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# **The Impact of Cultural Differences on Human Resources Policies of Multinational Companies**

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Senior Thesis

## Introduction

Hundreds of companies in today's world operate internationally. British Petroleum, Royal Dutch/Shell Group, Exxon Mobil, Toyota, General Electric, Wal-Mart, IBM, Morgan Stanley, and nearly every one of the most recognizable brands worldwide have international operations (*The Super 50*, Forbes, 2015). In order for these multinational corporations to be effective, they must consider their local impact on the countries they operate within, the local practices, and cultural boundaries that exist. Often the burden of ensuring cultural compatibility and efficacy falls on the Human Resources manager, focusing "specifically on structural training and development and retention-oriented compensation" (Ngo, *Human Resources Practices and Firm Performance of Multinational Corporations: Influences of Country Origin*). The Hofstede Theory of Cultural Dimensions is a valuable measure of cultural differences that many companies use when deciding to take on these international endeavors; and Hofstede's theory often aids in the smooth transition into foreign lands. By using this theory, Human Resources Managers and policy creators are able to identify the best training methods for the local- as well as base-country employees. However, the importance of adapting to international and corporate cultural differences is immense. In a world where a company's Corporate Social Responsibility and sustainability efforts is increasingly an important factor considered by consumers, the response and adaptation to seamlessly integrating into a multitude of global cultures is critical. The impact of sustainability on profits is, as well, a motivating influence on a company's desire to treat employees and the surrounding environments with the utmost respect.

The focus of this paper will be on the application of Hofstede's theory to two prominent international companies - General Electric and Royal Dutch Shell Plc - as well as the impact on their human resources policies due to these international cultural variations. Also, it will be discussed how these human resources policies have impacted Corporate Social Responsibility efforts in the organizations. General Electric will represent an example of the problems of corporate cultural conflict, while Royal Dutch will represent an example of national cultural conflict and a company's role in perpetuating cultural problems. After delving into their policies and subsequent cultural adaptations, an analysis on company profitability and its relation to corporate social responsibility in countries of operation will be presented. The goal is to connect the way that Human Resources and the role the function plays in an organization impacts not only the company's ability to effectively manage cultural

differences, but also how this management improves a company's financial standings in the long term.

### Cultural Differences and Conflict

With the ongoing rapid globalization of markets and consumption activities, it has become critical that managers “develop [an] understanding of decision making, intercultural negotiation and cross-cultural communication” lest there be conflict when the company operates internationally (Mba, 2015). When multinational corporations enter foreign and unfamiliar operating environments, with often very different practices than the company's host country, there is an inevitable conflict with culture, corporate social responsibility, and operating practices of local employees. Often managers are able to mitigate these differences and subsequent conflicting behaviors with enhanced understanding and intercultural communication skills. Aspects such as the changing global market and company structure are large contributors to the cultural clashes when companies internationalize.

According to Earley and Gibson (2002: 15), open borders, harmonization of business regulations, pan-European strategic management, and the single currency have accelerated European economic integration, which has led to greater mobility of not only businesses but also the people with the borders of Europe and beyond. Rapid internationalization in Europe, which is home to many of the Fortune 500 companies, has led to even more expansion across the globe. Company structures have also started to move towards more dynamic and flexible structural models that are more organized around teams as a result of the more globalized business world. Parts of a company may be “formed, disbanded and reformed to respond rapidly to changing business needs” often comprising of members from different countries, company locations, and organizational teams (Earley and Gibson 2002: 19). Within this context, the role of culture and cultural difference acquires significance and value to the organization.

Efficiency and competitiveness are at the forefront of the ideals structuring relations among employees in the modern corporate workplace. When problems or tasks need addressing, especially in a multicultural workplace, issues of communication and transmission of ideas becomes the primary conflict (Angouri & Glynos, 2009). Such a breakdown in the communication process is a threat to a MNC's competitiveness. Cultural differences - the manner of communication, the power structure of that particular culture, and

the view of teams in the workplace - can easily hinder team efforts to complete jobs and solve important problems. Substantial cultural research expresses the view that “problems or clashes are only to be expected when distinct cultures come into contact with each other,” which is why this particular conflict needs to be addressed by Multinational Corporations. Thus, international management practice has become highly influential in this space. Work by Hofstede, Adler, and Trompennars researched about these cultural differences and helped to influence the current practice of international management. Examples of the application of Hofstede’s work in particular will be detailed in the analysis of three major multinational companies.

Cultural differences are not only seen as an obstacle that can be overcome, but these differences are also viewed as something which can be profitably exploited (Angouri & Glynos, 2009). The push for company efficiency and competitive advantage on a global scale has led to the exploitation of workers in foreign countries purely for the profit of the company. The most notable case to illustrate this example is Nike and their labor practices in Indonesia. In 1991, Nike was the subject of a report documenting the low wages and especially poor working conditions of employees in a manufacturing facility in Indonesia. Paying some workers as low as fourteen cents an hour, less than the country’s minimum wage, and abusing the employees are only some of the transgressions listed against Nike in this particular case. Child labor, exploitation of the poor, the abuse of employees and Nike’s role in these labor practices made it to the forefront of the international labor stage, thus necessitating the need for international intervention by Nike’s management team (Nisen, 2013). Unfortunately, Nike is not the only international company that has come under criticism for exploitation of local workers. Many global organizations face the same problem: a desire for cheap labor to make their product to remain profitable. Cultural differences such as the accepted minimum wage and working conditions in poorer countries such as Taiwan, Indonesia, and India are sought after by MNCs to reduce the cost of production. These cultural differences, however, are also the source of local employee exploitation and the perpetuation of poverty. Nike’s international management structure responded to these allegations of abusive labor practices by implementing a code of conduct, a code of ethics, and the Fair Labor Association. The Fair Labor Association may be the most important facet of Nike’s international response to poor labor practices as it is “a non-profit group that combines companies, and human rights and labor representatives to establish independent monitoring and a code of conduct, including minimum age and a 60-hour work week and pushes other brands to join” (Nisen, 2013).

