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SOCIETAL VIEW ON MULTINATIONAL CORPORATIONS

Abstract: *The article is devoted to the study of multicultural management in the context of its interaction with the societal system. The main attributes of culture, which affect the international business, are detected. External factors (for each element of the societal system) or a specific situation in a subsidiary (such as age or size) affects the results of a subsidiary and yields different results. Therefore, setting the same goals for a certain performance metric for each manager may not adequately assess its performance. There were characterized multicultural competence of a modern international manager. The key differences between MNCs and TNCs are revealed. Particular emphasis was put on the possibilities of using cultural differences within the global MNEs. The interactions of MNCs with elements of the societal system, positive results and negative consequences are analyzed. The economy itself today is multicultural. In fact, international management involves the planning, organization, management and control of employees and other resources to achieve organizational goals through unique multicultural and multinational boundaries.*

Keywords: *multicultural management, international business, societal system, MNC, crossboundary activity.*

Introduction

In the midst of dynamic changes that can be characterized by the modern world, understanding of the relationship between events, mechanisms, structures and flows according to any classification scheme becomes increasingly important. It is essential to study the social aspect of any economic, environmental and political phenomena that we analyse. Because the concept of society differs in that it covers the whole spectrum of institutionalized social, political, economic and environmental spheres. The social effect relates to the lateral, reciprocal relations between any shared systems or spheres of society. What is happening in a particular area, such as technology, social stratification, labor markets, organization of enterprises, etc., should be explained by the reference to a set of relationships with other spheres or dimensions. And such an explanation is considered to be approximately complete if the cross-links shown above,

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affect the maximum number of differentiated subsystems and spheres. Through these cross-relations the economy has a social, political and even ecological subsystem, as well as any other category. In the terminology of social effect, this is called mutual intrusion, which means the fact that any “separate” sphere of political, social, economic and technical life is also part of the whole sphere. In fact, it is impossible to keep the spheres of human life separate; due to the mutual interpenetration of spheres, the social effect constantly exists [Sorge 1996: 75].

Entrepreneurship structures are the dominant form of social organization and can contribute to the deterioration or improvement of the economic, social, natural and even sometimes political environment.

The objectives of the business community and civil society actors are to create the conditions for building knowledge based in such a way as to maximize the benefits of technological and economic development and to reduce risks.

Cultural differences within and between countries affect the practice of doing business. Considering these cultural differences and sensitivities are key factors in cross-management. The purpose of this study is to provide an overview of the main characteristics that distinguish cultures and their significance for international business in the context of their existence in societal systems.

International management needs understanding of cross-cultures, interactions of multinational corporations, global perspectives and corporate issues. Understanding the individual values of each country, or region or cultural community, involves taking into account diversity in the economic, social, political, ideological and environmental spheres. International management not only depends on the core competencies of the business but also requires the knowledge and skills necessary for work and success in the international business arena, which includes one of the key competences-multiculturalism, as well as interaction with key elements of the societal structure.

If the term “societal”, which was first introduced by sociologist A. G. Keller [Keller 1937] was attributed to the organizational aspects of social life, then in the context of this study, consideration is given to focusing more on the social aspects of organizational functioning.

Globalization – the growing integration of economies around the world and the strengthening of international companies’ activities – was one of the most intensely debated by researchers over the past decades. The term “transnational corporation” (TNC), previously used to describe global companies, has recently undergone a change and is now used as a “multinational corporation” (MNC) in most foreign sources. This transformation of the wording clearly

demonstrates the transition from the concept of cross-border relations and trade between different national groups to a model of a multinational organizational structure that combines different cultures, their values and diverse approaches to management, and generates new ideas, products and results.

In the end, a multinational corporation (MNC) characterizes the international variance of its activities. The term “MNCs” can be interpreted very broadly as it applies to companies with regular cross-border activities. More specifically, the United Nations defines the following definition of multinational corporations: “MNC” means an enterprise (a) consisting of legal entities in two or more countries, regardless of the legal form and scope of those entities; (b) which operates in accordance with a decision-making system that allows agreed policies and a common strategy through one or more decision-making centers; (c) in which entities have such a relationship in their property or otherwise that one or more of them may have significant influence over the activities of others and, in particular, to share knowledge, resources and responsibility with others [United Nations 1984: 2].

