

SOME STRUCTURAL AND CULTURAL FACTORS IN ETHNOCENTRIC MULTINATIONAL CORPORATIONS AND EMPLOYEE MORALE

By

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Introduction

THE difficulties encountered by headquarters personnel who manage overseas branches are a central problem of multinational corporations.¹ Differences between the environment of the headquarters (parent country organization) and that of the subsidiary (host country organization), impose serious constraints on managerial behaviour. These differences frequently make it necessary for headquarters to reshape its managerial style and content to fit the local branch requirements. Adaptations must be made to suit specific conditions in many spheres — political, legal, economic, international, as well as cultural.

The role played by cultural differences is a controversial issue in the management literature. Reports vary in their conclusions between:

- (1) Those which *de-emphasize* the influence of cultural differences on expectations and behaviour in complex organizations.²
- (2) Those which *recognize* the effect of culture but warn against attributing to it greater importance than is empirically warranted.³
- (3) Those which *emphasize* the central importance of the effect of culture.⁴

¹ Richman, Barry M. and Copen, Melvin, *International Management and Economic Development*, New York: McGraw-Hill, 1972; Farmer, Richard N. and Richman, Barry M., *International Business: An Operational Theory*, Homewood, Ill: Irwin, 1966; Miller, Stephen W. and Simonetti, Jack L., 'Culture and Management: Some Conceptual Considerations', *Management International Review*, Vol. 11, No. 6, 1971, pp. 87-100.

² Sirota, David and Greenwood, J. Michael, 'Understand Your Work Force', *Harvard Business Review*, Vol. 49, No. 1, January-February 1971, pp. 53-60; Haire, M., et al., *Managerial Thinking: An International Study*, New York: Wiley, 1966. Both studies found that there were many similarities across nationalities. Yet, there were also differences which patterned in clusters of countries, suggesting the effect of cultural differences in their conclusions. The former emphasized the differences and the latter the similarities.

³ Ajiferuke, Musbau and Boddewyn, J., 'Culture and Other Explanatory Variables in Comparative Management Studies', *Academy of Management Journal*, Vol. 13, No. 2, June 1970, pp. 153-62; Negandhi, Anant R. and Prasad, Benjamin S., *Comparative Management*, New York: Appleton-Century Crofts, 1971; Negandhi, Anant R., 'Management Practices in Taiwan', *MSU Business Topics*, Vol. 19, No. 4, Autumn 1971, pp. 47-55.

⁴ Fayerweather, John, *The Executive Overseas: Administrative Attitudes and Relationships in a Foreign Culture*, Syracuse, New York: Syracuse University Press, 1959; Graves, Desmond, 'The Impact of Culture upon Managerial Attitudes and Behaviour in England and France', *Journal of Management Studies*, Vol. 9, No. 1, February 1972, pp. 40-56; Sloan Jr., John W., Topichak,

As Richman and Copen point out 'If it were not for intercultural differences in personal needs, priorities, and values, the extension of management activity to international dimensions would require only straightforward transmission of techniques and patterns'.⁵

Recognition of the importance of adapting to a particular cultural milieu has led many multinational corporations to staff their host country organizations exclusively with local personnel. One assumption underlying this policy is that it is often easier to train local people for managerial positions than it is for parent country managers to overcome the cultural barriers.

There arise situations, however, when multinational corporations (M.N.C.s) consider it in their interest to retain an ethnocentric structure — that is, to reserve key positions for parent country nationals (P.C.N.s).⁶ We found this to be the case in a number of airlines studied.⁷ Among the reasons given for an ethnocentric staffing policy were legal requirements, ethnic market segments, unavailability of competent local personnel and pressure from parent country managers for foreign assignments.

This paper examines the effects of such a policy on the morale of American employees of a subsidiary of a non-American airline company. The parent organization in our study operated in a very different cultural milieu from that of the United States. Although the parent country was in many ways 'westernized' it was not a Western country.

Culture is here used in a broad sense to refer to the prevalent institutionalized structures, content and symbols of a people or nation. Since the cultures

