



**RESEARCH ON CROSS-CULTURE MANAGEMENT OF
MULTINATIONAL COMPANIES – A CASE OF GERMAN AH
COMPANY IN CHINA**

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**AN INDEPENDENT STUDY SUBMITTED IN PARTIAL FULFILLMENT OF
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COMPANY IN CHINA**

Thematic Certificate

To

QIAO SHIBAO

This Independent Study has been Approved as a Partial Fulfillment of the Requirement
of International Master of Business Administration in International
Business Management

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Date: 26 / Sep / 2022

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Declaration

I, Qiao Shibao, hereby certify that the work embodied in this independent study entitled "RESEARCH ON CROSS-CULTURE MANAGEMENT OF MULTINATIONAL COMPANIES – A CASE OF GERMAN AH COMPANY IN CHINA" is result of original research and has not been submitted for a higher degree to any other university or institution.



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(Qiao Shibao)

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ABSTRACT

This study aimed to study the causes for the failure of cross-cultural management of multinational companies to improve the company's cross-cultural communication capabilities and provide guidance for the cultural construction of multinational companies. The cultural conflict and cross-cultural management of multinational corporations was chosen as the research object. Through the analysis of the cultural dimensions of Hofstede, combined with the cultural cube model was used to solve the method of internal cultural differences in the organization. The literature review of cross-cultural management proposed by scholars at home and abroad, comprehensively investigated and studied the current situation of AH company cultural conflict and cross-cultural management. This article used literature research, qualitative analysis, and real cases as the research methods. Through studying the typical cases of German AH company in the Chinese subsidiary, it was found that to avoid management problems caused by cross-cultural conflicts, it is necessary to cultivate the cultural awareness of employees and cultivate a sense of cultural identity. Cross-cultural training can be seen as a very effective measure to resolve cultural conflicts. It can establish an effective conflict coordination mechanism and pay more attention to the coordination of relationships can resolve misunderstandings caused by cross-cultural conflicts. Therefore, studying the cultural conflicts of AH companies and the problems in cross-cultural management can provide guiding suggestions for the cross-border management of other multinational companies of the same type.

Keywords: cross-cultural management, cross-cultural conflict, cultural integration, cultural model, effective management



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1. Introduction

1.1 Research Background

With the continuous promotion of economic globalization and the further development of the Chinese economy, multinational companies' cross-border operations have become a familiar phenomenon (Tian, 2012). Nowadays, companies generally agree that expansion is the way for companies to survive, so they set up branches abroad and take the form of mergers, acquisitions, or joint ventures to spread subsidiaries in every corner of the world. Economic globalization has become the general trend, and more and more multinational companies are struggling in the wave of the world economy. Since the reform and opening, after joining the World Trade Organization (WTO), China has had more opportunities to interact with other outstanding companies in the world (Wu, 2009). In order to expand the market, more and more multinational companies have begun to seek new businesses on a global scale and set up subsidiaries or joint ventures to give full play to their advantages in technology, capital, and human resources (Grandys & Grandys, 2011). AH Germany is a wholly German-owned company, composed of more than 1,200 employees from different countries and regions, and has subsidiaries in 30 countries around the world. In Germany AH China, about 20% of employees are German employees, 60%-70% are Chinese employees, and 10% are employees of other nationalities. This article will take the culture of China and Germany as examples. Applying the typical case analysis of German AH company, based on Hofstede's cultural modality, combined with the author's experience, it is hoped that this study will shed light on the expansion of multinational companies.

1.2 Research Problems

Due to different cultural backgrounds and communication habits, communication barriers were created when entering the Chinese market, which reduced work efficiency and caused great resistance to work progress. In the communication process, conflicts caused by cross-cultural communication are inevitable, which may affect their work efficiency and service quality (Tang, Zhang, & Chen, 2012). For example, in daily work communication, the communication language used by both parties is not the native language (Li & Zhang, 2018). There is no Chinese and Korean, but English

is used as the working language. As a result, the communicator cannot convey all the information they want to express well; and the recipients will not mutually confirm what they understand. Due to the different ways of communication between the two parties, some issues such as teamwork will be affected in the communication and cooperation (Ahmad, Rehman, & Ali, 2019). How to manage cross-cultural differences, draw advantages from both parties, and minimize negative impacts has become an urgent issue for the company to solve.

