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CULTURE AS A CONTEXT FOR MULTINATIONAL BUSINESS: A FRAMEWORK FOR ASSESSING THE STRATEGY-CULTURE 'FIT'

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This paper develops a framework for assessing the 'fit' between a country's culture and a generic strategy. It utilizes Hofstede's cultural dimensions together with Porter's generic business-level strategy typology to provide a specific two country (China-US) illustration. Culture underpins strategy, affects communications process elements, and influences strategic relationships. By integrating previous research with the framework, we generate guidelines for a multinational business to use in evaluating its possible strategy choices against national cultural dimensions.

INTRODUCTION

Much business strategy research has been devoted to the 'fit' between business strategy and various circumstances: identifying conditions for applying generic strategies (Bartlett and Ghoshal 1987); examining national and regional environments (Douglas and Rhee 1989; Porter 1990); matching corporate cultures in joint ventures and mergers (Fedor and Werther 1996; Schneider and Barsoux 1997; Tsang 1998); globalizing strategy (Bartlett and Ghoshal 1989; Kogut and Singh, 1988); and aligning with stakeholders (Harrison and St. John 1996). Recently, however, Buckley and Casson (1998) have called for recognition of "new dimensions to corporate strategy" (p.22) because of the uncertainty and volatility of the international environment. While multinational business researchers have examined broad strategy/ environment issues, less effort has focused on the link between strategy and the dimensions of national culture. This paper explores the strategy/ culture connection with a two-country illustration involving the Porter (1985) generic strategy typology and the Hofstede (1991) dimensions of culture. It proposes a framework for explicitly considering cultural dimensions with the dual aims of reducing environmental uncertainty and of developing guidelines for improving the multinational business strategy - cultural environment fit.

This paper contributes to the multinational business strategy literature in three ways. First, it develops a framework for multinational business use in assessing the 'fit' between a generic strategy and a country culture. Second, it provides insight into partner actions and competitor moves. Third, derived from the framework, it provides specific guidelines for multinational business.

PROPOSED FRAMEWORK: STRATEGY/ CULTURAL DIMENSIONS 'FIT'

While a number of strategy typologies exist (Chrisman, Hofer, and Bolton 1988; Miles and Snow 1978), the most widely used model relies upon Porter (1985) (Kim and Lim 1988; Miller and Dess 1993) as do current popular strategic management texts, such as Miller (1998) and Thompson and Strickland (1998). Thus, this paper employs the basic Porter (1985) typology.

Strategy is not an independent intellectual activity, rather it is a part of a logical think-and-do chain. It derives from planning, leads to action and then loops back to begin the thinking-doing cycle again. At each link in the strategy process—deriving the mission, developing scenarios, formulating strategy and tactics, executing and evaluating—culture intrudes. Strategy is about figuring out how to win, whatever the game, whatever the rules, whatever the stakes. To simplify the analysis, we focus on one link in the chain, and on one type of generic strategy—cost leadership, or satisfying of

customers and beating competitors with low cost and acceptable quality products and services. (Other generic strategies are: Broad differentiation which enables customers to see special value and unique qualities in a firm's products and services; and focused low-cost/focused differentiation strategy which aims at a narrow target market where buyer needs are distinct in terms of costs or customized requirements).

Multinational business strategy research has long acknowledged the importance of national cultural characteristics as determinants of management behavior (Cheng 1989; Rosenweig and Singh 1991). Further, research has linked strategy, market entry modes and culture. Kogut and Singh (1988) noted that cultural distance, or the degree to which cultural norms in one country differ from those in another country, may affect the success of business. Further, international joint venture longevity decreases with the cultural distance between partners. Park and Ungson (1997) stress the criticality of relationships for overcoming cultural distance in joint ventures. And, culture may be a behavioral determinant which affects the capability of would-be international joint venture partners to work together cooperatively (Chen, Chen and Meindl 1980). This paper aims to advance understanding by proposing a framework to be used by multinational business for explicitly assessing the 'fit' between a generic strategy and a country culture and offering a few guidelines based upon a China-US example.

