Exploring the impact of organizational culture on employees in multinational enterprise: A qualitative approach

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Abstract

This research aims to expand the current paradigm in multinational enterprise’s organizational culture and its effect on the proposed aspects. A qualitative approach – a systematic review – is adopted for the analysis due to its recent popularity and usage in various fields. The results from systematic review show that, regardless of the organizational types, employees in MNE show interest in innovation. In some cases, employees who are different from their colleagues demographically will interact regularly with their colleagues when working together in a collective organizational culture. If MNE’s organizational culture is precisely unique, this culture can thus facilitate business competitiveness. For future research, authors should include foreign documents in their reviews to increase the plausibility of generalization. They also should conduct qualitative and quantitative study such as case study research and questionnaire survey to determine the appropriate number of measures to be used in the research and to increase the robustness in research.

1. Introduction

As the members of an organization, we cannot deny that we behave as the organizational environment dictates (Gómez-Mejía et al., 2010). The way in which employees perceive their organizational environment also affects employee attitude, motivation, and performance (Parker et al., 2003). Organizations seek for individuals who can be trained (Taylor, 1911), fit well (Taylor, 1911; O’Reilly et al., 1991; Gómez-Mejía et al., 2010), and shared values with the organization (O’Reilly et al., 1991: 492). Therefore, the way to fit the environment is very important for members to survive in an organization in the long run. Nevertheless, the effect of organizational culture and the way in which it affects our learning and evocation is still undetermined. Thus, organizational behaviorist needs to explore this ubiquitous question further. In a broader scope, if the organization is a multinational enterprise (MNE), in which employees have to interact both domestically and internationally, seems to be more complicated regarding
organizational culture and the requirement for both knowledge of organizational behavior and international business. As a result, we must determine direction in which MNE should deviate.

Gómez-Mejía et al. (2010) reported that employees, as human resources, are the most costly resources in various companies. Due to the nature of MNE, the multinational environment affects to the business competitiveness, especially the enterprise’s production (Hernández, 2007). Even though external environmental turmoil affects an organization (Wu and Lin 2013), managers should have the skills to terminate this obstacle effectively (Hannan and Freeman, 1977) – such as identifying organizational strategic objectives (O’Reilly, 1989), introducing many innovative products (Barnett and Freeman, 2001), or even developing short-term aims and crucial actions needed to fulfill the objectives (O’Reilly, 1989). Gómez-Mejía et al. (2010) mentioned that, if the organization can encourage employees to work productively, it will thence increase business competitiveness. Barnett and Freeman (2001) also added that large-scale innovative production can reduce the sluggishness in an organization. When considering organizational culture as a tool, one work of research by Barney (1986) supported the assertion that strong organizational culture lead to business competitiveness. Managers should motivate their enterprises to be more innovative; however, the greatest challenge is sustaining the business competitiveness of the enterprise (Porter, 2005). As a result, the faster employees can adapt to MNE’s organizational culture, the more competitive and innovate the MNE will be (see Figure 1).

Nevertheless, MNE is a unique organization since it deals with various parties within international markets. Though, Hymer (1976), Oviatt and McDougall (1994), and Dunning and Wymbs (2001) reported that MNEs are succumbed to local enterprises due to governmental factors; but, Steiner and Steiner (2003) argued that some MNEs manipulate its stakeholders, not just employees as we expects, but the host country governor to launch favorable policy for them. Previous works by organizational culture scholars explore the consensus of organizational culture regarding having an impact on various aspects and paradigms; for example, O’Reilly et al., (1991), Chatman and Barsade (1995), Chatman et al., (1998), and Parker et al., (2003). Researchers in area of psychology, such as Anderson and West (1998), also study the relationship between organizational culture and innovation. Researchers in area of strategic management, such as Barney (1986), have studied the relationship between organizational culture and business competitiveness. However, the current research paradigm studying how MNE’s organizational culture affects innovation and business competitiveness is still very unfulfilled and limited. And, since previous research in MNE concentrated on big enterprises (Oviatt and McDougall, 1994), by knowing how the organizational culture of MNE shapes its stakeholders can somehow make the social impact (e.g. human resource manager can find a tool to make employees feel engaged through organizational culture). As a result, I would like to investigate these aspects. In conclusion, I organize this research as follows: The first part is the literature review about organizational culture, innovation, and business competitiveness in multinational enterprises (MNEs). The second part presents the research
methodology, in which I describe qualitative tool (systematic review). The third part presents the research analysis and discussion, and the final part includes limitations, future research, and the conclusion.