1.3 Objective of the study

This study uses literature research, qualitative analysis, and real cases as research methods. Collect relevant documents on the theoretical basis of cross-cultural communication and management. The main obstacle to the failure of multinational companies is cultural conflict. Using Hofstede's cultural model to analyze the reasons behind it, based on observations, interviews, and documents collected from the company, the real case of the German AH company is used as an argumentation. Try to use the cultural cube method developed by the Hofstede cultural model to find solutions and form a new corporate culture. This research is not only of theoretical significance but also of practical significance. It is hoped that this research will inspire the management practices of other multinational companies.

1.4 Scope of the study

This study takes Hofstede's cultural modality as the theoretical support. The research analyzes the obstacles of corporate cross-cultural communication from the perspective of communication, conducts research on cross-cultural communication, and tries to develop this theory in German companies. This research uses the methods of literature analysis, observation, interviews, and internal data collection and collation to study the typical cases of German AH company in the Chinese subsidiary. Of course, the success of the German AH company's expansion in the global market has its points worthy of reference. For example, it fully considers the needs of customers and effectively integrates the resources of the local market. In addition, the research will also propose the most integrated strategy for cultural management based on the five-dimensional model and cultural cube model of Professor Hofstede.

1.5 Research Significance

At present, China's economic development is accelerating, attracting many foreign-invested companies (including German investment companies), such as setting up subsidiaries, bringing new technologies, funds, talents, and experience. These are precious resources that will ultimately help our economy continue to grow (Luo, 2021). How to improve the efficiency of cross-cultural communication between multinational companies in China has become a top priority. The article will analyze its significance from the following aspects:

First, effective cross-cultural communication helps multinational companies overcome communication conflicts and has an important guiding role in the construction of corporate culture (Zeng, 2018). Driven by economic globalization, the operations of foreign-invested enterprises have broken the boundaries of national and cultural boundaries. More and more companies are opening branches and subsidiaries in China to achieve a win-win situation with China's economic development. In this process, conflicts caused by cross-cultural exchanges between China and foreign countries have also become an inevitable problem (Tian, 2012). Many foreign-invested companies in China are facing barriers to cross-culture communication. Under normal circumstances, the decision-making of these foreign-invested companies will be based on the knowledge and experience of the local culture, subconsciously or unconsciously making some major decisions, and such wrong decisions will often lead to the failure of the company (Yin, 2018). Therefore, improving the company's cross-cultural communication capabilities can provide guidance for the cultural construction of multinational companies.

Second, efficient cross-cultural communication skills can help companies overcome communication barriers and achieve integration between different cultures (Wu, 2009). As more and more foreign multinational companies build factories or invest in branches in China, more and more Chinese and foreign employees will inevitably face cross-cultural conflicts within the company (Starr-Glass, 2018). Due to the differences in cultural backgrounds, values, and work and life concepts between the two parties, there are deviations in the expression and understanding of information, and barriers to cross-cultural communication have become increasingly obvious (Li, 2019). These issues are a huge challenge for the leaders of these companies. However, the experience of Chinese companies and employees with cross-cultural backgrounds is still very small (Liu, Zhu, & Liang, 2021). It is difficult for managers of multinational companies to formulate corresponding measures in a scientific way to solve this problem. Therefore, efficient cross-cultural

communication skills can properly resolve corporate cross-cultural communication barriers and strengthen corporate cultural integration.

2. Literatures Review

2.1 Cross-cultural management philosophy

This study agrees with Hofstede's view that culture is the property of a company or a part of the country. Culture is a phenomenon that can be learned, and there is no need to learn these conventional methods. In addition, culture is also embodied in three layers, two of which are invisible, while the layers containing symbols, customs, and rituals are visible, and they can be changed according to the meaning given to them (Dubey, 2018). Therefore, culture can be managed in at least some parts. The article will use qualitative research to study the literature and case studies. Culture is the attribute or function of a group, enterprise or country, and a phenomenon that can be partially managed (Kaur, 2020). Regarding the definition of culture, this article adopts the following concept: "Culture is a collective thinking that can be used to distinguish between individuals in different groups and organizations." (Hofstede, 1991) This way of thinking is how people interpret and respond to their surrounding world, and how people treat groups, companies or countries and members of the outside world. The Chao Zhang will distinguish between the dimensions of national culture and enterprises (Chen & Wang, 2019).

