

Making Cross-cultural Research Relevant to European Corporate Integration: Old Problem – New Approach

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Traditional cross-cultural research may no longer be useful for the problems facing Europe's cross-border companies. Past research, built on largely North American ideas about individual and organisational values, cannot be easily applied to business problems requiring policy choices concerning employee management. Furthermore it is questionable whether past research actually measures values important to companies which must design policies to integrate their large multi-country workforces. Advances in research methodology indicate that new approaches to generating cultural knowledge may yield better results. This paper reports the results of a study of European managerial values designed to uncover European values using more appropriate methodology. The authors conducted a six-country study of over 900 managers working in 70 companies in the European financial sector. The results of this study suggest that although European managers have widely-differing solutions to common managerial problems there is an underlying logic that guides their choices. The reasons given for these choices suggest that integrating systems of employee management in Europe will be difficult but not impossible. © 2000 Published by Elsevier Science Ltd. All rights reserved

Introduction

You can certainly imagine this situation: your company hired a cross-cultural management trainer who gives interesting, even entertaining seminars. The seminar is highly rated by its participants, which makes the HR department managers happy. You even remember a few of the better cross-cultural disaster stories to recount on your next international trip. Then a few months later you are abroad in a tough situation doing a performance appraisal or salary negotiation, or even worse, breaking the news of a workforce reduction. Things are not going well. Your carefully developed justifications are not being accepted. The anecdotes and training simulations of a few months earlier fall short of the mark. You are about TO BE one of those disaster stories consultants so like to recount. What went wrong with your cultural training?

Well, actually nothing. The fact that you were open to the concerns and opinions of your foreign colleagues indicates that you no longer think there is only one way of accomplishing something. That training session probably helped you be more tolerant and

accepting of culturally derived differences. But still it did not help you smoothly accomplish your task. Why not? Most likely because you had the wrong tool and information for your task. If your job is to estimate profit streams for a new product line do you use the calculator that comes with your computer operation system or modern spreadsheet software? If you buy advertising media for the Italian market do you start by checking the rates for Sweden? When you are writing an intellectual property rights contract with a new joint venture partner do you consult the laws circa 1960 or their latest incarnations? Of course you use updated tools and the latest information for your job. You should do the same for your cross-cultural corporate integration.

The Need for Better Cross-cultural Knowledge

Companies operating in the global market are increasingly faced with 'cultural' problems. This means more than preparing an expatriate for a foreign assignment. Today, especially in the European market, this means integrating many national values systems into a competitive organisational culture. When a German, for example, believes his opinion is best who is to say that the French or Spanish managers' are better? In the past one could rely on the impersonal market which awarded automobiles to Germany, wine and fashion to France, and olive oil and sunny vacations to Spain. This traditional arbitrator is of little use to multi-sector, multi-market European companies that must adapt their traditional values to the new multicultural reality. How companies approach this task can literally mean success or failure. What they need is a starting point that is built on understanding how cultural values are tied to real organisational problems. This is the goal of European Managerial Decision-Making Project.¹

A Story About Fishing

Cross-cultural research about individual values and organisational behaviour is plagued by a central problem we call the *tropical fish problem*. Briefly, marine biologists are trying to understand the bright coloration of tropical fish (Marshall, 1998). The bright displays of colour humans see in photographs are not the same things that fish themselves see because the sea filters out many colours. Bright red, for example, becomes black at 20 meters. What do the fish see? What do the colours mean to them? Marine biologists are stymied because they do not have the same frame of reference as the fish they study. The fish, of course, are not very helpful in explaining things either. Therefore creating the same frame of reference is difficult especially since human eyes have only three

colour receptors: blue, green, and red sensitive cones. Fish eyes have at least four and some have as many as 12. This allows fish to see colours invisible to humans and to see colours in much greater detail.

The Problem of Cross-culture Research

We think cross-cultural researchers share the same problem. To us any cross-cultural research questionnaire is a bit like a flash photograph of a tropical fish, it 'sees' something that is real (i.e. the colour is there even if not perceived without the flash). But interpreting what the coloured patterns mean is not easy because our frame of reference is very different. For this and other reasons early attempts to test largely North American conceptualisations of human values and organisational behaviour in multicultural environments were met with heavy criticism. Roberts reviewed the cross-cultural research related to organisational behaviour and found:

'Most of the studies are based on surveys which are not well thought out. ...It is not well guided by theoretical underpinnings, data are often weak, and conclusions are difficult to comprehend. Organisations are rarely viewed as parts of their environments, yet understanding organisational - environmental interactions seems a major practical reason for engaging in cross cultural research. (Roberts, 1970; Weinshall, 1979)'

If the period from 1960 to 1979 witnessed the unsteady debut of cross-culture research in the organisational sciences it is clear that since 1980 the field has rapidly developed. The academic rigour of cross-cultural research steadily improved. Cross-cultural research in the organisational sciences matured during the 1980s. Major studies by Hofstede (1980); Trompenaars and Hampden-Turner (1998), and others contributed substantially to this process. It is now the conventional wisdom that any search for universal characteristics, whether of human values or organisational behaviours must be situated in an international environment. Multicultural samples are becoming a standard methodological requirement for social science research (Earley and Erez, 1997).

Interpretation and Relevance

But, like the colours of tropical fish, interpreting the findings of this impressive collection of studies requires more than intelligent synthesis. In fact it may be more valuable for what it has taught us about how to research rather than for what it has found. Why? The Achilles' heal of much of this impressive research is that (1) questions asked by these surveys are essentially based upon American concepts or theories of human behaviour² and (2) measured using some type of closed answer question. In fact, according to Hofstede (1991, p. 254), the fundamental

flaw of most cultural research is that ‘... instruments [i.e. questionnaires] cover only issues considered relevant in the society in which they were developed...’. The basic questions included in most cross-cultural questionnaires, including those of Hofstede (and its many replications and extensions) and Trompenaars arose directly or indirectly from theoretical work done in North America during the 1950s and 1960s. These theories relied on a body of ideas and knowledge accumulated during a tumultuous period of American history. Two great wars, an industrial revolution, the long and bitter economic depression, racial strife, and a divisive war undoubtedly influenced both the theorists and the subjects of this theorising in ways difficult for us to understand.