Paul M. and Kuhn, David G., 'A Cross Cultural Study of Need Satisfaction and Need Importance for Operative Employees', *Personnel Psychology*, Vol. 24, No. 4, 1971, pp. 435-45; Davis, Stanley M. (ed.), *Comparative Management: Organizational and Cultural Perspectives*, Englewood Cliffs, N.J.: Prentice Hall, 1971; Cogan, Russel E., 'Management Development for Nationals Overseas', *Personnel*, Vol. 50, No. 2, March-April 1973, pp. 24-30; Youseff, Sami M., 'The Integration of Local Nationals into the Managerial Hierarchy of American Overseas Subsidiaries: An Exploratory Study', *Academy of Management Journal*, Vol. 16, No. 1, March 1973, pp. 24-34; Thiagarajan, K. M., 'Cross-Cultural Training for Overseas Management', *Management International Review*, Vol. 11, No. 4/5, 1971, pp. 69-85; Borman, Werner A., 'The Problem of Expatriate Personnel and their Selection in International Enterprises', *Management International Review*, Vol. 11, No. 4/5, 1971, pp. 69-85; Hall, Edward T., 'The Silent Language in Overseas Business', *Harvard Business Review*, Vol. 38, No. 3, May-June 1960, pp. 87-96. The effect of cultural factors is commonly held to be outstanding in Japanese management. See, for example, Takezawa, Shinichi, 'Socio-Cultural Aspects of Management in Japan', *International Labor Review*, Vol. 94, No. 2, August 1966, pp. 147-74; Ballon, Robert T. (ed.), *Joint Ventures in Japan and The Japanese Employee*, Tokyo: Charles E. Tuttle Company, 1967 and 1969, respectively; Yoshino, M. Y., *Japanese Managerial System: Tradition and Innovation*, Cambridge, Mass.: M.I.T. Press, 1968; Tsurumi, Yoshi, 'Myths That Misled U.S. Managers in Japan', *Harvard Business Review*, Vol. 49, No. 4, July-August 1971, pp. 118-27; and Harari, Ehud, *The Politics of Labor Legislation in Japan: National-International Interaction*, Berkeley and Los Angeles: University of California Press, 1973, Chapter 5.

⁵ Richman, Barry M. and Copen Melvin, op. cit., p. 100.

⁶ Perlmutter, H. V., 'The Tortuous Evolution of the Multinational Company', *Columbia Journal of World Business*, Vol. 4, No. 1, January-February 1969, 9-18.

⁷ These studies have not yet been published.

we studied were incorporated within a national framework, we decided to use the terms culture and nationality interchangeably. The rationale behind this usage is that host-country nationals (H.C.N.s) and P.C.N.s defined the cultural differences between them in terms of nationality.

Our main findings were:

- (1) There was no significant difference between P.C.N.s and H.C.N.s in their perceptions of the desirability of certain managerial patterns.
- (2) There were no significant differences in their perceptions of the actual managerial practices.
- (3) There were important differences, however, *in their satisfaction with actual policies and practices — particularly those regarding personnel practices, staffing and promotion.* In these matters H.C.N.s were significantly less satisfied than were P.C.N.s.

These findings are supported by data collected from a similar study of three other airline companies with headquarters in Asia and Europe and with subsidiaries in the United States. Our interviews with personnel staff and preliminary analysis of data from these airlines reveal that all four faced very similar morale problems. In all these were attributed by the personnel to the same factors as those presented in this paper.

The article examines two problems: (1) the sources of dissatisfaction among H.C.N.s; (2) the reasons for the failure of P.C.N.s to adapt their managerial style to the requirements of the local environment as well as to the expectations of their host-country subordinates. In the analysis of both problems cultural factors were found to play a significant role in employee morale.

- (1) They affected the expectations and codes of behaviour that governed relations between managers and subordinates; H.C.N.s disapproved of the managerial style imported by P.C.N.s from their own cultural milieu. Coming from a different cultural background made it difficult for P.C.N.s to empathize with the expectations of their subordinates.
- (2) They influenced the way in which organizational resources were distributed among the participants; P.C.N.s enjoyed considerably more advantageous working conditions than did H.C.N.s doing equal work.

This research differs from the great majority of studies of multinational corporations which deal with American parent organizations and non-American subsidiaries. The following concerns an 'overseas' parent organization and its American branches. It attempts to clarify some of the problems of managing an ethnocentric multinational corporation, a necessary first step toward their resolution.

The Organization

The M.N.C. analysed here was an airline organization of the ethnocentric

type, with one parent country, and key managerial positions both at headquarters and in the host-country organization held by P.C.N.s. The M.N.C. had several branches overseas, of which the largest was in the United States. The latter was the subject of our study, and will be referred to as 'the organization'. The number of employees in the organization approached 450.⁸

The organization was established more than ten years ago by P.C.N.s, who institutionalized the staffing of key positions with P.C.N.s.⁹ During the study, (1971-73), four of the five members of top management in the subsidiary were P.C.N.s: the chief executive (who was also a vice-president of the M.N.C.) and the heads of three administrative divisions. The head of the fourth division — finance — was an H.C.N. Eighty per cent of upper middle management were P.C.N.s. There were very few P.C.N.s among lower middle management, and none among lower management. The critical decision to reserve most key positions for P.C.N.s was motivated by two factors: (1) the desire to assure world-wide organizational integration, and the belief that this was best achieved by using P.C.N.s; (2) pressures from headquarters officials who viewed most overseas assignments in the U.S. and Western Europe as promotions and opportunities for self-development.¹⁰

There were several specific reasons for the pressure by P.C.N.s for positions in the United States: (1) the high standard of living in the United States relative to that in the home country; (2) the wish to broaden their technological and managerial horizons in the United States; and (3) the opportunity to establish personal ties with counterparts in similar organizations in the same industry.

