

Influence of culture on multinational companies



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Abstract

This report provides with the evidence for deriving the analysis on the cultural influence on the multinational corporations while dealing with the cross-national markets. On the basis of the world famous cross-cultural expert, Geert Hofstede's elements of culture, the report has been guided for making the proper analysis of the example taken i. e. L'Oreal, which has been taken for supporting the activities performed by the corporation to deal with the cultural differences in various international markets.

This report is commissioned by Rumorama Banking Corporation. The report is intended for internal use only and is specific to the factors regarding the adoption of online banking. The internal use is primarily as a managerial guide to the marketing and commercial targets of Rumorama Banking Corporation.

1. 0 Introduction

Culture

It is the “ set of values, beliefs, rules, and institutions held by a specific group of people”. It is learned and shared by common category people and the elements of culture are interconnected. Group boundaries are well defined by the culture. Each large culture may contain some subcultures having the same context. Culture influences the decision making, impacts the management in strategic activities and also the negotiations.

Ethnocentricity is a belief that one's own culture is universally superior to others. (Hofstede, 1982)

Elements of Culture

Aesthetics – sense of beauty and good taste

Art, color, symbols, music, folklore

Attitudes and beliefs

Time, directness, achievement, work, change

Manners (appropriate behavior) and customs (traditional behaviors)

Education

Literacy, science, math, trades, management

Legal and political system

Secular versus religious

Free or not free

Planned versus laissez-faire

Societal organization

Family structure, in-laws, extended family, divorce

Class mobility

Associations by age, gender, common interests, or otherwise

Language and communication

Verbal and non-verbal

Gestures and body language

Office size and closed versus open doors

Conversational distance

Touching

Protecting traditional languages

2. 0 Background

2. 1 Elements of Culture Observed by Hofstede

- Individualism versus collectivism
- High/low power distance
- High/low uncertainty avoidance
- Desire for achievement/affiliation
- Long/short time horizon

2. 2 Affects of culture on business:

Culture has an impact on nearly all the functions of the management i. e. from finance to marketing to HR to IT. Culture is the major factor which decides whether establishing a business in foreign land will be an easy or difficult task by considering various cultural differences. The work ethics of the business will vary with different country leading to a major change in the work structure.

Need Hierarchy

- Lower-order needs must be fulfilled prior to higher-order needs
- Workers in poor countries motivated by lower-order needs
- People from different countries or cultures may rank needs differently

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5 dimensions of culture are:

Power Distance -Cultures are ranked high or low on this dimensions based on that society's ability to deal with inequalities, power, authority.

Individualism vs. Collectivism -Cultures are ranked on their orientation towards intersocietal relationships:

Individualistic societies: loose ties, individual achievement and freedom - In social orientation the relative importance of the interests of the individual is high in the individualism and the interests of the individual take precedence. And in power orientation the appropriateness of power/authority within organizations is high and in respect of power the authority is inherent in one's position within a hierarchy.

Collectivist societies: tight ties, tend to be more relationship-oriented - In social orientation the relative importance of the interests of the group is low in the collectivism, the interest of the group take precedence and in the power orientation the appropriateness power/authority within organizations is also low, regarding the power tolerance the individuals assess authority in view of its perceived rightness or their own personal interests.

Masculinity vs. Femininity -Cultures view relationship between gender and work role: goal orientation. High (masculine: aggressive goal value material possessions, money, and assertiveness) {goal orientation - What motivates people to achieve different goals} Low (feminine: passive goal - value social relevance quality of life, and the welfare of others

Uncertainty Avoidance – Cultures are ranked on extent that they accept ambiguous situations and tolerate uncertainty: risk issues. Low (uncertainty acceptance) – positive response to change and new opportunities {uncertainty orientation – an emotional response to uncertainty and change} High (uncertainty avoidance) – Prefer structure and a consistent routine

Long Term vs. Short Term orientation

Classification of culture or attributes of culture or segmentation of culture or culture model

Elements of culture: rituals, religion, aesthetic, social institution, symbols, thought processes, lifestyle, food, values, languages

2. 3 Multicultural challenges in international business today

Multinational corporations, increasingly recognize that success in global marketplace depends, to a large degree, on the employees' ability to deal in the international arena (Prof. Tapio Varis, University of Tampere)

Ability to relate to ourselves and to other different people is used increasingly as a measurement when deciding between the applicants who will get a job.

Many national corporations also agree that maximum efficiency in the workplace depends on high diversity competence (every person has possibility to use his/her special personal motivation and multidimensional ability) and good ethnic relations among their employees (Prof. Pekka Auvinen, Seinäjoki Polytechnic).

International Standardization Organization ISO team (2006) is preparing a community based responsibility standard ISO 26 000 which emphasizes labour's well-being and development. The name of the document will be “International Standard Providing Guidelines for Social Responsibility”. It will be published in 2008 and will take into consideration issues dealt with in this course.

In business culture we do not take into consideration emotions the changing processes do not happen in practice (Hargreaves, 1998).