So What’s Wrong with That?

These historic events were the context in which the questions commonly asked today were created. Is it appropriate to still use these questions? Difficult to answer, but if we examine critically some of the questions for alternative contexts perhaps we can offer other plausible decision settings. For example, Hofstede measured the construct, Power Distance Index (PDI) using only three questions. The question most important for this measurement (i.e. the one with the highest positive loading) is ‘How frequently are employees afraid to express disagreement with their managers?’ Hofstede’s underlying assumption is that employees in cultures with high PDI tend to accept the orders of their superiors without any discussions and employees in cultures with low PDI are more likely to analyse and question the opinions of their superiors. But what exactly does *express disagreement* mean? Is it possible that criticism has a different meaning in different cultural contexts?

The Problem of Context?

Usually it is reported that criticism plays a much more important role in France than in Germany. Criticising the superior seems to be a ‘national sport’ in France whereas German employees do not express their disagreement with the superior as frequently and as openly. German employees are often associated with the stereotype of commitment to ‘law and order’ and following commands without many questions. Research by members of the German European Managerial Decision-Making Project team, determined that French employees do not interpret this question in the same way as Germans, Hahn (1997). It became clear during a course of qualitative interviews of French and German managers that disagreement was differentiated by ‘task-oriented disagreement’ and ‘personal’ disagreement. For German managers *to express disagreement* means to give a different position in a task-oriented discussion, for

French managers it means to question the superior’s personal leadership.

Due to the divergent educational systems — elitist in France, egalitarian in Germany — French and German managers differ in their power bases. In the French educational system values like authoritarianism and respect embed a ‘natural’ distance between ‘top’ and ‘bottom’ in students from a very early age. In French organisations, brilliant theoreticians educated in the *grandes écoles* become top managers and supervise employees with much lower educational status. In Germany only 16 per cent — in contrast to 46 per cent in France — of the top managers have university degrees, but 42 per cent of the middle managers in Germany compared to only 20 per cent in France have university diplomas (Maurice *et al.*, 1982, p. 186). This leads to different leadership styles. For a French manager the distance from their subordinates is important — their power base is constructed on social status and intellectual superiority. For German managers co-operation is more important, they see themselves as coaches and their subordinates as their team. Their power base is built on technical expertise and experience. Criticism in France serves to question the superiority of the leader — in this sense it is a ‘little revolution’. Leaders unable to nip this criticism in the bud are considered weak. Criticism in Germany serves to reinforce the appearance of being an active member of the team fighting for better results. Leaders unable to integrate the ideas of their subordinates and to support their commitment to the organisation are considered weak.

Furthermore, the type of position or skill the employee has will certainly influence the meaning of this question. For example among young technical professionals expressing disagreement within their area of competence may be actually desirable because it can serve to reinforce their importance within the work context. Similar behaviour within a superior’s area of competence may be less beneficial. Employees with professions needing fewer skills or which are less secure are certainly going to be more careful about expressing disagreement. It seems clear from this research that Hofstede’s indicator for PDI lacks a functional equivalence across the French and German cultural systems. The context of the question is clearly as important as the answer.

So the Context is Important!

This exercise could be continued for other questions asked by most cross-cultural researchers. The end result would leave little doubt that there is a flaw in the very core of most cross-cultural research questionnaires. But is this a necessary flaw about which we can do little other than accept its presence? We do not think so. Neither did the Chinese Culture

Connection, a group of academics that set out to identify and measure ten basic values of Chinese culture (Chinese Culture Connection, 1987). They relied on their 'Chineseness' to identify these values. Their final questionnaire includes forty questions and is designed in the same way as Western questionnaires to facilitate comparisons with previous cross-cultural research (Hofstede, 1991).

As innovative as this project is it suffers from the second flaw mentioned above. It purposely uses Western style questions. Closed answer questions such as 'How important is chastity in women? Very important; important; somewhat important; of little importance; not important' cannot be answered by most respondents without placing the question in an appropriate context. Of course an answer will be given by a conscientious respondent, but is it the 'real' answer? Does it truly reflect the respondent's values under differing contextual situations? Is the answer comparable across cultures? One can readily imagine scenarios where an answer to this question would be highly correlated with gender, age, the situational setting, and any number of other factors. Without these background details we are left only with a response without knowing what situation the respondent was thinking about when the answer was given (Ross and Nisbett, 1991).

Essentially asking questions like these are inappropriate for determining values. To illustrate we will ask you, the reader, a question. How important is it to offer your guests an alcoholic beverage? Very important; important; somewhat important; of little importance; not important. If you find yourself automatically wondering about the situational setting of this question before you answer then you understand why knowing the question's context is crucial. If you would answer the question anyway assuming whatever situation you were in when you last offered the drink to a guest then you understand the problem of cross-cultural researchers.

Measuring the Invisible

The more general problem with finding human or organisational values is that they are notoriously difficult to identify.³ Schein argues that values lie at the lowest level of human consciousness and are difficult to evoke. We seldom have the occasion to fully identify and understand our values and therefore they may not be fully understood (Schein, 1986). Our guide for daily action derives from habits or rules over which we have little control. Simply asking a question is not sufficient to elicit a deep search for values. It may result in an opinion but opinions and values are very different. Nisbett and Ross suggest that the values we use to make decisions are stored in memories of events or situations, which psychologists call scripts (Nisbett and Ross, 1980). To use a

value one must first remember it. That is we must find where we have stored our values, decide which are applicable to the decision we are making, and then apply the value to reach a solution. We start this process by *triggering* it with problems we face in our day-to-day lives. Triggering this process in the artificial situation represented by a questionnaire is more difficult. For many years businesses have tested new management recruits by giving them actual situations to solve. These simulations or in-basket tests provide more accurate information about the potential of the recruit than their course grades. To find accurate information about someone's values we should be equally demanding.