Cross-cultural management involves managing work teams in a way that considers differences in consumer culture, practices, and preferences in global or international business environments (Liu, 2012; Zhang, 2013). Many companies must learn to modify or adjust their methods in order to compete in areas that are no longer bound by physical geography. Online interaction is more common in business and other situations.

On the one hand, cross-cultural conflicts have an impact on a company's organizational structure, management model, decision-making judgment, and development strategy. On the other hand, it affects the motivation, assessment, training, promotion, and other aspects of employees (Wu & Ruan, 2018). Crosscultural conflict management refers to taking correct measures to eliminate cross-cultural differences, avoiding cross-cultural conflicts, exploring cross-cultural advantages, and formulating practical management methods to achieve long-term goals in the process of conflict. Enterprise (Wang, 2005).

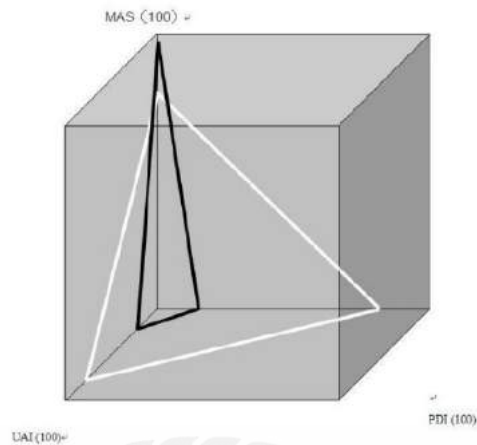
Cultural conflict refers to the friction and collision phenomenon between groups in two different cultural backgrounds due to cultural differences (Zheng, 2017). Cultural conflict is a kind of pressure or conflict that two organizational cultures experience due to opposition in the communication process. Regarding the conflict of multinational corporations, most scholars discussed the evolution process of mutual exclusion and opposition of different corporate cultures. It includes conflicts caused by different values, educational backgrounds, and work habits (Deal & Kennedy, 2009).

According organizational behavior, it divides conflicts into broad and narrow senses. Broadly speaking, it includes positive and negative conflicts, and narrowly defined conflicts refer to negative conflicts (Hou, Wu, & Yin, 2009). Most scholars discuss cultural conflict in a narrow sense, which refers to the process of conflict and mutual exclusion between different forms of the corporate culture (Zhao & Chen, 2018). Corporate culture conflict is a manifestation of conflicts between internal mechanisms and rules and regulations, as well as psychological conflicts between employees in an organization. This article defines conflict in a narrow sense.

2.2 Overview of cross-cultural and management theory

Research on Hofstede Corporate Culture

The differences between enterprises are huge. For example, different products, different markets, different countries, different tasks, different strategies, and different working methods lead to different working methods. Regarding "the way of doing things," each company may be different, which has formed many different corporate cultures (Perlstein & Ciuk, 2019). Hofstede believes that corporate culture is a collective process used to distinguish the thoughts of members of different organizations (Ashkanasy, Wilderom, & Peterson, 2000). Most corporate culture exists in practice, but corporate culture is formed by the values of the senior management team (Hofstede, 1991). But employees may change jobs frequently throughout their lives, and corporate culture will also change. In contrast, the national culture will be more stable. By using similar dimensions in national and corporate cultures, managers can use Hofstede's model to map the surrounding culture. Managers can use this model to reduce cultural differences and create a unique corporate culture suitable for the company.



The dotted line in the figure represents the idealized culture of the newly created culture C. The management team can now formulate strategies based on human resource management, financial management systems, and company levels to promote the creation of a new culture (Zhou, 2017). When cross-cultural cooperation occurs, management can also consider applying the national level to promote or prevent the emergence of a new corporate culture. For example, hiring locals to create a new company C from a company with high UAI, high PDI, and low MAS will bring cultural barriers. When initiating the screening process and formulating strategies, management should consider cultural differences. Performing a cultural analysis before forming the necessary culture may help to identify any pitfalls in management and collaboration.

2.3 The status of research on cross-cultural management

(1) Research-based on human "cultural conflict"

The concept of "cultural conflict" was first proposed by cultural anthropologist Calvero Oberberg in 1960. He defined "cultural conflict" as "because of the loss of familiar social communication signals or symbols, and the lack of familiarity with the other party's society." Symbols, thus causing a kind of deep psychological anxiety disorder" (Oberberg, 1960). With the development of frequent exchanges worldwide, this concept has now been extended to many disciplines such as anthropology, culture, and management.

