Abstrakt

DZIAŁALNOŚĆ KONCERNÓW TRANSNARODOWYCH
– MOTYWY, FORMY INTERNACIONALIZACJI I STRATEGIE ROZWOJU
A CZYNNIKI KULTUROWE

Pozytywnie zweryfikowano hipotezy badawcze zakładające, że czynniki kulturowe wpły-
wają na działalność koncernów transnarodowych (TNC) kanałem wewnętrznym (poprzez
zasób wielokulturowego kapitału ludzkiego zatrudnionego w koncernie), jak i kanałem ze-
wewnętrznym, przenikającym z otoczenia biznesowego, ze strony kooperantów, klientów i kon-
kurencji. Synergia czynników kulturowych wpływających kanałem wewnętrznym i zewnętrz-
nym oddziałuje na skuteczność realizowanej strategii działania TNC.

Słowa kluczowe: Koncerny transnarodowe, czynniki kulturowe, ZIB, teorie internacjonalizacji, biznes międzynarodowy, modele organizacyjne, orientacje, strategie rozwoju

INTRODUCTION

Awareness of the significance of the intangible factors of development which in-
clude cultural factors in the area of a business entity activities is gradually gaining in
importance in both theory and practice. In their activities transnational corporations
(TNCs) take cultural factors into account since, on the one hand, they affect the adopted
model of managing the organizational structure of a multi-ethnic workforce em-
ployed in the corporation (in its headquarters and foreign branches) and, on the other
hand, determine the choice of operations strategy in geographically and culturally
diversified markets of host countries.

The choice of the organization management model, investment motives and forms
of internationalization are decided within the framework of the internal circumstances of
TNC activities, whereas investment attractiveness of a host country is decided from the
point of view of external determinants. These determinants affect the choice of the TNC’s
development strategy where efficient interaction of cultural factors is crucial because it determines possibilities of adaptation and effectiveness of a transnational company.

Determining the influence of cultural factors on the TNC activities is in focus of interest of this paper. Additionally, analysis of internal and external circumstances of the corporation operations is significant. In this sense the following questions are important: 1. What are the channels through which cultural factors influence TNC activities? 2. To what extent do the corporations take cultural factors into account in their investment motives and forms of internationalization? 3. Do cultural factors affect the investment climate of the TNC host country? 4. Which TNC development strategies take cultural factors into account in their widest possible scope? The answers to these questions will allow us to analyze the premises of starting and conducting business by a TNC.

With reference to the above said the following research hypotheses have been formulated: cultural factors influence the TNC activities through an internal channel (resources of the multicultural human capital employed in the company) as well as an external channel permeating from the environment. The synergy of cultural factors inflowing through the internal and external channels has an impact on the effectiveness of the TNC implemented operations strategy.

This paper is a continuation of the author’s interest in the issue of the TNC role in global economy earlier discussed, among others, in TNC Activities in View of the 21st Century Challenges and Reality (within the framework of the project No. PB-3/2014) [Kosztowniak, 2015: 51–60] and Expansion of Transnational Corporations in the Years 1990-2013 (Ekspansja korporacji transnarodowych w latach 1990-2013) [Kosztowniak, 2015 b: 101–128].

1. CHANNELS OF THE CULTURAL FACTOR IMPACT ON TNC OPERATIONS

In economic literature there are many concepts of TNCs described also as transnational corporations or global enterprises. The classical TNC concept describes it as an enterprise based on FDI and other forms of transfer of the factors of production which conducts and supervises economic operations in at least two countries. These operations are supervised by the corporation centre (headquarters) located in a specific country but conducted and gradually developed by the parent company’s branches in other countries of the world [Kosztowniak, 2015 a: 52].

Philip Kotler, Somkid Jatusripitak and Suvit Maesincee [1999: 37–42] draw attention to the types of capital which determine the power and importance of enterprises in foreign markets. They distinguish the following types of capital: natural, financial, human and social. The last two categories, i.e. human and social capital are shaped by cultural factors, i.e. the culture of the TNC parent country as well as the FDI host country. It should be mentioned that these types of capital are characteristic of every country.
Cultural factors affect enterprises committing themselves to international business since they are in contact with various national cultures. These cultures determine values, standards and behaviours of employees, contractors and customers of international companies. It means that both international determinants (processes) as well as external ones within a TNC are subject to the cultural factor impact (Table 1).

