also spell out their obligations, risks and corporate indemnification policy.

The issue of outside directors on main boards has often come up. In our opinion, this should be only an exceptional basis and only if required by law. The reason is that if the subsidiary is wholly owned, then there has to be congruence between the parent’s strategic direction and that of the subsidiary. An outside director, not familiar with the inner workings of the company, risks impeding initiatives and slowing the business process. If the subsidiary is seeking objectivity on the board, then in should come from cross-business representation.

Subsidiary Corporate Governance needs to evolve into a tangible and measurable activity in large corporations. The risks of downstream governance failures can have devastating impact on the company as a whole.

One of the challenges of implementing a governance framework that permeates the company is to not create unnecessary bureaucracy. Oversight and control will be the success drivers, regardless of the governance system.

The objective should be to apply the same governance principles and ethics across the enterprise to create a new heightened awareness of corporate governance. This should be the new common thread that binds a company’s culture regardless of where the entity sits in the corporate structure.

There is not a great deal of space between a company’s culture and its governance systems. Both imply a combination of rules and procedures that drive behaviour. There really should be a close resemblance between the Code of Ethics of a company and the principles that guide its corporate governance. In some cases they may be one and the same.

Multinational companies will always face cultural and jurisdictional issues. Following a merger or acquisition of international companies the question of cultures and ethics is always the hardest one to deal with. Some of the strengths that are built through mergers and acquisitions lay in the diversity of the cultures and that leverage should be preserved. The focus in a newly merged company should be on the fundamental governance framework that will become their common thread.
Achieving this requires a strong central tendency to a core governance system. Having the subsidiary governance system already in place, along with the early participation of the legal and secretarial functions in the integration of new entities will mitigate the risk of future governance failures. It will also ease the transition for the newly acquired entities by having clear guidelines in place.

How do MNCs prepare for their subsidiaries in host country? Do they choose the targets only based on the prospective demands for products or services and potential earnings in those countries? The four dimensions of distance must be considerate. Much of the costs and risks result from barriers created by distance, so companies must explicitly and thoroughly account for distance when they make decisions about global expansion (Harrison, 2004). Therefore, the first step in formulating the strategies for specific country or region is to analyze them by using the CAGE distance framework (Ghemawat, 2001).

CAGE stands for cultural distance, administrative distance, geographic distance and economic distance that can considerably influence the attractiveness of the foreign markets more or less. The CAGE framework can be used to accomplish specific objectives, namely: making differences more visible, understanding the liability of being a foreign entity in a local market, comparing foreign competitors, comparing markets, and assessing markets taking into account the impact of distance.

The more two countries differ across these distances, the more risks the home companies have to take in target countries. Thus, a firm can move to more CAGE-proximate neighbours before venturing into markets that are portrayed as very different from a CAGE-framework perspective. The four distance dimensions are described as following.

1.4. Influence of National Culture on Performance of the Subsidiary

Hofstede (1991) considers that national culture is "the collective programming of the mind which distinguishes the members of one group or category from another". His idea is that the national individual values, beliefs, assumptions, behaviours, attitudes and expectations are shaped into a mental cultural programming. He reaches this conclusion when studying national culture through a survey of 116,000 IBM employees working in 40 subsidiaries around the world.

Analyzing his extensive database, Hofstede (1980) discovered four dimensions of national culture: individualism, power distance, uncertainty avoidance and masculinity. Individualism is the tendency of individuals to focus on their own needs and to solve by themselves their problems. Power distance measures the acceptance by individuals of the inequality in relationships; uncertainty avoidance is the tolerance of ambiguity; and masculinity is the tendency to accord more value to material goods rather than to relationships. The measure of Hofstede's dimensions of the national culture is that it continues relatively stable, allowing researchers to define the national characteristics of the countries based on his mode. Accepting the continuity of the Hofstede measures is also accepting the premise that while cultures tend to modernize, they continue with the divergences in their attitudes (Herbig, 1992).
So it can be said that globalization affects culture so slowly that we can consider that the divergences between national cultures continue, and that they are the hardcore values of the culture and most difficult to change.

Hofstede's (1980) research proves that the organizational culture of the multinational does not eliminate nor reduce the national culture. Although all the subsidiaries share the same organizational culture, they have their own national culture, which is confirmed by the survey performed by Hofstede (1980). Another conclusion drawn from his study is that personal values vary more by country than by firm, an affirmation which confirms the influence of the national culture on the organizational culture.

Nelson and Gopalan (2003) state, that the general cultural environment of the national culture affects the organizational culture via institutional forms and individual socialization. They also discovered, in their empirical study involving three countries, certain contradictory phenomena affecting their own previous affirmation and Hofstede's discovery: they found that within a country clusters of organizational subcultures can exist which are in contradiction with the national values of the host country.

According to Yip et al. (1997), nationality is a multidimensional construct involving history, citizenship, experience and culture, which can apply to different aspects of the MNC like the location of corporate headquarters, nationality of the managers, subsidiary and national location of units. They consider the nationality as being that of the country where most of the head office managers of the parent firm are located. Also, the authors state that the parent firm's nationality affects the types of personnel practices, management processes, organization structures and managerial culture which predominate. In the multinational firms, there are several national cultures interacting: the national culture of the parent firm and the national culture of each subsidiary. When asking which of these cultures would predominate in the case of the subsidiary firm, we think that because culture is a multidimensional construct, then its influence is also a function of several factors.

1.5. Influence of the Strategy of the MNC on the Strategy of the Subsidiary

The strategy of the parent is an important concept to understand before beginning to explain what the strategic role is. In the opinion of Birkinshaw and Morrison (1995), this is a mistake because these concepts are opposites; on one hand the role is related to a deterministic process related to the imposition of the functions of the subsidiary by the parent firm. To the contrary, strategy is a term which demands a high degree of freedom wherein the subsidiary can define its actions. In spite of this, we continue to use this term because the parent firm considers the subsidiary as never being free at all, even if it can develop its own strategies, it is constrained by the strategy of the parent firm.

Birkinshaw (1997) considers the subsidiary as an operational unit which is controlled by the MNC and located outside the parent country. On the contrary, Barlett and Goshal (1989) consider the subsidiary as a semi autonomous organization which operates in a different system, considering not only the parent firm but the other stakeholders of the subsidiary as well, admitting that the subsidiary is also a firm, with one stakeholder representing the shareholders, and with other sister subsidiaries with which it can relate to or not.
The subsidiary firm is important because it is the first level of contact of the MNC in the environment. When a MNC penetrates a market far from its home country, the parent firm doesn't know the new market; it needs the subsidiary to obtain the information concerning the new environment. Even now, with the internet able to contact distant places within minutes, the information that the subsidiary gathers is invaluable because it is in direct contact with the exterior. Another important role of the subsidiary is to contribute to the growth of the firm through its strategic initiatives, and transfer this knowledge to the other parts of the MNC (Dartey-Baah, 2013).

The subsidiary receives influences directly and indirectly from the parent firm, in the sense that the parent can impose the strategy to follow, or it can build a string of norms to restrict its strategic freedom.

According to Fratocchi (1998) consider that giving autonomy to the subsidiary can increase its legitimacy in the host country, but they suggest controlling it in order to ensure the integration of the subsidiary's strategy with that of the rest of the firm. Because they worry about the legitimacy of the subsidiary, they constrain this autonomy in order to be in a position to pursue strategic responses to the host government's needs. In that sense, Bartlett (1996) declares that the subsidiary's role can be defined by the parent firm, by itself or built by both the subsidiary and parent firms. But no matter the case, the outcomes have to be profitable to the entire firm as on the other hand, the subsidiary faces dual pressure for achieving: isomorphism with the local institutional environment and consistency within the organization (Birkinshaw, 1995).

Roth and Martinez (1996) propose a framework for analyzing the strategy in the subsidiary. They use two dimensions in considering the activities of the firm as the key variable: the first dimension is the geographical localization of the activities, and the second is the degree of integration of the activities developed by the subsidiary with the activities of the rest of the MNC. They thus identified three types of subsidiary strategies:

1) receptive strategy, if few functions of the value chain are carried out in the host country and the subsidiary is highly integrated to the parent firm;

2) active strategy, if the subsidiary carries out many activities in the host country, but in close coordination with the parent company; and

3) autonomous strategy, if the subsidiary carries out most of the functions of the value chain.

The interest for the empirical study conducted by Jarillo and Martinez (1990) is that they prove that the strategy of the subsidiary moves to coordinate the localization and the integration of activities, which depend on the environment and the necessities of the MNC.

Birkinshaw (1995) distinguishes two types of corporate entrepreneurship assumed by the subsidiary. The first considers that the subsidiary has a role to play in the MNC, one which is directly attributed to it by the parent company, or indirectly by a mechanism of control and coordination, or by the attribution of capabilities; this perspective is called the head office assignment by Birkinshaw et al. (1995). The second allows the subsidiary more freedom to model a strategy.
This perspective considers that the subsidiary strategy is constrained by the structural context; in this way, the manager of the subsidiary can shape the strategy within the confines of its boundaries. This perspective is framed by Birkinshaw et al. (1998) as environmental determinism, which considers that the role of the subsidiary is provided in large measure by its local environment, considers the competitors, local country, suppliers, customers, industry, but also the corporate networks as components of this environment (Barlett and Goshal, 1989; Birkinshaw and Morrison, 1995).

The strategy of the subsidiary depends on the global strategy of the parent firm, as being the most important stakeholder in the subsidiary. However, it is necessary to consider the effect of the interaction between the subsidiary and its stakeholders, and its environment. It can be said that the strategic role of the subsidiary is the result of a complex game between its stakeholders.

According to the international strategy adopted by the MNC, the subsidiary has a different strategic role. The MNC is the main stakeholder of the subsidiary firm, but not the only one, and the other stakeholders also have an influence on the strategic role of the subsidiary. However, it is necessary to consider that the strategy of the subsidiary is part of the more global strategy of the MNC, each subsidiary of which has a different strategy. Barlett and Goshal (1989), state that it is necessary for there to be a match between the context of each subsidiary and the structures, control practices and management processes. It is necessary to specify that the context includes the environment and the relationship between the subsidiary and the MNC. Birkinshaw and Morrison (1995) also propose their typology for the strategies of the subsidiary. They consider three types: the local implementer, with a limited geographic scope, normally one country and a limited scope of products; the specialized contributor, with important expertise in certain activities or functions and highly coordinated with the other subsidiaries; and the world mandate, with worldwide responsibility for products or lines of business.

In order to study the influence of the national culture of the host country on the performance of the subsidiary, we follow the recommendation of Evans (2002) who propose to disaggregate the national culture in Hofstede and Hofstede's (2005) five dimensions which are Power Distance, Individualism vs Collectivism, Masculinity vs Femininity, Uncertainty avoidance, and the latest contribution Long-term vs short-term time orientation.

**Power Distance**

Hofstede & Hofstede (2005) defines power distance as: "The extent to which the less powerful members of institutions and organizations within a country expect and accept that power is distributed in equally".