Pulling the Trigger

A good way of helping someone uncover and understand their deeply held values is to place them in an actual situation where they need to make a decision. Nisbett and Ross suggest that by giving respondents *vivid information* (i.e. very concrete, case-based, with situational details) as opposed to *pallid information* (i.e. abstract, summarised, aggregated statistics) we can better approximate an actual situation. This conjecture is supported by experiments conducted by Nisbett and Cohen (1996). They found that using typical questionnaires to measure the appropriateness of violent responses returned similar answers across regionally distributed samples. However by using situational research instruments with specific rather than abstract information they uncovered more divergent views about the use of violence. American men from the South are much more likely to respond to certain situations with violence than are men from the North.

So Why Doesn't Everyone Do It?

If pallid, close-ended questionnaires are inappropriate to fully uncover cultural values why are they used so extensively? Perhaps the primary reasons are cost and professional bias. Scoring a close-ended questionnaire is quick and easy. It does not require a high level of training or linguistic abilities. It can often be done by a computer. These traits combine with advantage in the field of academic research where budgets are usually limited. Scoring situational scenarios with open-ended questions is costly, requires highly-skilled people with extensive linguistic abilities. For accuracy each answer must be independently coded two or more times. Any differences in results must be discussed and resolved.

Professional bias is another, albeit sensitive, reason. Each profession has its tools. It is quite natural that academics approach their subject of research using their own tools. No one wants to criticise the tools of

another profession. Perhaps it is sufficient to note that anthropologists, who after all are experts in the social and cultural development of humans, generally use field studies where they observe the daily activities of a people to discover their values. Psychologists have developed sophisticated methods ranging from simulations to questionnaires for understanding human behaviour. Economists also find cultural differences examining economic behaviour (Segalla, 1995). In other words, there is a wide range of research tools used to study culture. Each profession has its preferred or customary approach.

A Final Problem

Let's briefly return to the *tropical fish problem*. The principal cross-cultural research projects in the organisational sciences have used close-ended questions allowing no alternative input from the respondent. For the reasons argued above the best way to uncover deeply held values influencing organisational decisions is by using open-ended questionnaires based on scenarios typically found in business settings. But creating more sophisticated research tools will not automatically create better cultural knowledge. The stumbling block is the interpretation of the answers collected. Since it is nearly impossible for a person from one culture to become sensitive enough to interpret answers coming from another, a multicultural team should do the coding. The open-ended answers provided by respondents should be analysed first by two or more sets of team members coming from the same culture. Then, to deepen the understanding of ambiguous responses, teams should ask for competing interpretations from foreign team members. This serves to help all team members strive for clarity and precision. We believe this approach helps to make visible the 'true colours' or what researchers call *culture-free* knowledge normally seen only by members of a national culture (Flory and Ignatchev, 1998).

A Brief Summary

Essentially we are criticising the cross-cultural knowledge industry for its slowness to develop new, business-specific information useful to the current problems European firms face. The reliance on old, North American theories about individual values is questionable without further reflections on European values. We find this state of affairs unfortunate because European managers more than ever before need cross-cultural knowledge. This is due to the cross-border integration problems associated with international mergers, acquisitions, joint ventures, and alliances. This integration is placing more and more managers in situations where the combinations of corporate and cultural values across the country

units of their businesses are in conflict. They need to have cross-cultural knowledge that can help them develop specific organisational policies acceptable to newly-acquired subsidiaries in other countries. We also believe that the close-ended questions typically used in cross-cultural research are incapable of generating an accurate picture of European values. This type of questionnaire has been shown to be inherently unable to measure problems where the context of the situation is important. Furthermore it does not engage the respondent sufficiently to ensure that deep consideration is given to the questions asked. Therefore the results of previous research do not address the problems companies have in Europe today. We will now report the results of a study that was designed to provide the cross-cultural knowledge we argue is important for European companies.

The European Managerial Decision-Making Project

Cross-Cultural Knowledge is More Important Than Ever

The EMDM research group was formed in 1994 to explore what barriers were likely to complicate the effective cross-border integration of European businesses. It focused directly on identifying European national values directly related to typical company problems linked to European integration arising from mergers, acquisitions, joint ventures, and alliances. This is an important issue for European managers because of the increasing contact they have across all hierarchical levels and functional areas. Furthermore it is becoming clear that the division of benefits and costs of European integration will be felt most by employees of European firms. Ultimately we will divide the cost and benefits between people who have different values, aspirations, and problems. Are we capable of making these divisions fairly? In our increasing integrated employment market can we make divisions that are both fair *and* productive for both employee and firm? We know too little about the cross-cultural differences among the sociological, psychological, and organisational values which will guide these divisions. What values are acceptable and which will likely produce the desired result? We want to open and illuminate this debate as the integration of European companies accelerates.

Old Knowledge But New Problems

The EMDM team, many of whom are involved in cross-cultural training, believes that European companies are not fully prepared for the integration problems they face. Traditional cross-cultural training has focused almost exclusively on preparing managers for an international career. Its goal has

been to help a manager adapt to a foreign work location. Its methods are largely the use of lectures and simulations designed to open up the thinking of managers. It seeks to show different ways of thinking and acting which are potentially as appropriate (if not more) than the manager's traditional values and behaviours. These programmes are often given with standardised material over one or two days. They are what we might call a 'crash course'. Consequently they fail to provide the kind of in-depth, highly focused cultural knowledge about the foreign subsidiary into which the international manager is being sent. The manager knows nothing about the specific values and behaviours common in the foreign unit. Therefore company integration efforts are likely to fail because they concentrate on the wrong issues.