**Table 1. Channels of the cultural factor impact on areas of the TNC international business.** Author’s own development on the basis of: [Graham, 2003; Rozkwitalska, 2008: 227–228]

<table>
<thead>
<tr>
<th>Channels</th>
<th>Internal channel (human capital resources of the headquarters and foreign branches – managers, employees)</th>
<th>External channel (business environment – contractors, customers, competitors, institutions, organizations etc.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Areas of international business</td>
<td>International management of the corporation organizational structure</td>
<td>International trade</td>
</tr>
<tr>
<td>Activities</td>
<td>1. Personal interactions between people employed in the headquarters and foreign branches. 2. Different attitudes to: motivating employees, conducting operations, resolving conflicts, managing the group in the face of different degrees of power centralization and de-centralization.</td>
<td>1. Ways of conducting negotiations. 2. Tradition, customs, business and social practices.</td>
</tr>
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</table>

Cultural factors can support chances, but also trigger off threats in the operations of corporations. Some attempts to emphasize chances while limiting threats include, among others, different models of organization, orientation and cross-cultural management adopted by TNCs (Table 2).

Positive effects of the influence of cultural factors (multiculturalisms) on the organization of the TNC international structure can be traced to the potential of knowledge, skills and experience of employed managers and the HQ and foreign branch staff. Such an international milieu of the human capital can stimulate more commitment, motivation and competition among employees, generate new ideas and innovative solutions, and eventually affect productivity growth in the entire TNC. However, the same premises and features of the human capital can be the source of threats. These threats usually result from the scale and variety of problems which can become apparent in the geographically dispersed TNC operations.
Table 2. Models of TNC organization, orientation and cross-cultural management.
Author’s own development on the basis of: [Bartell, Goshal, 1999; Perlmutter, 1969; Rozkwitalska, 2007: 227]

| Organizational models according to Ch.A. Bartell and S. Goshal | Model of the international organization | 1. The influence of cultures on the TNC organizational culture is negligible.  
2. The TNC enters culturally close markets and the international model assumes close links between the headquarters and the branches. |
| --- | --- | --- |
|  | Model of the multi-ethnic organization | 3. It assumes the presence of the corporation in distant markets, also in the sense of culture, which causes internal diversification of the TNC cultures.  
4. The corporation stresses local differences, allowing adjustment of local cultures or preserving their identity. |
|  | Model of the global organization | 1. Marginalizing the significance of local differences.  
2. Activity in many markets worldwide causes considerable internal diversification of the staff, however, the pressure on integration makes the corporation ignore the influence of these divergences and deliberate minimizing of their weight by the headquarters.  
3. The organizational culture of the corporation is little affected by the national branch cultures.  
4. The TNC aspires to push its „own organizational culture” into every place of its activities. |
|  | Model of the transnational organization | 1. Requirements of operations in the situation of strong pressure on integration and responding to local differences cause that the internal diversity of the transnational organization is significant.  
2. Due to the strong impact of national cultures on the organizational culture of the corporation, some attempts are made to develop a “uniform corporate culture” which could respond to local differences in a flexible way. |
| Basic orientations of transnational corporations according to H. Perlmutter | Ethnocentric | 1. Typical of the initial phase of internationalization.  
2. The TNC treats the parent market as the basic one; in the strategy of expansion to foreign markets it chooses the ones which are most similar to the parent market.  
3. Management is centralized and the TNC does not adjust itself to the requirements of individual countries. |
|  | Polycentric | 1. The TNC notices the separate character of local markets.  
2. Management decentralization is to serve the best possible adaptation to the requirements of individual countries. |
|  | Geocentric | 1. The TNC treats the world or the chosen region as uniform.  
2. Some corporate activities are centralized. |
| Cross-cultural management models according to N.J. Adller | Model of cultural dominance | 1. Significance of the organizational culture of the headquarters plays the superior role.  
2. The HQ culture is imposed on all TNC entities. |
|  | Model of cultural coexistence | The subcultures of the headquarters and foreign branches exist side by side with interactions limited to minimum. |
|  | Model of cultural cooperation | On the basis of the interactions of different subcultures (of foreign branches) attempts are made to develop from them a more effective integrity within the cultural synergy framework. |
The corporate culture preferred by the TNC headquarters can diverge from the model appearing in a foreign branch. As a result this may lead to conflicts founded on a national culture determining the organizational culture of the parent enterprise as well as foreign branches. Problems in managing branches can result from cross-cultural interactions in the internal and external environment of corporations.