In countries where the power distance is smaller both subordinates and bosses depend on each other and the subordinate is not troubled by approaching or even contradicting their boss. In countries where on opposite there is a large power distance subordinates either prefers being dependent on their boss or reject it entirely, so called counter dependence. One difference here that can be pointed out is that when it comes to low power distance the superiors are more approachable, whilst in higher power distance countries there is a large emotional distance between the two.
Table 1 will show some key differences between countries with small and large power-distance.

**Table 1. Key differences between small- and large-power-distance societies: the work place**

<table>
<thead>
<tr>
<th>Small power distance</th>
<th>Large power distance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hierarchy in organizations means an inequity of rules, established for convenience.</td>
<td>Hierarchy in organizations reflects existential inequity between higher and lower levels.</td>
</tr>
<tr>
<td>Decentralization is popular</td>
<td>Centralization is popular</td>
</tr>
<tr>
<td>There are fewer supervisory personnel</td>
<td>There are more supervisory personnel</td>
</tr>
<tr>
<td>Managers rely on their own experience and on subordinates</td>
<td>Managers rely on superiors and on formal rules</td>
</tr>
<tr>
<td>Subordinates expect to be consulted</td>
<td>Subordinates expect to be told what to do</td>
</tr>
<tr>
<td>The ideal boss is a resourceful democrat</td>
<td>The ideal boss is benevolent autocrat “good father”</td>
</tr>
<tr>
<td>Privileges and status symbols are frowned upon</td>
<td>Privileges and status symbols are normal and popular</td>
</tr>
<tr>
<td>Manual work has the same status as office work</td>
<td>White-collar jobs are valued more than blue-collar jobs</td>
</tr>
</tbody>
</table>

*Source: Hofstede (2005)*

**Individualism vs. collectivism**

Societies which "the interests of a group prevails over the interest of the individual" is what Hofstede defines as a collectivist society (2005). A minority of the world’s population belongs to an individualist society in which "the interests of the individual prevail over the interests of the groups".

**Table 2. Key differences between collectivistic and individualistic societies: the work place**

<table>
<thead>
<tr>
<th>Collectivist</th>
<th>Individualists</th>
</tr>
</thead>
<tbody>
<tr>
<td>The purpose of education is learning how to do</td>
<td>The purpose of education is learning how to learn</td>
</tr>
<tr>
<td>Employees are members of in-groups who will pursue their in-group’s interest</td>
<td>Employees “economic men” who will pursue the employer’s interests if it coincides with the self interest</td>
</tr>
<tr>
<td>The employer-employee relationship is basically moral like a family link</td>
<td>The employer-employee relationships a contract between parties on a labor market</td>
</tr>
<tr>
<td>Management is management of groups</td>
<td>Management is management of individuals</td>
</tr>
<tr>
<td>Direct appraisal of subordinates spoils harmony</td>
<td>Management training teaches the honest sharing of feelings</td>
</tr>
</tbody>
</table>

*Source: Hofstede (2005)*
Masculinity vs. Femininity

Hofstede defines a masculine society: "when emotional gender roles are clearly distinct: men are supposed to be assertive, tough, and focused on material success, whereas women are supposed to be more modest, tender and concerned with the quality of life”. A feminine society on the other hand is: "When emotional gender roles overlap: both men and women are supposed to be modest, tender, and concerned with the quality of life”.

Table 3. Key differences between Feminine and Masculine societies: the work place

<table>
<thead>
<tr>
<th>Feminine</th>
<th>Masculine</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resolution of conflicts by compromise and</td>
<td>Resolution of conflict by letting the strongest</td>
</tr>
<tr>
<td>negotiation</td>
<td>win</td>
</tr>
<tr>
<td>Rewards are based on equality</td>
<td>Rewards are based on equity</td>
</tr>
<tr>
<td>Preferences for smaller organizations</td>
<td>Preferences for larger organizations</td>
</tr>
<tr>
<td>People work in order to live</td>
<td>People live in order to work</td>
</tr>
<tr>
<td>More leisure time is preferred over more</td>
<td>More money is preferred over more leisure</td>
</tr>
<tr>
<td>money</td>
<td>time</td>
</tr>
<tr>
<td>Career are optional for both genders</td>
<td>Career is compulsory for men, optional for</td>
</tr>
<tr>
<td></td>
<td>women</td>
</tr>
<tr>
<td>There is a higher share of working women in</td>
<td>There is a lower share of working women in</td>
</tr>
<tr>
<td>professional jobs</td>
<td>professional jobs</td>
</tr>
<tr>
<td>Competitive agriculture and service industries</td>
<td>Competitive manufacturing and bulk-chemistry</td>
</tr>
</tbody>
</table>

Source: Hofstede (2005)

Uncertainty avoidance

This dimension deals with the degree to which people in a specific country prefer structured situations over unstructured. Hofstede defines uncertainty avoidance as: “The extent to which the members of a culture feel threatened by ambiguous or unknown situations”.

Table 4. Key differences between weak and strong uncertainty avoidance societies

<table>
<thead>
<tr>
<th>Weak Uncertainty Avoidance</th>
<th>Strong Uncertainty Avoidance</th>
</tr>
</thead>
<tbody>
<tr>
<td>More changes of employer, shorter service</td>
<td>Fewer changes of employer, longer service</td>
</tr>
<tr>
<td>Hard working only when needed</td>
<td>There is en emotional need to be busy and an</td>
</tr>
<tr>
<td></td>
<td>inner urge to work hard</td>
</tr>
<tr>
<td>There is tolerance for ambiguity and chaos</td>
<td>There is need for precision and formalization</td>
</tr>
<tr>
<td>Top managers are concerned with strategy</td>
<td>Top managers are concerned with daily</td>
</tr>
<tr>
<td></td>
<td>operations</td>
</tr>
<tr>
<td>Belief in generalists and common sense</td>
<td>Belief in experts and technical solutions</td>
</tr>
</tbody>
</table>

Source: Hofstede (2005)
Long-term vs. short-term time orientation

This fifth dimension was added by Hofstede in late 1980s and shows whether a country is oriented towards the past or the present.

Hofstede defines long term orientation “the fostering of virtues oriented toward future rewards in particular perseverance and thrift”.

Short term orientation stands for: “The fostering of virtues related to the past and present - in particular, respect for tradition, preservation of face, and fulfilling social obligations”.

Table 5. Key differences between weak and strong uncertainty avoidance societies: Business and economics

<table>
<thead>
<tr>
<th>Short-term orientation</th>
<th>Long-term orientation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Main work values include freedom, rights, achievement, and thinking for oneself</td>
<td>Main work values include learning, honesty, adaptiveness, accountability and self-discipline</td>
</tr>
<tr>
<td>Leisure time is important</td>
<td>Leisure time is not important</td>
</tr>
<tr>
<td>Focus is on bottom line</td>
<td>Focus is on market position</td>
</tr>
<tr>
<td>Importance of this years profits</td>
<td>Importance on profits ten years from now</td>
</tr>
<tr>
<td>Managers and workers are psychologically in two camps</td>
<td>Owner-managers and workers share the same aspirations</td>
</tr>
<tr>
<td>Meritocracy, reward by abilities</td>
<td>Wide social and economic differences are undesirable</td>
</tr>
<tr>
<td>Personal loyalties vary with business needs</td>
<td>Investment in lifelong personal networks</td>
</tr>
<tr>
<td>There was slow or now economical growth between 1970 and 2000</td>
<td>There was fast economical growth between 1970 and 2000</td>
</tr>
<tr>
<td>Small saving quote, little money for investment</td>
<td>Large saving quote, funds available for investment</td>
</tr>
<tr>
<td>Investment mutual funds</td>
<td>Investment in real-estate</td>
</tr>
</tbody>
</table>

Source: Hofstede (2005)

1.6. Cultural distance

As “the software of human mind” (Hofstede, 1980) culture glues and programs our society. It is ubiquitous but also not visible at the same time. And the numbers of its definitions can best represent the multifaceted and elusive nature of culture.

It is estimated that there are about 200 different definitions of culture. Hofstede (1983) defined culture as the collective programming of the mind, which distinguishes the members of one group or society from those of another.

Schneider (1997) viewed “the culture as a shared learned behavior which is transmitted from one generation to another for purposes of promoting individual and social survival,
adaptation, and growth and development”. Dartey-Baah (2013) considered culture as “the deposit of knowledge, experience, beliefs, values, actions, attitudes, meanings, hierarchies, religion notions of time, roles, spatial relations, concepts of the universe, and artefacts acquired by a group of people in the course of generations through individual and group striving”. The concept of culture has different connotations because the definers take their own perspectives in their field of study and each one reveals a peculiar facet of the matter.

Furthermore, Hofstede (2001) 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 4 below.

**Figure 4. Three levels of human mental programming**

![Figure 4. Three levels of human mental programming](image)

Sources: G. Hofstede, Comparing Values, Behaviours, Institutions and Organizations across Nations

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. 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).

**Culture manifestation**

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.

*Figure 5. The “onion”: manifestation of culture at different level of depth*

![Figure 5](image)

*Source: G. Hofstede, Comparing Values, Behaviors, Institutions and Organizations across Nation*

**Values and norms**

As already illustrated in the Figure 5, 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) 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.

**Rituals**

Rituals are presented in Figure 5 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).

**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).

**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, 2005).

On the other hand, Schein (2004) 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).

**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, 2005). He 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.

CHAPTER.2 RESEARCH METHODOLOGY

Research methods refer to systematic, focused and orderly collection of data for the purpose of obtaining information from them to solve/answer a particular research problem or question (Ghauri, 2007).

Quantitative research attempts precise measurement of phenomenon, attitudes and behaviour and answers questions related to how much, how often, how many, when and who (Cooper, 2007). Quantitative research involves coding, categorization and reduction of the gathered data to numbers so that statistical analysis can be conducted based on the quantitative tallying of events or opinions, called frequency of response. Qualitative research on the other hand aims to achieve an in-depth understanding of a situation by using techniques that seek to describe, decode, translate and explain the meaning, not the frequency of the occurring phenomena (Ghauri and Gronhaug, 2007) Qualitative research seeks to develop an understanding by gathering data which provides a detailed description of events, situations and interactions among people and things providing depth and detail.

The main difference between quantitative and qualitative research is not of ‘quality’ but of procedure. In qualitative research, findings are not arrived at by statistical methods or procedures of quantification. Normally, the basic distinction between quantitative and qualitative research is considered to be that quantitative researchers employ measurement and qualitative researchers do not (Layder, 1993).

The choice of data collection depends on the overall judgement of which type of data is needed to answer a research problem. So, it is the type of answers that we are looking for which decide the type of analysis to be undertaken. In words of Jankowicz (1991), which methods and techniques are most suitable for which research (project) depends on the research problem and its purpose.

Usually when the research problem is concerned with building the theory, qualitative methods of analysis are chosen. The reason behind this choice is that these methods allow uncovering and understanding of a phenomena about which little is known. This may also be the case when studying the phenomena is difficult through quantitative methods.