For multinational companies, the issue of "culture shock" is not only an issue of the company's expatriate managers but also a major issue related to the success or failure of the company's overseas investment projects (Chen & Tan, 2012). Currently, intensive training is mainly used to help expatriates overcome the problem of culture shock.

(2) Cross-cultural integration and difference research.

Existing studies have different views on this issue. The technology transfer and diversified business activities of multinational companies have also promoted the integration of global management. Some scholars represented by Schneider and Balsocks believe that management, like engineering and natural sciences, is not restricted by national boundaries. In other words, "management is management." But Rosabeth Kent, the former editor-in-chief of Harvard Business Review, holds the opposite view. Through his investigation, he found that the common management culture is unified in business practice, and the idea of establishing a global company village is ultimately just a dream (Hofstede, 1991). And it is difficult to achieve in reality. In short, cross-cultural homogeneity and retention essentially reflect the basic characteristics of the culture.

3. Finding

Analyze the cultural differences between China and Germany with the Hofstede model

The formation of Chinese traditional culture embodies the characteristics of the Chinese nation and is the crystallization of the Chinese nation's thousands of years of civilization, with Confucian culture at its core. Many famous philosophers appeared in German history. German culture mainly emphasizes rationality and practicality; pursues perfection; emphasizes principles, plans, and personal values (Hall, 1881).

Table: China German Cultural Value Index

	CHINA	GERMANY
PDI	80	35
UAI	40	65
MAS	66	66
IDV	20	67
LTO	118	31

Resource: Hofstede Comparison of Germany and China

(<https://studymoose.com/hofstede-comparison-of-germany-and-china-essay>)

(1) Power distance (PDI) indicates the degree of acceptance of the unequal distribution of power within an organization and among members of society. Power distance is related to rank. As shown by the PDI in Table, China (80) and Germany (35)

have different meanings of the word “power” in these two countries, and there are significant differences in perceptions. (2) Uncertainty avoidance (UAI) refers to the tolerance for uncertainty and ambiguity. As shown in Table 4.1, China is 40, and Germany is 65. Different ethnic cultures have different attitudes towards uncertainty, leading to differences in the level of uncertainty avoidance. (3) The index of MAS refers to the value standard of society. According to Table 4.1, China and Germany are the same; both are 66. (4) Individualism and collectivism. As shown in Table 4-1, IDV China 20 and Germany 63. The culture of individualism focuses on personal goals. On the contrary, collectivist culture emphasizes collective goals. (5). As we can see in the Table, there is a huge difference in LTO between China (118) and Germany (31). This dimension indicates whether a society’s decision-making is greatly influenced by the past or the future.

4. Conclusion and Recommendation

With the advent of the wave of globalization, international competition has become increasingly fierce. Many multinational companies have invested in China in order to improve their global competitiveness and expand the Chinese market. On the one hand, they take advantage of China's labor resources and government tax incentives. On the other hand, they face a complex environment intertwined with cross-cultural conflicts. Because cross-cultural differences are not only reflected in the process of operation and management but also in the company's goals, human resource management, management operations, and employee incentives (Zeng, 2018). How to resolve this cross-cultural conflict to achieve effective management has become the most concerned issue of multinational companies. This article takes the cultural conflict and cross-cultural management case of the German AH company in China as the research object. Through the analysis of Hofstede's cultural dimensions, combined with the cultural cube model, Berry's integration, innovation, and assimilation are applied. A way to resolve cultural differences within the organization. Refer to the literature review of cross-cultural management proposed by scholars at home and abroad to comprehensively investigate and study the current situation of AH company cultural conflict and cross-cultural management.

And suggest: based on the analysis of the root causes of cross-cultural conflicts, the strategy of combining localization and deep cultural integration. Provide three aspects for AH company's cross-cultural management: awareness management, including value, cultural awareness, and trust; cross-cultural competence management,

including communication skills, language skills, etc.; and coordination mechanism management, including choosing the right strategy for AH company as an example, adopt the second method of cultural integration suitable for the company. Furthermore, AH company should pay attention to the selection of senior management personnel. Finally, Hope that this study will give some inspiration to the management practices of other similar multinational companies.



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