Cultural Awareness in the Performance of Engineering (CAPE)

A Working Paper of a Proposed Multidisciplinary and a Multinational Study of Challenges of the Internationalization Process of Finnish Machinery Construction Industry, concerning esp. Human Resource Management, Applied ICT Management and Public Stakeholders Management in the Asian Culture Context

Abstract:

The key target of Cultural Awareness in the Performance of Engineering (CAPE) project is to collect data basis of Asian business cultural environment in order to build a road map towards internationalization for the Finnish machinery construction industry. This multidisciplinary and multinational study analyzes the appearing challenges of business environments in China, India, South Korea and Vietnam by interviewing the Finnish and local business management and authorities concerning esp. human resource management, applied ICT management and public stakeholders management. There is in many cases an existing gap of cultural awareness between Western esp. Finnish businessmen and local personnel causing poor effectiveness in subsidiary's production or culminating into other conflict situations. The differences between Western and Asian culture can formulate a rich basement for innovations and work delivery, if the company management has enough cultural awareness to recognize its possibilities in management. Best practices are collected for a handbook.

1. Theoretical background of multicultural management

1.1. Classification of cultural dimensions

Culture is a difficult notion for research. The problem is not lack of definition but difficulties in operationalization. Kluckhohn and Kroeber (1961) listed more than 164 different definitions for culture. The problem of definition in cross-cultural research stems from two different but interrelated issues: its complexity as a concept and lack of general agreement on scientific paradigms among researchers. In other words, culture resists operational definition, not only because it is a fuzzy and complex concept, but also because there is no commonly accepted language to describe it.

The research of leadership in multicultural environments has mostly concentrated on dimension-based approach to comparing and classifying cultures. Classifying business environment and leadership related phenomena either to universal or culturally contingent has been a typical starting point. (Dickson et al. 2003) Earlier research in the field can be criticized for narrow scope, for example concentrating only on expatriate skills or comparing only two cultures. The current multinational environment is much more complex though: the cross-national interaction occurs with customers as well as in sourcing and manufacturing units abroad, the cultural environment can differ also inside a nation and is evolving all the time, and the environment for multicultural leadership can also be partly virtual (e.g. Dickson et al. 2003; Tung 2008)

Despite the fact that a growing number of textbooks and managerial manuals are focusing on leadership in multicultural environments (see e.g. Thomas & Inkson, 2004; Steers &

Nardon, 2005; Mobley & Weldon, 2006), the majority of them are still written from the point of view of American corporations and leaders. However, Finnish culture and leaders with Finnish background have unique characteristics, which can strongly shape the challenges and special competence needs in multicultural environments.

For example, Finland has traditionally been culturally quite homogeneous society and not so used to multicultural settings compared for example to Sweden. It is said for example that Finns get a good scores on technology and talent, but not in tolerance (Bhose, Savaspuro et al. 2005).

At least few years back, most of the Finnish project managers in multicultural settings applied ethnocentric leadership style, which is characterized by cultural blindness, ethnocentric attitudes, task-orientation and disintegration (Mäkilouko 2004, 391). Synergy style relying on personal, informal, relationships and cultural empathy as well as polycentric leadership style, which emphasizes manager's role as an integrator and team planner, were clearly more uncommon among Finnish project managers in multicultural settings (Mäkilouko 2004, 391-392). These features of Finnish business culture are also reflected in attitudes towards sourcing abroad.

The challenge to deal effectively with culturally diverse group of personnel doesn't cause only operational, daily problems to project leaders or expatriates. Instead, the management of global networks and diverse multicultural interactions is on the strategic agenda while striving for flexible production and sourcing concepts.

Leadership and human resources management issues form often bottlenecks in multicultural business environments. Several case examples indicate that the cultural competences, not only the technical aspects and contracts, can have a decisive effect on Finnish success in multinational network relations for example in Arab cultures (e.g. Kankare 2004.) Also is said the Japanese origin lean manner of production culture will never be able to get totally applied by the Westerns due its Zen-Buddhism origins and the purpose of completeness in the performance itself (Kouri, 2009).

