

# Dominant challenges faced by psa psa peugeot citroën group essay sample

[Art & Culture](#)



**ASSIGN  
BUSTER**

Globalisation, defined as the process of increasing integration and interdependence between countries and societies through the movement of people, goods, service, information and communication, such that events occurred in a part of the world will affect the others (Baylis, Smith & Owens 2008; Fischer 2003; Hill, Wee & Udayasankar 2012; Robins 2000) and is linked with the theory of modernisation (Modelski 1972 and Morse 1976). To date, globalisation has itself, become a complex and in-depth subject with many different and contrasting perspectives, numerous facets of problems, challenges and relating discussions.

Fischer (2003) suggested its origins started before 1914, mainly for economic purposes. In microeconomics, Hubbard et al. (2009) explained the need for globalisation with the theory of specialisation and gains from trade between countries, where it is a win-win situation. They went on further, elaborating that globalisation was hindered by the two world wars and great depression, after which, contemporary globalisation started developing from 1980s, when low-income and developing countries realised that their high-tariffs and restricted foreign investment policies have failed miserably. Investments, exchange of capital flows and etc., took stage (Griffin & Pustay 2013). This presented an excellent opportunity for business entities, especially enterprises, where the top management are hired with the main purpose of generating profits for their stakeholders by increasing its profitability and rate of profit growth overtime (Hill, Wee & Udayasankar 2012).

In other words, companies are constantly confronted by costs and need to formulate strategies in which profits are continually maximised through <https://assignbuster.com/dominant-challenges-faced-by-psa-psa-peugeot-citron-group-essay-sample/>

squeezing their bottom-line and increasing earnings. Additionally, restrictions of laws and regulations and problems such as stiff competition and saturated markets hinder growth within their home economies (Bianchi & Ostale 2006). When emerging markets became more open, firms from developed economies rushed to invest, taking advantage of factors in weak host-country businesses, further and substantial growth rates, low-cost materials and labour, seeking possible talents, enjoying tax exemptions, relaxed laws and regulatory reliefs (Bianchi & Ostale 2006; Kao 2009). They set up trans-border productions (global factories), creating the term Multinational Enterprise (MNE) (Hill, Wee & Udayasankar 2012).

Countless examples can be drawn to cite overwhelming successes of MNEs. Well-succeeded firms grew huge, generating stunning profits while creating a long list of benefits for their host countries. It is, however, also a double-edged sword as their wealth and power could threaten nation sovereignties through their undesirable interactions with their external networks and cultural influence in host countries (Baylis, Smith & Owens 2008; Hill, Wee & Udayasankar 2012). Problems surfaced can range from economical to social and to political. Naturally, in business competition, where there's success, there's failure too. Again, innumerable examples could be found that feature and explain a MNE's failure.

This paper seeks to examine one of the dominant challenges faced by MNEs - national culture difference - through the study of the operations and decisions made by PSA Peugeot Citroën Group (PSA), on one of the many countries she has investments in - China. Given PSA's active global

activities, investment in Guangzhou was not the only one that failed but they provided an interesting insight on cultural challenges. First, a brief history of PSA and its global market entries will be introduced. The second section underlines the cultural issues PSA encountered in China with references to various theoretical frameworks. This is followed by existing and proposed solutions on overcoming the problems discussed previously discussed. Finally, conclusions will be drawn in respect to topics discussed.

### PSA Peugeot Citroën Group

PSA (PSA Peugeot Citroën Group 2012) based in Paris, is a transnational automaker with offices in 160 countries, 10, 000 customer contact points and global factories producing automobiles for Peugeot and Citroën. PSA is ranked eighth largest automobile manufacturers worldwide, and second (behind rival Volkswagen Group) in European-based automobile producers (Organisation Internationale des Constructeurs d'Automobiles, 2010).