As described earlier, the qualitative research methods allow the researcher to explore and probe deeply into the attitudes and behaviours, providing a better understanding of a given context and underlying assumptions. Being flexible and unstructured (as compared to quantitative methods), the qualitative methods employ a limited number of observations trying to explain different aspects of the problem area with an in-depth analysis.

The present study is undertaken with a view to understand how the staffing pattern differs in the subsidiary compared to the headquarters due to the effect of social culture of a country. This requires understanding why people take the decisions they do (meaning) and how do they do it (process). And since this requires studying people’s intentions, motivations and subjective experiences related to culture and staffing, qualitative data would best answer the problem at hand. To be able to gather data about the people’s experiences, beliefs and values which influence the staffing decisions, it is required that various other factors leading to these
values and attitudes be studied and examined. The multiplicity of the dimensions and relationships involved would require providing rich and detailed descriptions of the particular contexts illuminating important issues of the specific cases.

Case studies are used for descriptive and explorative research, when the phenomena under investigation are difficult to study outside their settings and when the variables, which are usually many, are difficult to measure. In a case study, the primary sources of data collection include verbal reports, personal interview and observation. Case studies are the preferred approach when questions relating to how and why are to be answered.

Interviews are often considered as the best data collection methods because they involve real interaction between the researcher and the respondent. Interviews refer to face-to-face verbal exchanges in which one person: the interviewer, attempts to obtain information, opinion or beliefs from another person: the interviewee (Ghauri, 2007).

Being directly involved in the data collection, the researcher through interviews is able to obtain information about personal, attitudinal and value laden material.

Interviews may be structured or unstructured. Structured interviews follow a standard interview format with questions coded beforehand and fixed response categories. On the other hand, unstructured interviews allow full liberty to the interviewee to discuss reactions, opinions, experiences etc.

The questions usually are unstructured and not coded beforehand. While it is easy to analyse structured interviews, the unstructured are usually difficult not only to analyse but also generalize. Another variant, semi structured interviews differ from the regular interviews in the sense that the topics and issues to be covered, sample sizes, people to be interviewed and questions to be asked are determined beforehand. As a result, semi structured interviews allow uniformity while striking a balance between detail and structure.

The research question here, as stated earlier requires in-depth understanding of the phenomena based on the behaviour, values, attitudes of the people so the most appropriate technique is interviewing as it allows understanding the phenomena in the context of the participants and the meaning they attach to different aspects, in their own words and expressions.

All the interviews were conducted at times most convenient to the interviewees and where they were undisturbed and had good time to reflect over their answers.

The present study involves studying the staffing procedure in Mongolian subsidiaries of MNCs subsidiaries. Hence, from among all the subsidiaries a sample of five was chosen and interviews were conducted with the respective people. The following section provides a description on how the companies were located, contacted, selected and interviewed both at the subsidiaries in Mongolia.

2.1. Collecting the data

Locating the Companies
In order to collect primary data companies that fitted the criteria for the project had to be identified. The criteria on the basis of which the companies were selected was that they should have a subsidiary office in Mongolia and also that the subsidiary office should have been operational for at least five years. The time dimension was added with a view that the subsidiary office would have enough experience about staffing and hence would be able to contribute to the quality of data so collected.

To obtain a list of organisations that match the criteria mentioned above, an email was sent to the companies with a short description of the objective of the undertaken study. A list of total 36 organisations with additional information about them was sent to me, from among whom 9 matched the laid down criteria. From among these 9 were selected after making a short study of their backgrounds, fields of work etc. After making the selection, next step was contacting the companies.

**Contacting the companies**

It was considered more appropriate to call the organisations than sending an email as it would be better to explain the objective of the study verbally than in writing and also address concerns and questions about the same in a better manner. Out of the chosen 9, 3 responded in the negative with an excuse of not being interested in participating in the study. Out of the 6 companies who were interested in being a part of the study, the concerned people from the headquarter of one of the organisations opted out due to lack of sufficient time and hence only 5 companies were interviewed. The next step involved conducting the round of interviews with the concerned people in the remaining companies who were interested in being a part of the study.

The method in which the interviews were conducted varied on a case to case basis, though the structure of the interviews remained the same. This was not only due to the busy schedules of the people being interviewed. Hence the interviews so conducted were a mix of personal and telephonic. In the case where interviews were conducted on phone, a dictaphone was used to record them (by permission) so that none of the details from the interview are missed.

**Conducting the interviews**

Two rounds of interviews were conducted with the concerned people. The first round of interviews conducted were unstructured, with slight prompting to get an understanding of the organisation, its setting and the staffing procedure so followed. The second round of interviews were based on a structured format (included in the appendix) to enable gathering data that could be compared to each other. Later, a transcript of the interviews so conducted was sent to the interviewees to ensure that their responses had been understood correctly. Following is the list of companies contacted and interviewed with a brief about their field of work, number of employees and other relevant information regarding the interviews so conducted.

*Company A*

- A leading northern European consulting group which provides services within the fields of engineering, environmental science and economics
• Subsidiary is involved with IT, software, digital mapping and remote systems
• With companies and offices in 36 countries, it employs about 4,800 people worldwide of which 2,500 are a part of headquarter and about 315 are employed at the subsidiary office
• Human resources department at the headquarter is fully developed with about 60 people catering to the various Human Resource needs
• The Human Resources department at the subsidiary employs about 20 people who work in close consultation with other employees to cater to the Human Resource needs

To collect data about the staffing procedure of the subsidiary, the head of Human Resources department was interviewed. Both the rounds of interview were conducted in person and though the unstructured interview lasted about an hour, the second, structured interview being specific, took a little more than 30 minutes. At the headquarter, a human resource executive specialising in recruitment and selection was interviewed. Here, both the first and second interviews were telephonic and while the unstructured interview took about 45 minutes, the structured interview was over in 25 minutes.

Company B

• Working within the field of energy optimisation through catalytic processes in chemical plants
• With offices in 9 countries, it mainly employs experienced and skilled professionals within mechanical engineering, and technical services
• The organisation has more than 2000 people working with it of which 90 are employed at the headquarter and about 60 form a part of the Indian subsidiary
• The Indian subsidiary office is responsible for the completion of the projects outsourced to it by the headquarter
• The Human Resources department at the headquarter is small with just 9 people involved with catering to the various Human Resource needs
• The Mongolian subsidiary has a very small (just 3 people) Human Resource department, with the subsidiary head being the ultimate authority

The Human Resources manager was interviewed at the subsidiary to collect data about the staffing process. Here, the unstructured interview was conducted face to face and took about 45 minutes however the structured interview had to be conducted via telephone due to the busy schedule of the interviewee and lasted about 25 minutes. At the headquarter an assistant Human Resources manager was the interviewee. Both the unstructured and structured interviews were telephonic due to the lack of time and lasted for 45 and 30 minutes respectively.
Company C

- Global and independent research and development organisation dedicated to work within the fields of water, environment and health
- Offices (including subsidiary) in about 23 locations across the major continents
- About 750 employees worldwide majority being professional engineers and scientists
- There are about 450 employees working at the headquarter and about 50 in the Mongolian subsidiary
- Human Resources department at the headquarter is not very developed performing the very basic Human Resource functions
- The subsidiary in India has no Human Resources department, with the subsidiary head being responsible for staffing decisions

In the absence of a Human Resources department at the subsidiary, the subsidiary head was interviewed regarding the staffing practices so followed. The unstructured and structured interviews were conducted in person and lasted about 45 and 30 minutes respectively. At the headquarters, Head of human Resources department was the interviewee. Both the unstructured and structured interviews had to be conducted via the telephone as the time for a personal appointment could not be spared. While the former interview took about 40 minutes, the latter was wrapped up in 25 minutes.

Company D

- Family owned clothing company
- 17 offices around the world apart from more than 4,100 shops in 41 countries
- Employs more than 39,000 people worldwide in the fields of designing, marketing and selling with about 3,000
- The subsidiary acts as a buying and liaison office for the headquarters and works in close coordination with it
- Human Resource department at the headquarter is fully developed and reports directly to the CEO
- The subsidiary does not have a Human Resource department; the subsidiary head takes care of all the Human Resource requirements

In the absence of the Human Resources department, the subsidiary head who takes care of all the Human Resources requirements was interviewed about the staffing practices followed at the Indian subsidiary of organisation D. Though the unstructured interview was conducted over the telephone lasting about an hour, the structured interview was a face to face interaction which was over within 20 minutes. At the headquarters, a management trainee was
assigned by the head of recruitment to answer my questions. The unstructured interview took about 50 minutes. For the structured interview, the head of recruitment was the interviewee and the interview lasted for a little more than half an hour.

Company E

- One of the world's leading producers of food ingredients, enzymes and bio-based solutions
- A global company with activities at some 80 locations in more than 40 countries
- 9,200 employees in all with 350 working at the head quarter
- Human Resources is regarded as a corporate function and maintained by an open dialogue across the organisation
- The Human Resources department reports directly to the CEO and CFO (at headquarters)
- The subsidiary has a very small Human Resource department comprising of just 3 people, reporting to the subsidiary head

Due to the packed schedule of the people working in the Human Resources department of the Mongolian subsidiary, the subsidiary head was interviewed for both the unstructured and structured interview which were face to face interactions lasting for 40 and 25 minutes respectively. At the head quarter, the Human Resource manager was the interviewee. Here too both the interviews were conducted in person and lasted about 45 and 25 minutes respectively.

Structure of the Interview

The five interviews were conducted in a two-week period and all took place face to face with each interviewee. Each interview took approximately one hour and was made in confidentiality. All the interviews were recorded. A list of questions was prepared beforehand and questions were classified into these four sections:

→ **Personal profile:** To gain information on the interviewee background e.g. education, work experience and why they are working in this field.

→ **Impact of culture:** To examine their opinion on the strengths and weaknesses of cultural diverse teams. Furthermore, to explore which factors in international teams are most likely to lead to success.

→ **Management of culture:** To explore the importance of managing culture in international projects, how it is done and what they do as preparation.

→ **Significance of culture:** To look into how significant culture is and which skills are considered important in leading international teams.

The aim of the research was to gain an insight into the impact culture has on MNCs subsidiaries in Mongolia. The interviewees have different experience in leading international
teams both in terms of complexity of nationalities within the team and location of subsidiaries.

In the opinion of Managers A and B, cultural diversity has an impact and it is important to manage culture in projects. They do not use any particular methods or tools but they are aware of the challenge of culture and the importance of taking it into consideration. The complexity in any team which Manager C leads can vary between subsidiaries.

He does not manage culture in any specific way. The cultural difference on site (abroad) is even more at the top of the manager’s mind because of the strong obvious need to adjust to a different way of thinking in a foreign location.

Manager D says he does not need to think about culture within the employees. He rather sees the Asian countries as one cultural area because of similar historical backgrounds.

When questions were asked about the strengths of MNCs subsidiaries employees the answers were more related to the possible requirements of international companies as being clear decision-making, detailed documentation and formality. International company working is viewed as a positive learning experience for their employees. One of the managers said his best people are the ones who have the experience of working on projects abroad.