Hofstede Cultural Dimensions

Culture underpins business and we adopt Hofstede's (1991) notion of culture as "mental programming... patterns of thinking and feeling, and potential acting" (p.4). All people are socialized into many different cultures, for example, national culture, business/ professional culture, and organizational/ corporate culture. Many companies, however, fail to incorporate a cultural learning curve along with experience and efficiency curves into their thinking. Effective strategy implementation across borders requires something more than simply gathering

recipes for dealing with various country business practices. A number of cultural typologies exist (Kluckholm and Strodtbeck 1961; Hampden-Turner and Trompenaars 1995).

We utilize the Hofstede (1980) dimensions as the most widely accepted basis for understanding national culture (noting also that there are regional, ethnic, language and other variations) and seek broad guidelines for improving understanding of a cultural learning curve as it affects strategy. The dimensions of culture that may affect generic strategies are: power distance; individualist/ collectivist; masculinity/ femininity; uncertainty avoidance; and long-term / short-term orientation. As an illustration, we develop arguments that focus on the role of each variable as it encourages or discourages the generic cost leadership strategy. Our assumption is that these dimensions, singly or in combination, may explain multinational managers' proclivities toward one or another generic strategy, as industry and market forces are held constant.

China-US Illustration

Does 'national' culture influence strategy? Does national culture predispose firms within that nation toward one or another generic strategy? Is one form of operations more aligned with cultural dimensions than another (and, thus, more supportive of one generic strategy over another)? Ostensibly, the answers may appear to be 'no' because of the tremendous variation in national conditions, the difficulty of isolating dependent and independent variables and because strategy making is often assumed to be the province of purely rational thinking (excepting perhaps 'emergent' or 'intuitive' strategy). The quick response, however, may overlook hidden dimensions.

To illustrate, we compare China-US cultural dimensions. Table 1 sets out cultural dimensions for the People's Republic of China and the United States based upon scores which incorporate results from the Chinese Value Survey (CVS), as set out in Hofstede (1991, 1993). The dimensions are: power distance, individualist/ collectivist, masculinity/

femininity, uncertainty avoidance and, added by the CVS, long-term orientation. L, M, H designations reference relevant locations within the range of values for the twenty three CVS countries, for a specific dimension. The table omits values for Hong Kong and Taiwan. In other words, 'national' cultural dimensions may be too broad because within nations regional, ethnic and language variations often exist. We do not propose to elaborate on the many possible combinations of the dimensions of culture and of the generic strategy types. Rather, what follows is an illustration of how national cultural dimensions may relate to a single business level strategy type—cost leadership.

China has a relatively high power distance (PD), that is, the extent to which a society accepts the unequal distribution of power within its institutions. This suggests that PRC Chinese prefer formalized organization, centralized power, as well as a relatively high level of formalism in relationships and communications. distance scores, the greater the country's tendency towards hierarchical, mechanistic structure in organizations. High power distance scores carry implications for both foreign direct investment (FDI) and international joint ventures (IJV).

Guideline 1: With respect to both FDI and cross-cultural collaborative arrangements, PRC preferences for centralized, large scale production appear to support firms pursuing cost leadership strategies.

The individualist dimension relates to societies in which connections between individuals are loose, with 'each person for himself/ herself' as a motto. Individualist cultures see the self as autonomous and independent. The US score is in the high range, meaning that the bias is toward flexibility of options. At the polar extreme, a collectivist culture relates to societies in which people are part of cohesive groups, with individual loyalty offered in exchange for protection by the group. In collectivist cultures, a conception of the 'self' develops as an individual learns connectedness to others and acquires deeper discernment about others' expectations of correct and incorrect behaviors

Shenkar and Ronen (1987) note that Chinese negotiators are influenced greatly by their emphasis on social obligations and notions of politeness and emotional restraint. The 'positive' assessment suggests that there is a cultural bias towards a formal, centralized, bureaucratic organization, or the kind of organization that supports high volume production.