In recent years however, internationalization and, as a consequence, also multicultural environments have become more common in Finnish companies. In 2007 in Finnish technology industries, the number of employees outside Finland exceeded for the first time the number of employees in Finland and other industries are expected to follow this trend (Lukkari 2009).

1.2. *Stakeholder management in multicultural setting*

The stakeholder management perspective was developed in the 1980s in the purpose of identifying and modeling the stakeholders of a corporation and providing methods by which management can give due regard to the interests of those stakeholders. The stakeholder view integrates business activities with a socio-political level (Freeman 1984; Freeman & McVea 2001; Lamb, L.F. & McKee; K.B. 2009). Stakeholder theory focuses on strategic management through constituent-centered analysis. It is argued that

organizations adopting stakeholder management principles are able to satisfy constituent needs and balance their claims, and, therefore, be likely to achieve their goals over the long term (Friedman & Mason 2005).

The most profitable companies have strong relationships with stakeholder groups. In today's competitive business environment, stakeholder management is decisive in creating preconditions for successful business. Building better relations with primary stakeholders like employees, customers, suppliers, and communities could lead to increased shareholder wealth by helping firms develop intangible, valuable assets which can be sources of competitive advantage (Hillman & Keim 2001).

Broadly, stakeholders can be defined as constituents who can affect or be affected by the achievement of organizational objectives. Freeman (1984) identified seven broad stakeholder categories: owners, employees, suppliers, customers, the financial community, activist groups, and the government. In the literature further attempts have been made to differentiate between various stakeholder groups, e.g., between internal and external stakeholders, and primary and secondary stakeholders (Cleland 1998). However, the interests of category members cannot be assumed to be homogenous as, on any particular issue, there may be differences based upon objectives, circumstances, and group-specific attributes. This requires more segmentation-oriented approach to stakeholder analysis (e.g. Wolfe & Putler 2002). In all, a proper delineation of the stakeholder environment requires a more refined assessment than the categories recommended by Freeman. For example, Mitchell, Agle, and Wood (1997) proposed a

model that both delineated stakeholders and assessed their importance through identifying the presence of power, legitimacy, and urgency (Friedman & Mason 2005).

Stakeholders can be prioritized through a four-step process: (a) identifying all potential stakeholders according to their relationship to the organization, (b) prioritizing stakeholders by attributes, (c) prioritizing stakeholders by relationship to the situation, and (d) prioritizing the publics according to the communication strategy. At the heart of stakeholder theory is the question of how much attention does each stakeholder group deserve or require (Rawlins 2006).

In today's world any commercial transaction, public service activity or project has a number of stakeholders that are important to the success of the delivery of the product or service or to the accomplishment of the project. Communicating to external audiences is now a key skill for many managers, including engineers and more technical professions. A special role of stakeholder management is given in project management.

This is particularly relevant in large and complex developments, undertaken as joint ventures. Often projects are extremely sensitive to actions and decisions taken by key stakeholders, be they clients, end users, contractors, consultants, labor unions, public authorities, financial institutions, insurance companies, controlling organizations, media, third parties, competitors, or local communities (Karlsen 2002). Another evidence for the importance of this perspective comes from the problems encountered in public-private partnership (PPP) initiatives around the world. Stakeholder opposition has been reported

as the main reason for failure in several instances. Capturing and addressing of stakeholder inputs seems to be crucial to the success of PPP projects (El-Gohary et al. 2006). This is even more important in multicultural setting in which differences in cultural patterns, governance models and the roles of governments and local communities may be very different from what we are used to in the Finnish context.

1.3. Cultural competence

Studies show that multicultural project teams have a higher potential for success than single-culture teams do, but they also have a higher potential for failure. Even highly data-driven projects need to be carefully managed across cultures because in any project, it's the people, not the technologies, that spell (or dispel) success. Project management across cultures takes more and different management, not less of it (Hudson, V.F. 2007). Cultural differences in project management can be difficult to navigate, but whether or not you agree with the benefits of globalization, its effects will be felt for a long time to come, especially in the engineering industry. Taking the time to understand how culture affects a project and an organization not only makes smart business sense but also makes our everyday work life smoother and easier--the improved flow is priceless. (ibid)

To be able to act effectively and successfully in foreign cultures or in multicultural organizations, it is vital to acknowledge the importance of cultural competence. Thomas (2004) divides the concept of cultural competence in knowledge, mindfulness and behavioural skills. Knowledge comprises information about the concept of culture, the

ways culture affects behaviour and different cultures. Mindfulness means mediating between knowledge and behaviour. It means, for example, paying attention to our own assumptions of different cultures, breaking free of stereotypes and readiness to adjust our opinions of others. Acquiring behavioural skills means extending the set of possible behavioural ways and knowing in which situation and in which culture to use each one. Increasing cultural competence is a continuous process that can take considerable time. A good starting point for increasing cultural competence is offered by different cultural typologies.