Thus, it does not matter what legal form the entity has, but only that “active, coordinated management of operations in different countries is a key differentiating characteristic of MNC” [Bartlett 2008: 3]. These subjects are not necessarily production enterprises, they can only be distributors of subsidiaries or other activities. Although some authors [Morschett 2010] require certain quantitative thresholds for MNCs, such as a certain number of foreign states, a certain share of workers abroad, a share of foreign sales or direct investment.

It should be noted that in our opinion, the concept of “multicultural” organization does not necessarily involve only the format of an international company that operates in different markets of the political map of the Earth, where the differentiation of different cultures is determined by customs borders. A national company operating in different geographic regions within a single country can be a multicultural one uniting people with different values, outlooks, ideas about labor, relationships, meaning of life, etc. These attributes form the concept of “culture”.

Culture is a social and religious structure, as well as intellectual appearances that characterize a society. This is a group of people, who share a common set of values and norms. These are ways, in which society understands something, makes decisions and communicates. And, that’s why you can learn what can be split through which you can connect [Hollensen 2007].

Multicultural management characterizes not only activities of planning, organization, motivation and control beyond national boundaries but also carrying out cross-border activities. For a more comprehensive understanding, it is worth noting that this is a management activity

aimed at achieving organizational goals, within the framework of unique, multicultural and multinational boundaries.

The requirement to be multicultural, which today is put forward by managers, is necessary not only when working with employees from other countries, but also with people from the same country who speak the same language, have the same national heritage and, nevertheless, have different views of the world.

The multicultural approach in management has the following features:

- Planning, organization, direction and management of people with different cultural characteristics characterized by different values, beliefs and assumptions;
- A deep understanding of intercultural relations and different cultural traditions and beliefs;
- The old style of management should be adjusted in accordance with the needs of international management functions.

An international manager is the one who must interact with things, ideas and people belonging to different cultural environments, while ensuring the distribution and management of human resources and the achievement of the goals of the organization, while respecting the beliefs, traditions and values of the domestic, host, or third country [Pierre 1980].

However, not only the management of different cultural groups, the provision of long-term and effective interaction between representatives of different cultures requires multicultural management. As part of its activities, international business has to interact with a large and diverse number of actors, institutions, social groups, to take into account the political features of different countries and regions, their environmental norms and values, social relationships, ideological beliefs.

From region to region, from one cultural model to another, the company's approaches will vary: these are to plan and organize the process, to motivate employees, to identify "awards" and "punishments", to build communications within the organization and with the outside world, to control and decision-making methods, to select and manage process of personnel, and in many cases, to adapt the company's strategic goals.

Long-term study of cross-cultural peculiarities in management has led to the understanding that multicultural management requires taking into account not only the economic aspect but also the study of various social, political, cultural, ideological and environmental patterns in which the international organization operates simultaneously. And this brings the business to a new level of responsibility – the level of societal systems.

Business as a whole wins when people from different cultures find new approaches to old problems, create prospects and consider the problem from another cultural point of view. Problems in business communication that can be revealed in different cultures often occur when participants in one culture can not understand certain cultural differences in communication methods, traditions and the process of thinking. It is worth remembering that in the international business is not clear what is right or wrong. At the international level, managers should exercise caution when conducting business communication between cultures.

This understanding of cultural sensitivity is related to the emic and the etic views of culture. The etic perspective assumes that business practices can be applied universally and thus are relevant in all cultures and not specific to the context in which they were developed. Contrarily, the emic approach to international business argues that each culture has specific requirements [Sue 2007]. Therefore business practices need to be adapted to each cultural context. Typically, the etic approach to international business is anchored in the domestic market context and thus reflects either cultural parochialism or ethnocentrism.

Based on the model of Fataka, Bagata and Kashlak [Phatak 2009] it was constructed a scheme of impacts that the organization’s environment varies from country to country, different geographic regions, on multicultural management functions, which adapt to the given societal systems and take into account the customs and traditions of adoption in the environment.