National cultural differences are only one facet that creates significant conflict in the globalizing world. Different internationalization strategies such as acquisition or joint ventures present the issue of the clash of corporate or organizational cultures. Corporate culture differs on two levels: the values of the organization and the patterns and behavior of the organization (Kotter, 1992: 4). Because of this, conflict in an organizational setting can arise quickly and be hard to overcome. One specific way that this type of culture can create conflict is at the individual level. If employees of the company do not agree on a fundamental level of the values of the organization, there is often conflict among employees and their “fit” in the organization (Handler, 2004). Person-Organization fit, or the “the congruence of an individual’s beliefs and values with the culture, norms, and values of an organization,” is a difficult concept to measure but can negatively impact employee performance (Handler, 2004). In terms of team optimization, this Person-Organization, P-O, fit is crucial. To maximize the performance of any given team within a company, each individual member must feel connected to the organization and be performing optimally. P-O fit is the easiest predictor of employee tenure with a company and can thus show the return on investment of internal and external hiring practices (Handler, 2004). “Turnover of key members, rapid assimilations of new employees, diversification into different businesses, and geographical expansion” can impact the corporation’s inherent culture and a strong corporate culture is part of a company’s key to success (Kotter, 1992:6-7). The breakdown of a corporate culture or mismatch of employee values and company beliefs can severely impact the organization’s productivity and thus profitability in the long run.

It is clear that cultural differences are a huge source of conflict for Multinational Corporations. From the need to address simple cross-cultural communication errors to larger issues such as the exploitation of a certain country for company profit are often problems handled by international management teams and human resources officers. Diversity of culture and the impact on human resource policies has increasingly become an important topic of discussion as it can be a way to mitigate some of the conflict of cultural differences in MNCs.

### Hofstede’s Theory of Cultural Dimensions

Gerard Hofstede, notable Dutch psychologist, former IBM employee, and Professor at Maastricht University in the Netherlands, founded comparative intercultural research and

studied extensively how cultural differences impact organizations (*Geert Hofstede*). Hofstede is recognized internationally for “having developed the first empirical model of ‘dimensions’ of national culture, thus establishing a new paradigm for taking account of cultural elements in international economics, communication, and cooperation (*Geert Hofstede*). His national culture dimensions as well as his organizational culture dimensions have been widely used by companies globally for their international operations.

He derived these dimensions by analyzing a large database of employee value scores that he collected during his tenure with IBM. Spanning more than 70 countries and many more cultures, Hofstede found trends in the data, leading him to develop these particular dimensions. These were later validated by subsequent studies and analyses of large data populations. Both national and organizational culture play a role in the preparatory process for expansion into new nations.

### **National Culture**

National culture has 6 dimensions that will be discussed below. They are as follows: Power Distance, Individualism vs. Collectivism, Masculinity vs. Femininity, Uncertainty Avoidance, Long Term Orientation vs. Short Term Orientation, and Indulgence vs. Restraint. For the purpose of the company analysis, Power Distance, Individualism vs. Collectivism, and Uncertainty Avoidance will be the main points from a national culture standpoint.

The first dimension developed by Hofstede deals with the power distance a culture has, meaning “the degree to which the less powerful members of a society accept and expect that power is distributed unequally” (*National Culture*). This is especially important to consider when MNCs expand to other countries as the power distance is often very different between Western, developed countries and developing nations. The difference in the power distance dimension is measured by the Power Distance Index (PDI).

The second dimension is individualism versus collectivism (IDV). On the high side of this dimension falls individualism where societies have a preference “for a loosely-knit social framework” where people focus on themselves and immediate friends and family. On the opposite end of the scale, collectivism represents a preference “for a tightly-knit framework in society” where people look after others in a particular group with “unquestioning loyalty”. The main difference between individualism and collectivism is the person’s orientation

towards “I” or “we”. This can often manifest in companies, causing a problem, when a corporate culture values individualism.

The third dimension of masculinity versus femininity (MAS) represents a society’s orientation towards adherence to traditionally masculine and feminine gender roles. Masculinity represents assertiveness, achievement, and success, whereas the traditionally feminine traits are cooperation, caring, and modesty. This dimension is crucial when looking at diversity and inclusion of organizations. If a culture is high on MAS, then there is a likelihood that many women will not be seeking employment and diversity statistics will be heavily skewed.

Uncertainty Avoidance (UAI) is the fourth dimension created by Hofstede and “expresses the degree to which the members of a society feel uncomfortable with uncertainty and ambiguity.” Companies in volatile industries, such as the oil industry, that have constant and often unpredictable change should beware of countries high on this particular index.

Long-term orientation and short-term normative orientation (LTO) deals with the idea of the past, present, and future and how the society prioritizes present and future goals differently. Societies low on this dimension prefer tradition and the status quo and do not welcome change - which can be problematic for industries with high turnover of product and consistent innovation. On the other hand, societies high on this dimension encourage innovation and disruption of the status quo. In the business context, this is related to normative versus pragmatic.

Indulgence versus restraint (IND) is the final dimension. Based off of how much a society values gratification, this dimension represents how freely people spend their time or how much they are controlled by strict social norms.

### **Organizational Culture**

Organizational culture is an important part of the success of any company. Organizational culture can be defined as “the way in which members of an organization relate to each other, their work, and the outside world in comparison to other organizations” which can have a significant impact on company success when expanding globally. The



Organisational Model, started by Hofstede and further developed by Bob Waisfisz, represents dimensions pertinent to how people related in a company. These dimensions are: Means-oriented vs. Goal-oriented; Internally Driven vs. Externally Driven; Easygoing Work Discipline vs. Strict Work Discipline; Local vs. Professional; Open System vs. Closed System; Employee-Oriented vs. Work-Oriented; Degree of acceptance of leadership style; and Degree of identification with your organization (*Organisational Culture*). The means-oriented versus goal-oriented and easy going work discipline versus strict work discipline will be of primary concern in the company analysis.

The means-oriented versus goal-oriented dimension is most closely connected with the effectiveness of organizations. In the means-oriented culture, people are focused on the way in which work has to be carried out, the “how.” In a goal-oriented culture, people are focused on achieving specific goals or results, the “what.” Companies with a particular orientation should be aware of their culture as foreign employees may have trouble adjusting to the different ways of working.