2. Literature Review

In this section, the concept of MNE, organizational culture, innovation, and business competitiveness will be explained in detail.

2.1. The Uniqueness of MNE’s Organizational Culture

Multinational enterprise (MNE) is an enterprise conducting business operation abroad (Steiner and Steiner, 2003). Oviatt and McDougall (1994) reported that MNE is not the same with international new ventures due to some reasons: First, MNE occupies foreign assets vis-à-vis foreign direct investment (FDI); second, MNE starts from unreactive international strategy; and third, MNE is always a big enterprise. MNE is also different from other traditional enterprises since it does not concentrate on domestic markets (Mabey, 2008). Therefore, by selling products internationally, MNE will gain the ownership specific advantage (Dunning, 2001: 186). Hult (2011) mentioned that the success of MNE is defined by marketing advantages; namely, clear marketing coordination in such value-added activity is the scope of MNE. However, being MNE is not to go with low wage (Porter, 2005) or low-cost product/service, but to apply MNE’s own business competitiveness/advantage (Hymer, 1976; Hult, 2011). Simultaneously, in every MNE lies its organizational culture. Organizational culture includes anything from observable norms such as the employees’ uniform or even unobservable norms such as being agreeable with public opinion (O’Reilly, 1989). It also includes the organizational situation’s integration (Wu and Lin, 2013) and the views incorporated by all employers and employees in an organization (Gómez-Mejía et al., 2010). O’Reilly (1989) and Wu and Lin (2013) reported that organizational culture is compulsory for all organizations because it heightens employees’ engagement in an organization. And, for MNE’s long-run growth, the employee engagement itself is important (Institute for Management Development, 2014). Therefore, MNE without organizational culture cannot survive in the long period of time.

Charles O’Reilly (1989) classified two criteria to assess the strong culture in an organization in California Management Review. He mentioned that: Firstly, there is the act of approval or disapproval on employee attitude in the organization; and secondly, there is an agreement on shared organizational value among employees in the organization. Any organization that has many employees who fail to meet these two criteria exhibits weak organizational culture, according to O’Reilly (1989). As a result, employees with low fit of organizational culture will have high intention to leave the organization (O’Reilly et al., 1991). This creates a challenge for an organization to find the right individuals to fill the empty positions. It would be even worse if that unadaptable employees were in top-management positions, which would surely affect to MNE’s structure and reduce MNE’s competency in conquering multinational markets in the end (Dunning, 2001). As a result, when MNE conducts business abroad, it is very important for MNE to adjust its own culture within the host countries and pass on its culture to its managers and employees. Managers and employees in MNE should also seek guideline for managerial implication and encourage the promotion based on work performance not citizenship (Steiner and Steiner, 2003). For example, US-based Japanese companies have to modify their Japanese organizational culture in order to fit with American employees (O’Reilly, 1989).

2.2. MNE’s Organizational Culture and Innovation

Adair (2007) reported that innovation is the introduction of fresh idea, unused methodology, or even new gadget. He added that the term “Newness” or “Novelty” can be described this phenomenon. Innovation plays a significant role in almost all industries (O’Reilly, 1989; Hitt et al., 2005) and certainly in the world economy (Dunning and Wymba, 2001; Viviers et al., 2005); it is the amalgam to being the top player in multinational market (Adair, 2007). The first innovative mover will be considered as innovative, while the rest will be imitators (Mukoyama, 2003). Innovation occurs because there is a heavy innovative cultivation in enterprise during the time of jeopardy (Institute for Management Development, 2014). Raison d’être, an organization that adopts innovation immediately will be expected to improve its organizational performance (DiMaggio and Powell, 1983); namely, the degree to which enterprise engages in innovations shapes the relationship between its international venturing and ownership advantages positively (Yiu et al., 2007). However, O’Reilly (1989) claims that errors in the process of combining various cultures
in an organization’s melting pot may create the disaster of the loss of innovative employees. This is supported by O’Reilly et al. (1991), which adds innovation as their organizational culture profile (OCP) item in their research.