Figure 1: Environmental impacts on the function multicultural management

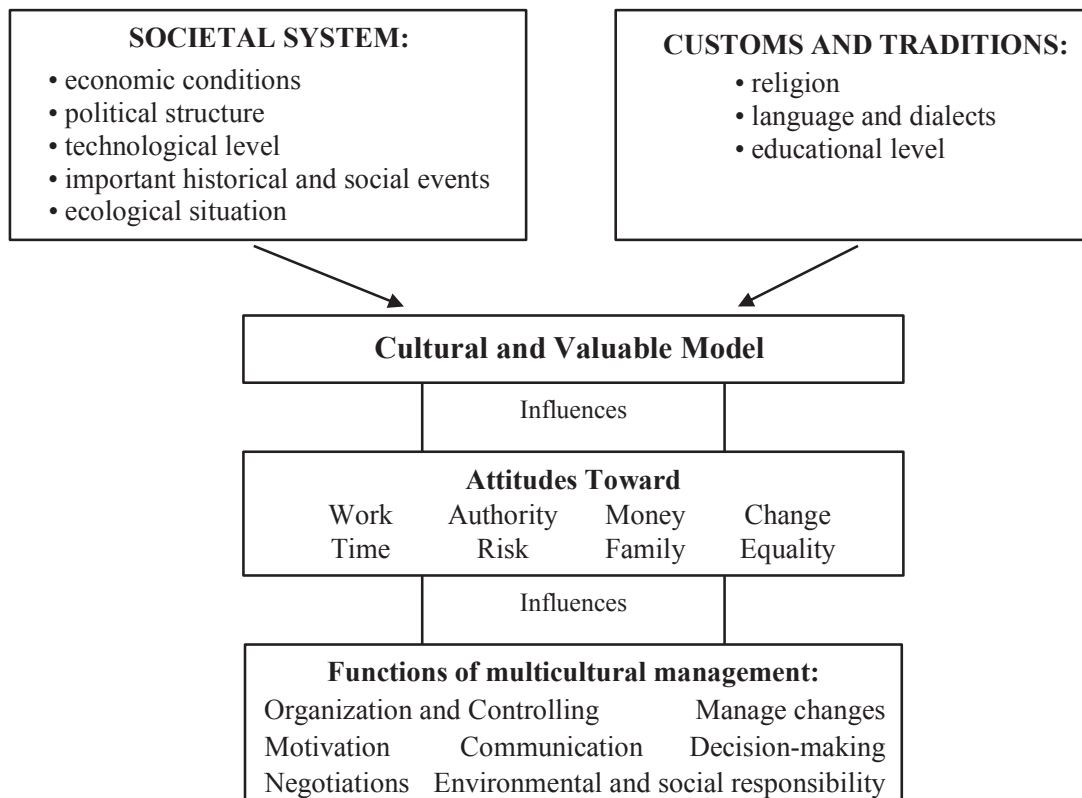


Figure 1 shows that such global levers, as the societal system and the value paradigm, affect a number of small managerial aspects that generally determine the terms and conditions for doing business in one or another country. And if it could be noticed that international business usually operates in at least three regional dimensions: home country, host country and third countries (e.g., employees, partners, or contractors may be from third countries), then the scheme, shown in Figure 1, will be separated for each of these regional measurements. International managers today must go beyond their own cultural system in the direction of multiculturalism.

Another important issue is: how the transnational and multinational companies differ, whether there are fundamental differences in global and multicultural management. Why the last decade managerial thinking tends to use the multinational approaches. One of the fundamental differences is the system for evaluating the company's performance: global standardized for all countries in which the MNC is presented, or a multinational model with performance estimates tailored to the specifics of a particular country.