Internal or external drive have a significant impact on the organization’s culture and effectiveness overall. Internally driven employees “perceive their task towards the outside world as totally given, based on the idea that business ethics and honesty matters” and have a strong sense of corporate social responsibility (CSR). In an externally driven organizational environment, employees are focused on meeting customer needs in a pragmatic way, with little concern for ethics and CSR.

An easy going work discipline refers to a “loose internal structure, a lack of predictability, and little control and discipline” - a work environment that thrives on improvisation and surprises. On the opposite side of the spectrum, people are “cost-conscious, punctual, and serious” about achieving their goals and getting work done on time.

Local versus professional is the fourth dimension that Hofstede and Waisfisz talk about in their model. Local companies are those where employees identify with not only their bosses but also the work itself. In professional companies, the identity of the employee is largely determined by their position and nature of the job.

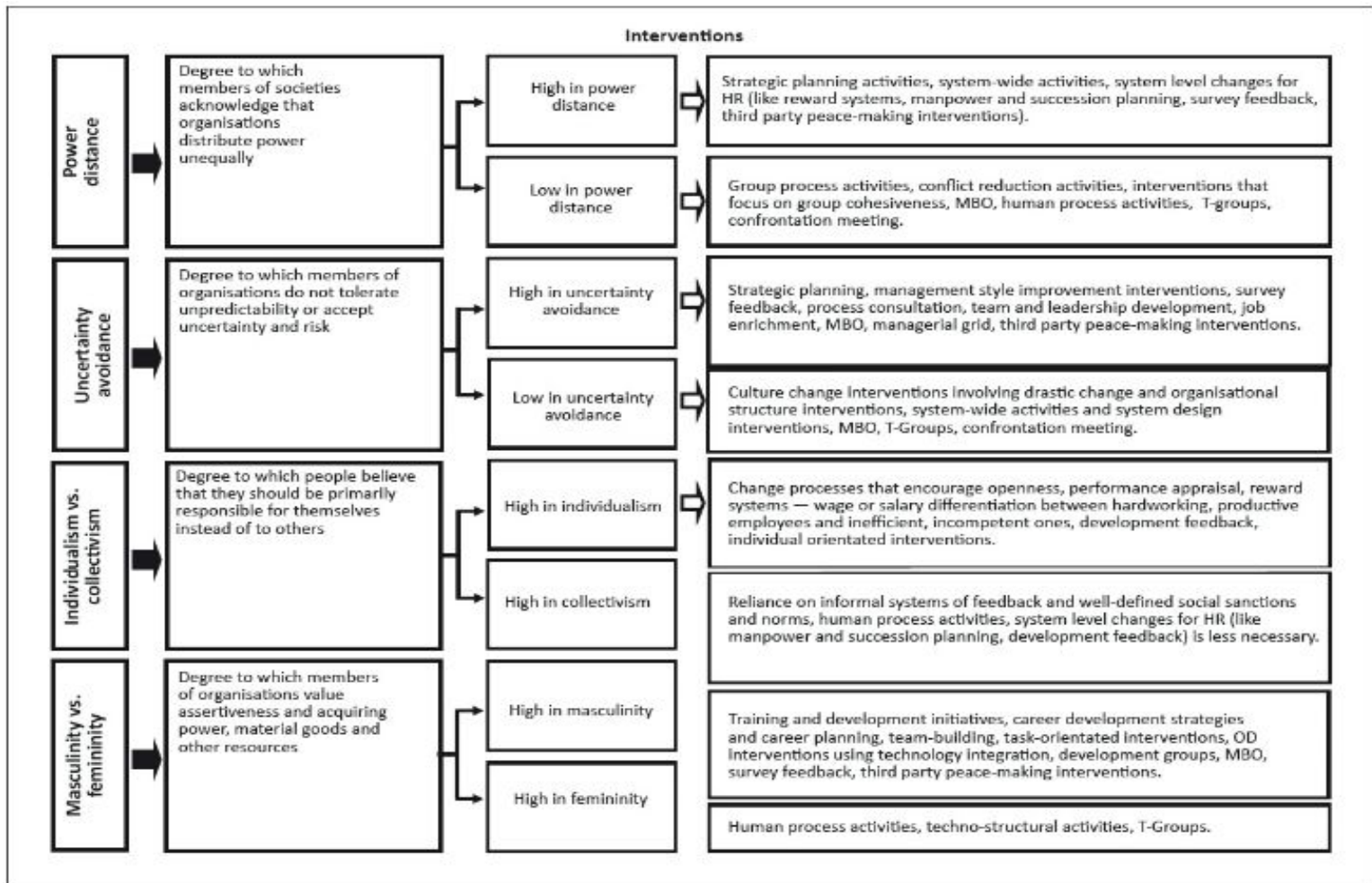
Open versus closed systems refer to the accessibility of people in the organization. In open cultures, new employees are made welcome and insiders and outsiders alike feel as though the company would be a good fit for them. In closed organizations, it is the opposite.

Management philosophy plays a role in the orientation of a company towards work or employees. In the employee-oriented organization, employees feel that they are personally valued and that the organization takes responsibility for their welfare. CSR typically plays a large part in the employee-oriented organization. Work-oriented organizations, however, put pressure on their employees to perform and deliver, even at the expense of the employees themselves.

Although not part of the main six dimensions of the Organizational Cultural Model, these two independent factors have an impact on organizational culture. The degree to which the leadership style is accepted by the employees is a good indicator of culture itself and often the power distance of the host country of the MNC. The degree of identification with the organization shows how employees view their company and how connected they are to the overall purpose of the organization.

Figure 1 below illustrates the various interventions that can be made in situations where countries differ on national cultural dimensions. This can be particularly useful when evaluating the techniques various HR departments have used when their companies expanded internationally.

**Figure 1: Interventions that link to Hofstede’s dimensions for differentiating national cultures**



HR, human resources; MBO, management by objectives; T-groups are training-groups or therapy-groups.