The Study

Data were collected through several methods: (1) a questionnaire followed by intensive interviews; (2) two months of observation of managers at all levels in the organization; (3) content analysis of all internal letters of grievance addressed to the Personnel Department over a period of two years.

A random sample was chosen from among all employees in the subsidiary. P.C.N.s who were supervisors of the chosen H.C.N.s were then added. The

⁸ The name of the M.N.C. and its exact location are withheld because of the request for anonymity and the fact that the organization is undergoing planned change. The data reported in this article are based on the prechange diagnostic stage.

⁹ For a detailed discussion of this process of organizational institutionalization, see Selznik, Philip, *Leadership in Administration*, New York: Harper and Row, 1957.

¹⁰ In U.S.-centred M.N.C.s, officials are ordinarily reluctant to go on overseas assignments, but this has been changing recently. See for example, Gonzales, F. and Negandhi, A. R., *The U.S. Overseas Executive: His Orientation and Career Patterns*, East Lansing: Michigan State University Press, 1967; Schollhammer, Hans, 'The Compensation of International Executives', in Kapoor, K. and Grub, P. D. (eds.), *The Multinational Enterprise in Transition*, Princeton, N.J.: Princeton University Press, 1972, pp. 144-62.

total sample of 37, who filled in the questionnaire, comprised 14 P.C.N.s and 23 H.C.N.s, including the five top managers.

Respondents were then interviewed in depth. Four P.C.N. managers who were referred to frequently by H.C.N.s as problematic were added, making a total of forty-one employees interviewed. The interviews were partially structured and partially unstructured. The respondents were asked to elaborate on their responses to the questionnaire, and to discuss in detail additional reasons for satisfaction and dissatisfaction. Anonymity was assured and strictly observed throughout.

The questionnaire comprised eighty-six questions. Six of them sought personal information: sex, age, education, community background, type of salary, and seniority. Information about official rank and salary was extracted from the employee's personal file. The questions were designed to measure perceptions concerning the desired patterns of organizational behaviour and the levels of satisfaction in the following areas: (1) general satisfaction, (2) communication and decision-making, (3) personnel policies, (4) managerial leadership, and (5) social and ethnic relations. The items were constructed on a Likert-type scale, ranging from 1 to 5: the higher the score, the higher the satisfaction.

The data were subjected to two types of analysis: (1) The differences between H.C.N.s and P.C.N.s were analysed and their significance tested (one-tail *t* test at the 0.05 level); (2) the questions were factor analysed to discover how the questions clustered in the perception of the respondents, and how the respondents related them to each other. We refer only to the clusters which are relevant to the subject of this article, and for which we have supportive data from our study of other non-American airline companies operating in the U.S.

Findings

The Desired Patterns

The P.C.N.s came from an organizational culture which in many ways was very different from that which is predominant in the U.S. These differences manifested themselves in managerial style, in manager-worker relations, in member's values — and even in the social etiquette that governed interaction at all levels. We expected to find that these differences in cultural background would reveal themselves in expressed differences in expectations concerning manager-subordinate relationships as well as peer group relationships.

The desired patterns of organizational behaviour were measured by ten questions. Seven related to the behaviour of the respondents' supervisor, and three to group behaviour in the organization. The scores were high, and the small difference between P.C.N.s and H.C.N.s in their perceptions of

desirability was not statistically significant. The items are listed below in order of their desirability from the point of view of the respondents, both P.C.N.s and H.C.N.s:

<i>The desired patterns</i>	<i>P.C.N.s</i>	<i>H.C.N.s</i>
1. Supervisor's encouragement to make best efforts	4.50	4.73
2. Supervisor's willingness to listen to subordinates' problems	4.40	4.64
3. Mutual cooperation in the work-group	4.73	4.27
4. Supervisor's friendliness and accessibility	4.40	4.59
5. Group norm for making best efforts	4.45	4.41
6. Supervisor's encouragement of team formation	4.70	4.50
7. Free flow of opinions and ideas among group members	4.45	4.24
8. Supervisor's encouragement of intragroup unscreened communication	4.36	4.38
9. Supervisor's personal example	4.20	4.50
10. Coaching	3.86	3.90

All these questions clustered as one factor in the factor analysis. Taken as a group, they are an index of what is generally known as democratic, participant or considerate management. The high P.C.N. scores are interesting because the desired situation was not the leadership style with which the P.C.N.s were familiar from their experience at headquarters nor that which they in fact practised in the subsidiary. Contrary to expectations, no significant differences were revealed between P.C.N.s and H.C.N.s in their perceptions of the desired situation. Neither were there differences between hierarchical levels, seniority or divisions.

The Actual Situation

General Satisfaction. The general level of satisfaction was measured by nine questions. They focused on the following themes: satisfaction derived from the organization in comparison with other organizations; job satisfaction; interest in staying with the organization; and fulfilment of pre-entry expectations.