Celebrating two hundred years of history, Peugeot (2010) hopes to instil consumer confidence in their quality products by highlighting their long glorious line history and milestones, dating back to 15th century where the family business started with farming. Demonstrating elements of a flexible, modern and moral organisation even in their early years, they produced, grew and diversified into various sectors while caring for the society (Peugeot 2010). Proudly emphasising on the fact that they have always been forward-thinking, they displayed social welfare policies as early as 1869 that was said to precede the law by 33 years. Savings bank, insurance, hospitals, free health care, mutual aid, retirement programmes and 10-hour work-shifts

<https://assignbuster.com/dominant-challenges-faced-by-psa-psa-peugeot-citron-group-essay-sample/>

made up these policies (Peugeot), also indicated PSA's care of their staff. The positive image creation value-adds its well-known brand and would be effective in not only talent-retention and winning in the war for talent (Nankervis et al 2011), but also as a moral and favourable actor to emerging markets.

Peugeot's (2010) current mainstream automobile business, which started in 1889, was spear-headed by Armand Peugeot - a man who had foresight on the potentials of the automobile business and dived right into it, producing their own motorcar. 7 years later, Armand Peugeot branched out from the family business empire, establishing Automobiles Peugeot, a firm specializing in manufacturing private cars and trucks. From then on, they grew significantly in expansion and production of automobiles; brand exposure was also increased through participation in rally races, motor shows and winning awards (Peugeot 2010).

When recession hits, no one is spared, not even Peugeot. The company went through a series of ups and downs through the world wars years and numerous crises, and decided that the path to economic recovery was expansion. Regional markets also grew increasingly saturated with competitors. Peugeot formed parent company PSA Peugeot-Citroën after acquiring Citroën in 1976 and their continual success, growth in strength and presence throughout Europe were documented by high sales volume, product range expansion and further acquisitions (Peugeot 2010).

Hungry for more, PSA turned to China in 1985, investing through joint-venture. While over the years, PSA remained successful in its overall

<https://assignbuster.com/dominant-challenges-faced-by-psa-psa-peugeot-citron-group-essay-sample/>

operations, the results in China proved disappointing. Despite Guangzhou's setback, PSA continued in its aggressive investment plans amidst their mainline business of automobile R&D and production in various routes that coincides with investment motivational factors found in Johnson and Turner (2010) - Baxer Van venture in 1994, major shareholding global parts manufacturing in 1997 (Resource-seeking); joint-venture with Rio de Janeiro government on erecting a plant in 1998 (Resource, Market, Efficiency Seeking & Strategic-Asset); 10-million euro project ' Carbon Sink' on environmental awareness by planting 10, 000 trees in Brazil to fight greenhouse effect in 1999; partnerships with Ford and BMW in 2001 and 2002 respectively; working with Mexican Education Department and University of Mexico in building an Automotive Training Centre in 2003, with similar agreements in other countries (Resource, Market, and Efficiency Seeking) and etc. PSA's various investments into the China market increase after Peugeot made a successful re-entry in 2002 (PSA Peugeot Citroën Group 2012; BBC News 2002; Gong 2004).

PSA was also not afraid of confronting failures too, and seek to correct itself after gaining rich experiences in global trading (see previous paragraph). Evident examples are in their re-opening of their Moroccan manufacturing factory in 2001, 6 years after ceased operations, and DPCA (Dong Feng Motors Peugeot- Citroën Automobiles) " re-entering" China with a joint-venture based on Citroën and Dong Feng's preceding agreements (Peugeot 2010), and an re-entry into India by establishing a plant in the their car hub (Kannan 2012).

## China's Auto Industry

The government's interest in developing the Chinese automobile industry began in 1951, establishing Chinese First Auto Works (FAW) to churn out car after car of the same model. Despite its monotony, demand for the goods exploded, from 1654 units in 1956 to 135,000 units in the span of 20 years (Fernandez & Liu 2007)

Its advancements sped up when China open and reform in 1978, and by 1980, China allowed technological development and joint-ventures from foreign industry players.

China, at that time and even now, is not an economy to be ignored as it was market-orientated, and offers cheap resources and hardworking low-cost labour (Griffin & Pustay 2013). Now, forecasts were made on China, predicting that she will overtake America as the biggest economy and will be the size of America and India combined by 2015 (Chung 2011).