Source: SA Journal of Industrial Psychology, *The Effect of Organizational Context on Organizational Development Interventions*, 2012

## Company Analysis

### **General Electric**

#### The History of General Electric

Thomas Edison created Edison Electric Light Company in 1879 (*GE Transformation Timeline*). A prolific inventor, Thomas Edison held 1,093 patents in Germany, the United Kingdom, and France, however, more importantly is the impact Edison’s light bulb and subsequent company opened the door to many new industries such as electric light, power utilities, motion pictures, and sound recording. General Electric was formed from the merging

of Edison's Edison Electric Light Company and Thomas-Houston Company in 1892 where Charles Coffin was instituted as Chief Executive Officer. Coffin was influential for General Electric because he helped to establish the company as one of the foremost companies in America. Inherently an international company, General Electric grew to be the largest electrical manufacturer in the world. GE remained an exclusively electric company until 1922 when Owen Young became chairman of the board. A chief interest of Young's was to diversify the company and increase the market of GE's brand. Electric appliances was the first diversification step, which helped to solidify GE's economic security especially in the Great Depression. Gerard Swope, President of GE in 1922, also helped to expand GE's product offerings and is also responsible for extensive labor reforms, which made conditions for employees substantially better - a radical change in the time period. In 1930, GE developed a mass production technique which allowed them to create a plastics division as well as an ability to serve a wider consumer base quicker. The company rapidly expanded into various areas of chemistry and in 1969, GE went to the moon with its silicon boots made for Neil Armstrong. Since, GE has contributed to NASA products, home appliances, and electric manufacturing that is used daily by millions of people globally.

GE's internationalization strategy has been quite effective for the company. With operations in 170 countries and over 300,000 employees worldwide (GE: Fact Sheet). GE operates in eight different industries - appliances and lighting, aviation, capital, energy management, healthcare, oil and gas, power and water, and transportation. One of the most widely praised and accepted companies worldwide, GE has received numerous awards for being the most ethical and innovative company in the world. Focusing on technology and infrastructure in countries they operate in, GE aims to improve the environments around them.

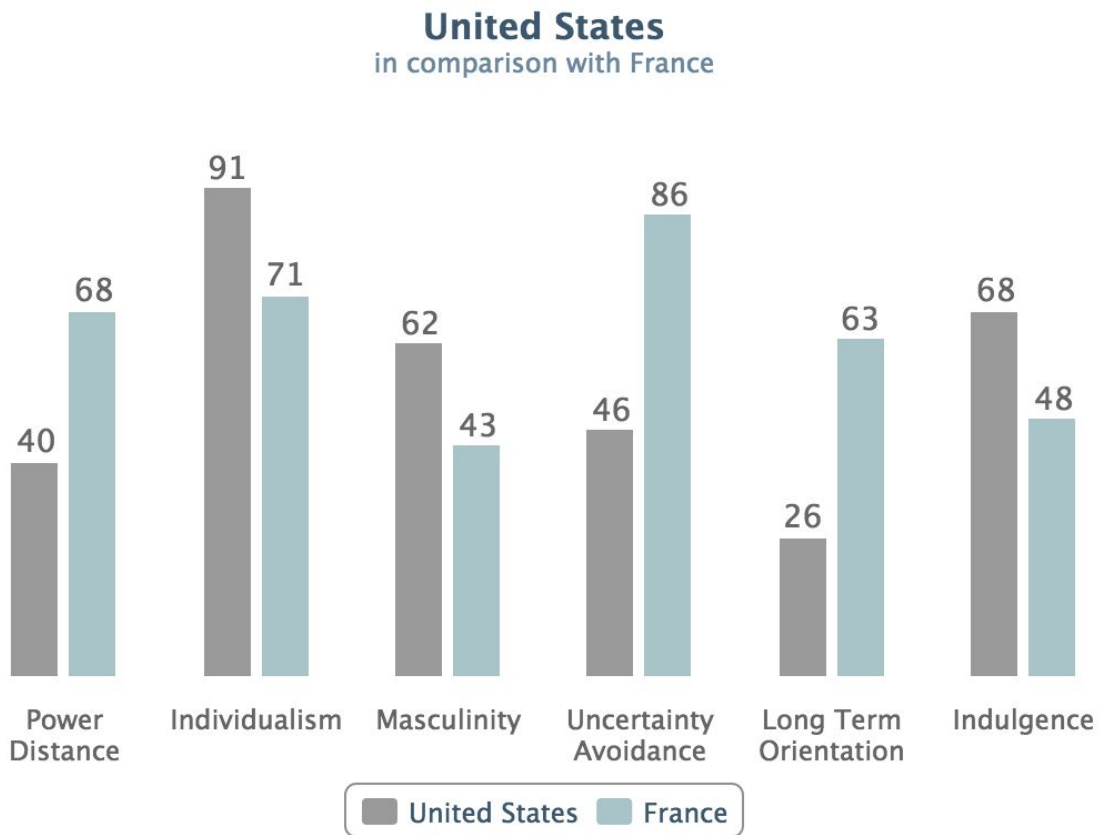
#### GE and Cultural Conflict According to Hofstede's Theory

General Electric began as an American company that treated its international operations as merely export markets (Zweifel, 2003: 35). However, this practice is rapidly becoming outdated as GE is beginning to earn more profit internationally than domestically (Zweifel, 2003: 35). This inevitable conflict arising from GE's American mindset has manifested in cultural conflict in two ways: GE's acquisition of *Companie General de Radiologie* or CGR and the NBCUniversal conflict.

Companie General de Radiologie, henceforth referred to as CGR was a French medical supply manufacturing company that the large General Electric conglomerate acquired in 1988 (Gitlow, 2004: 108). The move for GE marked an important step in gaining European market share in the medical equipment industry. Financially, the acquisition was sound. However, two issues arose concerning culture - organizational and national - and hindered the effective integration of CGR into GE. CGR had grown accustomed to being a government owned company that “guaranteed purchases of its equipment by state owned hospitals” and “insulated [them] from competitive market pressures” (Gitlow, 2004: 109). When CGR was acquired by GE, it experienced a significant culture shock with not only adjusting to GE’s corporate culture but also the American mindset.