The analysis revealed significant differences between P.C.N.s and H.C.N.s (4.10 and 3.52 in the statistical table). (Throughout the paper, scores or means for P.C.N.s are presented first, followed by those for H.C.N.s.) Two findings were particularly significant for our study. The first pointed to the indirect influence of national background, while the second concerned its more direct effect.

- (1) The data indicated a positive correlation between general satisfaction, and between the managerial and salary level. Since the majority of top managerial positions were held by P.C.N.s, who also earned the highest salaries and fringe benefits, their general satisfaction rating was higher than that for H.C.N.s. Nationality is here significant in that it was a criterion for staffing the most desired positions. While satisfaction is directly correlated with managerial and salary level, the latter are correlated with nationality.

- (2) When the general satisfaction rating for each of the four administrative divisions of the organization were compared, it was found to be highest in the finance division headed by an H.C.N. This result was surprising, since the job content in finance was generally held to be the least interesting of the four divisions. Furthermore, members of the finance division were not granted any organizational rewards or benefits not given to members of other divisions. From interviews with H.C.N.s working in finance, and from observations, we realized that the managerial style of the H.C.N. division head played an important role in contributing to the general satisfaction of his subordinates. Unlike other division heads, he shared information with his staff, he held weekly meetings and involved them in decision-making; he coached his workers; he offered constructive criticism as well as praise; and he took the initiative in helping them advance in the organization. Although many of his subordinates found their work monotonous, they said they did not want to be transferred to another division.

Sources of Dissatisfaction

The following findings regarding various existing patterns of organizational behaviour clarify some of the major reasons for dissatisfaction. They are presented according to the degree of differences between the P.C.N.s and H.C.N.s, starting with the greatest differences.

Communication and Decision-making. Communication and decision-making were measured by fourteen questions focusing on several subjects: the appropriateness of the level of decision-making; subordinates' participation in the process of decision-making; quality of decisions; and the extent of the free flow of communication (both vertically and horizontally). The difference between P.C.N.s and H.C.N.s was statistically significant (mean of means of 3.44 vs. 2.84).

Analysis of questionnaire data revealed a wide gap between the level of H.C.N. satisfaction with existing patterns of participation (2.68) and the desired level of participation (4.38). They complained that decisions were made at levels above those where adequate information was available, and that superiors disregarded their subordinates' organizational and personal problems when making decisions.¹¹ This disregard reduced their motivation to pass on unfiltered information. They were also, therefore, sceptical about the quality of managerial decisions. Furthermore, management's practice of

¹¹ For an elaboration of the importance of subordinates' participation in the process of non-programmed decision-making in M.N.C.s, see Fenn, Jr., Dan H., and Yankelovich, Daniel, 'Responding to the Employee Voice', *Harvard Business Review*, Vol. 50, No. 3, May-June 1972, pp. 83-91.

not sharing relevant information greatly hampered H.C.N. performance, and had a deleterious effect on their job commitment. Some H.C.N.s even contended that they felt alienated at work.

P.C.N.s were relatively more satisfied with communication and decision-making. In the interviews they revealed that they were not aware that subordinates were reluctant to pass on unscreened information. They considered that their information was adequate, and that, whenever necessary, there were always 'ways of motivating' subordinates to increase the information flow.

Personnel Policies. Personnel policies were measured by fourteen questions combined into the below listed nine subjects. The themes covered were: company concern for the employees' welfare; income policies; promotion opportunities; training; fringe benefits (medical and life insurance, accident insurance, and pension rights); and a fringe benefit related to the production specialty of the company. The differences between P.C.N.s and H.C.N.s in this table are statistically significant. (3.47; 2.67).

The most outstanding differences were revealed in the following questions:

<i>Subject</i>	<i>P.C.N.s</i>	<i>H.C.N.s</i>
1. Medical insurance	4.55	2.83
2. Life and accident insurance	4.10	2.57
3. Promotion opportunities	3.45	2.04
4. Vacation rights	4.18	3.13
5. Product-related fringe benefit*	4.19	3.35
6. Company's interest in employees' welfare and happiness†	3.45	2.78

* Here the difference was especially prominent between top management (4.6) and wage workers (2.8).

† Notable was the score of 4.00 by the top managerial team (composed mainly of P.C.N.s).

Almost uniform dissatisfaction was expressed with training (2.60; 2.38); income (2.88; 2.64); and performance appraisal (2.70; 2.00).

P.C.N.s did, in fact, enjoy more favourable conditions than did H.C.N.s with regard to items 1-5 listed above. Their advantages stemmed from two sources: headquarters' policy and managerial status.