For developing human resources, enterprise perhaps has some strategies; that is, it may provide on-the-job training or traditional employee training (Mabey, 2008). Why does MNE have to do this? Raison d’être, MNE seeks ways to implement its strategy in order to respond to the external environment. It even struggles to create innovation to attract investors hither and thither (Dunning, 2001). Therefore, to survive in a long-term, establishing brand-new process and thinking in manufacturing product or providing service is necessary (Adair, 2007; Hitt et al., 2005). Then, the innovation cultivation in enterprise can discriminate the innovative enterprise from traditional enterprises (Institute for Management Development, 2014). Finally, the innovative enterprise emerges by creating an operational strategy (Hitt et al., 2005) and passing on the culture of the enterprise via its employees (O’Reilly, 1989).

During the past years, there are evidences of innovative MNEs in Asia. What then are the main factors that drive Asian MNEs to be so innovative? A report by Professor Dr. Joseph Straus (1997: v-ix) explains by saying that:

- There is no universal patent law for all European Union (EU) countries. That is, some law works in certain EU countries, but some law does not.
- Since the patent law in EU is not universal, this policy obstructs the EU from innovation. The ones who suffer most are EU small and medium-sized enterprises (SMEs). EU does not even provide for a reduction in patent fees for EU SMEs, while the US provides a 50 percent reduction.
- Japan and US parent laws are more unified than the EU’s patent law.
- The amount of patent annual renewal fees is much higher in the EU than in the US.
- The EU’s innovative industries like IT are affected the most due to strict rules.

Figure 2 illustrates the concept of patent law found in the EU, Japan, and the US based on Straus’s (1997).

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Fig 2. Concept of Patent Law in EU, Japan, and the USA
Ergo, we propose that:

**Proposition 1:** Organizational culture in MNEs affects MNEs’ innovation.

### 2.3. MNE’s Organizational Culture and Business Competitiveness

There are so many ways to exploit the MNE’s advantages. MNEs in occidental world have one way to exploit this advantage by using knowledge transfer via their business operation in ex-Soviet host countries (Oviatt and McDougall, 1994). This results in more consolidated knowledge (Yiu et al., 2007) and robust business competitiveness. Notwithstanding, what is the proper definition of business competitiveness? Business competitiveness is the enterprise’s ability to outperform in multinational market (Hernández, 2007) and to build sustainable value (such as enterprise’s profitability and enterprise’s growth) in the long-run (Institute for Management Development, 2014). Long time ago, when accumulating information about multinational markets, MNEs encountered the headache problems of cultural differences, language barrier, sluggish communication, and even the ineffective transportation routes between countries (Oviatt and McDougall, 1994). They even had to try so hard to penetrate target market in the same country even though those MNEs located in different host countries (Hymer, 1976). For example, Honda and Toyota had to consider the competencies of Taiwan and Thailand, when choosing a site for producing motorcycles to serve Asian markets (Dunning, 2001). These problems certainly obstruct the MNEs’ business competitiveness. Nowadays, in contrast, enterprises gain business competitiveness by accessing information more quickly via information technology (Viviers et al., 2005).