GE, unaware of the impact of culture shock for CGR, proceeded with the integration of the French company into the overall conglomerate. This was a problem for several reasons. Figure 2 indicates how the United States and France compare on Hofstede’s six cultural dimensions. First, the power distance in France’s culture was not well matched with the American view of power. France accepts the inherent power inequalities in social and professional settings, whereas the United States ranks far lower on this scale. In terms of General Electric’s mentality, this difference was significant as it influenced the corporate culture. The degree of individualism as well as the uncertainty avoidance imbalance contributed as well. The first factor of uncertainty avoidance is the most evident in terms of cultural imbalance. Because France was more accustomed to stability and not welcoming of change, the adjustment of not knowing when and where products were going to be sold - as opposed to the guarantee that supplies would be sold to French hospitals - was a challenging cultural aspect to overcome. Individualism was impactful in the cultural clash between CGR and GE because the French view of working collaboratively and in teams was foreign to the GE corporate culture and American expatriate employees. Forcing the adjustment of a collaborative environment into an independent workspace impacted the efficiency in that cross-cultural communication became difficult. In terms of corporate culture integration, GE couldn’t effectively integrate because the organizations differed on many different levels. CGR, the relaxed, easygoing nature of CGR and its employees clashed harshly with the rigid and strict organizational culture of GE. Overall the discrepancies between the two national cultures and their influences on organizational culture was a significant conflict in GE’s international acquisition strategy.

**Figure 2: Comparison of the United States and France on Hofstede’s Cultural Dimensions**



Source: Hofstede Centre, Country Comparison, 2016

General Electric, the parent company of NBCUniversal, had long been vested in NBC’s operations. However, in the spring of 1987, GE and NBCUniversal chief executives clashed on a very important subject, the operating culture. The chairman of General Electric “told a closed meeting of NBCUniversal executives that they were rooted in the past and would have to change” - impacting the operations and underlying values of NBCUniversal(Boyer, 1987). This interaction has since become a symbol of cultural clash between the “cost-minded General Electric mentality and the freewheeling style that once defined network television” (Boyer, 1987). A network whose “corporate personality” did not fit with the overall GE name was essentially forced into compliance with the organizational cultural norms. Chairmen, executives, and top members of the NBCUniversal team were replaced by GE employees in an effort to assimilate the employees of NBCUniversal from a top-down structure. On Hofstede’s dimensions, the differences are clear. NBCUniversal

represents the easygoing working mentality whereas GE reflects the highly structured and rigid operations. NBCUniversal also represents the more goal-oriented organization as evidenced by their prime-time ratings and drive to continually improve. GE, a much more means-oriented organization, administered cost-cutting initiatives despite NBC's incredible success (Boyer, 1987). These two organizations, while all under the same umbrella of General Electric, lacked organizational compatibility to the point where Comcast was able to come in and "steal" NBCUniversal from GE (Gara, 2013). Although seen as benefitting both GE and Comcast, Comcast clearly came out on top with the merger as they paid a fraction of the price for NBCUniversal than it was worth (Gara, 2013). Cultural incongruence, while not cited as a reason for GE's divestment, certainly played a role in the declining profitability of NBCUniversal to GE's overall business prospects.

GE's acquisition of CGR and divestment of NBCUniversal represent two very important ways that organizational conflict manifested in a multinational corporation - the first, merging a company culture with a national culture, and the second, the unsuccessful merging of two company cultures. GE's history of a strong corporate culture has led to many profitable ventures, however, it has also led to downfalls. GE's partnership with Home Depot floundered at the start because of GE's autocratic view of business and strategy, its interest in NBCUniversal reducing company profitability, and many more instances represent GE's challenge with corporate culture and conflict. Also, due to its many international operations, the incongruence between the company and the culture of the nation has hindered GE's effectiveness as it grew. However, Human Resources practices such as diversity and inclusion training and adjustments to the corporate atmosphere have helped GE become the company it is today.

#### Resolving Cultural Conflicts with Human Resources Policies

Corporate culture is the leading factor contributing to conflict in GE as an organization. However, since these conflicts with CGR and NBCUniversal, GE has made incredible strides to become Fortune's World's Most Admired Companies (2015), Barron's World's Most Respected Companies (2014), and Ethisphere's World's Most Ethical Companies (2014) (GE: Fact Sheet). These achievements have largely been due to their policy improvements in the way they treat employees.

GE, in an effort to resolve the conflict between the French culture and the influence of American culture on GE's organizational culture, set up training seminars for their

European managers, including the French (Gitlow, 2004: 109). These seminars attempted to educate the employees of CGR specifically on how GE conducts business and the founding principles on which GE was founded. Seminars such as these help to establish values, goals, and direction for companies which is especially important after acquisitions such as the CGR acquisition. Businesses often “fail to successfully define what exactly they expect from people,” however, in training sessions such as these, a large portion is dedicated to setting clear expectations (Koop, 2013: 3). It is especially to look at this particular intervention in terms of Figure 1. One of the predominant interventions companies can make to resolve discrepancies with cultures of high power distance are management style improvement interventions. Training seminars encouraging managers and leaders to proactively accept the new organizational structure and culture was a significant effort made in attempting to close the culture gaps (Gitlow, 2004: 109). This particular intervention is also exemplary of the system-wide activities shown in Figure 1 reducing the power distance. Helping people understand how the structure of the company works together helps to assimilate new employees into the company during acquisition. These training seminars, while only mildly effective in achieving true organizational compatibility between the two companies, is a great example of how human resources initiatives bridge cultural gaps for increased company efficiency.

On the flipside of the CGR GE acquisition success is the NBCUniversal divestment. This particular example illustrates where a lack of effective Human Resources policies ended the relationship between NBCUniversal and GE poorly and how the organization has learned from this mistake. “Flexibility is felt to be particularly important in [a] globalized business world,” according to Angouri and Glynos in 2009, however what was clearly exhibited in the second example was a rigid standard by which NBCUniversal was expected to comply. A training and development approach by Human Resources could have easily prevented the harsh and negative attention the speech to NBCUniversal's executives received (Jose, 2013). “Understanding the work, company, and culture” would have been a more successful way of ensuring both companies came to mutual understanding about each other's goals and driving values (Jose, 2013). These training and development programs, as seen in the example of how GE solved the cultural issues with CGR, can be as simple as iterating the differences between cultures and how they interact or can be as complex as delving into deeper, complex organizational rituals and foundations. In the case of NBCUniversal, a simple training session for both parties could have bridged the



communication gap created by the organizational differences and made for a more effective partnership that lasted in the long run.