## Peugeot's Entry into China

PSA's have done partnerships before, with Renault and Volvo. Therefore, it wasn't a problem on a joint-venture. What was to note here was the previous partnerships PSA made were with European automobile counterparts, whereby similarities in cultures have enabled generally smooth operations. This might lead to the fact that they overlook the issue(s) pertaining to culture differences when they made their attempts at China. PSA's joint-venture case also contradicts Brouters and Brouters (2003) view on firms choosing full-ownership FDI over joint-ventures when dealing with high uncertainty target economies. Peugeot coincidentally adopted Quer, Claver & <https://assignbuster.com/dominant-challenges-faced-by-psa-psa-peugeot-citron-group-essay-sample/>

Rienda (2007) recommendation doing on joint-ventures but later invalidated it by failing.

Clearly, PSA was alert and innovative; being the first few western companies to recognise its potential and take on China. After 4 lengthy years of negotiations, Peugeot entered China in 1985 with a small local carmarker and a 22% share under the agreement with Guangzhou Municipal (Harwit 1997). It was the logical place to begin, where living standards were the highest in country, coupled Hong Kong being nearby and its distance from the watchful eyes of Beijing (Fernandez & Liu 2007). PSA signed a Citroën joint-venture with state-owned enterprise (SOE) Second Automobile Works (SAW), later renamed DongFeng Motors in 1990 (PSA Peugeot Citroën Group 2010). However, GPAC faced setbacks in 1994, with a drastic drop in production units. By 1996, production came to a near halt and the local partner pressured to end the relationship (Fernandez & Liu 2007). Fernandez & Liu (2007) added that the pain was further intensified when fellow rival Volkswagen AG, also on a joint-venture - Shanghai Volkswagen Co. Ltd, boosted impressive results. PSA had no choice but to withdraw in 1997 from Guangzhou market, focusing the remaining Citroën joint-venture.

In their 20-year agreement, Guangzhou Peugeot Automobile (GPAC) will be co-managed by Guangzhou Automobile Company (GAC) and Peugeot, where Peugeot expected to have more say in managerial decisions (Harwit 1997)

Guangzhou Peugeot Automobile Company Ltd (GPAC) started out well, with a GPA working enthusiastically in bridging the differences in between, contributing significantly to the internal management and standardising work

<https://assignbuster.com/dominant-challenges-faced-by-psa-psa-peugeot-citron-group-essay-sample/>



procedures, throwing parties and enhancing staff welfare benefits, sending employees for French and cultural courses; their hard work paid off, and sales volume soared. (Fernandez & Liu 2007). 1992 marked GPAC's peak, where Peugeots were in demand and buyers had to buy the car through guanxi (connections).

### Problems Emerged

Peugeot quickly realised that the workers, formally under GAC were inappropriately-skilled: they had experiences in building trucks and buses, whereas Peugeot's production was on passenger cars and overblew the budget on training its staff in both countries (Harwit 1997).

GPAC also faced restriction on regulations high local-content employment of 90% within the first 5 years and prohibited material sourcing outside of Guangzhou, hence obstructing GPAC from fulfilling their promise on manufacturing parts locally with under-skilled staff and few quality suppliers with to source from (Harwit 1997). The locals faulted Peugeot for its deliberate lack in speed, for selfish gains by selling more parts to GPA, and citing evidence from Peugeot's profits in parts greatly exceeding its investments (4 billion yuan as opposed to 400 million yuan) (Fernandez & Liu 2007). As a result, GPAC was forced to use imported kits which affected costs of production tremendously, especially after French's Franc appreciated twice as much in the late 1980s (Harwit 1997).

Things took a sour turn in 1992 and ended their mutual trust - over the purchase of engine cylinders. The French opt for an import while the Chinese felt that international bidding would be appropriate; a quarrel ensued before

<https://assignbuster.com/dominant-challenges-faced-by-psa-psa-peugeot-citron-group-essay-sample/>

they agreed purchasing from a German firm (Fernandez & Liu 2007). Further Insights were gained over the matter from a survey on GPA staff, where he mentioned the difference in views - local managers' goals were long-termed, aimed at industry expansion and localising whereas Peugeot's goals were short-termed, aimed at generating massive profits quickly by selling technologies, equipment and parts to PGA.