For example one large French multinational created an international management programme for younger 'high potential' managers in its European network. An important goal was to create an international cadre of younger managers who would help integrate the many recent acquisitions into a tightly organised pan-European firm. Unfortunately not only was the definition of 'younger' and 'high potential' different from country to country, but despite detailed, written guidelines those chosen were disappointing to the headquarters staff. Many of the young managers failed during the eight-day training seminar in France to understand what the programme was all about. To some they were simply starting an expatriate assignment without all the perks. (They would not receive supplemental salary benefits during the programme's two-year foreign assignment). To others they were 'high potentials' being groomed for higher posts in their home countries. They did not seem to grasp the idea that they were groomed to be the backbone of a network of managers who could connect the various parts of the company. The training they received included seminars explaining the company's history, competencies, procedures, and strategy. It also included a two-day seminar on cross-cultural values. But the eight-day programme was a failure. Approximately 80 per cent of the expatriate assignments made during the first year were prematurely terminated. After three expensive years the programme itself was terminated. What went wrong? Like our opening story, the seminar provided the wrong knowledge and tools for its stated goal. The company wanted integration but what it got was unhappy expatriates.

Complex Problems Need Sophisticated Tools

The EMDM team believes that developing new cross-cultural knowledge relevant to the problems of integration firms requires (1) knowing what is important to companies, (2) a sensitive tool to discover the answers, and (3) an interpretation of these answers shaped by multiple perspectives. Therefore the group narrowed its research to two general questions. The

first is a deceptively simple question. Given identical business problems do managers in different countries choose the same solution? The second question is more complicated. What reasons do managers give to explain their choices? These two questions, with a personal and organisational demographic data, form the foundation of the study.

The Key Problems

What business problems are important to the successful integration of European companies? To find the answer about 100 high-ranking European business managers were interviewed during 1994 and 1995. They were asked to recount particularly striking problems they had faced over the past couple of years. These incidents were analysed and condensed into four prototypical organisational problems typically attributed to problems arising from different national value systems. The problems were associated with the increasing cross-border activities of EU firms. The organisational problems most cited dealt with the issues of recruitment, promotion/job transfer, compensation, and workforce reductions. These findings in retrospective are not surprising. Each of these issues marks transition points during a person's career. Interestingly managers from different sectors and countries identified these issues as problematic for firms that were developing significant cross border workforces.

The Improved Cross-Cultural Tool

As discussed above it is important to trigger the process humans use to find, analyse, and apply their values to a given business problem. It is also important to establish a common context in which a decision must be taken. We therefore used the actual incidents recounted during the initial interviews to construct four prototypical decision-making scenarios. These one-page scenarios were set in the situation of a business meeting attended by five or six managers. Included in the scenarios were descriptions of the problem by the head of a managerial team and a table presenting a short-list of four choices with critical details and summaries for each. Following the table are statements from the four other managers each of who support one of the four choices. The meeting adjourns without a decision and the respondent is asked to make and justify a choice.

The scenarios were all based on actual or composites of actual events. They were translated into English, French, German, Italian, and Spanish. They were distributed to local managers in each of the countries we studied and checked for their authenticity and appropriateness. A one page demographic questionnaire was attached. Finally they were pretested using European managers attending training seminars and international MBA students to fine-tune and correct any remaining inconsistencies or unclear wording. To ensure that the country samples were functionally equivalent⁴ we chose to collect data from a representative sample of banks that included small, medium,

and large banking organisations.⁵ The banking sector was selected because few bank employees would have come into direct contact with ‘foreign’ management practices and therefore reflects more closely a ‘pure cultural type’ of manager. In the case of the large or international banks, the manager samples were drawn from the local branch banking divisions.

The Questionnaire

Based on these problems and using the examples evoked by the interviewed managers, the four one-page scenarios each centred on a specific problem. The four scenarios and the choices made by the respondents are summarised below.

Recruitment: Local or Foreign, Generalist or Specialist
 The Hiring Decision Scenario includes three guiding parameters: Perlmutter and Heeman’s international staffing policy framework (Perlmutter and Heeman, 1974) (i.e. ethnocentric, regiocentric, geocentric), generalist vs specialist recruiting strategy, and language fluency. The problem setting is the creation of a new position to service a growing market of international clients with both personal and small business banking needs. The four options include a normal mix of generalists, specialist, local, and foreign candidates with varying foreign language abilities. Information about each candidate includes age, graduation rank, school reputation, in-house managerial assessment test score, previous positions, and typical personal details noted during the initial job interview. For

example, the geocentric choice was a foreign national from a markedly different culture who had the highest assessment test score. He knows several languages but is not absolutely fluent in the local language although he successfully graduated with high honours from one of the country’s best schools (Table 1).

Italian, English, and French respondents usually used the market logic to hire new managers. They more often chose to hire foreign, multi-lingual, employees with an elite, generalist, educational background. The German and Spanish managers followed the opposite strategy by hiring local managers with more technical training.

Internal Promotions or External Recruitment
 The Promotion Decision Scenario is based on the career system framework of Sonnenfeld and Peiperl (1988). These are the Club, Academy, Fortress, and Baseball Team profiles. The most important criteria are the source of the promotion candidate (e.g. internal vs external), the performance criterion used to evaluate candidates for promotion (e.g. group service/loyalty vs individual performance), and age. The problem setting is the creation of a new post to help an overloaded manager handle increasing business (Table 2).

The German sample stands nearly alone in its concern for promoting managers based on objective performance criteria. French managers are at the other extreme in basing promotion criteria on seniority or group loyalty.