According to Nina Jacob [2003] the culturally diversified environment means that people representing all sorts of ethnic or national groups, different organizational cultures and different sexes work together (e.g. in a multi-branch structure of the company). The cross-cultural management makes efforts to relieve problems arising from multiculturalism.

According to Małgorzata Rozkwitalska [2008: 24] cross-cultural management concentrates on recognizing and breaking cultural barriers in interpersonal interactions, seeking the mechanisms including organizational structures and functioning models which would enable achievement of the set goals in a multicultural environment. An attempt to take all these aspects into account is the TNC cultural effectiveness model. The TNC cultural effectiveness is determined by the applied cross-cultural management model which results from the organizational model, the latter being dependant on the company’s orientation in foreign markets (culturally conditioned) and the so-called external selection factors.

Cultural factors also have a variety of effects on the way business transactions and marketing activities undertaken by a TNC are carried out. In this case, the knowledge of specific cultural factors characterizing the markets of host countries is important. This knowledge will enable more effective getting through to contractors and clients as well as influence the choice of the form of international operations and adoption of the competitive strategy.

2. INVESTMENT MOTIVES

Making an above average long-term profit is the main motive of the TNC activities, providing its shareholders achieve the highest return on equity and the value of the company’s goodwill increases. According to John H. Dunning [1993: 56] these goals are achieved by pursuing the motives, i.e.:

- **market-seeking** – for products and services of the corporation and attempts to bypass tariff and non-tariff barriers,
- **resources-seeking** – including mainly production capacity and high capabilities, at lower significance of physical resources and the workforce,
- **strategic assets seeking** – making attempts to take over another company and/or its strategic assets in order to gain access to new resources and capabilities, especially those advanced from the point of view of innovation, technology and strengthening the potential of the organization,
- **efficiency-seeking** – by optimization of the organizational structure of the corporation, usage of economies of scale and risk diversification in different geographical markets.

From the TNC’s point of view in the aspect of cultural differences occurring between markets, there is a conviction of differences in the human capital resources. People differ among themselves with their skills, abilities and productivity. These features are crucial from the point of view of the staff the corporation employs; they determine the way of negotiations and cooperation with contractors, local enterprises and affect demand for goods and services from consumers who differ in their preferences depending on the host country, etc.

Cultural differences and a different way of running a business occurring between the TNC parent country and the host country determine the so-called “psychic distance” [O’Grady; Lane, 1996: 311] which is extensively discussed by e.g. stage models of the theories of firm’s internationalization (the Uppsala model) and makes expansion of operations to new markets longer in time.

The dimensions of this psychic distance and cultural differences have an influence on the adopted form of internationalization:

- **investment (capital)** internationalization – e.g. FDI flows, foreign branches and divisions, intra-corporate flows, or takeovers and mergers,
- **non-investment (noncapital)** internationalization – e.g. joint ventures, international sub-suppliers, strategic alliances and licences.

If the “psychic distance” is smaller, the TNC chooses investment forms of activity, however, if it is larger – non-investment forms are preferred.

Among a numerous group of theories explaining internationalization of companies and their expansion by undertaking FDI, cultural factors are mainly taken into account by e.g. the theory of internalization, theory of international production and its extended version as well as the TNC evolutionary models (Table 3).

It is worth mentioning that theories of the TNC development are incessantly evolving. An example here can be the so called *born globals* phenomenon (enterprises being global from the very beginning). This notion includes companies which did not demonstrate a psychic distance from the start and from the very beginning they functioned as global companies, i.e. natural-born globals. Such companies select foreign markets assessing their development potential and implementing the fast internationalization strategy rather than taking the phenomenon of psychic distance into consideration [Vahlne, Nordström, 1993: 529–546].