3. 0 L’Oreal example for showing the cultural impact in foreign markets

As seen in the theoretical and the empirical part, culture is one of the elements which influence the consumer behaviour, what can impact on the firm strategy. The aim of a research done by the L’Oreal is to understand the influence of culture on the consumer behaviour in international markets and to explain in what ways the consumer behaviour is influencing adaptation strategy investigating L’Oreal Paris in the Asian Zone (Japan, South Korea and PRC) in order to determine if cultural differences influence L’Oreal Paris adaptation strategy for its products and promotion.

3. 1 Analyzing the L’Oreal case with Hofstede’s study on elements of culture

This hierarchy of needs can be linked to the individualism versus collectivism Hofstede’s dimension. Indeed China and South Korea are highly collectivist and Japan is moderately collectivist. Thus the motivation of people will depend more on the other members of the group.

Masculinity versus femininity Hofstede's dimension can also play a role in the motivation. Japan is a very masculine country, PRC is in the average and South Korea has more feminine values. The motivation of Japanese may have more feminine values like family or well being.

The uncertainty avoidance dimension is another important factor of influence in the motivation. It evaluates the ability to incur a risk. Japan and South Korea people have high score; they need for a lot of information in order to feel secure. They look for quality in each detail like the packaging. They listen to the advice of the salespersons in the shops to be sure that the product is adapted to them. At the opposite, Chinese people, who have a lower score, are not afraid by the decision-making.

3. 2 Some of the changes in L'Oreal's business activities due to change in culture, differentiating their marketing or promotional activities:

1) As it is mentioned in the empirical finding, Asian and European people have different ways of speaking. Asian people are vaguer, indirect and pay heed not to offence people whereas European people are most direct. Being frank will be well perceived in European but not accepted in Asia.

3) for example, in Asian cultures, lot of subjects belong to the private sphere and are not supposed to be broached in public situations.

4) Asian countries are more neutral than affective. They do not show their feelings and give the impression of controlling themselves. This tendency is confirmed by the fact that Japan and PRC have a high masculinity level, what highlights the fact of hiding emotions. However, Korean people have a lower

masculinity index. That shows the difficulty of treating all the countries of the Asian zone in the same way.

5) The last element is the relationship people have with the brand-, firm- and country-image. For example, France has a luxury image in Asia and L'Oreal Paris a quality one. This superposition of values may create a positive attribute for L'Oreal Paris when launching products in Asia market. This image is different in the Asian zone. Chinese's and Korean's prefer this brand because they consider that France is well known for cosmetics, on the contrary, Japanese's are more suspicious and think that it is not a Japanese brand and that is not a product especially made for them.

6) The physical canons are different. It is well seen in Asia to have a white skin. Thus, L'Oreal Paris adapts its products to the perception of beauty. In Asia, foundations have a very light colour and contain a special molecule in order for the skin not to tan. This tendency is a bit different in PRC where cultural influences are more "American" oriented, what implies darker colours utilization.

7) In Asian countries, it must have simple shapes and colours. In order for the customer to perceive the packaging in a more friendly way, L'Oreal Paris adapts shapes and colours.

8) Because "made in France" has a luxury image, it was easier to gain credibility in Asian countries when L'Oreal launched L'Oreal Paris there. However, since Asian people (especially Japanese and South Korean) think they are different and need adapted products, L'Oreal Paris "played" with

the sourcing effect. It created factories in China and in Japan to do researches and sell more adapted products.

9) L’Oreal Paris has different advertisements with Asian top model in addition to western one. The aim, once again, is to create an international L’Oreal Paris but with Japanese values in Japan, Korean values in South Korea and Chinese values in PRC. The brand uses local models. Women can identify to them since they share the same physical characteristics, they have the same culture and the same nationality.

Conclusion

The Asian market has its own specificities and its own culture. The way people perceive the product or the promotion, the way they motivate their choice or purchase is unique and L’Oreal Paris adapts many of its products elements in that way. First, about the product, L’Oreal Paris changes some physical aspects like the colours of the product (perception)* or the formulation (self concept, group influence)*. It also adapts the packaging attributes putting more details to the quality or the aesthetic aspect (perception)* and highlighting the luxury image of the brand (brand-and country-image)* thanks to a more “ Zen” and simple packaging. Moreover, the service attributes appear in a more obvious way in the Asian zone (uncertainty avoidance, purchase)*. There, the salespersons are especially trained to answer all the questions possible (learning and memory)* about the molecule of the product or the way of using it, and they advice the customers in the most technical way (uncertainty avoidance)* thanks to some special programmes helping to know more about the specificities of each skin. The point of sales is also adapted with a more “ luxurious” and

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personal concept (motivation, perception)* and the symbolic attributes are taken into account in the colours range (perception)* which is lighter.

The promotion is adapted to the consumer behaviour differences too. L’Oreal Paris uses local top-model to enable people to recognize their own country in the advertisements. It creates some special web sites for the countries (self concept, perception)*. Moreover, in china, L’Oreal Paris adapts its promotion to the fact that Chinese expect more information about how to use the products (attitude towards change)*

To conclude and to answer our research question, culture differences may influence L’Oreal Paris adaptation strategy for the make-up products and their promotion. The following model shows the elements of culture used (unconsciously or not) by L’Oreal Paris for its adaptation strategy, physical attributes, packaging, service attributes, symbolic attributes and promotion.