Growth became difficult for the GPAC as they could not lower selling prices with prevailing high costs when main rival Shanghai-Volkswagen managed low costs with local parts joint-venture and increasing local-content employment rate at the same time (Harwit 1997). At this point, GPAC was pressured into using inferior local parts that fell short on international standards to stay afloat in the game (Harwit 1997). More headaches added to the pile of problems as consumer grew increasingly dissatisfied, which was completely understandable - the cars PGCA produced was low on quality, yet expensive, high on fuel consumption and the after-sales service was terrible (Fernandez & Liu 2007). This was coupled with mistakes in introducing cars that were not fit for the China road (Fernandez & Liu 2007). Production rates fell sharply and this was too much for the French carmaker, choosing to exit the Guangzhou market.

### Cultural Differences

Culture is defined a group of people acting on a particular set of values and norms that forms a way of life (Hill, Wee & Udayasankar 2012). Hall (1977), however, sees culture as the connection between people and their methods of communication with each other. He went on further to describe the need

to understand other cultures in order to effectively communicate with parties of another country and broadly classifies all cultures into two main groups - either the High-Context or the Low-Context which could be determined by comparing three main areas: information processing, time orientation and interaction patterns. Differences in cultural behaviour affect proper and effective communication, causing misunderstanding and sometimes could have disastrous effects, as seen in the example above.

#### Path to market entry

Using PSA's case, China is seen as having a high-context group, characterised by their actions in time orientation and information processing areas. PSA and Guangzhou took 4 years to reach an agreement on their joint-venture, which was a relatively long time considering PSA's quick and aggressive investment methods. This groups PSA into the low-context category, where they plan and execute quickly. Guangzhou was deemed as high-context as it seemed that they took a polychronic view to time doing matters carefully and at their own pace.

#### Joint-Ventures

The Chinese employees at the beginning of the co-venture, put in efforts in learning French and its cultures, displaying a classic example Particularism in Trompenaar's (1996) cultural dimension theory. This additional hard work done by the Chinese showed that they are relationship-driven, and wanted to communicate with people through understanding, unlike universalism, who believes only in formalised rules and regulations. This is also confirmed by Chung (2011), who stated that Chinese are 'relationship-people'.

Particularism is also linked with Hall's (1997) high-context cultures, where they believed that relationships are made to build to made last. The Chinese have also traditionally been associated with the values of humbleness, and its willingness follow other people further supports the Chinese being the idea that Chinese generally belonging to the category of Particularism. The French, in contrast, behaved arrogantly as they were reluctant in understanding the Chinese. It could be also described as a form of ethnocentrism, where one think that he/she belongs to a more superior group/culture (Hill, Wee & Udayasankar 2012). Bianchi and Ostale (2006) featured an exact example of proud western (European) attitudes towards the people in the emerging markets and resulted in the lack of preparation against its competitors and having to exit the market. In other words, westerners, who are low-context cultural group, are also Universalists.

### Goals and Interests

In the interview cited by Fernandez & Liu (2007) where a GPA staff spoke on the conflicts of interests on both parties distinctively segregated the French as the group low-context cultures while the Chinese belongs to the high-context culture. The Chinese were interested in the long-term development and local content ratio in the automobile industry, which indicated that they are both a High-context group (Hall, 1997) and Collectivists (Trompenaar 1996) where they think long-term and care for their own country's development. The low-context French are also characterised as Collectivists because of the way they sell their parts to the Chinese, only thinking of generating revenues quickly for the firm in the short-run.

## Communication

In another interview done by Fernandez & Liu (2007), employees of GPA think that the French were strict with work and very forward with their ideas and opinions; the Chinese are however, more reserved and did things without questioning. The actions of the French and Chinese can be explained using Trompenaar's (1996) and Hall's (1997). One of high-context (Hall 1997) traits used by this group of people is the need for a wider range of communication, with other senses, such as sight, sound and body language as most messages are non-verbal. This is also described as being indirect and introverted (Trompenaar 1996), where more than one sense is needed to understand the entire message. Individuals who fall into this category are known to be diffused. For the case of French, were mentioned as being forward and direct coincides with the image of low-context group (Hall 1997) where the messages communicated were explicit. In Trompenaar (1996) they were seen as open and extroverted with the traits of being specific. Due to the French being more outspoken, they controlled the actions of GPAC despite having very minor stake in the partnership.