One of the most widely accepted cultural typologies has been presented by Hofstede (1980, 2001). He distinguished cultures based on the differences in what they value and found five dimensions: power distance, uncertainty avoidance, individualism-collectivism, masculinity-femininity and long-term orientation.

Trompenaars & Hampden-Turner (1998) have identified seven dimensions by which cultures can be differentiated. Five of these dimensions depict relationships among people: universalism-particularism, individualism-collectivism, specific versus diffuse, neutral versus affective and achievement versus ascription. The other two dimensions are time perspective and relationship with the environment.

House et al (2004) have presented nine dimensions in the GLOBE study of 62 societies, which help to understand the influence of cultural differences on leadership of organizations. These are power distance, uncertainty avoidance, humane orientation,

institutional collectivism, in-group collectivism, assertiveness, gender egalitarianism, future orientation and performance orientation.

The advantage of these models lies in their power to make sense of different cultures even if one does not have first hand experience of a specific culture. However, the risk arises, that the models tend to simplify different cultures too much. For example, when we consider a country like India with many languages and castes, it becomes evident that there is not a single homogenous Indian culture. According Jacob (2005) most countries are culturally heterogeneous consisting of several sub-cultures, which diminishes the value of cultural typologies describing whole nations. Instead of force-fitting countries in different classes, Jacob suggests the concept of crossvergence, which means "fusing together management practices of two or more cultures, so that a practice relevant to a heterogeneous culture can be assembled". As Jacob (2005) states, the success of cross-cultural managers is not defined by their knowledge of different culture typologies or ability to classify cultures, but more in their ability to find out, what kind of leadership behaviour best fits the culture and their ability to develop their own managerial skills according to that. More generally speaking, Fontaine (2007) gives two general focus areas for management in terms of cross-cultural management: understanding the past of the culture and shaping the future culture. As important as it is to understand the past of the culture, as we have seen in the number of studies concentrating on that, the more important it is to find ways to shape the future.

1.4. The concept of ecoshock

Fontaine (2000) identified three key challenges faced on international assignments in contexts ranging from international business to diplomacy to foreign study. The first challenge is coping with ecoshock or the physiological, psychological, and social reaction to new assignment ecology. While the more common term culture shock captures the reaction to a new culture or cultures, an assignment to a foreign land can involve encounters with new climates, topographies, urban/rural environments, and problems communicating back home, lack of social and organizational support, and lack of activity structure, new or different technologies, and so forth. Cultural novelty, then, may or may not be the most significant contributor to the ecoshock reaction.

The second challenge is developing effective task completion strategies and skills appropriate to the new ecology. This can include dealing effectively with cultural diversity, but often requires dealing with other dimensions of novelty or change, as well. The third challenge is maintaining the motivation to continue in spite of frustration, fatigue, ecoshock, and lower than anticipated performance, or failure. Evidence indicates that adjustment, performance, and satisfaction on an assignment are related to the degree to which these challenges are dealt with successfully (Fontaine, 2000). Over the last couple dozen years issues associated with the first two challenges have been receiving significant attention in theory, research and intervention (e.g., Casmir, 1999; Dunbar, 1992; Barley & Gibson; 2002; Hofstede, 1991; Landis & Bhagat, 1996; Landis, Bennett & Bennett, 2004; Mendenhall, Kuhlmann & Stahl, 2001 ; Trompenaars & Hampden-Turner, 1998).