This phenomenon is connected with the fact that companies, even if they do not refrain themselves from foreign expansion, deal with foreign competitors in the parent market. This situation forces them to face up to the competition and in the end they break the psychic distance. According to Gary A. Knight [2000: 12–32] *born globals* are most often the niche companies functioning in industries associated with advanced technologies. Their products are usually innovative, of high quality or added value which distinguishes them from its competitors.
Table 3. Main theories of internationalization taking cultural factors into account.

Author’s own development on the basis of: [Zorska, 2000: 69; Dunning, 1980, Johnson, Vahlne, 1997: 7–32]

| Theory of internalization (referring to the market failure) | 1. Internalization means that the enterprise undertakes certain functions which so far have been carried out by independent partners.  
2. There are transaction costs, i.e. costs of coordination of relations between individual contractors; they include: costs of seeking business partners, fulfilling commitments, pursuing claims in courts or cultural differences between countries.  
3. When we deal with internalization combined with internationalization, culturally determined problems in the field of managing a geographically dispersed entity add to cost generating factors. |
|---|---|
| J. H. Dunning’s theory of production - OLI paradigm (combination of the theory of ownership, location and internalization advantages) | 1. In the L paradigm (*Location specific advantages*) cultural factors are taken into account among the so-called socio-economic factors - in this aspect the location advantages can result from a “negligible cultural distance” in relation to the investor’s country of origin.  
2. In the O paradigm (*Ownership specific advantages*) the ownership advantages consisting in the knowledge possessed and experience of the foreign markets of the entity internationalizing its activities can result from its ability to understand foreign markets and local adaptations.  
3. In the I paradigm (*Internalization incentive advantages*) being an element of the international production concept, there is a reference to cultural conditioning as cost-generating factors. |
| J.H. Dunning and S. Bansal’s extended theory of international production | 1. Cultural factors have an impact on the TNC operations through transmission channels, i.e. national institutions in the parent market and deposits, and the TNC management preferences concerning the form of internationalization and the choice of location.  
2. The effect of TNC activities on culture of the host country is noticeable.  
3. The investor’s ownership specific advantages are subject to the influence of culture as culture affects conditions in which ownership advantages are formed and determines the ability to gain and use knowledge about foreign markets.  
4. Cultural factors through the formed psychic distance determine forms of entering the market and increase transaction costs leading to internalization. |
| TNC evolutionary models | **The companies internationalization model (the 1970s)- the so-called Uppsala model.**  
1. Sequential transition of a company through subsequent stages in the process of its internationalization, from activities in the domestic market to undertaking sales and production outside the territory of a given country.  
2. Cultural factors explain the direction and forms of internationalization.  
3. At first enterprises prefer to enter the markets of the countries in the case of which the cultural distance is smaller; what is meant here is the language, culture, standards of education, level of economic development, political or legal system.  
4. The cultural distance diminishes together with the increase in knowledge and international experience; the preferred markets are those known so they are characterized by small geographical (physical) and cultural distance.  
5. The enterprise decides on FDI when its knowledge about the foreign market and experience acquired there are sufficient to reduce the risk associated with internationalization. |
| Theory of the TNC development paths (the 1980s) | 1. As the process of the TNC internationalization deepens, the cultural aspects affect the following factors:  
2. internal selection (shaping the corporation’s adaptability to the growing scale of activities, coordination complexity, diversity and requirements within the culturally diversified markets),  
3. external selection (originating in an international environment, that is in cross-culturalism resulting from geographical diversification and the interaction effect of supranational institutions). |
From the born globals perspective, the psychic distance does not play an important role in the choice of foreign markets because what they search abroad is, first of all, a possibility of using their unique resources or a market niche. Today’s born globals start international business much more quickly than the companies in the past. This phenomenon can appear both among big as well as small and medium-sized enterprises.

