Chapter 10

Corporate Culture as Coordination Mechanism

The concept of corporate culture gained attention in international management practice and research from the late 1970s. It was particularly the success of Japanese companies with their different management style that brought awareness to the so-called "soft factors" that were strongly contributing to companies’ success. In this Chapter, the phenomenon of corporate culture is explained, its contribution to the coordination of a MNC is described and the development of corporate culture is discussed.

Introduction

While the traditional model of the MNC primarily focused on coordination by formal (or so-called bureaucratic) mechanisms, where the performance and the behaviour of managers of foreign subsidiaries is tightly controlled and supervised, modern network-oriented models of the MNC propose the use of "normative integration" as the dominant coordination mechanism. Here, coordination is mainly provided by a broad organisation-wide culture. The employees and managers of the MNC accept and adopt the values and objectives of the company and, thus, act in accordance with them (Birkinshaw/Morrison 1995, p. 738).

Normative integration (also called socialisation) refers to building a strong organisational culture or corporate culture of known and shared strategic objectives and values (Egelhoff 1984). Corporate culture can be defined as "a pattern of shared basic assumptions that was learned by a group as it solved its problems of external adaptation and internal integration, that has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to those problems" (Schein 2004, p. 17).

When considering corporate culture as a coordination mechanism, the focus is on the power of culture to shape behaviour and on the active and conscious socialisation of members of the organisation, in particular the managers of the HQ and the foreign subsidiaries, in a system of joint values, objectives and perspectives (Birkinshaw/Morrison 1995, p. 738). Coordination by normative integration refers to the situation where functional behaviours and rules for determining them were learned and internalised by individuals thereby obviating the need for procedures, hierarchical orders, and sur-
veillance. These formal mechanisms become less required because individuals chose to do what the hierarchy would have ordered or what was prescribed by the procedures (Edström/Galbraith 1977, p. 251).

Corporate culture is a particularly important organisational attribute for companies operating in an international environment (Bartlett/Ghoshal/Beamish 2008, p. 345). First, the employees come from a variety of different national and cultural backgrounds. Thus, management cannot assume that they will all automatically share common values and relate to common norms. Second, since subsidiaries and HQ management are separated by large distances, formal coordination mechanisms are often limited in their effectiveness. Therefore, shared values might be a more powerful coordination tool.

Levels of Corporate Culture

As with all cultural phenomena (see also Chapter 7 on country culture), most scholars emphasise that corporate culture has different levels. While the well-known model by Schein includes three levels of culture (see Figure 7.1), most authors distinguish only two levels (Sackmann 2006, pp. 26-27; Kutschker/Schmid 2008, p. 673):

- On the surface there is the level of visible artifacts which include all cultural phenomena that are easily perceived and can be empirically observed. It is also called the percepta level. The main manifestations of culture are the behaviour of the organisation’s members and symbols. Material symbols include the buildings of the company, the interior design, the work places, the dress-code, etc. Interactional symbols include traditions, customs, rites and rituals as well as taboos, etc. Verbal symbols include the company’s specific language, stories, myths, slogans, etc. (Schmid 1996, pp. 145-151).

- More profound is the underlying foundation of corporate culture, its real cultural core. This level of concepta includes the basic assumptions, values, norms and attitudes that are prevailing in the organisation.

Several components of the core of the culture can be distinguished (Muijen 1998, pp. 113-132; Kutschker/Schmid 2008, pp. 686-687).

Basic assumptions are the deepest level of a corporate culture. They refer to general and abstract basic beliefs about reality, humans, society, etc. Usually, these basic assumptions are unconscious and become taken for granted. “In fact, if a basic assumption comes to be strongly held in a group, members will find behaviour based on any other premise inconceivable” (Schein 2004, p. 31).