However, even though information technology makes MNEs borderless, these international firms still emphasize a relatively small scale of areas (Dunning and Wymbs, 2001). For example, Nestlé, a Swiss MNE, does not relocate its main headquarters to foreign country, even though the majority of its assets and sales are outside Switzerland (Steiner and Steiner, 2003). Perhaps, the decision whether or not to expand or not is also based on the culture of MNE. Some MNEs prefer to occupy less space but employ more business competitive and productive environments. This correspond with an article by Porter (2005), who mentioned that business competitiveness lies in its productivity; in which human resources, capital, and other resources can produce without considering lowering wages. As a result, since behavioral and learning adaptability is consonant with environment and organizational structure (Hannan and Freeman, 1977), organizations that fail to adjust their culture to that of the external world will perform poorly (Gómez-Mejía et al., 2010) or even be moved out of the business in this dynamics world of business competitiveness (Hult, 2011). Therefore, it is a task for enterprises to widen business prospect by using its own business competitiveness (Viviers et al., 2005). This fact is supported by a work of O’Reilly et al. (1991), which adds business competitiveness as their organizational culture profile (OCP) item in their research. Another clue is a work of Barney (1986) which observes business competitiveness in world-class MNEs such as HP, IBM, McDonald’s, and P&G. He reports that MNEs that do not exhibit strong culture will face less competitiveness (theirs products will be perfectly imitable). Therefore, the author proposes that:

**Proposition 2:** Organizational culture in MNEs affects to MNEs’ business competitiveness.

### 3. Research Method

#### 3.1. Systematic Review

A systematic review is adopted in research methodology due to the recent popularity and usage in various fields in both science and social science, such as dentistry (e.g. Baker, 2013; Sharif et al., 2013), marketing (e.g. Chan, 2012), medicine (e.g. Hemingway and Brereton, 2009; Mickenautsch, 2012; Shea et al., 2007), and pharmaceuticals (e.g. Zalesak, 2014). In order to increase the validity of the research, hand-searching is preceded inclusively by the selection of journal articles that must be high-quality articles (such as journals in Academy of Management Review – [AMR], International Journal of the Economics of Business – [IJEB], Journal of Business Ethics – [JBE], and Journal of International Business Studies – [JIBS]), journals indexed in the Social Science Citation Index (SSCI) with impact factor, or world-class university websites. This exclusion criterion process excludes low-quality journals/articles that may spoil the analysis (Hemingway and Brereton, 2009; Library Services, 2014). Journal articles were searched through an academic database (EBSCO) according to various terms regardless of the publication year. Notwithstanding, grey literature from the academic institutional website is also included in reviews in order to avoid a
file drawer problem (Library Services, 2014). Search terms (e.g. multinational enterprise, theory, organizational culture, business competitiveness, and innovation) were used. However, the term “organizational climate” was excluded from the study since it is not the same concept with organizational culture (Denison, 1996). Consequently, 35 screened documents were categorized based on publisher and source and were reviewed again. To increase the reliability of the research, unrelated journals that mismatched the theme were then removed from the analysis. Figure 3 shows the process of systematic reviews.

3.2. Analysis and Discussion

The analysis from systematic reviews reveal that four reasons why a multinational operation emerges: (1) there are many multinational enterprises from different countries in the same market; (2) some multinational enterprises have more advantages than the oppositions; (3) there is reciprocation between two multinational enterprises in two different countries; and (4) the enterprises are too small, thus there is no operation (Hymer, 1976). This report harmonizes with the work of Oviatt and McDougall (1994), who mention the necessity of conducting business internationally because: (1) there may be international experts that can assist enterprises, which will certainly affect enterprises’ flexibility, cost, and quality positively; and (2) enterprises can emphasize the most important fundamental resource which can lead to competitive advantage. Based on size, sector, international strategy, and country, MNE will differ from other organizations in management development practice and policy (Mabey, 2008). As a result, MNEs’ expatriate managers, especially in developing countries, should be responsible and understanding in terms of the host country’s economic system and cultural differences (Berger et al., 2011). They need to analyze the organizational culture norms and apply the proper norms to the organization (O’Reilly, 1989).