## Solutions to problems

Varner and Beamer (2005) notes that all MNEs will experience issues relating to culture, especially in mergers and joint-ventures. In order to solve create positivity out of culture diversity, firms must: a) be able to intercultural communicate, understanding the methods and using it to communicate b) Understand the workings of groups that are culturally diversified c) Place a) and b) on corporate strategy.

Intercultural Business Communication Strategy must be included in Business Strategies, Corporate Strategies and Intercultural Strategies (Varner & Beamer 2005)

#### Human Resource Management & Leadership

Jacob (2005) provided an interesting concept by arguing that although to a certain degree that culture plays a role in foreign investments in host countries, it is not the most important factor in succeeding. Leadership, however, is. She went on to explain that everyone behaves differently, even in families. The idea developed was to engage in careful hiring; only engaging people who suit a certain management style or has certain characteristics that could fit into the organisational culture and management style of the leaders. Nankervis et al (2011) suggests that Human Resource could use a variety of methods in selecting suitable employees. Spending a little cost in hiring the right group of people will reduce conflicts at work.

Apart from the above, HR should try to improve cultural literacy by sending employees for trainings on the importance of understanding culture, and methods of communication with specific cultural groups identified by Hall (1997) and Trompenaar (1996).

Human Resource in most ways could chose to be more careful with their hiring - instead of a bilingual worker, hire a bicultural employee might help to reduce friction within the company. It is important to note that a bilingual is different from a bicultural person. Zhang (2011) penned his experience coaching a High-Context group lady, Mary Chen. Mary was hired by a MNE

and resisted in avoidance after communications broke down; Zhang, a bicultural person, was sent in by the company as a coach and mediator.

What Peugeot actually did

In 2002, PSA, learning from experiences and mistakes, concluded that in their quest to succeed, it is better to work with a larger-scale partner, manufacture their latest products and create a flawless network of sales and service, brought Peugeot brand back to re-attempt China markets (BBC News 2002; Gong 2004), before gradually increasing their investment scale. The company report reported positive profits in 2010 (BBC News 2010) To date, Peugeot learned to create a win-win strategic alliance and has contributed massively in their China markets in terms of attracting local capital, co-venturing, creating of jobs, hiring locals, technology and information transfer, increasing industrial output and intensifying competition, and maybe hoping to make people forget its bad reputation in Guangzhou.

The above recommendations could still be made to PSA to better improve cultural understanding and communications. Smoothing out the knicks, and use it as both an asset and comparative advantage when entering new markets.

Conclusion

Globalisation has long been an unavoidable situation due to needs and survival. However, globalisation does not stop as developing markets still exists, providing opportunities for develop markets to invest and growth.

Through Peugeot's failed venture with GPCA, it became clear that these factors include informal and formal barriers. Although formal barriers are important and should be given consideration in forming business strategies (Peng, Wang & Jiang 2008), proper cultural integration helps to drive operations of MNEs smoothly. As the cooperation has people one of the required and most direct resources, examples have taught companies to try to understand and blend into the local cultures. This could be done by using one or more cultural integration methods.

## References

Automobiles Peugeot, 2010, The 200 years book, Automobiles Peugeot, viewed 31st August 2012, < [http://www. peugeot. com/en/200-years-of-history/200-years/the-200-years-book. aspx](http://www.peugeot.com/en/200-years-of-history/200-years/the-200-years-book.aspx)>

Baylis, J, Smith, S, Owens, P, 2008, The Globalisation of World Politics: An Introduction to International Relations, 4th Edition, Oxford University Press, Italy

BBC News, 2002, ' Peugeot returns to China', BBC World News (Business section), viewed 2nd September 2012,

BBC News, 2010, ' Peugeot and China Changan Automotive in joint venture', BBC News (Business section), viewed 2nd September 2012,

BBC News, 2010, ' Peugeot Citroën returns to profit on China demand', BBC News (Business section), viewed 2nd September 2012,

<https://assignbuster.com/dominant-challenges-faced-by-psa-psa-peugeot-citron-group-essay-sample/>