Manager C said that sometimes team members come with different approaches to do things. It is a positive thing when people come with positive criticism. Regarding weaknesses, the majority of interviewees mentioned that communication in a third language (common foreign language) increases the likelihood of misunderstanding. One said that he repeats himself more often to ensure that people have the same understanding. Another talked about how he learned to never assume anything and that everything needs to be clarified.

Two interviewees mentioned different approaches to time as problematic but necessary to respect. The most important success factors in their opinion were mutual understanding on objectives, well-defined scope, regular monitoring, clear roles and hierarchy. Two of them suggested that success factors are the same as in domestic projects.

Manager E says that you must always separate culture within a subsidiary and that of a specific country. According to manager E no subsidiary is without culture, every subsidiary has certain culture within the organization, and that culture is reflected by the employees working there. Culture automatically sets the standard of how a company is being run, and how managers deal with questions and how they deal with employees.

Most of them felt that the most important intercultural competences were communication skills and professional overview. Also, to be open and adaptive but at the same time assertive are deemed important competences. The majority mentioned the importance of communicating well in English, with one mentioning English language skills as necessary to create respect, for himself and others. The lesson learned from international projects is that everything has to be well defined and clear. In addition, one mentioned that all communication is usually documented in international projects, which would be good to do in a greater scale with domestic projects. Two of them talked about the importance of small talk and of being friendly, to show interest in people, in the way of making greater contact with members of the team.
Manager A: Has been leading international teams in various countries. Teams have been different in complexity but, in his last project, the team was composed of members from various countries.

Manager B: Has been leading international teams in various countries. In his last project the team was composed of two nationalities.

Manager C: Has experience in leading international teams in various countries. The teams are mostly composed of Mongolians, but sometimes with specialists from other countries.

Manager D: Has experience in leading teams from Nordic countries. The teams are only composed of people from Iceland and other Nordic countries. The interviewees had different opinions on which impact culture has on international projects. The higher the cultural complexity is within the team the more they believe it is important to take cultural difference into consideration. Furthermore, it is important to consider the culture in the country where projects are implemented.

Manager E: Doesn’t have direct experience working much with other cultures but has some ideas from listening to other people talking about culture. With Germany for example they are very punctual, structured, and if it is not very clear what is supposed to be done (clear directives), there can be frustration among the Germans who will think you do not really know what you are doing. It can be hard to make a decision if you do not understand these differences.

Manager A: Has been working within various countries. The last time involved working on a project where the international team was composed of various nationalities, some with different religious backgrounds. The projects are often run by foreign companies, with locals in top-management and then migrant workers doing the physical work. In his experience it is important to be aware of the cultural differences. In some countries the authoritative hierarchy is so strong that people within the team have difficulties in making independent decisions. This means that all decision-making can take a long time because signatures are needed for almost every task. One of the challenge of culturally diverse teams, is to keep the project on track because there can be another working rhythm. If some mistakes are made sometimes the situation revolves around finding a scapegoat instead of concentrating on finding a solution. In his opinion the main weaknesses are a different way of using time. Team members can have different needs, for example in regards to praying, but it is necessary to respect the different needs of religious practices.

The strength of working with international teams is that the frame around the project is clear and everything is formal. When the decision-making is on few hands the practices can be more disciplined which results in clearer decision making process. There is detailed documentation and strong emphasis on finishing work within budget. The most important success factor is to be well orientated before working on international projects. The scope of the project needs to be exactly defined well in advance, time scheduling needs to be well defined, exact instructions issued and supervision provided daily. It took time for him to realize that this was the most successful to use.

Manager B: This interviewee expresses similar things as Manager A. In the last project he led initiatives to do things were missing. The culture is different from the Mongolia culture, the
mentality and the way of thinking but the educational level is similar. The unemployment there is high and it seems that people do not want to contest things because this can have consequences. For him this was a special experience. Things which are usually accomplished at home could be very complicated especially because there was not the right equipment in place. The main challenge in leading international teams is the language. Sometimes the third language, usually English, is used in communications which can be interpreted differently between people because the English level of a team can vary. Another challenge is for everything to work as it is supposed to. To work on international companies is much learning experience for the employees. In his opinion his best employees are the ones who have had the opportunity to work abroad. People need to be open minded and open for new experiences. The weaknesses are that the dynamic can be strong and often challenging to manage. The most important success factor is that people realize what are the project’s objectives and what is expected from them and then to monitor things very regularly. The same as with domestic teams. It is important to create the mutual platform for this to work with clear lines, a clear setup and well defined organizational structure. The authority structure also needs to be clear.

Manager C: This manager works on are often placed in the so-called underdeveloped countries where financial resources are little. The main challenge in his opinion is that holidays are at different times, Christians have holidays during Christmas and Muslims around Ramadan. No cultural conflicts have occurred. The strength of international teams is that people ask questions when things are done differently from what they are used to. He thinks it is a good thing to have positive criticism. One of the main strength of international teams is being able to communicate knowledge to local experts. The weaknesses are that misunderstanding sometimes occurs because of language difficulties. The most important success factor is good communication and good preparation. The same can be said with domestic teams but the main difference is that things need to be said more often. It is necessary to explain and define more regularly to ensure that people have the same understanding. It is important not to make presumptions of what people know and how they understand what is being said.

Manager D: Manager D does not see much difference in people from Asian countries. It is difficult to know whether it takes a person a long time to answer email because of individualistic characteristics or cultural background. Perhaps the person is busy. In his opinion, the Asian countries are more like one cultural area because of good collaboration and common historical legacy. In his experience it is really good to work in Asian teams because people communicate easily. He does not consider culture when leading projects, only in the sense of similar historical background of the Asian countries. The most important success factor is to have everybody to contribute to the projects and to motivate people to be active.

Manager E: He believes that culture has a large influence on a company regarding how they make decisions. The culture of companies in the same country can differ and affects the decision making process.

Opinions differ on whether it is necessary to take culture into account in MNCs subsidiaries. From the five interviews it seems that when the teams are more complex it is more important
to manage cultural diversity. There is no special method used but it is important to respect others people values and behaviour.

Manager A: It can be challenging for the project manager to work in international companies because sometimes things go slowly. Usually he soon gets adjusted and everything starts to be a normal routine. He does not do any special preparation apart from documentation. Though the community is different he somehow gets adjusted. In his opinion, it is important to manage culture in the sense to take it into consideration in projects. It is important that the teams know the authoritative hierarchy and acts by it.

Respect is necessary both in the sense that the team respects him and he respects the team. In some projects it is most successful to report to their managers if team members are not doing their work effectively. The cultural factor is most important to address during the first week but he does not use any special method. In his mind, if cultural differences are not respected professionalism is missing and then it is more likely for conflicts to occur.

Manager B: The preparation before heading to international subsidiaries consists of reading about the country and its history. In his opinion, there is certain respect in knowing something about the country to be able to ask questions and show interest in the country. It is important is to include cultural differences in international teams because the diversity can cause problems and the project manager needs to be aware of it. It is necessary to respect other’s people values and beliefs though they are different.

Manager C: For preparation for international subsidiaries he reads about the area in terms of geothermal science. He used to read about the countries such as its history. In his opinion it is important to have culture in mind but he does not manage it in any certain way and does not think it is so important. These are usually individuals who have common knowledge and communicate through it. He does not use any method or tools to manage culture. If people need to do their religious practices it is important to respect that.

Manager D: The manager sees the Mongolia as a home ground and that is why in his opinion it is not necessary to manage culture in the subsidiary he has led. In his eyes people are becoming more similar. He has noticed in Asian subsidiaries that he has worked in that behaviour is a little bit different in Mongolia. That is, usually it is a form of courtesy behaviour. The employees are most of the time composed from individuals with similar education. If conflicts occur within a team it has nothing to do with nationality but rather individual differences.

Manager E: He claims that far too often decisions are made at top levels without those higher levels asking lower levels about specific details. It would be much better, he says, if the above levels in certain circumstances ask employees that actually work on the concerned division for advice. This, according to the manager would probably lead to different and more accurate decisions.

Intercultural skills were under the section of significance of culture.

Manager A: In his mind adaptability is most important, that is to get adjusted to the environment, climate and culture. Effective communication skills are also important. Furthermore, professional overview is necessary. Language is also an important component
because if the project manager does not speak good English it is difficult to create respect among the team.

Manager B: In his opinion it is important to be open, assertive and with uncontested authority. Language skills are important to be able to communicate in an effective way.

Manager C: The manager needs to have an overview and at least basic knowledge on the subject of subsidiary in question. Interpersonal communication is also important, that is to being able to settle things. Assertiveness and flexibility are also necessary behavioural factors. When things are going wrong or slowly he needs to be able to push things and be assertive. Furthermore he needs to be able to step back when the things are back on track. It is important to be realistic with the time and cost plan. There is not so much difference from leading domestic teams only in the sense things needs to be said more often since the basic understanding is not always the same. More qualifications from employees are required in international companies. There are certain protocols and conditions.

Manager D: It is necessary to be organized because it can be challenging to keep a track of international employees. It is important to have an overview and some knowledge in the field the subsidiary is working on. The subsidiary manager does not need to know everything but to have some knowledge on the topic. Basic communication skills, defined structure and time management is important. Leadership skills are important, that is to have everybody to participate actively in the MNCs subsidiary.

Manager E: When working in another culture or dealing with other cultures, a manager must be aware of the fact that it perhaps will be needed other ways in order to reach goals. These ways can be others than those not have to adjust when dealing with another country.

The summary of findings doesn’t seem to entirely match up to the theoretical assumptions. The assumption about the use of a mix of hard and soft criteria for recruitment and selection has been falsified as the subsidiaries prefer to use hard criteria. It was also found that subsidiaries dealt with the recruitments and selections on a case to case basis, going easy on the rules and procedures.

To a certain extent it can be said that the assumptions about the staffing procedures followed at the subsidiary and the headquarter hold true. This implies that the culture of the respective countries influenced the staffing practices. However to arrive at a conclusive answer on the role played by national culture on the recruitment and selection patterns followed at the subsidiary and headquarters it is important to analyse the possible reasons that could account for the differences.

CHAPTER 3. RESEARCH RESULTS

3.1. Findings

As can be seen in the table below, there are some differences among the recruitment and selection patterns not only in the subsidiaries in Mongolia, but there are also significant differences among the data collected from the subsidiaries.

Table 6. Case study findings
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<thead>
<tr>
<th>Organisations</th>
<th>Propositions</th>
<th>Recruitment and Selection Criteria: Hard/ Soft</th>
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<td>Org. A</td>
<td>Mix, varying with kind &amp; position of job</td>
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<td></td>
<td>Org. A</td>
<td>Hard criteria</td>
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<td>Org. B</td>
<td>Mix, varying with the kind of job</td>
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<td>Org. C</td>
<td>Hard criteria</td>
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<th>Standardised and job specific selection</th>
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A glimpse into staffing the Mongolian subsidiary

The data collected from the Mongolian subsidiaries indicate a preference for job related knowledge as a criterion for recruitment and selection. While the recruitment channels and methods were a mix of network based and formal, the subsidiaries were more in favour of filling the vacancies from within the organisation. It was also found that the selection methods followed were non-standardised.