Ultimately, the Human Resources initiatives, or lack thereof, made and impact on GE's retention of employees and in their retention of an organizational partnership. The French employees of CGR were put off by the decidedly American approach to business in a culture that is far different than the United States. Unaware of these cultural implications, GE certainly lost employees who could no longer identify with the values of the organization. The same happened with NBCUniversal - GE forced a corporate culture that was simply not conducive to the NBCUniversal company or entertainment industry, eventually leading to the dissolution of the partnership. Cultural trainings, improved employee engagement efforts, and a culture of diversity and inclusion could have saved GE from their treacherous mistakes.

#### Corporate Social Responsibility & Cultural Challenges

According to GE, sustainability, or Corporate Social Responsibility (CSR), means "aligning [their] business strategy to meet societal needs, while minimizing environmental impact and advancing social development" (GE Sustainability, 2016). However, it is difficult to achieve these CSR and sustainability goals if the underlying corporate culture is causing conflict with the organization and employees. Employee commitment to CSR efforts is a key factor in the success of any CSR initiative by any company, which is why resolving these differences and mitigating conflict is important (Strandberg, 2009). Ensuring that the "best people" are "taking on the toughest global challenges" can certainly be a challenge when the "best people" are struggling to align with GE's values and goals (Hessler, 2016). The effective adoption of CSR by corporations is "associated with the changing personal values of individual managers" throughout the organization, thus the alignment of individual employees with CSR efforts is incredibly important in their effective implementation (Hemingway & Maclagan, 2004: 33). Thus, cultural inconsistencies during mergers and acquisitions as well as across industries can hinder a company like GE's CSR efforts.

In the case of CGR and GE, the stark differences between the French based company CGR and the American dominated GE caused the corporate cultures to clash, leaving many of CGR's employees feeling disconnected from their overall corporate mother. This disconnect between the local employees and GE's management not only impacted the

communication of ideals and goals but also negatively impacted GE's sustainability efforts. Employees were reluctant to comply with GE's efforts of employee involvement and community outreach because GE failed to understand the local culture and impact of the forced Americanized corporate culture on a decidedly not-American company. The same issues occurred with NBCUniversal and GE's efforts to force corporate cultural compliance in an industry where that does not work. As with CGR, employees in NBCUniversal struggled to connect to the overall GE conglomerate and thus failed to effectively identify with GE's CSR efforts. In each of these cases, the impact of employee involvement and connection with company values is critical. GE struggled to maintain successful sustainability efforts because their employees did not identify with the values and mission of GE as a whole. Forced compliance and integration with these GE values simply did not work.

Although GE once struggled with their CSR efforts, the company has since become one of the most well-known companies for their global sustainability efforts. Environmental impact, employee engagement, and the economy are at the forefront of GE's current CSR initiatives. With sites such as their new "Portal," GE is working to increase "stakeholder engagement and communication with various groups on issues related to human rights, community work, and corporate governance" to ensure that GE is working together with all of its stakeholders - employees and customers alike - to solve some of the globe's most pressing issues (Kaye, 2012). GE Citizenship - the portal that employees, customers, investors, and CSR professionals use together - is helping to close the gap that was prevalent in the two cases of CGR and NBCUniversal to align employees on GE's commitment to sustainability.

### **Royal Dutch Shell plc.**

#### The History of Royal Dutch Shell

Marcus Samuel, the founder of what is now known as "Shell", expanded his London business from selling antiques to oriental shells in 1833 (Shell Global: Our beginnings). It wasn't until 1886 that the market for oil and demand for gasoline arrived with the internal combustion engine. The business had been passed to Marcus Samuel's son and brother where they had started to export British machinery, textiles and tools to newly industrializing countries such as Japan and the Far East. On return, they imported rice, silk, china, and copperware to the Middle East and Europe. In 1892, the Samuels had achieved a revolution in oil transportation with the first bulk tanker through the Suez Canal which substantially cut

the cost of oil. The Samuels initially named their company The Tank Syndicate, however, in 1897, they renamed it the Shell Transport and Trading Company. Petroleum was also of interest in the East Indies, a Dutch colony, and in 1890 a company was formed to develop an oilfield - the origins of the Royal Dutch Petroleum Company. Royal Dutch, competing with the Samuels' low bulk transport costs, began the construction of bulk storage tankers to start its own sales organization. In 1903, while the Samuels were looking for alternative sources of oil, they joined up with Royal Dutch to protect themselves against Rockefeller's Standard Oil. This new organization was called the Asiatic Petroleum Company. The full merger of the two companies came in 1907 where they formed the Royal Dutch Shell Group. The Group rapidly expanded across the world. Europe, many parts of Asia, Russia, Romania, Venezuela, Mexico, and the United States were the countries that had vast opportunity for growth and oil exploration.

#### Shell and Cultural Conflict According to Hofstede's Theory

Shell operates in over 70 countries worldwide, which makes the company vulnerable to cultural conflict (Shell Global: Who we are). Headquartered in the Netherlands, incorporated in England and Wales, operating in Asia, the United States, Canada, Venezuela, countries in Africa, Shell has operations on nearly every continent across the globe. The variations in culture across the world are vast and thus lead to conflict in communication, operation, and efficiency of the global organization. Two main examples illustrate Shell's role in cultural conflict predominantly in Nigeria: participation in corruption and exploitation of people and resources. Figure 3 is a representation of the differences between Nigeria and the United Kingdom on Hofstede's cultural dimensions. This figure will be referred to in the explanations of Shell's role in cultural conflict.

Shell's operations in the country of Nigeria were often faced with the threat of crime, violence, and kidnap of employees (Kate, 2011). However, Shell's activities also contributed to the external conflict in the region. In a report commissioned by Shell in 2002 and 2003, three external conflict resolution experts found that SCIN (Shell Company in Nigeria) is an "integral part of the regional conflict environment" because of the "manner in which the SCIN operates and its staff [behaves] creates, feeds into, or exacerbates conflict" (Kate, 2011). One of these is based on the cultural norm of corruption. Oil companies like Shell often fuel corruption when they seek to maintain their licenses to operate by giving short-term payments to government officials or succumbing to monetary demands in order to continue operation in the region. An illegal practice in the United States, Shell has been fined nearly

\$58 million USD for their participation in government payoffs and bribery in Nigeria. The conflict here is obvious: Nigeria's propensity for corruption and Shell's participation in the perpetuation of such a practice. However, as this is a cultural practice in the country, how does the company remain sensitive? This particular example is one where organizational culture must remain strong. To ensure the success of Shell's operations in Nigeria, they needed to hold strong with their organizational values and culture and stop the continuation of illegal business practices.