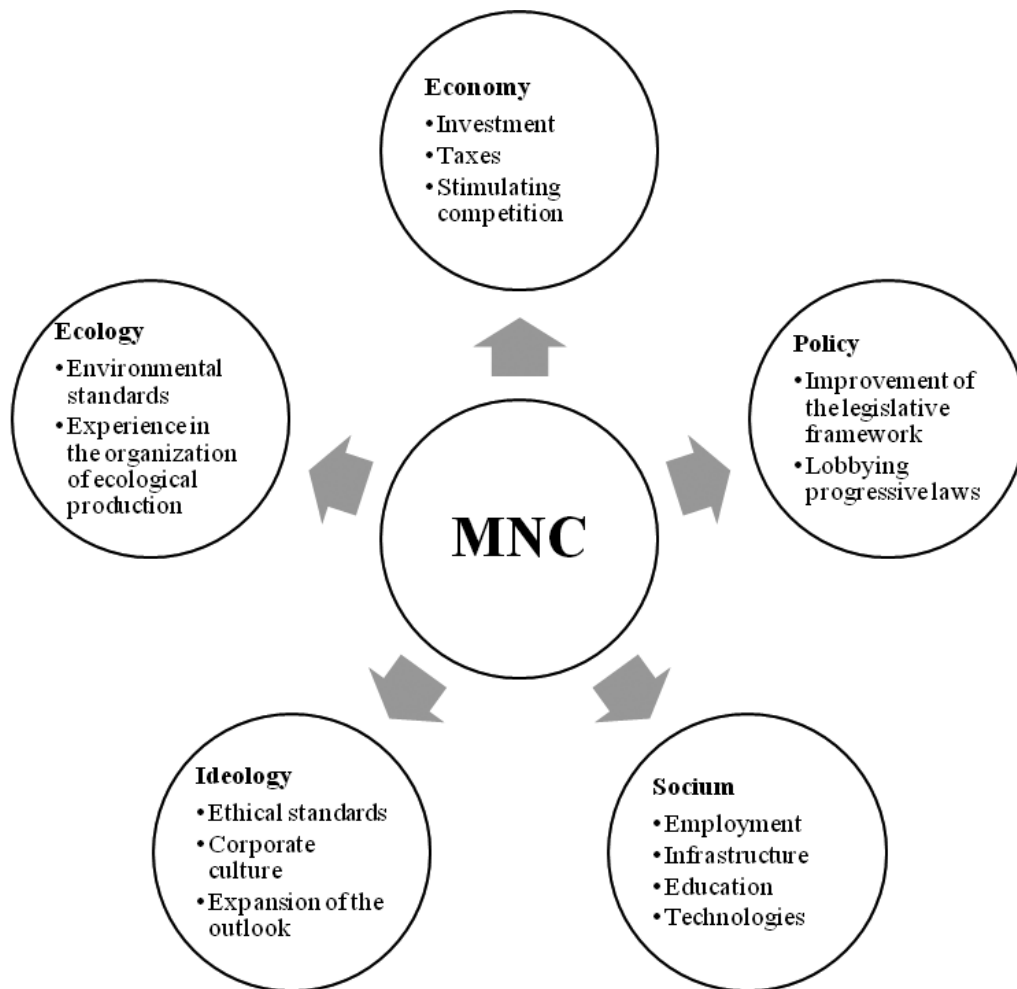
It is quite difficult to compare the effectiveness of managers in different countries. Organizational results are quantitative and qualitatively different from one society to another. External factors (for each element of the societal system) or a specific situation in a subsidiary (such as age or size) affects the results of a subsidiary and yields different results. Therefore, setting the same goals for a certain performance metric for each manager may not adequately assess its performance. In addition, at the strategic level, various subsidiaries perform various tasks. Thus, the use of the same performance indicators for each subsidiary may not be appropriate to support specific goals.

On the other hand, incentive schemes are an important component in developing a strong corporate culture. If the same performance indicators are measured in all countries, the consistency within the MNC will improve. Different motivational structures in different countries that might otherwise lead to divergences in the MNCs may partly be overcome with the help of general incentive schemes.

In this research, it has already been considered, how a societal system can determine the conditions for conducting cross-border business. However, given the size, scale of activities and the contribution that multinational corporations make in the wake of the economy, even on the global market, it is reasonable to assume that the MNEs are able to change the economic situation of the region themselves, lobby important political decisions, incite significant social transformations and introduce environmental innovations, - and as a result, have a very significant effect on societal systems in general.