The foremost criterion for the subsidiaries was the job knowledge, competencies and job related abilities. Additionally, the subsidiaries reported that while recruitment it was ensured that the selected candidate was someone who suited the current group of employees primarily in terms of age so as to maintain and the strengthen the in-group feeling that the employees shared. It was tried that the mismatch brought out by age difference among employees be avoided unless it was the requirement of the position in question for e.g. when looking for a project head. The emphasis on job related work experience was overlooked in the cases when due to non availability of a suitable candidate either from the current group of employees or the employee referrals, the organisation resorted to campus placement. According to them it was easier for them to hire and train a fresher than hire an experienced worker and mould him/her to suit the organisation’s requirement.

During the interviews conducted it also came to light that the background of the candidates was given importance and at times lead to swaying of selection decisions especially when a candidate had studied at a renowned university/institute. Interviewing the candidate was a common practice when making the selection decision and almost no use of any ability, personality tests was reported by the subsidiaries. However, to get a better idea of the candidate’s personality, attitude and behaviour the organisations enunciated that instead of a single interview they conducted a two and at times even a three tier interview.

The exceptions:

Of the five subsidiaries interviewed two did not stress entirely on job knowledge, competencies and job related abilities. One (organisation A) insisted on the interpersonal, social skills being equally important for the job performance as the work in the organisation was divided in teams requiring that employees not only contribute within the team but also coordinate among the teams, while the other (organisation D) thought the interpersonal skills to be a tad more important due to the fashion and garment industry they were a part of and also since the subsidiary acted as a buying office for the headquarter which required dealing with a lot of people.

As for the sources of recruitment, organisation C had no option but to look for potential employees in the external recruitment market as the current employees were not enough to handle the work pressure and so hiring from within was used only on a temporary basis till someone qualified enough could be found. However like in other subsidiaries organisation C too gave priority to candidates applying for the post through personal networks. While in organisation D both internal and external sources were preferred depending on the kind of post to be filled. According to the interviewee the search for administrative staff was usually in the external sources like job blogs or through personal networks but for designers the present pool of employees was where the search began and ended.
While the subsidiaries primarily relied on interviews as a tool for selection, both organisation A and E combined the information acquired by the candidate through interviews with special ability tests developed at the headquarters to analyse the job skills and competencies. In their view these tests had provided them with better employees over the years.

**The case for staffing**

The data collected at the headquarters of the multinational corporations indicate inclination towards external sources of recruitment, almost never utilising the internal ones. The recruitment channels and methods are formal, wide spread and the selection methods are standardised and job specific. However the organisations are not quite unanimous on the importance they attach to the recruitment and selection criteria.

The headquarters unanimously agreed on making use of the organisation’s website, job portals and in very few cases the print media as the source of advertising the vacant posts. The selection decisions are not only based on the information collected about the applicant through the conducted interviews, but the information is supplemented by the various skill tests that predict the applicant’s on the job performance making the selection decision more objective.

Out of the five headquarters interviewed, three were outright in accepting their preference for job knowledge, competencies and job related abilities as the recruitment and selection criteria. However the other two: organisation B and D favoured a mix of both job knowledge, competencies, job related abilities and interpersonal, social skills. While in organisation B the mix was preferred due to the presence of teams requiring contribution to and coordination among them, organisation D settled upon a mix of both job and interpersonal skills as its area of work required a lot of back and forth coordination among the various departments.

**The comparison**

From the table of findings and description above it is evident that differences exist between the staffing in the subsidiaries in Mongolia. While the staffing procedure is standard at the headquarters, the procedures followed at the subsidiaries seem to be more non standardised and informal. The differences are also evident in the subsidiaries’ inclination towards internal recruitment sources and employee referrals and the preference of headquarters for the external labour market. The value placed on the criterion for recruitment and selection and the selection method vary among subsidiaries and headquarters on a case to case basis.

The following section sheds some light on the possible reasons for these differences in the staffing procedures followed at the headquarters and at the subsidiary and also analyses to what extent these differences are brought about by the respective cultures.

At the outset of this research it was assumed that the differences in the staffing procedure followed by a subsidiary and headquarter are influenced by the respective national cultures. The findings point out that there are differences in the staffing procedures followed by the subsidiaries and headquarters. First the theory and findings are juxtaposed and later it is analysed whether national culture influences staffing and if so then to what extent.
An Analysis

It was observed that both at the subsidiaries and headquarters, apart from the recruitment and selection criteria which was directly related to the job performance of the candidate, the preference for sources, methods, channels for recruitment and selection had traces of being influenced by the national cultures.

According to the findings both the Indian subsidiaries and the Danish headquarters preferred hard criteria for recruitment and selection. This seems to be for the reasons other than culture since the sample primarily included firms which employed a greater degree of scientists, engineers and researchers and for whom having adequate job knowledge, competencies and job skills was important. This was same for organisations irrespective of the fact whether they were a subsidiary office or headquarter. The ones who preferred a mix of hard and soft criteria or soft criteria for recruitment and selection were those where dealing with many people and departments was an essential part of their nature of work. However, if the sample had probably included organisations from a different industrial sector like consumer goods, health industry or service sector the effect of culture on criteria used for recruitment and selection could be studied in greater detail.

While the headquarters strictly relied only on formal methods, channels and external sources of recruitment being tolerant to uncertainty, the subsidiaries depended on network based, informal recruitment channels and methods. Though the reasons for relying on the internal labour market were different however the collectivist undercurrent among the subsidiary staff became evident. In certain cases when recruitment from the existing pool of employees was not possible, the most trusted external sources were considered to be referrals from the people currently employed in the organisation. On the contrary the headquarters not only detested the internal labour market, they also reported that employee referrals or candidates from the network were not seen as in good taste. These differences probably have their roots in the cultural values of collectivism in Mongolian culture with the former being slightly more risk averse than the latter.

However, these differences could have another side to them too. The subsidiaries being small in size do not strictly adhere to the guidelines and laid down procedures for recruitment increasing the subjectivity of the business decisions. Also, most of the subsidiaries being small in size either do not have a human resource department or have a very small minimally functional department. In such a situation, the subsidiaries depend greatly on their subsidiary head that is the ultimate authority for all business decisions. This infuses greater subjectivity into subsidiary operations. The headquarters on the other hand not only strictly adhere to the laid down guidelines but also have fully functional human resource departments that take care of the staffing function completely without any of the higher authorities requiring to censor the process.

Also, at times the area of work of the subsidiaries is such that the external sources of recruitment do not provide the human resources with the requisite skills. This leaves them with no option but to look for employees from within the current pool or search for the employee through the word of mouth in their professional networks. The subsidiaries also reported that in situations when the work was more than the current employees could handle,
they had to look for new employees in the external markets, which was also the case when they wanted to expand their operations.

The subsidiaries relied greatly on the interview as the selection tool since at times there were no appropriate job related tests that could predict the candidate’s on the job performance. In instances where the tests were available that could assess the candidates for the required skills, subsidiaries reported that those tests were either not applicable to the Indian context or did not yield desirable results.

From the above analysis it thus appears that several reasons can singularly or in combination be attributed to help explain the differences in the findings.

In the converging globalising world, the divergent cultural streak is still evident. Culture with its set of assumptions provides answers to universal problems, which not only guide how to survive in the world but also put forth the most appropriate behaviour for certain situations. Being ingrained in the people it is difficult to separate them from their culture. Culture is an integral part of the environment in which an organisation functions. However, lacking precise measurement and objectivity it infuses a sense of uncertainty and hence is often disregarded by the multinational enterprises as being unimportant.

The cultural traces are evident in both the subsidiaries and the headquarters’ preferences for the sources, methods employed for recruitment and selection. The sources and methods for recruitment and selection followed in the subsidiary were informal, non-standardised and network based. On the contrary, the headquarters employed standard, formal sources and methods for recruitment and selection. But, the criteria for recruitment and selection probably being very organisation/industry dependent and directly related to the job, it seemed was not influenced by culture.

However to conclude that the differences in the staffing patterns followed at the subsidiary and the headquarters are solely a product of culture would be wrong. As elaborated in the previous section, there are other factors in the external environment of the organisations that guide the business decisions. The presence of these factors upon which the organisations have very little or no control, force them to take decisions that cannot be justified by or attributed to culture alone.

Thus, from the findings and discussion it can be concluded that the culture is an influencing factor but may or may not be the only factor based on which business decisions are taken. Cultures guide behaviours which explain the preferences of people. However, being too idiosyncratic and abstract culture lacks the concreteness required to base the business decisions entirely on, especially in a fast paced and highly competitive corporate world. In the business world where decisions are based on precise calculations and expression in numbers, culture is too soft a concept sans enough potential to make the objective business world bow down to its subjectivity.

3.2. Empirical findings

This section reports the empirical findings from the research project, whose major research problem was “the cultural values of Mongolia, a country rich in resources and recently
classified as a Global Growth Generator (3G) country”. The research was conducted in winter at the end of the year 2009. Its goals included the following:

1) the identification of sources and areas of occurrence of the barriers to cross-cultural interactions in MNCs’ foreign subsidiaries,

2) the evaluation of significance of the barriers,

3) the analysis of the methods used by the participants of the cross-cultural relationships aimed at identifying and overcoming cultural barriers.

Figure 6. Research Questions

10 types of cross-cultural interactions were analyzed, including both direct and indirect contacts (the order below reflects the interviewees’ most frequent types of cross-cultural contacts):

1) multicultural face-to-face and virtual meetings (e.g. video- or teleconferences),

2) business trips abroad,

3) interactions in multicultural teams along with virtual ones,

4) office contacts within the MNCs (e.g. via e-mail, fax, intranet, etc.),

5) official duties carried out under the MNC’s procedures,

6) subordinate-superior relationships, where one side is from a different national culture,

7) multicultural trainings,
8) office contacts with the MNCs’ external stakeholders,

9) participation in international career management programs,

10) cross-cultural negotiations.

The non-probabilistic sample comprised 36 foreign subsidiaries that have run their operation in Mongolia for many years, 50% of which were established as a greenfield investment and the remaining ones as M&As. Approximately 48% of the subsidiaries in the sample have had their HQ in Europe (including 43.8% in European Union), 18.8% have had the North-American capital origin, 12.5% of the sample stated for Asian MNCs’ subsidiaries and the remaining part for the entities with mixed capital. The sample was mostly made up of large incorporated enterprises which represented various sectors, including both manufacturing and services ones.

The method applied to collect the data was semi-structured interviews (about 1.5 hours per each interview). The interviewees were top and middle-level managers and specialists working for the MNCs’ subsidiaries. They represented various functional departments. More than 40% of the respondents had more than 4.5 years of experience in service in the MNCs. Furthermore, the majority of the interviewees had had international experience before in the form of overseas business trips, life abroad or work for MNCs or work abroad. Such a foreign exposure of the respondents could have affected their perception of the cultural barriers.

The research disclosed that the interviewees observed the cultural barriers in their subsidiaries. These impediments referred to cultural distance embedded barriers, organizational barriers as well as individual rooted ones.