Table 1 Recruitment Choices

N = 290	Ethnocentric, generalist, elite education	Ethnocentric, specialist, good education	Regiocentric, linguistically fluent, elite education	Geocentric, linguistically good, elite education
France	10.3	32.4	2.9	54.4
Germany	16.7	44.4	16.7	22.2
Italy	12.2	26.7	14.4	46.7
Spain	19.4	74.2	6.5	0.0
United Kingdom	9.4	30.2	32.1	28.3
Column %	12.6	36.3	14.4	36.7

Total sample size is 933. The sample includes only small- and medium-sized banks

Table 2 Internal or External Promotion Choices

N = 290	Club: internal labour market group loyalty	Academy: internal labour market performance-based	Fortress: external labour market group loyalty	Baseball team: external labour market performance-based
France	30.4	30.4	14.5	24.6
Germany	10.8	16.2	0.0	73.0
Italy	27.8	23.3	2.2	45.6
Spain	29.0	25.8	3.2	41.9
United Kingdom	20.8	22.6	11.3	45.3
Column %	25.0	24.3	6.8	43.6

Total sample size is 933. The sample includes only small- and medium-sized banks

Compensation Strategy: Equity or Equality

The Remuneration Plan Scenario features choices ranging from full salary with company-based bonus to at-risk pay with individual commission based on individual performance. These options present a range of factors discussed by Hofstede (1980) (e.g. risk aversion and collectivistic vs individualistic values). The problem setting is a bank that is becoming more sales-driven but has older generalist managers unwilling to adapt to a selling culture. A modification of the pay system is proposed to remedy the problem (Table 3).

The German sample again stands alone in its concern that remuneration should be based on measurable performance factors. Again the French sample held the extreme opposite belief that remuneration should be based on group, not individual, performance criteria.

Staff Reductions — Who to Axe?

The Staff Reduction Decision Scenario was developed using the intuitively reasonable criteria of age, seniority, performance, and salary cost. The family responsibilities of each choice were held constant at two children with no unusual problems. Underlying the use of these criteria are the economic rational man model (sometimes referred to as ‘atomistic society’) and the communitarian model (alternatively labelled collectivistic or altruistic societies). Also underlying this scenario is the Hofstede factor of masculine vs. feminine values which is characterised by a concern for the weak and maintenance of social peace. The problem setting is a subsidiary that must reduce its workforce size. A small department is

being closed but only three of the four employees in the department can be placed elsewhere. One person must be selected to leave the firm. It is specified that none of the employees is an under-performing employee. All have consistently average, above average or excellent performance ratings over the last five years. They range in age from 30 to 57 with salaries correlated to their ages (Table 4).

English managers most often based staff reduction decisions on performance/salary cost productivity ratio. More than 70 per cent of the English respondents would discharge a middle-aged, high salary manager with average performance. In contrast less than 10 per cent of the German respondents would discharge the same manager. French respondents were not as concerned with the ratio of performance to salary as were the Italians or Spanish. They usually made redundant the average-quality employees but were more likely to dismiss a younger average-quality manager than the older one.

Analysis of Reasons

The choices made by the respondents clearly indicate that European managers do not always agree about the most appropriate strategies to follow. Although there appear to be different strategies used, the reasons for them may be perfectly suited to the local markets. Therefore we analysed the responses to determine whether European managers use the same underlying criteria to make their decisions. There is not enough space here to analyse each of the scen-

Table 3 Compensation System Choices

N = 290	Full salary, company based, bonus	At-risk pay, individually-based, individual award	At-risk pay, unit-based, equally shared	Full salary, unit-based, bonus
France	5.8	18.8	37.7	37.7
Germany	0.0	54.1	37.8	8.1
Italy	0.0	32.2	56.3	11.5
Spain	0.0	19.4	64.3	19.4
United Kingdom	8.0	30.0	40.0	22.0
Column %	2.9	29.9	46.7	20.4

Total sample size is 933. The sample includes only small- and medium-sized banks

Table 4 Workforce Reduction Choices

N = 290 Row %	Young, high quality, inexpensive	Young, average quality, inexpensive	Middle-aged, average quality, expensive	Oldest, high quality, expensive
France	0.0	40.0	43.1	16.9
Germany	3.2	74.2	9.7	12.9
Italy	0.0	33.4	43.2	20.5
Spain	0.0	29.6	55.6	14.8
United Kingdom	0.0	17.6	70.6	11.8
Column %	0.4	37.4	45.8	16.4

Total sample size is 933. This sample includes only small- and medium-sized banks