The third challenge, however, has as yet received limited attention though it may be most critical. As Baruch (2002, p. 40) stresses "motivation and receptiveness to different cultures is far more important than any arbitrary formula for identifying a global manager" and has suggested a "push-pull" model including motives based on economic, legal, cultural, family, and other motives. Maintaining motivation is critical because of its probable relationship to both assignment and career satisfaction and to dealing effectively with the first two challenges. The most significant "skill" for coping with ecoshock or culture shock is often the patience to allow the mind, body and relationships to adjust to the new ecology. That adjustment might take weeks, months, or even years depending on the significance of the differences encountered and other factors.

Assignees need to be motivated to stick with the assignment long enough for that adjustment to occur. Likewise, when choosing a strategy for completing tasks in their own culture participants can typically select from a relatively narrow range of options with which they have well-developed skills. When dealing with new cultures in new ecologies, however, selections might need to be made from a much broader range of alternatives or new strategies might need to be created. They may or may not initially have the skills to support these strategies. Optimal effectiveness in such situations requires learning or developing third cultures or international microcultures (IMCs), shared perceptions among the culturally diverse task participants on how to get things done (Casmir, 1999; Fontaine, 2000; Lane, 2001; Macharzina, Oesterle & Brodel, 2001). This process takes time and practice and is often associated with frustration and failure.

Again, participants need to be motivated to stick with it long enough to have an opportunity to succeed.

2. Methodology and its challenges in cross-cultural research

2.1. Cultural factors as a tool of international management

Globalization of business has highlighted the need to understand the management of organizations that span different nations and cultures. In these multinational and so called trans-cultural organizations, there is a growing need to utilize information and communication technology (ICT) to achieve efficiencies, coordination, and communication. However, cultural differences between countries may have an impact on the effectiveness and efficiency of IT deployment. Despite its importance, the effect of cultural factors has received limited attention from information systems (IS) researchers (Karahanna et al 2002).

According to Karahanna et al (2002) one characteristic that typifies cross-cultural studies is their comparative nature, i.e., they involve a comparison across two or more separate cultures on a phenomenon. Observed differences across cultures give rise to many alternative explanations. Particularly when results are different than expected (for example no statistical significance, factor analysis items do not load as expected, or reliability assessment is low), researchers may question whether results are true differences due to culture or merely measurement artifacts (Mullen, 1995).

Social constructivist perspective views reality as a social construction which cannot be independent of us as its observers. Constructivist view even claims that cultures and cultural differences only exist when people become aware of them in social interaction (Vaara, 2000). Culture should be considered as a construction of actors which underlines the importance of managerial issues and perceptions in dealing with cultural differences. The discussion permits us to view culture and cultural differences as mental constructions that can be managed and exploited.

2.2. Data of Foreign Investments of the Finnish Machinery Construction Industry

According the statistics of Finland's Bank and the Confederation of Finnish Industries the most active business areas in foreign investments in Finland have been the business areas of paper, technology and chemical industries (Elinkeinoelämän keskusliitto EK Investointiedustelu helmikuu 2009). About 60 % of foreign investments were 2008 invested into other European Union countries. The second largest target area of Finnish foreign industrial investments was Asia, about 17 % of total monetary volume. The following targets were North America and Russia, both of them 9 % of total.

Technology industry of Finland has proportionally the largest number of industrial workers (45 % of all industrial workers) operating abroad in the foreign subsidiaries.

The more staff the Finnish industry has abroad, the more important role will get the human resource management. The Finnish industrial companies have increased their sourcing, assembly and marketing operations into Asian countries. In most cases is common to concentrate into technical machinery and its outcome, instead of any cultural and administrative factors. Human resource management plays a minor role in e.g. recruitment, if there is any role at all left for it. Another important task is to develop a co-operational relationship with the local, province or central authorities.

3. *Some anticipated cultural aspects in different Asian Countries*

Finnish companies do not invest for the same reasons for all Asian countries. Some countries are more popular for sourcing purposes where as others are interesting for marketing objectives. For example China and India are popular countries for off shoring coding or for producing electronic devises, because there are lots of cheap work force. However, developed countries, like South Korea, are important market areas for Finnish companies. Thus, they have interest to establish marketing or R&D department there. Vietnam has rose interest both due its cost competitive salary level and growing markets of young and large population.