1. *Headquarters' Policy.* According to headquarters' policy, the terms of employment for P.C.N.s and H.C.N.s were different. H.C.N.s were limited in their promotion opportunities — an important point that will be dealt with in greater detail in the section on 'Social Relations and Ethnicity'. Some product-related fringe benefits were given to both groups, but more generously to P.C.N.s. Two types of fringe benefits were given exclusively to P.C.N.s: those prevailing in the parent country (such as full medical insurance), and those related to serving abroad (such as home leaves and participation in rent). These benefits constituted a substantial portion of

the P.C.N.s' income, and created a distinctive income gap between P.C.N.s and H.C.N.s at the same managerial level. Such inequality violated the expectation of equal reward for equal work, and consequently aroused feelings of relative deprivation and social injustice.

2. *Managerial Status.* The strong congruence between nationality and incumbency in top management positions reinforced the association between being a P.C.N. and enjoying special privileges. Since (as we shall presently see) subordinates questioned the desirability of P.C.N.s dominating top positions, they also questioned the fairness of personnel policies which granted superior benefits to P.C.N.s.

Managerial Leadership. Managerial leadership was measured by sixteen questions. The questions focused on goal definitions by superiors; superiors' receptivity to subordinates' ideas and suggestions; coaching; conflict resolution; accessibility; sensitivity to subordinates' needs; concern for productivity; personal example; and team formation.

Viewing this group of questions in its totality, we found little difference in the overall scores of the two categories of employees (3.29; 3.08). Three specific topics merit special attention, for the emphasis they were given in interviews even though the differences between the two groups were not statistically significant. These topics were goal definitions by superiors (3.09; 2.61); performance evaluation (3.29; 3.08); and superiors' sensitivity to subordinates (3.18; 2.83). The importance of these problems to H.C.N.s was made emphatically clear in the interviews.

The absence of management by objectives hampered the subordinates' perceptions of what was expected of them. Their lack of participation in decision-making made this problem more acute. The problem of unclear expectations turned out to be a major cause for dissatisfaction, particularly because of its close connection with evaluation and promotion. Effective performance evaluation is rendered very difficult when performance goals are not clearly defined.¹²

Social Relations and Ethnicity. Social relations were measured by nine questions. Some were general and some were specifically related to ethnicity. There was a significant difference on ethnicity related questions (4.18, 2.96). There was almost no difference on general social relations, and the scores for both categories of employees were above average (3.46; 3.34).

In the questionnaire, ethnicity was defined as 'religion, country of origin and race'; among the questions, respondents were asked to what extent their satisfaction in the organization was influenced by the ethnicity of their supervisors. In the interviews, the respondents narrowed the terms of refer-

¹² Odiorne, George S., *Management by Objectives: A System of Managerial Leadership*, New York: Pitman, 1963.

ence to the difference in nationality between H.C.N.s and P.C.N.s. The nationality factor became particularly relevant in matters relating to staffing and promotion. We consider each separately.

1. *Staffing.* According to the H.C.N.s, the proportion of P.C.N.s in the organization was excessive. Most middle managers and upper middle managers accepted it as important for the position of chief executive — and perhaps a very few other key positions — to be held by P.C.N.s.¹³ The H.C.N.s argued, however, that the linkage should be confined to the peak of the local hierarchy because all of the other positions required much more familiarity with the local environment than with the ropes at headquarters.

A related argument by H.C.N.s for limiting the number of P.C.N.s in the branches was that it took newcomers from the parent country a long time to learn how to function properly in the new environment.¹⁴ During this period, P.C.N.s felt pressured to justify their being stationed abroad, so they tended to refrain from seeking information and advice from their subordinates. P.C.N.s, therefore, made errors which had negative repercussions on the organization. They also covered up mistakes out of apprehension of criticism. Furthermore, the patterns of social etiquette they brought from the parent country were perceived as 'poor manners' and, sometimes, were even personally offensive to H.C.N.s.

The H.C.N.s contended that limiting the number of P.C.N.s would spare the company such problems, as well as save the expenses involved in sending and maintaining P.C.N.s abroad.¹⁵

2. *Promotion.* The strongest grievance voiced by the H.C.N.s was the inadequate opportunity for promotion, since the key positions were reserved for P.C.N.s. This frustrated the H.C.N.s' desire for vertical mobility in the company. They stressed that the economic success of the enterprise was in large measure achieved because of their deep sense of responsibility and loyalty.

Since the promotion limitations had not been made known to them before they joined the organization or during the orientation period, they felt that they had been misled. They considered this situation rather frus-

¹³ For a discussion of difficulties resulting from top management's failure to function as a link, see Brooke, Michael Z. and Remmers, H. Lee, *The Strategy of Multinational Enterprise: Organization and Finance*, London: Longman, 1970, pp. 132-6.

¹⁴ In his article 'The Uprooted European Manager in America' James Leontlades reports that 80 per cent of the European managers of American subsidiaries studied found it took them one year and over to adapt to the point where they were as productive as they were in the home environment; see *European Business*, Winter 1973, pp. 62-6.