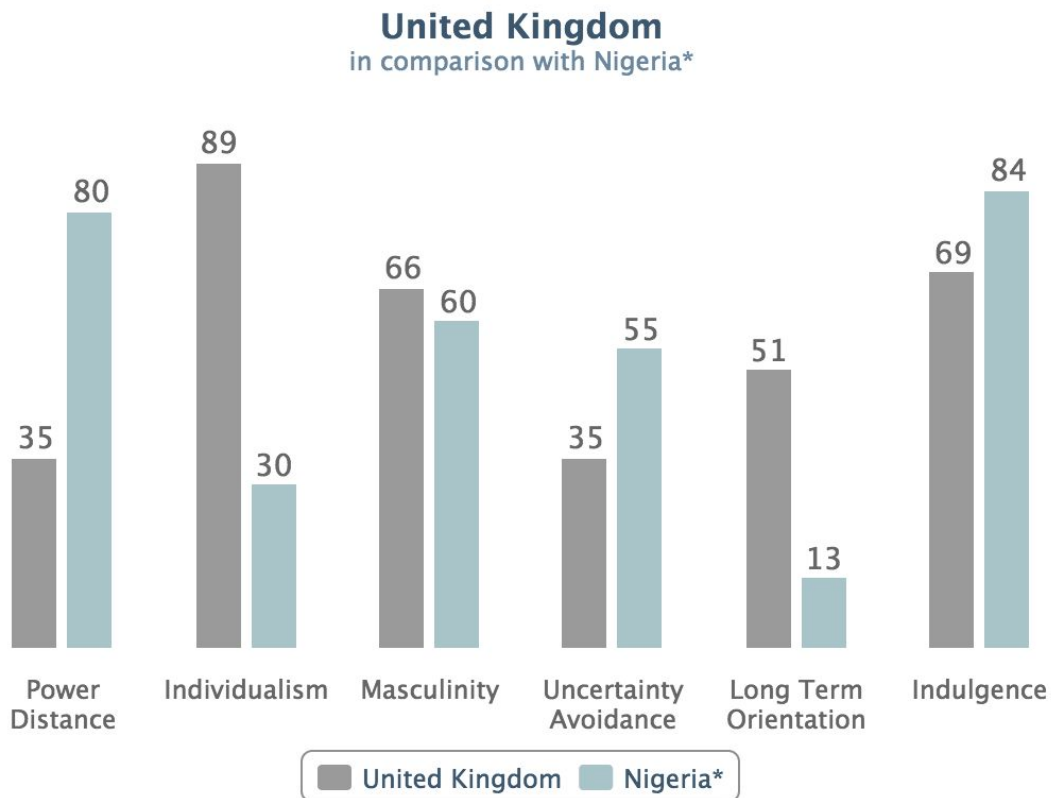
Exploitation of local employees and the region is also a significant challenge Shell has faced with their operations in Nigeria. The area of Niger Delta, where many of Shell's oil assets exist, "lacks running water, electricity, basic drainage systems, or any school" (War on Want, 2015). However, with the amount of wealth generated from the oil in the area, this particular territory should rank among the most wealthy communities anywhere across the globe. A community whose history has been based on traditional subsistence agriculture has largely lost their means of survival due to the oil spills and acid rain caused by Shell's operations in the area. The damages to the local culture are irreparable in this sense. Shell has effectively stripped the Niger Delta of their cultural heritage of subsistence agriculture and replaced with a profitable industry of which they reap no benefit. Failing to employ local workers in international operations perpetuates the cycle of poverty in third world nations. This cycle is prevalent in the Niger Delta and has been largely attributed to not only Shell but other major oil companies as well. Unfortunately, even today these culturally insensitive practices still occur in nations like Nigeria, Colombia, and Brazil.

As a United Kingdom incorporate company, Shell inherently possesses many of the qualities of the United Kingdom in terms of their national culture and propensity to lean on national beliefs and norms. However, Nigeria differs significantly from the United Kingdom on nearly every dimension of Hofstede's theory besides the masculinity versus femininity dimension. In particular, it is crucial to look at the varying power distance scores that the countries have. When looking at the example of Shell's operations in Nigeria, power distance plays a substantial role in conflict. The Nigerian people have a deep rooted respect for and compliance with authority - making their practice of paying off government officials much more clear. When authority demands a monetary payment for a benefit, it is expected that one must unquestioningly comply with that authoritative demand. However, the United Kingdom has a much lower power distance scale and thus the norm of absolute compliance with government demands seems more unreasonable and even unethical. Without an

understanding of this very important cultural difference, Shell unknowingly feeds into the corruption of the nation. Also in terms of workplace and employee interaction Shell could exploit local employees as the company is in a significant position of power.

Individualism is the next important dimension to consider when look at Shell's operations in Nigeria. Specifically, the sense of community and adherence to common cultural practices is felt far less in the United Kingdom and thus is of little concern to Shell employees in Nigeria. However, since Nigeria is a more community/family centered culture, the destruction of a heritage of agricultural farming disrupts the entire fabric of the nation. Unconcern for the history of the local environment impacts the community and the local people because it not only exploits the natural environment, but it also tears apart the foundation that the culture was founded upon and thus the sense of community. Uncertainty avoidance as well plays a role in Shell's cultural oblivious interaction in the community. Nigeria, a country exhibiting high degrees of uncertainty avoidance, aims to create an atmosphere of certainty. Shell, by employing local employees, helps to guarantee this type of security as it provides a steady source of income. However, its failure to employ local employees and destroy how the community once made a living is a significant impact in terms of cultural differences. These differences on cultural dimensions have since helped Shell to craft a successful strategy in the nation.