In the case of South Korea the research interest is in the rapid development of the society. In the 1960's to 1980's South Korea based its industrial development on large amount of low-cost labor in the same way that many other Asian countries do today (Tcha 1998, Doe1997). However, in the 1980's South Korean workers started to revolt for better working conditions and higher salary. Since then wealth and living standards of South

Korean people have been rising and work force in South Korea is nowadays much more expensive than in many other Asian countries. Thus, South Korean companies are sourcing their manufacturing and coding to less developed Asian countries, like China (Tcha 1998). In order to better understand future of other Asian countries it would be important to study the development of South Korea. In addition it would be interesting to study what kind of marketing opportunities South Korea offers for Finnish companies.

The results of pre-study conducted in Shanghai 2007 and 2008-2009 (Ahoniemi & Radke 2007) showed the major challenges in sourcing in China. The key challenges among Western management were concerning the quality of delivered products and lateness of deliveries. Some raw materials could have been changed into cheaper ones. On the other hand, there were certain challenges to find a suitable producer in general, because of small serials the Finnish companies were interested in. Most of the Chinese producers were more interested in car industry due its large number of equal components needed.

By utilizing some awareness of the Chinese cultural aspects there might be found some explanations. Firstly; many of small and medium size Chinese companies are family owned with the Confucian values and principles of behavior. Confucian society stressed the virtues of self-discipline, hard work, diligence and frugality. (Steers, 2005) At least the last topic can partly explain the interest to change into more cost efficient component materials, if it was not strongly pointed out in product specification. In China the need to get food and the needed basic equipment for all the 1.3 billion citizens is enormous. Chinese companies are mostly oriented to produce mass production and large volume

orders than small series. Of one the key topics is a continually on-going claiming of copying and violating the foreign IP-rights. This is none of arguing in the mentioned discussion, but in Chinese school systems the students are taught to follow their lecturer strictly. There is a huge difference between the British origin school system of India and traditional Chinese school system.

The young, more educated and more overseas experienced Chinese managers have done a lot of evaluation in management as well in their personal life. It can be described as a blend of old and new, East and West (Steers, 2005). There are some major changes also in business manners, alike belief in change and innovation; seeking quick return on investments, and emphasis on strategic behavior and good education. According the younger generation there is a belief that older managers are too traditional, slow, and backward-looking. – These factors fit totally to the centric observations in pre-study to understand the extreme speed of development in the largest cities in China, esp. in Shanghai.

In general, the more awareness and culture understanding you have, the easier it can be to understand local values and also to avoid at least some key mistakes in human resource management and business environment.

4. Conclusion: A target setting and phases of CAPE project

The key target of CAPE project is to collect a data basis of Asian business cultural environment and build a road map towards internationalization for the Finnish machinery construction industry. There is in many cases an existing gap of cultural awareness between western esp. Finnish businessmen and local personnel. The gap can cause poor effectiveness in subsidiary's production or culminate into another conflict situations. The differences between Western and Asian culture can formulate a rich basement for innovations and work delivery, if the company management has cultural awareness to recognize its possibilities in management.

The studied countries in CAPE project are India, China, South Korea and Vietnam. As one expected result of the study can be mentioned the documented so-called silence information of the experts, who have stayed for a long time in their foreign location. In the phase one, the information data basis is collected in interviews by the Finnish and the local Asian researchers. In the phase two the case studies are conducted in 6 or 7 companies operating in different parts of research target areas. In case companies the interview circle of personnel is wider and lasting longer in history and also into their network partners in order to understand the operational framework and background of studied cases.

One of the end results in the phase three will be a Finnish written book or a serial of articles by the researchers of the interviewed personnel in the project target countries. The focus of a handbook or an article serial is to describe the opportunities but also the bottlenecks of Asian business cultures for the Finnish speaking business audience. All the

personal or company information of the interviewed managers and workers will be carefully hidden. The purpose is to publish practical modern information of Asian business culture and its challenges and possibilities, neither to collect either a serial of ceremony speeches nor to offer any prejudiced or commercial information.

The ultimate purpose of the research plan is to give realistic and practical know-how about business success – or as well failure – stories in order to wake up the Finnish industrial managers to start at least to think about either sourcing in Asian countries or widening there the market areas of Finnish end products and components.

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