With regards to the first group of the barriers, 63.6% of the respondents noticed cultural distance as differences in behaviors of the foreigners caused by their national cultures that were the reason for some types of problems at work, yet relatively not frequent and severe. The interviewees witnessed the cultural differences concerning:

- the superior role and his/her leadership style,
- the approach to delegation of authority,
- preferences for the decision-making style,
- preferences for the scope and the frequency of information flow between the HQ and a subsidiary,
- the attitude towards women,
- life priorities reflected at work versus personal life dilemma,
- preferences for the necessity and the scope of formalization,
- the importance attached to internal and external interpersonal relationships,
- the differences in HRM’s approach (hard vs. soft), perception of feedback,
- the differences in verbal and non-verbal behavior, communication styles, practices, work styles, foreigners’ expectations
Table 7. Organizational Barriers according to the research findings

<table>
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<tr>
<th>Examples of organizational barriers in the analyzed MNC’s subsidiaries</th>
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<td>→ institutional ethnocentrism observed in the behaviors of the HQ revealing its cultural domination approach to managing foreign subsidiaries</td>
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<tr>
<td>→ insufficient understanding of the Mongolian specificity by the HQ or expatriates, and as a result, ineffective attempts to instill MNC’s organizational solutions into the Mongolian subsidiaries</td>
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<td>→ dissonance between the declared strategic predisposition and the actual actions</td>
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<tr>
<td>→ integration problems concerning the organizational cultures with regards to MNCs that used M&amp;As and consequently a culture gap</td>
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<tr>
<td>→ limitations of HRM practices, i.e.: ineffective recruitment, promotion, and evaluation requirements, problems with selection and utilization of expatriates</td>
</tr>
<tr>
<td>→ an insufficient communication system in the form of an ineffective use of a MNC’s functional language, difficulties with literal translation that can lead to communication noises and time-consuming and costly communication</td>
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They found it as an attack and, instead of looking for a solution, they stiffened in their positions. They did not have knowledge of typical English expressiveness and their specific verbal communication style. Moreover, the English were in their element, speaking their native language. If the interpreter was absent, his or her role was taken by someone else from the team, which was not accepted by the Mongolians. They felt weakened in the discussion. A remark of a few interviewees is worth mentioning, namely that when interacting with the representatives of a different culture it is hard to distinguish a behavior motivated by one’s personality from a behavior influenced by his/her culture.

As indicated in the literature review, this is a consequence of an individual mental programming by genetic predisposition (human nature) and personality.

The analysis of the interviews allowed to identify the cultural barriers that were affected by organizational factors. Although the ethnocentric predisposition was perceived as the most troublesome, which is in accordance with the prior research, the research also revealed that each type of strategic mindset can cause barriers to crosscultural interactions, partly due to the observed discrepancy between the declarations and the actual performance. Another reason could be a lack of adjustment between specific environmental requirements and the strategic predisposition of a MNC. For instance, one of the interviewees noticed: “The central that declares a geocentric attitude is not always prone to increase the subsidiary’s autonomy in decisions making process if the local adaptations are required by circumstances”. With respect to regio- or geocentric predispositions, the global integration imperative that forces the HQ to lower costs was a thorny issue. The subsidiaries’ personnel hardly accepted that the MNC’s interest took precedence over the local interests, which sometimes led to a situation where the subsidiaries’ employees were not rewarded adequately to their efforts. These produced tensions in mutual relationships between the parent company and its affiliates.
According to the research findings, the organizational solutions (e.g. a company’s procedures, management methods and systems) became barriers to the cross-cultural interactions in a MNC’s system if:

• there was an overwhelming belief in the HQ in the universality of promoted solutions,
• the HQ exhibited rigidity of attitudes,
• solutions were forced without questioning their applicability,
• issues raised by the subsidiaries (e.g. different local law requirements) were ignored,
• the HQ could not understand that meeting its requirements might have overloaded its subsidiary.

Integration problems as consequences of a culture gap emphasize the significance of implementation of accepted corporate culture in MNCs. The research disclosed several barriers in this area. There were several reasons for reluctance among the MNC’s personnel to corporate mores and behaviors, namely their skepticism and suspicions:

• about the universality of the customs promoted in the organizational culture, and as a result, their applicability referring to the local specifics of a subsidiary,
• due to insufficient trainings or the cultural dominance approach applied to implement a corporate culture,
• caused by a dissonance between the declarations and the actual actions, and consequently, the lack of belief in the authenticity of promoted values and norms.

With regards to HRM practices the interviewees reported barriers concerning the development of local employees:

• limitation of training policy:
  1) ineffective corporate training due to the lack of ability to properly identify the training needs and neglecting the local specificity;
  2) the training costs covered by the local budgets that in the face of cut-throat competition within a MNC’s system could have led to reduction of investment in the local personnel since: “In a MNC a subsidiary must prove its usefulness.”;
  3) a formal training in the intercultural management was not available in all the analyzed subsidiaries (only 20.8% of the parent companies of the subsidiaries in the sample offered such a training),
• the promotion paths not adjusted to the requirements of the subsidiaries’ employees, e.g. their low need for mobility or a high level of basic needs,
• limitations of international career management programs, due to:
  1) an ethnocentric policy of promotion that set PCNs in a privileged position compared to HCNs when a candidate for promotion was considered;
2) an insufficient acquaintance of the parent company’s language (despite the functional language was different from the parent company one) by an employee posed a barrier to his/her promotion within a MNC’s structure.

In spite of the limitations of HRM practices described above, the interviewees admitted that investments in the local personnel occurred in their subsidiaries and what is more, they felt job content mainly due to the fact that they could satisfy their need for career growth. This factor could have positively affected their attitude to the companies they worked for and therefore the perception of the barriers to cross-cultural relationships within MNCs.

Nevertheless, the research showed that the barriers, although noticed by the interviewees, were not perceived as severe. The interviewees were still satisfied with their job and appreciated the cross-cultural interactions (93.1% of the interviewees saw such an interaction as satisfactory). Moreover, the contacts with foreigners were mentioned as a source of the respondents’ job content.

Cross-cultural relationships involve participants in a communication process that can be burdened with barriers. In the analyzed subsidiaries the interviewees mentioned communication as the most obvious area where the barriers were apparent. The following obstacles to communications were observed by them:

• an insufficient acquaintance of the technical/branch language by external interpreters that sometimes caused noises in communication, especially the written one that required translation of documentation,
• usage of a colloquial language which was not comprehendible to non-native speakers,
• ambiguity of words led to problems with translations/interpretations,
• an insufficient acquaintance of the functional language by the contractors or a MNC’s employees,
• reluctance of some of the MNC s’ employees to use the functional language,
• some means of communication, i.e. tele- or videoconference, produced noises due to problems with the quality of transmitted signals,
• some evidence of an ethnocentric attitude observed in communication such as language carelessness of the nativespeakers who did not pay attention to be understood properly and were less tolerant to the mistakes made by non-native speakers or their tendency to speak the native language during meetings where foreigners were present.

Furthermore, the respondents noticed that cross-cultural communication can be costly and time-consuming due to required translations/interpretations and the necessity to use various means of communication at the same time to increase the effectiveness of this process. Some interviewees also admitted that foreigners might associate the level of intelligence with the extent to which a person was fluent in their native language (a similar observation was also raised by some scholars).

Therefore, such a person could have been perceived as more professional, he/she was evaluated higher and had a greater chance for promotion in a MNC. Hence, some of the respondents claimed that their MNC’s promotion policy was ethnocentric.
With regards to individuals, the research revealed the following individual rooted barriers:

- Misperception/misinterpretation/misevaluation in the form of the interviewees’ tendency to make assumptions in crosscultural interactions, at least at the beginning; 80% of the respondents acknowledged that they had had a preconceived notion of the foreigners’ behavior before their first contact with them and, what is more, for 51.2% of the respondents the factual relationships were different from the ones they had expected; as a result 68.9% of them changed their notion after the actual contacts; this factor enhanced their interactions with foreigners, which is in conformity with some scholars’ observation stated in the literature review section that experience contributes positively to the improvements of cross-cultural relationships.

- Ethnocentric attitude
  - Of the Mongolian employees towards the employment policy in subsidiaries; 59.1% of the interviewees expressed a preference that the best posts in their organizations should be occupied by Mongolians, however they allowed for a possibility that the post of Chief Executive Officer in their subsidiaries could be held by a foreigner;
  - Of the foreigners who manifested their superiority over the Mongolians, e.g. by criticizing the qualifications of the Mongolian employees; according to an interviewee, it is a typical situation that managers from Western Europe or North America view ideas of Eastern Europe managers as inferior, (this observation was based on actual experience of an interviewee during his work in multicultural teams; he recommended people from East Europe express their opinion after the Americans or West Europeans to prevent being seen as insistent or importunate),

- Weak communication skills among the MNCs’ employees, including a lack of ability to speak the local language among the expatriates, which was perceived by some respondents as an ineptitude to establish a closer relationship with a subsidiary’s personnel, to understand their mood and react accordingly.

All the barriers to cross-cultural relationships in the MNCs mentioned above could have been avoided or overcome by the means discussed in the subsequent section of this study.

The research allowed for the indication of some facilitators of cross-cultural interactions in MNCs from the angle of their subsidiaries. They have been arranged according to the sources as well as the areas of occurrence of the cultural barriers.

Several methods of adaptations of MNCs to cultural distance have been depicted in the literature review section. The effectiveness of the adaptation method is likely to depend on many situational factors (i.e. industry requirements, a role assigned to a subsidiary, a MNC’s organizational model, competences of the HQ in the use of a given mechanism, etc.). Situational factors were significant in the case of the analyzed subsidiaries as well.

The interviewees once assessed a method as effective and another time as ineffective depending on a specific situation of a subsidiary and their personal experience. For example, multicultural teams (MTs) were highly valued by most of the respondents. Nevertheless, a
number of them observed minuses of their functioning that lowered the effectiveness of MTs such as indolence in the decision making process, problems with recognizing the internal structure when adaptation to a new situation was required, the necessity of indirect and therefore frequently less effective communication due to a geographical dispersal of some MTs. Regardless of the situational factors, most of the interviewees acknowledged the following as an effective mechanism of adaptation to a cultural distance concerning management of foreign subsidiaries: operational control combined with delegated authority in operational performance, financial control, coordination of allocated resources and assigned tasks, a frequent communication with the HQ and other affiliates, knowledge transfer to a subsidiary.

Regarding expatriate management, the following can be added, basing on the empirical findings:

→ the HQ should clearly communicate an expatriate’s tasks to its subsidiaries’ employees and why they are important to avoid confusions/suspicions about his/her role,

→ a localization of management is recommended, thus an expatriate should prepare his/her successor from among the local personnel; some of the interviewees have stressed that there is no more shortage of Polish qualified personnel for managerial positions,

→ an expatriates’ compensation package may be a huge burden to the subsidiary budget, therefore the HQ should increase it.