Bianchi, C. C., Ostale, E., 2006, 'Lessons learned from unsuccessful internationalization attempts: Examples of multinationals retailers in Chile', *Journal of Business Research*, vol. 59, no 1, pp 140-147

Brouthers, K. D., Brouthers, L. E., 2001, 'Explaining the national culture distance paradox', *Journal of International Business Studies*, vol. 32, no. 1, pp 179-89

Chung, M., 2011, 'Doing business with China is a necessity, not a choice', *The Conversation*, viewed 3rd September 2012,

Fernandez, J. A., Liu, S. J., 2007, *China CEO: A case guide for business leaders in China*, Johny Wiley & Sons (Asia) Pte Ltd, Singapore

Fischer, S., 2003, 'Globalisation and its Challenges', *The American Economic Review*, vol. 93, no 2, pp. 1-30

Gong, Z. Z., 2004, 'Peugeot rolls back into China', *China Daily*, viewed 3rd September,

Griffin, R W, Pustay M W, 2013, *International Business*, 7th Edition, Pearson Education Limited, England

Hall, E. T., 1977, *Beyond Culture*, Anchor Press / Doubleday, New York

Harwit, E., 1997, 'Guangzhou Peugeot: Portrait of a commercial divorce', *The China Business Review*, vol. 24, no 6, pp. 10-11

Hill, C W L, Wee, C, Udayasankar, K, 2012, *International Business: An Asian Perspective*, McGraw-Hill/Irwin, New York

<https://assignbuster.com/dominant-challenges-faced-by-psa-psa-peugeot-citron-group-essay-sample/>

- Hubbard, R G, Garnett, A M, Lewis, P, O'Brien, A P, 2009, Microeconomics, Pearson Education Australia, China
- Jacob, N, 2005, ' Cross-cultural investigations: emerging concepts', Journal of Organisational Change Management, vol. 18, no 5, pp 514-528
- Johnson, D., and Turner, C., 2010, International Business, 2nd Edition, Routledge, London
- Kannan, S., 2012, " Gujarat state in the fast lane of Indian economy", BBC News (Business section), viewed 2nd September 2012,
- Kao, J., 2009, " Tapping into the World's Innovation Hot Spots", Harvard Business Review, March, pp 1-8
- Modelski, i G, 1972, Principles of World Politics, Free Press, New York
- Morse, E, 1976, Modernization and the Transformation of International Relations, Free Press, New York
- Nankervis, A., Compton, R., Baird, M., Coffey, J., 2011, Human Resource Management: Strategy and Practice, 7th Edition, RR Donnelley Asia Printing Solutions Limited, China
- Organisation Internationale des Constructeurs d'Automobiles, 2010, ' World Ranking of Manufacturers - World Motor Vehicle Production: OICA correspondents survey without double counts', viewed 02/09/2012,

Peng, M. W., Wang, D. YL, Jiang, Y, 2008, ' An institution-based view of international business strategy: a focus on emerging economies', Journal of International Business, vol. 39, no. 5, pp 920-936

PSA Peugeot Citroën Group Media Press Kits, PSA Peugeot Citroën Group Press Kits, PSA Peugeot Citroën Group, viewed 30th August 2012, < <http://www.psa-peugeot-citroen.com/en/press-kits> >

Quer, D., Claver, E., Rienda, L., 2007, ' The impact of country risk and cultural distance on entry mode choice: an integrated approach', Cross Culture Management, An International Journal, vol. 14 no. 1, pp 74-87

Robins, K, 2000, Encountering Globalization in Held, D. and A. McGrewm Eds., The Global Transformations Reader, Polity, Cambridge

Trompenaars, F., 1996, Riding the waves of culture: Understanding cultural diversity in business, Nicholas Brealey Publishing Ltd, London

Varner, I., Beamer, L., 2005, Intercultural Communication in the Global Workplace, 3rd Edition, McGraw-Hill Education (Asia), Singapore

Victoria University, 2011, ' Business Ethics: Look to the East', Victoria University, viewed 3rd September 2012,

Zhang, WJ., 2011, ' The Trouble with Mary Chen', Harvard Business Review Blog Network, viewed 3rd September 2012,