¹⁵ Schollhammer found that 'on the average, the recurrent compensation of a U.S. executive working abroad is roughly twice as high as the remuneration he would receive in a comparable position at home, and in certain cases this amount is three times as high'. See Schollhammer, H., *op. cit.*, p. 159.

trating — not only because promotion was a high-ranking goal,¹⁶ but also because many had already invested years of work in the organization by the time they became aware of these limitations. Most employees, who had fewer market alternatives that were better, did not indicate that they seriously considered leaving. A few, however — professionals and young employees without seniority — stated that they would prefer leaving the organization. A follow-up study revealed that many of these did in fact leave after they had received on the job training.

Another reason for great dissatisfaction was the fact that the P.C.N.s did not take the initiative in promoting their subordinates. The H.C.N.s found it necessary to press for their own promotion — a practice which most of them considered degrading. They argued that those who were inhibited from pressing their own case suffered delays in promotion which annoyed and frustrated them.¹⁷

P.C.N.s' Perception of Staffing and Promotion. Most P.C.N.s were convinced that the advantages of having P.C.N.s in top and upper-middle positions overruled the disadvantages. They claimed that their knowledge of the ropes at headquarters was conducive to a better adaptation of the organization to its local environment. They considered themselves to be in a better position to persuade H.Q. to change its policies — such as obtaining improvements in 'hygiene' factors (salaries, conditions of work, equipment, etc.) for everyone — including H.C.N.s. The P.C.N.s said that they were able to raise these to a level comparable to other organizations in the same industry in the United States — higher than the level common at H.Q. — because of headquarters' tradition of putting more trust in its expatriates than in H.C.N.s.

While granting that familiarity with the local environment was of crucial importance, the P.C.N.s differentiated among various types of local environments. They argued that each managerial level was actually interacting with a different type of environment; therefore, because of the tradition of reserving key managerial positions for P.C.N.s, they were as familiar with their specific environment as the H.C.N.s were with theirs. They did not consider that their acculturation period was overly long.

P.C.N.s — excluding top management — were aware of the H.C.N.s feelings that promotion opportunities were not equal. However, top management did not view the situation as one of inequality of opportunity. To them, promotion to top management positions — excluding that of the chief

¹⁶ Sirota and Greenwood found that in the United States, advancement ranked second among fourteen employee goals; it ranked fifth in their world-wide sample. See Sirota, D. and Greenwood, J. M., *op. cit.*, p. 57.

¹⁷ For programmes designed to cope with this problem at I.B.M. and Gillette, see Cogan, R. E., *op. cit.* and Dymza, William A., *Multinational Business Strategy*, New York: McGraw-Hill, 1972, pp. 150-1.

executive — was only a matter of merit. P.C.N.s in their opinion had the advantage of being more loyal to the company, and more immune to raiding by other companies.

The P.C.N.s claimed that the practice of refraining from initiating the promotion of their subordinates was an importation of a managerial tradition prevalent at H.Q. Moreover, during their stay in the organization they had come to realize the many negative implications of this practice, and had endeavoured to modify it; in fact, they were convinced that promotion practices in the organization were more advanced than at H.Q. However, pressures from H.Q. to prefer P.C.N.s for many positions made it necessary for an H.C.N. to have a record of outstanding performance as well as managerial potential in order to be promoted.

The P.C.N.s, like the H.C.N.s, were discontented with the absence of career ladders. They resented being left in the dark concerning what was required of them in order to be promoted back at headquarters. In the interviews, P.C.N.s said that this uncertainty put pressure on them to present their performance in the most favourable light by concealing mistakes and shortcomings. In addition, they felt compelled to invest a considerable amount of time and other resources in playing host to influential visitors from H.Q. in order to assure themselves an appropriate assignment on returning to the parent country.

Discussion

Many of the problems revealed in the host country organization are of the type ordinarily diagnosed in American business corporations. These include dissatisfaction with promotion opportunities and fringe benefits, disagreement concerning the desirability of existing managerial styles¹⁸ and unfamiliarity of newcomers with the specific environment. In the ethnocentric M.N.C., however, differences in culture are an important intervening variable that introduce additional patterns of strain into management-employee relations. They intervene, influencing the relationship between the distribution of organizational rewards and type of supervision on the one hand and employee morale on the other. Cultural factors enhance our understanding of this relationship.

In our study they were significant:

- (1) In the consequences of headquarters policies, which resulted in one ethnic group, P.C.N.s, dominating the top positions and enjoying the greater portion of the benefits.
- (2) In the codes of behaviour in the role images and role expectations, the

¹⁸ Hughes, Charles H. and Flowers, Vincent S., 'Shaping Personnel Strategies to Disparate Value Systems', *Personnel*, Vol. 50, No. 2, March-April 1973, pp. 8-23.

factors that we commonly think of as distinguishing one culture from another.