Organizational solutions can facilitate cross-cultural interactions in MNCs’ subsidiaries. The research showed that organizational solutions enhanced such an interaction if they had been:

→ tested out in many local environments before implementation in a given unit,

→ flexibly applied and adjusted in accordance with the circumstances, which needed a continuous verification and modification to cope with changes,

→ accompanied by successful HRM practices, including expatriate management,

→ supported by an accepted MNC’s culture,

→ supported by the HQ’s appropriate attitude, i.e. openness to the local solutions.

Moreover, the internal cooperation in the MNCs could have been improved if the subsidiaries’ managers were fully aware of their role as a bridge/liaison between the HQ and their unit. Additionally, they should have pursued the grow strategy of the position of their subsidiary enacted in a MNC’s system.

With regards to individuals the interviewees suggested the following:

→ concerning communication: being prepared for a discussion, i.e. knowing the subject and the agenda, reading minutes; self-improvement of communication skills; usage of plain language (i.e. simple words set with accent and cadence that are listener-friendly, in a proper context and without idioms, phrases, metaphors and colloquialisms that may be difficult to understand, e.g. if
English is the functional language, individuals should use so-called International English);

→ concerning attitudes: being empathic and cooperative, open to learning, changes and multiculturalism.

3.3. Mongolia: A Cultural Portrait using the Hofstede Model

This secondary research data paper explores the cultural values of Mongolia, a country rich in resources and recently classified as a Global Growth Generator (3G) country. The analysis provides better insight into Mongolian culture, a culture for which research data are sparse. The assessment was based on the Hofstede 5-D model of cultural values.

The results of this study indicate that Mongolian culture is low in power distance, high in individualism, very high in masculinity, and high in uncertainty avoidance. It can be characterized as being short-term in its orientation towards time. This paper adds to the cross-cultural literature by examining a country that has not been previously studied. Implications of Mongolian cultural values for management practice are discussed (Purdue, 2014).

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Mongolia, a country landlocked between Russia to the north and China to the south, has had an interesting and colorful history. It is perhaps best known for the 12th Century warrior and ruler, Genghis Khan, who united the Mongols into one of the most powerful and feared armies in history (Craughwell, 2010).

The Mongolian Empire was vast and wealthy until its eventual collapse in the 14th Century. Mongolia is once again on the rise due to its geographic location and natural resource holdings. Mongolia is home to some of the world’s largest reserves of gold, coal, cooper, and iron ore, and possesses significant holdings of other mineral wealth. It has attracted massive foreign investment in recent years (Dexter, 2012).

The vast resource deposits and the inflow of foreign investors have produced a number of changes in the country’s investment laws in recent years (Liotta, 2013) and the country continues to attract investment and protect its resources. Very little is known about this rapidly emerging country with huge business potential. As foreigners flock to Mongolia in
search of business opportunities, it might be worthwhile to have a better understanding of its people and their cultural values.

**Method**

This investigation of cultural values was conducted by surveying a sample of 50 students at a university in Mongolia. The sampling process was designed to produce equal participation between males and females.

The respondents were mixed in terms of their residing in urban and rural areas of Mongolia. The median age of the respondents was 20-29 years old. Cultural values were measured in the study using Hofstede’s Values Survey Module 1994 (VSM 94). This instrument was used in prior studies that measured cultural values in Afghanistan and Kurdistan.

The VSM 94 items measured Mongolian culture using the 5-D model of Geert Hofstede, which includes power distance (PDI), masculinity (MAS), individualism (IND), uncertainty avoidance (UAI), and long-term orientation (LTO).

Value scores were determined using the index found in the VSM 94 Manual. The scores for the value dimensions obtained in this study were compared to the scores obtained by Hofstede (www.geert-hofstede.com, 2014). Comparisons were made with select countries including China, Russia, India, South Korea, and the USA. Scores for the value dimension from all of the mentioned countries came from Hofstede’s published results.

**Results**

The survey results indicate that Mongolian culture is low in power distance, high in individualism, very high in masculinity, high in uncertainty avoidance, and short-term in terms of its orientation towards time. Figure 7 shows the scores for Mongolia on all five cultural dimensions using the United States for comparison.

*Figure 7. Plot of the five cultural value dimensions for Mongolia and USA*
**Power Distance**

The data indicate that Mongolians are low in power distance with a PDI score of 18.

This low score suggests a preference for equality among societal members. Figure 8 shows the PDI scores for Mongolia along with those for other select countries.

The data reveal that with respect to power distance, Mongolia is close to its southern neighbor, China, but quite different from its northern Russian neighbor. Its PDI score is much lower than that of India, Korea, and even the United States.

Low PDI scores suggest that greater power sharing in the workplace has the potential for positive organizational outcomes.

*Figure 8. Scores for power distance in Mongolia and other select countries*

**Masculinity**

The data indicate that Mongolians have an extremely high degree of masculinity with a MAS score of 103, one of the highest in the world. Figure 9 shows the MAS scores for Mongolia along with other select countries.

The data reveal significantly higher masculinity in Mongolian culture than in either of its two neighbors, especially Russia.

Very high MAS scores indicate a preference for competition, materialism, rigid role relationships, and more aggressive behavior. More typically one finds cultures with high MAS scores to also have high PDI scores.

Such is not the case in Mongolia producing a more complex managerial challenge.

The complexity of low power distance coupled with high masculinity requires a careful blend of power sharing and competitive behavior.
**Figure 9.** Scores for masculinity in Mongolia and other select countries

![MAS](image)

**Individualism**

The data indicate that the culture of Mongolia is individualistic with an IND score of 71. Figure 10 shows the IND score for Mongolia, along with other select countries. With respect to individualism, the score is significantly higher than for other countries in the region, but lower than that found in the United States, which has a very individualistic culture. Strong individualistic cultures have a preference for individual rights and responsibilities and generally lack a group or tribal focus.

**Figure 10.** Scores for individualism in Mongolia and other select countries

![IND](image)
**Uncertainty Avoidance**

The data indicate Mongolia has a high uncertainty avoidance culture with a UAI score of 92. As can be seen in Figure 11, only Russia has a higher UAI score.

A strong uncertainty avoidance culture places a premium on feeling certain about future events. It has a strong dislike for change and tends to institute policies and rules to reduce ambiguity.

The belief that there is one best way to do things prevails. The desire to embrace change and innovation is lacking, making rapid and extensive changes in organizations difficult.

*Figure 11. Scores for uncertainty avoidance in Mongolia and other select countries*

![UAI Scores](image)

**Long-Term Orientation**

The data indicate that Mongolia is a short-term time oriented culture with an LTO score of 41. Scores for LTO in Russia are not available, but they are for Mongolia’s southern neighbor, China, which has a much longer orientation to time.

As can be seen in Figure 12, Mongolia’s time orientation is similar, but shorter than that of India and Korea. It is more long term oriented than the United States.

Cultures with a low LTO focus on the present and expect quick results. Planning is more typically done on a short-term basis and the immediate concern is with the here and now.

What the organization will look like in fifty years is not considered relevant or important in these cultures. The managerial focus is generally on present conditions and problems.
Discussion

This investigation was an initial attempt to determine the cultural values of Mongolia. Limitations of this study are similar to most other cross-cultural comparative studies. As with many investigations into cultural values, significant underreporting of less educated and more isolated members of the culture can occur. This is also true of this study. However, these results provide a first attempt to gain a general cultural assessment of the culture of Mongolia. Hofstede (2013) recommends using matched samples for country comparison, which means matching the sample with the demographics of the participants in his original study.

Using matched samples with the original data set would be ideal for comparison, but very difficult to accomplish. Also, without some degree of generalizability of the original data set, the work of Geert Hofstede would have very limited application. We believe that the VSM used by Hofstede and others can only act as a “blunt instrument” in assessing national culture.

Despite this limitation, useful insights and understandings of culture that would otherwise not be available can be studied. Based upon our assessment, Mongolian culture can be characterized as being low in power distance, high in individualism, very high in masculinity, high in uncertainty avoidance, and short term in its time orientation.

These cultural dimensions have implications for multinationals seeking to do business in this developing market.
National culture can be the major determinant of the success of a multinational organization (Dartey-Baah, 2013). Understanding the values, beliefs, and assumptions of the people we do business with is critical to understanding and promoting harmonious business relationships. These cultural values and their differences can present some challenges to doing business and managing in culturally remote parts of the world.

Mongolia and its culture are not well-known. However, the country is a potential major player in the developing world. According to a Citigroup report titled Global Growth Generators: Moving beyond the BRICs (Buiter, 2011), Mongolia is one of eleven countries seen as important to world economic growth.

The 3G countries mentioned in the report show great promise as a destination for foreign investment. Frontier markets offer growth potential not found in other markets and are increasingly seen as strategically important to global strategy. Research into the cultural dimensions of these growth generator countries will be helpful in developing an understanding of the people and their values.

Cultural Differences between the U.S. and Mongolia

The empirical data reported in this study show the cultural differences between the U.S. and Mongolia. The power distance in Mongolian culture is lower than that of the U.S. This suggests that power sharing is important and status differences are not desirable in Mongolian culture. Thus, guidance and direction might not be expected and Mongolians are less receptive to it.

The Mongolian culture is more masculine in orientation compared to that of the U.S. This suggests that Mongolian culture emphasizes the importance of competition, aggressiveness, assertiveness, achievement, and material goods. Individualism is high in Mongolia, but lower than in the U.S. This suggests that it is important to be independent and self-reliant. The score for uncertainty avoidance is very high in Mongolia. This suggests that change is perceived as undesirable, while policies and rules that facilitate stability are considered valuable.

Finally, Mongolian and U.S. cultures have low long term orientations, which suggest that their people look at living and engagement in transactions from a short term perspective. There are several implications of the Mongolian findings relative to the U.S.

In Mongolian culture one might expect to find more power sharing with individuals that might be considered to be more assertive and competitive. However, compared to Americans, Mongolians would likely be less receptive to change and guidance. They prefer established policies and rules to insure stability.

Managerial Implications for the U.S. Businesses

Management is usually defined as getting things done through people. Thus, understanding people is a very important step in management. One’s values system drives attitude, thinking, decisions, behaviors and actions. According to Scarborough (1998), value systems are culturally driven. Understanding national cultures becomes more important as U.S. businesses become increasingly multicultural with diverse workforces that operate in more countries.
Thus, understanding cultural differences is a critical managerial skill because those differences impact the international operations of U.S. businesses.

Differences in national culture have several general and very important implications for ethics, corporate social responsibility, organizational culture, and ultimately, workplace behavior and managerial practices.

To be successful in today’s complex and turbulent environment, it is not enough for corporations to simply produce shareholder value. They must do it in the right way. Business organizations today are expected to practice ethics and corporate social responsibility in order to gain social legitimacy. These two expectations are more complex than profit maximization and are highly culturally driven. Thus different cultures may have different views of ethics and social responsibility.