On the other hand, US strategic managers, with low UA scores are more apt to consider strategy options with the greatest flexibility, that is, any strategy that might work. With low PD scores, US organizations likely are more organic and flexible, and power more decentralized. The 'negative' assessment suggests that there is no cultural bias on this dimension. These cultural scores, however, may signal difficulties to collaboration between Chinese and US firms. To overcome the difficulties, Bjorkman and Lu (1997) suggest that trust be developed among the parties over time. Other things being equal, the greater a country's power (Kitayama et al 1997). Individuals then are seen as part of an interconnected social web whose focus is to correct shortcomings (Bailey, Chen and Dou 1997; Kitayama et al 1997). The PRC has a very low 'individualist' score (or a very high 'collectivist' score). Connections, or *guanxi*, may be an important element in competitive advantage, at least initially (Tsang 1998). Further, partners whose scores differ greatly on the individualist-collectivist dimension (Chen, Chen and Meindl 1998) require great cultural understanding to build cooperation in culturally responsive international alliances (Fedor and Werther 1996). Hofstede (1991 p.55) notes a correlation between power distance and collectivist scores: In cultures where individuals depend upon ingroups, there is often a large power distance; on the other hand, in individualist cultures, there is usually a low power distance score. Thus, hierarchical, collectivist PRC organizations, on this dimension's scores, tend to positively support a cost leadership strategy.

Guideline 2. Cultures with high collectivist scores depend to a great extent on connections to establish and maintain business relations. Cross-cultural alliances

involving partners with greatly differing individualist-collectivist dimension scores may encounter challenges in each step of the strategy process with collectivist cultures biased in the direction of bureaucratic, hierarchical organizations which are most supportive of cost leadership strategy.

On the masculinity(M)-femininity(F) dimension, M is associated with earnings, recognition, opportunities for advancement and distinct gender roles. Production efficiency is an important value. The femininity score is

associated with relationships, cooperation, employment security and overlapping gender roles. Customized service and products are important. Assertive behavior may be fostered by masculine cultures but tempered in feminine ones. Performance and success may be important goals in masculine cultures whereas welfare and happiness tend to be more important in feminine cultures. M/F scores, as on the other dimensions, represent relative positions. The PRC is labeled mid-range, and 'neutral' toward

Table 1
Framework: Strategy 'Fit' and Cultural Dimension Scores

Dimensions/ Countries	PD	IND/COL	M/F	UA	LTO (CVS)
CHINA (PRC)	80H	20L	50M	60M	118H
US	40L	91H	62H	46L	29L
Culture/ Strategy Fit	C: positive US:negative	C: positive US: negative	C:neutral US: negative	C: neutral US: negative	C: positive US: negative

Source: Scores from Hofstede, G. (1993), "Cultural Constraints in Management Theories," *Academy of Management Executive*, 7: 91.

strategy; while the US is high, and 'negative' meaning that this variable provides opportunistic support for any strategy. By way of comparison, Japan's M/F score is highest, at 95; Sweden's is lowest, at 5 (Hofstede, 1991 p. 84).

China has medium uncertainty avoidance (UA) score. UA denotes a preference for stability, order, and predictability. Since many strategic problems are unstructured, their solution involves innovation, tolerance for ambiguity, and risk taking. Uncertainty avoidance suggests less tolerance and less flexibility in dealing with different-from-the-norm ideas as well as a greater belief in experts. On the other hand, it also suggests that where implementation requires attention to procedures, precision, and stability, then it may be a strong positive. This suggests a proclivity for large scale production which, in turn, supplies a rationale for a low cost strategy. Hofstede (1991 p.128) notes a

correlation between strong uncertainty avoidance and high collectivist scores: In such cultures, rules tend to be formal, implicit, traditional, and communications tend to be high context. Hall (1976) explains: "a high context communication... is one in which most of the information is either in the physical context or internalized in the person, while very little is coded, explicit, transmitted as part of the message. A low context message is just the opposite; i.e. the mass of the message is vested in the explicit code"(p.79). High context countries include Japan and China; low context countries include Germany, and the United States.

Guideline 3. Other things being equal, the greater the collectivist, and the greater the uncertainty avoidance scores, the greater the prevalence of centralized, organizations which support cost leader strategy.