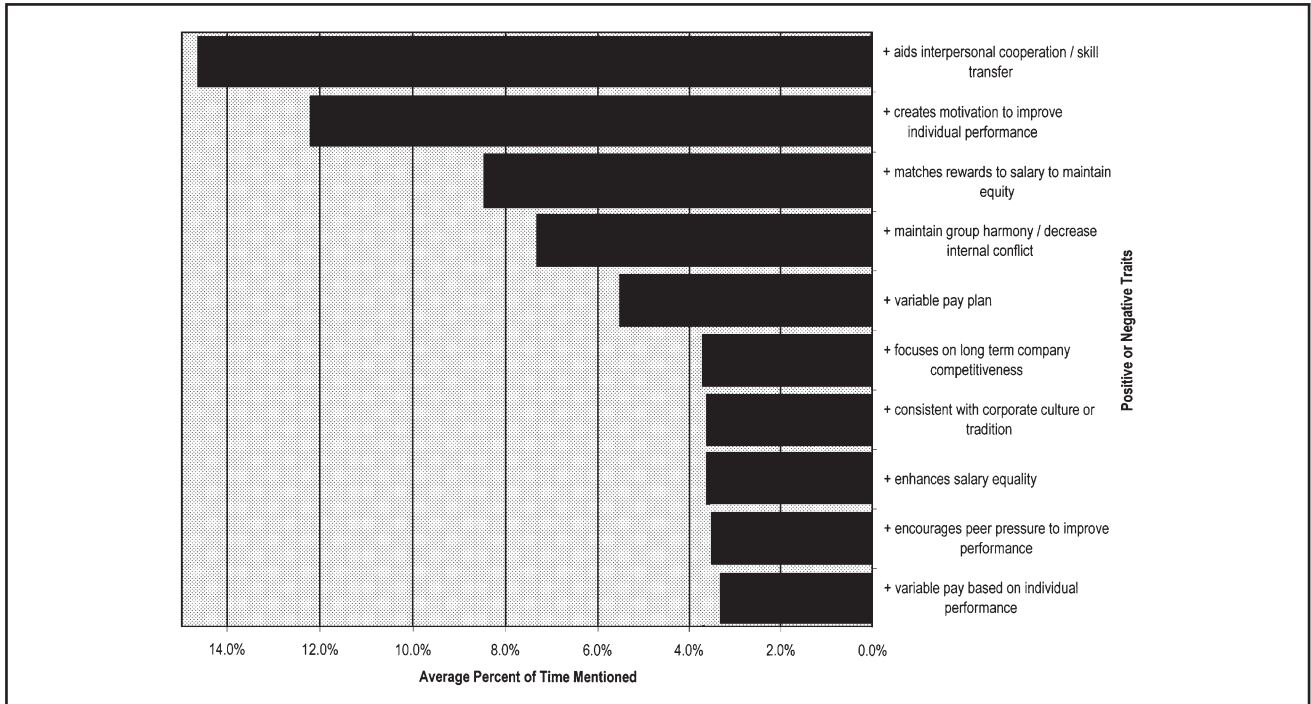


Figure 1 Top Reasons European Managers Use to Evaluate a Compensation Plan

arios. So we have chosen to discuss one of the scenarios that may interest readers. Compensation policies are receiving increasing scrutiny because of the introduction of the Euro. Salaries denominated in the same currency make cross-border comparisons easier and therefore there is considerable discussion within certain sectors about standardising compensation policy. Figure 1 presents the top ten reasons used by European managers to justify their choice of compensation plan.⁶ These reasons were taken directly from the respondents' written justifications. On the first sight almost half of the respondents share the same top five reasons. But this summary graph hides considerable diversity of opinion across countries. In Table 5 we show the individual country rankings for the top ten reasons.

Notice that one reason always receives first billing. A compensation plan should support interpersonal co-operation with an eye on increasing skill transfer between employees. Managers from most countries

also want compensation to motivate employees to improve their personal performance. After these two near universal criteria we see a rapid descent into conflicting ideas.

These reasons can be roughly categorised by whether they respond to what we term *group logic* or *market logic*. Group logic is based on the idea that there exists a certain type of group rationality. Decisions immediately benefiting the group, rather than an individual or the company in general, are characteristics of this logic. Among the study's respondents there was often a concern about how a decision would affect the group. Even decisions such as who to promote or make redundant where sometimes discussed in terms of their group effects rather than the individual consequences. At the heart of this logic is the implicit assumption that organisations must take into account the needs of employees and not blindly respond to the demands of the market place. This

Table 5 Rank Ordering of Reasons given by Country

Europe	England	France	Germany	Italy	Spain
Aids interpersonal co-operation/skill transfer	1	1	1	1	1
Creates motivation to improve individual performance	2	2	2	3	2
Matches rewards to salary to maintain equity	3	13	3	16	3
Maintain group harmony/decrease internal conflict	6	3	5	2	6
Variable pay plan	13	4	4	6	5
Focuses on long-term company competitiveness	15	7	7	9	33
Consistent with corporate culture or tradition	8	6	8	15	11
Enhances salary equality	9	16	6	21	8
Encourages peer pressure to improve performance	5	8	14	8	7
Variable pay based on individual performance	4	10	19	11	4

group logic is found in the choice of compensation plans which:

- ❖ maintain group harmony/decrease internal conflict
- ❖ focus on long-term company competitiveness (as opposed to short-term improvements)
- ❖ are consistent with corporate culture and tradition
- ❖ enhance salary equality among employees in the same job tasks

The second logic is a type of economic rationality that we call market logic. The decisions characteristic of this logic are based upon the perceived organisational needs arising from the marketplace. For example who should be hired for a new post primarily directed to servicing foreign clients — someone with foreign nationality and experience or someone local who matches the group’s ethnic or social image? Working with colleagues of the same nationality is often easier and less risky, especially in countries with costly restrictions on dismissing employees without just cause. However if you are trying to penetrate a specific market of foreigners, showing the sensitivity or perhaps merely the linguistic capacity to service these clients could certainly provide a competitive advantage. Implicit in this logic is that employees of the firm must suffer when necessary to ensure even the short-term profit objectives of the company. For the compensation scenario a concern for the needs of the marketplace is expressed by:

- ❖ creating motivation to improve individual performance
- ❖ having variable pay or pay which is based on individual results
- ❖ matching rewards to salary to maintain salary equity
- ❖ encouraging peer pressure to improve individual performance (to discourage free riders)

Placing the top reason, *aids interpersonal cooperation/skill transfer*, in this scheme requires additional information. At first glance one might be

tempted to place this reason in the market logic. After all it appears to correspond with the need of a firm to have uniformly well-trained personnel. But this would not be necessarily correct. Its placement depends on which compensation plan was chosen by the respondent. Almost half of the European managers (45 per cent) who selected one of the two fixed pay plans justified their choice with this reason. Over half (51 per cent) used the same justification to support their decision to adopt the variable pay scheme based upon group results. Very few managers (4 per cent) used this reason to justify their choice of the compensation plan based on individual performance. In the first two cases it is associated with compensation plans that de-emphasise individual responsibility for the firm’s results. Since most managers selecting compensation plans unlikely to create individual salary competition within a firm justified their decisions with this reason (among of course many others) we conclude that it belongs with group logic. This type of analysis illustrates the importance of the situation in which the response was given.