Ethics is the set of moral principles or values that defines right and wrong. These principles define acceptable organizational behavior. Ethical principles relate to issues such as long-term self-interest, personal virtue, utilitarian benefits, individual rights, and distributive justice. It is evident that cultures vary in terms of how they relate to these ethical issues. For example, certain cultures prefer utilitarian benefits over individual rights. As such, organizational cultures might not be effective universally. A firm’s ethical decisions in one culture could conflict with the ethical principles and decisions of other companies operating in a different national culture. The stakeholder approach to social responsibility is becoming increasingly popular. This approach holds that the survival of a firm cannot be achieved by simply maximizing the value of the firm. It must satisfy and exceed the expectations of various stakeholders such as employees, customers and society. Thus, businesses are encouraged to pursue policies and make decisions that benefit society. But what benefits society is in part culturally dependent. Ultimately, cultural differences manifest themselves in workplace behaviors, which, in part, are mediated by organizational culture. Colquitt, Lepine, and Waxin (2005) define organizational culture as the shared knowledge of the rules, norms, and values that shape the attitude and behaviors of employees.

Because of today’s increasingly diverse workforce, employees have different meanings for their tasks, wealth, success, power, equity, authority, and harmony.

These differences impact on organizational cohesiveness and job performance. Thus, managers must learn how to manage cultural differences by adopting appropriate organizational practices and leadership styles. Shenkar (2001) noted the importance of cultural factors when he questioned whether self-actualization would be conceptualized as residing on the top of the needs hierarchy had Abraham Maslow been Chinese; or whether job security would serve as a motivator in Herzberg’s job enrichment model had he been Mexican, a societal group whose national culture exhibits very high uncertainty avoidance.

For success in international business, managers need not only a high tolerance for ambiguity, which serves to enhance their attitude toward change, but also a well-honed knowledge of national culture. The findings contained in this study provide managers with the sophisticated knowledge needed to successfully capitalize on the cultural portrait of Mongolia.
CONCLUSIONS

The purpose of this study was to gain a better understanding of how culture influences strategy performance of subsidiaries in Mongolia. This phenomenon was previously not extensively research and the result was that it was difficult to match Hofstede’s theory on cultural dimensions.

It is complicated to understand which impact culture may possibly have on MNCs subsidiary strategy. One of the reasons is that culture is very complex, the answer to what is culture is really “everything”. Additionally, culture is only one variable of many factors – sub cultures – in subsidiaries such as gender, education, employment and etc. and it is difficult to explore which impact belongs specifically to culture.

It was to gain insight into the experiences and perspectives of these five managers and on what they believe is the impact of cultural diversity in MNCs subsidiary, with particular focus on international employees. The qualitative approach was used and, therefore, it is not possible to generalise the results from the interviews. There are though some indications that the more culturally diverse the teams are, the more important it is to manage diversity itself. So far little has been written about cultural management in project management. Rather the focus has been on which competences are essential for the MNCs subsidiary manager. It is interesting how little this subject has been explored within the field of MNCs strategy management. It is, therefore, an important field for further research to discover practical measures and tools for MNCs subsidiaries managers in order that they might embrace the opportunity of diversity within their subsidiaries employees.

An MNC’s global ethical and social responsibility is an important and integral part of its strategic management process. Ethics and social responsibility is not a choice, but an imperative for an MNC. Ethical and socially responsible conduct should be the cornerstone of any organization’s core values and strategic management process. The process should start with such a conduct as the basis of all strategic management thought. It should be embodied in an organization’s basic mission and vision. For an MNC, ethical and social responsibility charge becomes an imperative because it is globally conspicuous, and, its activities have global impact and ramifications. Thus, an MNC's activities must emanate from an ethically and social responsibly inspired vision and core values. It must lead the charge for industry-wide higher standards, norms and practices. It must be a leader in the industry not only in technology, organizational practices, product features, marketing organization and performance, but is must also lead in ethics and social responsibility in its home country and all its other countries. Pursuit of rapid growth, increased market share and profits, competitive performance and its other commercial activities must be done in consonance with its established core ethical values and socially responsible vision. Growth with ethics is the right way. Organizational culture at an MNC’s HQ and at its foreign subsidiary units must reflect the established core ethical and social responsibility values. If the organizational culture is lagging behind an improved core ethical and socially responsible values, then the organizational leaders must influence to change the organizational culture. Ethics are culture bound. Different societies place different expectations and priorities on organizations for their ethical and socially responsible conduct. This variability of expectations and priorities set by different country cultures upon an MNC’s multiple country subsidiaries indeed poses
complexity. An MNC with many subsidiaries or joint venture organizations in many diverse country cultures would expect to customize its detailed ethical and social responsibility strategies for different country cultures. It may choose to have common, global core values regarding ethical and social responsibilities, and, vary its detailed content and process regarding ethical and social responsibilities from one country culture to another. Cultural differences among countries would result in different culture-directed ethical and social responsibilities strategies. Social responsibility programs can be sustainable, i.e., an MNC can afford them over a period time, only if it is sufficiently profitable. The concept of sustainability is closely tied to the MNC’s continuous profitability. Further, the MNC must show a reasonable growth which may be manifested in terms of sales and market share, and profitability, product range and applications, expansion of regions, and organizational development. It is more likely that an MNC manifesting these growth attributes will be more likely to pursue, if it wants to, sustainable social responsibility programs.

The concept of sustainability is based upon:

\[ \rightarrow \text{the ability of the foreign subsidiary to sustain the expense of these strategies}, \]
\[ \rightarrow \text{the estimated long term effects and benefits of these strategies, and} \]
\[ \rightarrow \text{the relative cost benefit analysis of these strategies.} \]

If the assessment of sustainability indicates a good prospective future, then there would be more reasons for furthering and expanding ethical and social responsibility programs and strategies.

Organizational growth, environmental munificence, social environmental responsiveness and encouragement, strong and positive impact of social responsibilities programs on the local social fabric, and better communication and coordination among organizational members and their extra-organizational linkages tend to reinforce the worthwhileness of these programs, thus providing a likelihood of perpetuating these programs. A business organization can be here viewed as a social organ with specific business goals and that operates in its host society. It is inevitable for such an organization to focus upon its host society if it is to find support from the host society to allow the business organization to thrive and flourish. Growth and success of a foreign subsidiary similarly depends upon its ability to forge and strengthen organization-environmental linkages in ways that help it to better adjust to the environment and enable it to better address the needs, concerns and expectations of the society of the host country. It would be beneficial for the foreign subsidiary if it would customize to the core social values of the host country culture(s). Should it find that unacceptable, it can be argued in hindsight that the MNC’s entry into the country was not a good strategic move. In this event, the MNC’s course of action may be withdrawal from the country. Barring such an action, to the extent feasible within the scope of the MNC’s core ethical and social responsibility values, it is important for foreign subsidiaries to accept the host culture's core values. Such a conscious move would better align social responsibility strategies to the more focal needs of the host country societies. Its detailed ethical conduct should similarly be fine tuned to the local cultures, thus making the MNC better accepted by the host country. Should there be the case of the need to maintain higher standards with regard to ethical conduct, it
probably would be prudent to do so. This is particularly relevant with issues such as bribery, integrity, honesty, truthfulness and fairness, worker safety and fair employment practices, and ecologically responsible practices. The cultural divide can pose a difficult challenge for an MNC’s HQ when it strives to compose a core set of values and priorities for global ethics and social responsibilities, and, more importantly, when it develops detailed strategies and programs for each host country culture, and plans for implementation. The translation of an MNC’s global core set into specific strategies for each host country requires intimate knowledge of the needs and expectations of the host country people. Their culture should become the basis of the foreign subsidiary's foundation for its ethical and social responsibility strategies.

**RECOMMENDATIONS**

Strategic management premises must be founded upon ethical and social responsibility considerations. Strategic management must evolve from basic social values, needs, expectations and considerations as they can be compatible with an organization's business and economic needs. Strategic management and ethical and social responsibilities are very closely interrelated.

Good strategic management practice is one which is correctly based upon sound ethical and social responsibilities considerations. It is vital for any organization, more particularly the more global and larger organizations, to integrate core ethical and social responsibility values and goals into the organization's overall strategic management process. Adding them as an afterthought to its corporate strategy is not an acceptable approach because the foundation of any business organization is in its society, local and global.

For an on-going strategic management process, an organization should increasingly focus on sustainable and worthwhile social responsibility programs. Periodic evaluations of the effectiveness of such programs are important, thus making strategic management focus not only on the evaluation of business and economic performance, but also on that of social responsibility programs.

These are some general recommended guidelines.

→ It would be helpful if MNC HQ would take greater lead in coordinating, integrating and communicating the overall core ethical and social responsibility values. In arriving at them it should engage in a participative approach so that there is a clear partnership between the MNC HQ and foreign subsidiaries.

→ It may be practical to cluster culturally close countries in the process of developing broad core values of the MNC.

→ It may be beneficial to generate greater culture rich details in the formulation of detailed ethical and social responsibility strategies for a particular country.

→ A process should be set in place that allows for an on-going review and evaluation of the MNC core values and the detailed foreign subsidiary strategies. Such review must
include global and local changes and trends in social values, infrastructures, economy, legal aspects, and industry norms.

→ The MNC (HQ) CEO, COO and other top management must be directly and actively involved in the process. They must have fuller communication with all foreign subsidiaries top management.

→ The MNC and foreign subsidiary top management must address the issue of sustainability of the ethical and social responsibility strategies and programs so that the organization has a clear plan for the continuity of these programs.
REFERENCES


APPENDICES

Appendix I: Interview guide

This interview focuses on the specific relationship those MNCs subsidiaries in Mongolia.

Background:

Objectives:

What kind of business do you do with Marketing and sales in Mongolia?

How is the purpose of the meeting achieved?

What do you want to achieve when doing business with sales and marketing in Mongolia?

How will you reach the objective?

Environment:

How are you influenced by the political system in the country?

What other factors in the environment have you experienced influence the negotiation?

Market position:

1. What is your market position on the Mongolian market?

2. How do you handle the local competition in Mongolia?

3. How do you practice competitive intelligence?

Third parties:

1. Which role does marketing and sales have between Semiconductors and the customers in Mongolia?

2. How do you handle the language problem?

3. Who is translating in meetings?

4. Is it necessary to use consultants?

Negotiators:

1. What is your background? (Technical/business?)

2. How do you find Mongolian culture?

3. How do you find their ways of doing business?

Atmosphere:

1. What are the short-term expectations you have on the relationship?
2. What are the long-term expectations you have on the relationship?
3. How do you see that the relationship has changed in then years time?
4. What is the role that the different parties have in the negotiation?

**The relationship:**

1. How does the relationship look like now?
2. Is it important to have a good relationship when doing business?
3. What is the ideal relationship?
4. How do you think the relationship can be improved?
5. How do you develop trust in the relationship?

**Culture:**

1. What do you think of the Mongolian culture?
2. How does their culture differ from your culture?
3. How does their culture influence their way of doing business?
4. How is their view of time?
5. Do sales and marketing in Mongolia search for collective solutions or individual solutions?
6. How do you handle the language problem?
7. How do you read between the lines?
8. Why do you think that you don’t always understand them?
9. What would the difference be if you spoke their language?
10. How do they behave when doing negotiation?
11. How does their culture influence their language?
12. How do you read their body language?
13. How does the body language make the understanding easier?
14. Who make decisions in Mongolia?
15. How can the relationship be improved?
16. How do you select the strategy to apply in?