The incompatibility between the expectations of H.C.N.s and the role performance of P.C.N.s, as well as the strong correlation between hierarchical position and nationality, had two important consequences: (1) they had a *negative effect on H.C.N. morale*; (2) they created a situation in which *an inappropriate managerial style was reinforced and perpetuated*. We consider each of these effects separately.

Managerial Practices and H.C.N. morale

H.C.N.s were significantly more dissatisfied with current policies and practices in the organization than were the P.C.N.s. The major sources of this dissatisfaction were (1) blocked promotion, (2) exclusion from fringe benefits and (3) inappropriate managerial style.

Blocked Promotion. H.C.N.s did not object to being managed by people of a different nationality, and even recognized the important linking function played by P.C.N.s at the very top.

The policy of reserving a large number of positions for P.C.N.s, however, was viewed as an unacceptable form of discrimination, particularly since it blocked their own vertical mobility in the organization.

H.C.N.s did not consider that, in most of these reserved jobs, being a P.C.N. was a relevant requirement for implementing the goals of the organization; on the contrary, they believed that it impeded such achievement. The policy of ethnic domination of upper-middle and top management positions was, therefore, an intrusion of an irrelevant non-ability consideration (nationality).¹⁹ This unwarranted exclusive and pervasive use of P.C.N.s violated H.C.N. cultural norms of equal opportunity for equal ability.

Exclusion from Fringe Benefits. P.C.N.s enjoyed a monopoly on all fringe benefits paid by the company to employees. These included cost of children's schooling, home leaves, full health insurance, telephone, newspapers, car maintenance and 80 per cent participation in home rental. Fringe benefits created a considerable discrepancy in salary between P.C.N.s and H.C.N.s at the same level. This situation of unequal reward for equal work angered the H.C.N.s and aroused in them feelings of injustice and relative deprivation.

Inappropriate Managerial Style. At headquarters the dominant managerial pattern was task and production oriented; it was generally inconsiderate and

¹⁹ For an interesting study of the ways in which the principle of promotion on the basis of ability, which is essentially non-discriminatory, can be diluted by criteria for promotion which become the vehicle of discrimination, even where prejudice is openly denounced, see Kahn, R., Gurin, C., Quinn, R. P., Baar, E. and Kraut, A. I., *Discrimination without Prejudice: A Study of Promotion Practices in Industry*, The University of Michigan, Institute for Social Research, Survey Research Center, 1964.

detached. Top management maintained status distance from subordinates, offered little if any coaching and refrained from involving them in the process of non-programmed decisions. P.C.N.s transplanted this tradition to the subsidiaries. They thus imposed a managerial style which was inappropriate for two reasons (a) these patterns violated the H.C.N.'s expectations concerning how supervisors ought to manage their subordinates; (b) these patterns of limited participation and infrequent communication aggravated the problem of bridging the 'understanding gap' created by differences in cultural background.

Although P.C.N.s and H.C.N.s shared a common urban-business logic of costs and efficiency, they differed in the repertoire of cultural meanings which each brought with him to the work situation. 'Complementary images', observes Bohannan, 'are at the very root of every social relationship'.²⁰ Those who share a universe of values and symbols embedded in common language and similar cultural biography can more easily interpret each other's implicit (although unarticulated) intentions. Idiomatically, we say that such people speak the same language. When differences in cultural background do not permit mutual understanding to be taken for granted, then unambiguous and frequent communication becomes increasingly important.

In all four M.N.C.s studied, the non-participant style of management did not meet this need for open channels of communication. Consequently H.C.N.s felt unsure of what P.C.N.s expected of them. Since the goals they were expected to achieve were not lucidly specified, the promotion procedure was also felt to be arbitrary rather than based on objective performance evaluation.

Management Style and Resistance to Change

A more difficult question to answer is why was it that P.C.N.s did not adapt their managerial style to be more congruent with the expectations of H.C.N.s as well as with the requirements of the host environment. Our findings suggested that there are several different kinds of explanations — structural, situational, and psychological. While the reasons for the resistance to change were not exclusively cultural, they were all influenced by the culture.

Prior Socialization. P.C.N.s were familiar with the principles of participative management. Since all P.C.N. respondents had spent at least three years in the host country organization, it is likely that they had been exposed to these principles which play so prevalent a role in the American management ideology.

The ideal pattern, however, was not the *modus operandi* at headquarters;

²⁰ Bohannan, Paul, *Social Anthropology*, New York: Holt, Rinehart and Winston, 1963, p. 25.

nor was it the management style practised by P.C.N.s throughout their managerial careers. In other words, they brought to the host country the procedures and practices which had been effective for them and which had conditioned their own promotion in the corporation.

They also brought with them an image of the managerial role which was dominant in their own culture: a manager is one who solves problems and makes decisions quickly without the help of subordinates. That is what he is paid to do. It is his responsibility to supply the solutions and that of his subordinates to act upon them. The idea of participative leadership was contrary to their assessment of effective management.