However, even though cross-border operations of multinational companies integrate the world's economies, there are many counterarguments against the assumption that a homogenisation of cultures is happening. Even within most countries, great diversity of behaviours and tastes co-exist. The internationalisation of companies widens the options available to local people [Morschett 2010].

Figure 2: Positive influences of multinational corporation on the elements of the societal system



The coming on the new market of a powerful MNC can stimulate economic growth, increase tax revenues to the budget, create new jobs, introduce innovative methods of production and release of innovative products (in some cases), inflow of foreign investments, infrastructure development, arrival of highly skilled specialists, increase of living standards of the local population.

For example, the company Nissan Motor Co. in 1984 built a plant in the depression district of Sunderland (UK), providing 4,000 families with jobs and infrastructure [Crowther 1988]. The organization of large industrial enterprises contributes to the arrival of representatives of the scientific environment (attraction of “minds”), engaged in research and development

in the host country. Hired in the domestic market, employees gain experience and management skills as well as knowledge of new technologies for themselves.

Corporations also actively dictate cultural habits and create demand by influencing society through a combination of research, marketing, advertising and media manipulation. The result is a subtle but fairly obvious alignment of state and corporate interests. This cultural homogenization of society, both nationally and globally, is a fertile ground for maximizing their profits. Despite the use of less than one percent of the world's workforce, the 200 largest multinational corporations (MNCs) account for roughly 30% of world GDP (STWR 2008).

Figure 2 shows the positive impacts that multinational corporations can make on the elements of the societal system. However, it should be noted that, along with positive transformations, MNEs can often also carry a number of risks for national societal systems:

- increase of competition in the national market and possible crowding out of domestic producers;
- destruction of authentic features of local production;
- introduction of global standards that contradict the local conditions;
- lobbying conflicting laws (neglect of the national interests of the country and actions in the interests of the MNC);
- pollution of the environment (the use of environmentally weak legislation for the construction of industries that harm the environment);
- unjust exploitation of labor force not protected by appropriate labor legislation;
- capital outflows from the domestic economy to others;
- probability of penetration in the industry related to the national security of the state;
- weakening the role of the state and strengthening the role of MNCs in the economy and state policy;

and others.

Separately, it should be noted that strengthening the power of MNEs can lead to an even greater concentration of resources and leverage in the home countries of MNCs, which may directly or indirectly affect the economies of other countries through their business structures.

Therefore, it is not worth excluding the risks associated with the implementation of the MNO's activities in different national markets. Regulatory function, in this case, is performed by the legislation and state committees of the home country, the host country, the Commission on NIS established by the United Nations, the International Monetary Fund and the World Bank.

One of the most useful things a multinational corporation can bring is the transfer of knowledge that it shares with another country.

Conclusions

International management needs understanding of cross-cultures, interactions of multinational corporations, global perspectives and corporate issues. Understanding the individual values of each country, or region or cultural community, involves taking into account diversity in the economic, social, political, ideological and environmental spheres. International management not only depends on core business competencies, but also requires the knowledge and skills necessary to work and succeed in the international business arena, which includes one of the key competences – multiculturalism.

An understanding of multiculturalism is necessary for an international manager, not only when he or she works with people from other countries, but also with people from the same country who speak the same language, have the same national heritage, but have different worldviews. The economy itself today is multicultural. In fact, international management involves the planning, organization, management and control of employees and other resources to achieve organizational goals through unique multicultural and multinational boundaries. An international manager is one who must interact with things, ideas and people belonging to different cultural environments, while ensuring the distribution and management of human resources and the achievement of the goals of the organization, while respecting the beliefs, traditions and values of the domestic, home, host, or third country

This article does not focus on the dynamics of the environment that the multinational corporation interacts with, which is becoming increasingly volatile and complex with each passing year and each subsequent one. This provokes accelerated changes in the external conditions in each element of the societal systems and requires the organization of faster reaction, adaptation and transformation inside, adds complexity to all internal processes. This aspect is also extremely important and interesting, but is the subject of further research.

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