A Situational Interpretation

Collectively the choices made and reasons supporting those choices suggest that European managers have two basic business value systems. But is this choice simply an individual decision or is there any indication that national culture plays a role? This question has been at the root of most cross-cultural research. Past researchers distributed questions in two or more countries and then averaged the respondent’s answers to provide a ‘score’ for each country. Usually the researchers cautioned that managers should not generalise a country score to an individual manager or group of managers. But what is the purpose of a country score if one cannot generalise? Insurance companies routinely search for factors (such as smoking, skydiving, or number of car accidents) to help establish insurance rates. We should develop methods to determine ‘cultural risk factors’ as well. Our research is a step in this direction

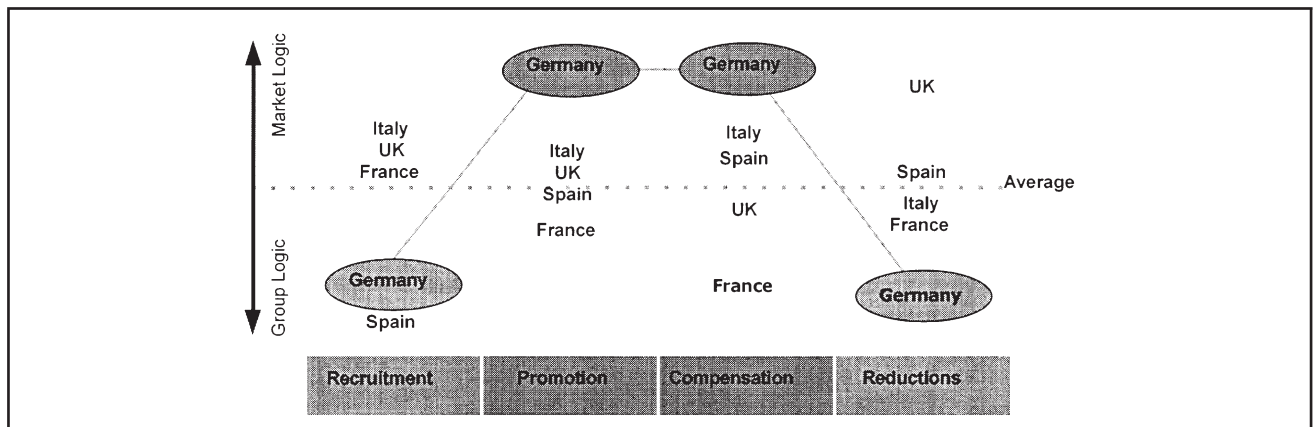


Figure 2 Rationality ‘Switching’ Model

since we measure the values of specific sets of managers. For example in Figure 2 we position the average choice of each set of managers (organised by country) between the two opposing logics.⁷ We asked participating companies to randomly distribute the questionnaires but in an actual integration situation a company would probably want to distribute it among the key managers in order to measure their personal values as well as provide an average value generalisable to the new business unit.

Immediately clear is that the German managers responding have evolved a situational 'switching' rationality in their decision-making. Group logic is used to make decisions about entering or leaving a group such as recruitment and workforce reductions. This means that hiring tends to be ethnocentric and employees more able to find another job should be dismissed. However once someone is a member of a group, decisions related to promotion and remuneration are based on market logic. This means that individuals receive the full benefit of their own efforts without being forced to share promotion opportunities or salary gains with colleagues whose performance is lower.

The importance of this flexible application of basic managerial values for companies is that employees can feel secure that their jobs are not unduly threatened but at the same time know that improvements will be rewarded. This is likely to reassure employees and create a positive environment rather than the negative environment often caused by uncertain market conditions. We believe that employees who are not under constant fear are simultaneously more willing and more capable of making the necessary changes to improve their performance.

The implication of this pattern is that previous cross-cultural research, which has generated 'country scores' measuring various hypothesised values, will need to be re-evaluated. If in fact managerial actions are as much influenced by the context of the problems as whatever is the managers underlying value system then the 'one size fits all' approach of previous research will not effectively assist European firms to efficiently integrate their European operations. It furthermore suggests that the traditional close-ended questionnaires so routinely used are inappropriate without some way of ensuring that they record the various situations in which the measured values are applied. This conjecture is well supported by the findings of Nisbett and Cohen discussed above.

Discussion of the Implications for European Integration

It is easy to understand why the rapidly growing European companies face these organisational prob-

lems. First many are rapidly expanding across the EU market without having had extensive international experience of the order of say, IBM or Procter and Gamble. Most of the traditional multinationals slowly developed their now large international structures. They grew little by little as they hired foreign staff that appeared to fit the existing corporate culture. But much of the current EU expansion is made of mergers or acquisitions. It is no longer the case of hiring employees a few at a time. Now thousands are essentially hired at one time. Each group of managers from these companies probably have their own sets of values derived from some combination of national and corporate culture. These values are the basis for the decisions taken about a large range of business problems.

Business problems that touch on the issues of recruitment, promotion, compensation, and workforce reductions are perhaps the most sensitive and certainly the most influenced by national culture. Each company has developed over the years a common way of making decisions. These are the implicit rules for managing these organisational issues. We call these implicit rules employee expectation sets. An employee expectation is a simple set of rules or habitual ways of managing employee careers. Employee expectation sets naturally differ from firm to firm and country to country since each country has more or less different employment laws, economic conditions, trade union importance, and other values often attributed to national culture. They could include such things as how to pay people or who (if anyone) should be fired in an economic downturn. They are deeply embedded in the corporate culture and are rarely thought about unless something (like new rules coming from the acquiring company) causes them to be violated or questioned. Buying another firm essentially buys employees who already have an expected way of making decisions.

If our conjecture is correct then the obvious solution for a company wanting to create a tightly integrated organisation across several countries is to develop cross-cultural knowledge about their own employees rather than relying on standardised cross-cultural data about some other company's employees. This should be done as early as possible during the integration process since it could have strong financial impact on the success of expansion. For example, a few years ago a Dutch retailer of specialty consumer products acquired a French chain selling the same products. Part of its profit projections were based on its Dutch experience of transforming employees into aggressive salespeople rather than employees who merely keep the merchandise clean and well organised. The firm accomplished this transformation in their local market through training and commission-based compensation policies. In France however the employees resisted this change in role. They were also unhappy with a commission-based compensation system because they believed it would disrupt

the team spirit of the small groups of employees in each store. It simply clashed with their employee expectation set. The resistance was very surprising for the foreign retailer since their Dutch employees adapted well to the market imperative of becoming more client-oriented. In the end the retailer decided to fire the employees least willing to adapt which further depressed profits due to the high social costs of such dismissals and the loss of productivity due to hiring and training new employees. When they missed their profit targets at the end of the first year they criticised their bankers for not having provided a thorough evaluation of the deal. Embarrassed, the bankers provided more lenient terms to their customer. This may give new meaning to the process of due diligence.