System of Promotion. The system of promotion for P.C.N.s did not motivate them to adopt a more considerate managerial style. Headquarters was more concerned with profits from sales than with the level of employee morale in the subsidiary. Success in the former determined P.C.N.s standing in the eyes of their superiors in the head office.

The Easy Life. In all four M.N.C.s studied, the situation of P.C.N.s in the subsidiaries was an improvement over what they had experienced in the parent country. It was also considerably better than what they could expect upon their return to headquarters. Managers who were at the fifth or sixth rung of the parent organization hierarchy were at the very top in the host country. They enjoyed favourable working conditions and access to organizational resources; high status and authority; considerable autonomy; as well as entry into the upper class social life of the local community. This new situation seems to have dulled their sensitivity to the needs of subordinates and was not conducive to object self evaluation, an important prerequisite for change.

Unawareness of Dissatisfaction. P.C.N.s were not aware that their managerial practices were a source of considerable dissatisfaction. Turnover among H.C.N.s was relatively low; in the absence of open communication channels, it was difficult for P.C.N.s to discover the extent of dissatisfaction in the organization.

At headquarters little attention was paid to worker morale until dissatisfaction precipitated a strike, or a threat to strike. As long as there was no organized worker protest, by P.C.N. standards this meant the situation did not require immediate attention. The low priority granted to the morale of subordinates in evaluating the performance of P.N.C.s indicates a lack of appreciation by headquarters for the long-term connection between morale and effectiveness in a service organization.

Empathy and Training. The problem, however, was not only one of lack of awareness but also of lack of empathy and training. P.C.N.s failed to understand the reasons for H.C.N. dissatisfaction. As one manager typically responded, 'If H.C.N.s want things to be different, why don't *they* change

them? What do they want from *me*? P.C.N.s had neither training nor actual experience in participant management leadership.

Psychological Resistance to Change. Most P.C.N.s were not highly motivated to change their managerial style, and many revealed some degree of psychological resistance to change. There seemed to be three reasons for this, although not all three were expressed by the same P.C.N.s:

- (1) The fear that changing their way of managing people implied that they had not been as successful in the role of manager as they would have liked to believe or, at least as they would have liked others to believe. In other words, a change was a confession of past mismanagement.
- (2) Apprehension that they would fail to be able to learn new methods or would be ineffective in applying them. They feared, furthermore, that if they consulted with subordinates they would expose their own limitations and consequently be subject to ridicule.
- (3) The belief that a change in managerial behaviour would result in considerable frustration for them upon their return to headquarters. Attempts to use participative management at headquarters would be taken for a sign of weakness, or incompetence, and they would likely be pressured to return to their original way of relating to people.

Conclusion

Most research done to date in the field of multinational corporations concerns American companies operating subsidiaries outside the United States. The constraints imposed by a different culture on the activities of the American managers are usually viewed as negative constraints emanating from the fact that the host country population is less enlightened. While the international manager is instructed in the need to be sensitive and to adjust to the local culture, the major onus to change is placed on the host employees.²¹

This article deals with the converse situation and with what is today an increasingly important phenomenon in the United States; namely the American subsidiaries of well-established non-American corporations. Our findings indicate that where such corporations retain an ethnocentric structure, morale problems are likely to develop in the subsidiaries. This is particularly the case when a non-American management imposes an inappropriate managerial style imported from its headquarters on to an American workforce. In ethnocentric multinational corporations cultural factors are an important intervening variable in the relationship between employee morale on the one hand and organizational rewards and management style on the other.

The perpetuation of unsuitable practices is a negative constraint in P.C.N.-H.C.N. relations. Factors that make the P.C.N. resistant to change

²¹ Richman, B. M. and Copen, M., *op. cit.*, pp. 99-101.

reinforce one another and combine to perpetuate existing patterns. However, since it is the behaviour of the top management team which requires change, it cannot act as its own change catalyst. Even exposure to the leadership style prevalent in American industry does not in itself seem a sufficient stimulus for change. It requires an external force, such as pressure from the environment which threatens the survival of the organization, to break the vicious circle of inappropriate P.C.N. leadership.

The implications of our findings are as follows:

- (1) M.N.C.s should reconsider the decision to retain an ethnocentric structure, giving more weight to the potential problem of morale.
- (2) P.C.N.s must be trained prior to coming to the host country to increase their understanding and sensitivity to local conditions and to adapt their managerial style to suit local expectations.
- (3) H.C.N.s who accept employment in ethnocentric M.N.C.s should be prepared for the difficulties involved in this type of organization; especially those of limited promotion opportunities, unequal distribution of organizational rewards and a managerial style different from what they may expect in large American companies.
- (4) Ethnocentric M.N.C.s should be aware of the specific sources of dissatisfaction in their American subsidiary and of the reasons for the failure of the top teams to adapt to the local situation. Considering these difficulties, they would be well advised to establish a programme of planned organizational change tailored to fit the local expectations and requirements.