3. INVESTMENT CLIMATE IN THE TNC HOST COUNTRY

Among determinants resulting from the investment climate of the host country the following are mentioned: conditions of a foreign enterprise functioning (e.g. political and economic stability, liberalization policy and international FDI regulations), facilitation of foreign enterprise operations (investment incentives, business environment, FDI promotion) and the level of investment risk. The FDI location determinants are often classified into four groups, such as: economic, formal-and-institutional, natural and social-and-cultural ones [Gorynia, Nowak, Tarka, Wolniak, 2012: 64–86; Kosztowniak, 2012: 105–134].

As far as the discussion about the impact of cultural factors on the TNC activities (e.g. in the form of FDI) is concerned, the social-and-cultural determinants are of particular importance. Among these determinants we should mention: linguistic, religious and racial differences, nationalism and its influence on social attitudes, commercial and social customs, social structure by age and education, social policy of the state, the pace of social transformations and the level of urbanization, class structure of society and models of actions (corruption, law obedience, work ethics).

From the TNC’s point of view the social-and-cultural determinants mentioned form trade relations and demand for goods and services on the part of customers from the host markets. TNCs adjust their production and sale strategy to some of customers’ habits and preferences; in other cases they offer standard and/or new products trying to convince customers to them with the use of different marketing tools.

4. DEVELOPMENT STRATEGIES

In view of the orientation and management models followed by TNCs, the concept adopted is that of the strategy of the organization development. This strategy constitutes the basis of long-term operations and building competitive advantage in the international market. It determines in which sectors and geographical markets, at what pace, in what manner, by what stages and with which instruments the company is going to strengthen its long-term competitive position.

Due to the cost pressure and the need of local diversification of their offer, TNCs undertake implementation of one of the following four strategic concepts [Hill, Jones: 233–237]:
international – which is based on centralization of operational decisions at a small pressure on costs; in a sense it corresponds to the ethnocentric orientation;

multinational – applicable when a need arises to adapt to local markets and the pressure on costs is negligible; it corresponds to the polycentric orientation;

global – used in the situation of very severe competition and a slight pressure on adaptation to local markets; it corresponds the geocentric orientation;

transnational – implemented at a very high pressure on costs and at the same time clearly stressing the need for local adaptation; it corresponds to the geocentric, interactive orientation (individualization of the strategic attitude e.g. resulting from the necessity to take into account specificity of the entire “regions” – regiocentricism).

Cultural differences and different preferences of customers in the broadest sense of the word are taken into account in multi- and transnational strategies. The multinational strategy is applied when the aim of individual corporate companies is to adapt the processes of design, production, marketing, logistics and distribution to the requirements of customers in local markets.

According to Andrzej Koźmiński [1999: 18] the multinational strategy consists in applying a separate adaptation process to specific local conditions to each project group. In Anna Zorska’s opinion [2000:156] the multinational strategy consists in de-location of resources and capabilities and decentralization of operational decisions to the TNC’s overseas branches whose task is the best possible adaptation of production and sales to the local market needs in the host countries of the said branches. Zdzisław Pierścionek [2006: 321] claims that the gist of the strategies is to adjust the product features and marketing to the tastes and preferences of customers in a given country.

On the other hand, the transnational strategy [Sowa, 2006: 96] is the latest, most difficult and most complex model of strategic activities, which can be effectively applied while using resources, skills and key competences. This strategy is a mixed strategy because it includes elements of the global and multiethnic strategies. It is possible to apply it in a specific external environment of strong globalization of the sector and market at the same time having a combination of unique resources and skills at one’s disposal.

CONCLUSIONS

Cultural factors influence the TNC operations through an internal channel including the resources of the multicultural human capital employed in the headquarters and foreign branches as well as through an external channel – business environment of contractors, customers and competitors. Cultural factors are most clearly revealed among the TNC’s investment motives related to seeking resources, strategic assets and capabilities. These factors are the focus of the quality of the human capital. In the theory of internationalization these factors are most clearly exposed in the theories
of: internalization, international production (the Eclectic OLI Paradigm) and in its extended version, and the TNC evolutionary models (the Uppsala model).

When TNCs choose the FDI location, investment attractiveness of host countries is determined, apart from economic and formal-and-institutional determinants, by social-and-cultural determinants. The latter have an influence on trade relations and demand-induced preferences of customers. Among the TNC development strategies, the importance of cultural factors is taken into account mainly by the multinational and transnational strategy.

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