Conclusions

This research project is among the first comparative studies to take real business problems constructed from extensive interviews of European managers and to uncover the values used to make sometimes very difficult decisions. To summarise the context of this research we should remember five points. (1) This is a cross-cultural research project examining individual and organisational values concerning four issues often mentioned by business managers as problematic: recruitment, promotion, compensation, and workforce reductions. (2) This research assumes the current state-of-the-art of cross-cultural research is not sufficiently powerful to fully uncover and identify human or organisational values actually used to make these business decisions. (3) This research adapts research methodology developed and tested by leading social psychologists to fully discover managerial values. (4) The data collected for this research was designed, administered, coded, and analysed by a multicultural team of European academic and business people. (5) More than 800 English, French, German, Italian, and Spanish managers from over 60 companies participated in this study.

According to many researchers, few people really know their own cultural values until these values are threatened by an outside culture. This may be one reason why so many corporate integration programmes start with grand expectations and goodwill but end in indifference or resentment. The basic requirement of any international integration programme is a very deep examination of the local cultural values relating to those policies likely to be changed. This is important because all cultures accumulate basic expectations about what employers and employees can or cannot demand from each other. It is the rare international manager who has not experienced first hand these expectation differences. Unfortunately while large sums are often spent on training and 'cultural change' programmes

few managers are willing to commit much time, effort, or money to understanding their own 'expectation sets'.

The lesson we should draw is that the process of integration across borders is no less important than the acquisition or merger itself. Integration programmes should be approached seriously, perhaps even more seriously, because their success is often crucial to the success of the entire venture. Therefore it is imperative that firms conduct a thorough analysis of the values held by the managers and employees who join the firm as a result of cross-border expansions.

This research is likely to be of special interest to managers responsible for managing multinational workforces. Above all else this applies to those who are contemplating, doing, or are completing cross firm and cross border mergers and acquisitions. Values concerning recruitment and promotion policies are likely to create lively debate as they hold the keys to the firm's future but also can become time bombs waiting to explode. Sales managers finding the introduction of the Euro creates pressure to standardise salesforce⁸ compensation policies will find important guidance. Finally this study provides some dramatic comparisons about the relative values concerning workforce reductions. Contrary to the social dumping critiques of companies facing variable labour union and political pressure, *whom* to fire may actually be a more sensitive issue than *where* to fire.

Notes

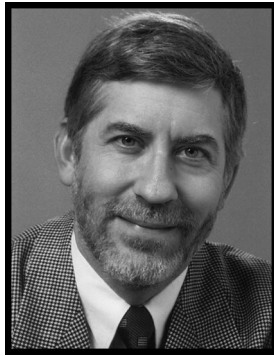
1. The project is sponsored by *Fondation HEC*, a non-profit research and educational foundation associated with Groupe HEC. Additional support came from the European Financial Marketing Association (EFMA), the Community of European Schools of Management (CEMS), and individual researchers, research institutes, and universities participating in the project. These include: Professor Marja FLORY, Erasmus Universiteit — Rotterdam (Netherlands), Professor Alfonso SAUQUET, ESADE — Barcelona (Spain), Mr Rod SCARTH, London School of Economics, (United Kingdom), Dr Professor Lorenz FISCHER and Ms Gabriele JACOBS, Universität zu Köln (Germany), Dr Professor Karl SANDNER and Ms Christiane MÜLLER, Wirtschaftsuniversität — Wien (Austria), Professor Carlo TURATI, Università Luigi Bocconi — Milan (Italy), and Mr Pierre LEMAITRE, CFPB — La Defense (France). An extension of the study is currently in progress in ASEAN thanks to support from Mr. Ghani METUSIN, Director, ASEAN-EC Management Centre.
2. This point has been made by a number of authors. For example see Smith *et al.* (1996) One should add however that certain concepts, especially individualism vs. collectivism could be traced back hundreds, if not thousands of years.
3. Of course organisations themselves do not have values. Rather they have normal processes or actions from which we interpret and ascribe values. But for simplicity sake I will continue to talk about their values.
4. Hofstede (1991) defines functional equivalence as having samples that are equivalent except for nationality.
5. Data was collected during 1995–1997. Over 900 managers across 70 banks participated in the study. Analysis of the

demographic data indicates that more than 92 per cent of the sample worked their entire careers for the same employer. Furthermore nearly 54 per cent of the sample could only work in their mother tongue. Only 4 per cent of the sample had ever worked in a foreign location for more than two years. This paper is based on a first phase of the study representing mostly smaller banks in five of the countries studied.

6. Remember that we did not present a list of reasons in the questionnaire. We identified nearly 40 reasons in the justifications provided by the respondents during our coding process.
7. This interpretation was first discussed in an article appearing in the *Financial Times* series, *Managing International Business* (Segalla, 1998a). It was also reprinted in French (Segalla, 1998b)
8. For examples see Rouziès *et al.* (1999); Rouziès and Segalla (1999).

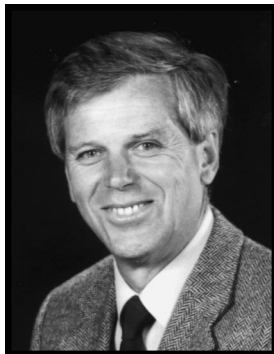
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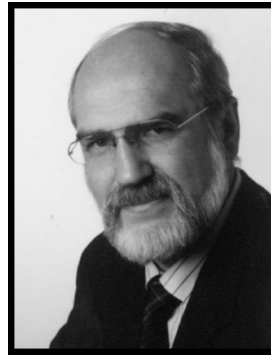
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