Ipso facto, there are two types of organizational culture that play a significant role in multinational enterprises: Individualistic organizational culture and collectivistic organizational culture. Based on the systematic reviews, regardless of organizational types, employees in MNE show interest in innovation (O’Reilly et al., 1991). This supports the first proposition. Nonetheless, in some circumstances, employees with low personal cooperation who work under individualistic organization culture will behave least cooperatively, and employees with high personal cooperation who work in a collectivistic organizational culture will behave most cooperatively (Chatman and Barsade, 1995). On the other hand, Chatman et al. (1998) reported that, in some cases, employees who differ from their colleagues demographically (which is common in MNEs) will regularly interact with their colleagues when working together in collective organizational cultures. They also claimed that employees who are not different from their colleagues demographically will regularly interact with their colleagues when working together in any kind of organizational culture. As a result, if an MNE’s organizational culture is precisely unique, this culture can thus facilitate MNE business competitiveness (Barney, 1986). Therefore, the finding supports the second proposition and is congruent with Viviers et al. (2005), who mentioned that MNE managers tend to be more adaptive with competitive
instrument when compared to managers in traditional organizations. A work by Mabey (2008) also mentioned that managers with Spanish background tend to devote on personal relationship with subordinates. That is, the multinationality makes people and things get closer. In fact, if an MNE can develop its employees (as valuable human resources) by using its strong culture, as an enormously superior resource over other enterprises, this can positively affect the adoption of corporate social-responsibility management (Peng and Lin, 2008). This supports the assertion by Wu and Lin (2013) that an enterprise’s organizational culture emphasizes code of conduct.

4. Conclusion

Today, MNEs are emerging everywhere, regardless of the location in which that MNE exists. In some countries, some MNEs are overwhelmingly monitored by multinational managers, but some MNEs are overwhelmingly monitored by host country employees (Hymer, 1976). Some MNEs set headquarters as a main decision-maker (such as Nestlé), some MNEs set foreign branch in host country as main decision-maker (Steiner and Steiner, 2003). As a result, this phenomenon unavoidably escalates among a number of employees. The problem arises regarding how MNEs pass on their culture to their employees and uses this culture to strengthen MNEs’ innovation and business competitiveness. MNE that can pass on the culture of innovation can thus be diversified to gain unearthed revenue (Institute for Management Development, 2014). Notwithstanding, this is difficult for managers to educate new employees how to fit culture; especially, new employees who try to seek general agreement during the downturn in company – this group of people needs organizational culture to ensure the mutual understanding among organizational departments (O’Reilly et al., 1989). Another challenge is that, it will be harsh for managers to balance the human resource management practice among different MNEs in countries it operates (Mabey, 2008). Indian employees, culturally, use hands eating curry in company canteen while employees somewhere else in Europe may not, could be a good sample for this challenge. However, it will be solely depended on MNEs in that host countries whether they will follow the policy from headquarters to deal with this circumstance or not (Mabey, 2008). In addition, employees’ organizational fit is related to employees’ tendency to stay with firm, job satisfaction, and job commitment (O’Reilly et al., 1991). Once the longer the employees stay with the MNE, the stronger the MNE’s organizational culture will be. The engagement of employees in enterprise can certainly attract the future talent employees (Institute for Management Development, 2014), reduce the absenteeism, and thence increase MNE’s business competitiveness. This circumstance supported by a work by Barney (1986), which mentioned that MNEs with precisely unique organizational culture should maintain this culture, since those enterprises that fail to have a unique organizational culture will not have the chance to gain business competitiveness.

There are some limitations in this study. Firstly, these systematic reviews concentrate on English documents only. Secondly, the results from these systematic reviews are not, perhaps, fit to all contexts/societies. Thirdly, there too many measures that can be included in the analysis (e.g. O’Reilly, 1989; O’Reilly et al., 1991; and Chatman et al., 1998). Fourthly, the papers reviewed, even though repeatedly screened, still do not show enough of a robust relationship between MNEs’ organization and business competitiveness. Finally, for future research, scholars should, if plausible, study foreign documents in reviews in order to increase the plausibility of generalization. Previous research, for example, Oviatt and McDougall (1994) mentioned that an enterprise, before becoming an MNE, should evolve itself to be a big enterprise; and Dunning and Wymb (2001) claimed that relative small enterprise tends to generate compromising innovation. From this evidence, is it plausible that evolving enterprise will become less innovative? So, future authors should examine how the organizational size (big and small) affects to innovation and business competitiveness activity in MNEs by conducting qualitative and quantitative research such as case study research and questionnaire survey to find the appropriate number of measures to be used and to increase the robustness in research.

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