The top five countries on the long-term orientation (LTO) dimension are China, Hong Kong, Taiwan, Japan, and South Korea. In the Chinese Value Study (CVS), China scored the highest at 118 (of 23 countries in the study) while the US was relatively low, at 29. Long-term orientation is associated with a concern for the future, persistence, perseverance in pursuing goals, having a sense of shame, willingness to subordinate individual goals for a purpose, and thrift. These values are inter-related with other dimensions. For example, both 'having a sense of shame' and 'subordinating the self' underpin the notion of self in a collectivist society as being connected to others in a group and encouraging the keeping of commitments. Thrift provides savings for investment. Persistence is a fundamental trait of any entrepreneur. Further, a strong correlation exists between LTO scores and economic development for the period 1965-1987 (Hofstede, 1991 pp. 166-7). The high LTO score suggests that PRC firms are 'positive' in orientation toward highly structured, densely networked organization.

Short term orientation is associated with respect for tradition, small savings with little for investment, maintaining 'face', and reciprocal favors. It is an orientation to the past and the present. For example, a too traditional approach may slow innovation, or a concern for quick results may undermine relationships. Or, for example, the Chinese notion of *guanxi*, or connections, is more a reciprocal obligation to respond to requests for assistance than a simple interpersonal relationship (Tsang 1998). Historically, many Chinese have lived in hierarchically organized, closed communities with ruling elite's controlling and allocating resources. The only way for most Chinese to gain access to resources has been through connections. Whitley (1992) shows how primarily family-based relationships underpin many of the extensive networks of Chinese business. Foreigners dealing with Chinese must understand *guanxi*: US investors, in particular, are having a difficult time.

The importance of relationships manifests itself not only in the structuring of organizations but also in the priorities individuals give to their

work. The orientation of individualist cultures is toward achieving tasks and meeting goals, if necessary at the expense of family, friends, and partners. On the other hand, collectivist cultures emphasize harmony, 'face', and connectedness, if necessary at the expense of getting a job done.

Guideline 4. Relatively high long term orientation, together with Collectivist scores relating to an individuals dependence upon the group, PD scores relating to acceptance of unequal power, and UA scores relating to a preference for order and stability, suggest a strong cultural preference for continuing, stable, harmonious relations, within hierarchical organizations. This would tend to favor the prevalence of cost leadership strategies among firms of the country.

DISCUSSION AND CONCLUSION

The framework, setting out a means of showing a strategy 'fit' with cultural dimensions and based upon the PRC-US illustration, holds three main implications for multinational business managers and co-workers. First, culture is a critical variable in the strategy process and it should be explicitly examined as a part of the process. Thus, we have devised the 'strategy-cultural fit' framework as one possible means. As noted above, the framework enables several general conclusions to be drawn for would-be collaborators and investors in the People's Republic of China. These include: In general, the greater the power distance, collectivist, and uncertainty avoidance scores, the greater the preference for centralized, hierarchical organizations and large scale production facilities which appear to support firms pursuing cost leadership strategies; Adding relatively high long term orientation to the mix, suggests a cultural preference for continuing, stable, harmonious relations, within hierarchical organizations; Cultures with high collectivist scores depend to a great extent on connections to establish and maintain business relations; and, cultural challenges need to be anticipated in each step of the strategy process.

Second, we have attempted to illustrate from the cultural dimension scores for China (PRC) how culture might encourage, and support

organizationally, a particular business level strategy; and, further, how such a propensity may affect the PRC's foreign investors and foreign partners. Cultural dimensions, however, affect all organizations, managers and co-workers. For example, it may be more difficult to recognize one's own bias: High individualist scores (along with high masculinity scores) tend to result in highly competitive organizational climates, climates which are not necessarily prized in other cultures. Blending differing biases into functional collaborative arrangements calls for great cultural awareness and sensitivity. The framework requires an explicit assessment of cultural dimensions on the part of firms in the attempt to encourage such awareness.

Third, there are implications for international joint ventures. Effective partnerships involve communications of high quality, joint problem solving, coordination, relational commitment, trust, and time to develop expectations concerning each other's behavior (Moore and Spekman 1994). Each of these elements is affected by the various cultural dimensions. An emerging necessary skill for multinational managers and co-workers, then, is in building trust and relationships, if they hope for success doing business in cultures where relationships are critical.

Culture provides a hidden context for strategy making. A knowledge of national (and regional) cultural dimensions provides a necessary starting point for understanding co-workers, partners, and competitors.. The framework presented is a simple tool for making cultural dimensions explicit within the strategy process.

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