**Figure 3: Comparison of the United Kingdom and Nigeria on Hofstede’s Cultural Dimensions**



Source: Hofstede Centre, Country Comparison, 2016

These two examples of Shell’s conflict in Nigeria represent two very important aspects of culture: the organizational culture and the culture of the environment of operation. In the first example, Shell’s organizational culture conflicted with the local practices of corruption. Shell’s business values clearly indicate a “no tolerance” policy for bribery and government payoffs (Shell Global: Our Values). However, the government and culture of Nigeria expected the company to comply with their monetary demands in order for Shell to maintain influence and operation licenses in the region. The second example illustrates a company’s cultural arrogance and insensitivity. Shell failed to recognize the importance of subsistence farming in the Niger Delta and thus had no concern when effectively destroying the ability to continue this cultural norm. The Nigerian people were robbed of their cultural heritage in this sense and Shell and the oil companies made little effort to acknowledge their role. In both of these situations, the reaction of international management teams is critical in implementing policy to improve circumstances. Human resources managers can develop

policies to increase cultural sensitivity and awareness as well as act as enforcers of the existing Code of Conduct.

#### Resolving Cultural Conflict with Human Resources Policies

One of the predominant issues that Shell faces in their global operations is the threat of corruption, especially in countries in Africa and South America where that is part of the cultural norms. Shell developed a Code of Conduct to help combat the exacerbation of corruption and provides a clear policy on how to handle the situation (Kate, 2011). This Code of Conduct “guides employees on how to apply the Shell General Business Principles in line with [their] core values” as well as “practical advice on how to comply with laws and regulations and how to relate to customers, communities, and colleagues” in different nations. Practices such as never offering, paying, accepting personal payment or gifts in return for influence or favorable outcomes are just some of the suggestions written in the Code of Conduct. Human resources practices such as ensuring people in the workplace understand Shell’s stance on bribery and corruption and playing a role in ensuring suspect or known corruption is reported are some of the ways HR management is leading the push for culturally-sensitive and acceptable practices.

Employment policies such as requiring a certain number of local workers in international operations has been a significant improvement in the wealth of third world nations. Although these local employees often earn a fraction of the salary or wages that individuals in developed countries earn, local communities are slowly, but certainly improving their impoverished situation. Specifically in Nigeria, Shell partners with five banks “to assist [their] Nigerian contractors to access finance” from participating banks (Shell Global: Local employment and enterprise). Shell Petroleum Development Company of Nigeria Exploration and Production’s population is 95% Nigerian, with many working as engineers, project managers, and leaders. (Shell Global: Local employment and enterprise). Local training and development programs, as indicated in Figure 1, can help reduce the gap of cultural differences by leveling the playing field, so to speak. These programs also help to increase the awareness of foreign employees to the stark cultural differences that may influence the workplace. Shell also works to improve the economic situation where they work by contracting with local companies. Another example outside of Nigeria of Shell’s employment opportunities for local employees is in Oman where approximately “10,000 jobs have been created for Omanis,” an incredible feat for the economic development of the country.

Employing an effective Code of Conduct and educating employees in the region is one way that Shell has ignored the national culture of Nigeria for the better. While the national culture of Nigeria may indicate a strong connection to the underlying structure of corruption in the nation, Shell has held steadfast with their organizational culture and refused to partake - thus improving the Nigeria by limiting the opportunity for perpetuation of the cycle of corruption. However, the Code of Conduct also illustrates some key ways in which Shell has tried to accommodate the values of the nation as well. Shell has made improvements in the areas of uncertainty avoidance by providing local employees with a consistent opportunity to provide for their families and communities. Shell has also made reparations in Nigeria by initiating a progressive partnership in the country - working with local sources and local employees to achieve success mutually (Heap, 2000).

Human resources plays a particularly large role in each of these solutions. Shell's Code of Conduct is a global document that is in effect for all of Shell's subsidiaries and employees across the globe. In an effort to ensure anyone from any particular culture can access and read the document, the Code of Conduct is available in 16 different languages ranging from English to Traditional Chinese (Shell Global: Our Values). In the Code of Conduct it outlines the "General Business Principles" about how each Shell company will conduct business affairs (*Statement of general business principles*, 2005). Topics ranging from political activities to involvement in the community are all discussed in regard to how Shell operates at any location around the globe. Through this Code of Conduct, Human Resources has a guideline by which they can aid in the execution of fair business practices globally. These policies help guide Human Resources interaction with employee by providing the outline of how Shell will treat not only their employees but the local communities in which they operate. With the goal of providing support to change management; defining and delivering team development programmes; leading projects in staff planning; and promoting diversity and inclusiveness throughout the wider Shell community, Human Resources plays a pivotal role in optimizing business operations and achieving an effective cross-cultural workplace.

#### Corporate Social Responsibility & Cultural Challenges

As an oil company, it is widely believed that Shell is not a socially responsible or sustainable organization. Its efforts in Nigeria - exploitation of local employees as well as the natural environment - did not help the image that Shell does work towards sustainability. According to Shell Global's Sustainability page, sustainability at Shell is "about delivering



energy in a responsible way to meet the world's growing demands" meaning running "safe, efficient, responsible, and profitable [businesses]" and bringing "benefits to the areas where [they] operate" (Shell Global: Sustainability, 2016). In terms of the environment, Shell aims to cause "minimal impact" on the planet while also providing innovative technology to help solve the world's energy crisis in a responsible way. Shell aims to "be a good neighbor" in the local communities which they operate in and contribute to "the well-being of neighboring communities". However, many of these goals do not seem consistent with their operations in Nigeria.

The first example of Shell's cultural ignorance in Nigeria is the participation in government pay-offs and corruption. Accused of succumbing to bribery in a nation riddled with extreme corruption, Shell contributed to the perpetuation of conflict. Cultural unawareness of this practice led the company to feed into the cycle. However, with improved Human Resources policies indicating Shell's firm stance and no tolerance on bribery and corruption, they are increasingly working towards the goal of "preventing harm to [their] employees, contractors, local communities, and the environment" (Shell Global: Sustainability, 2016). Also, the environmental impact that Shell had in the Niger Delta, effectively destroying the means by which the local culture was founded upon, has since been improved by the commitment to hiring local employees and "contributing to the well-being of neighboring communities" (Shell Global: Sustainability, 2016). Effective Human Resources policies, in this case, are largely seen to be an effective way that Shell has reached some of their sustainability goals. Without the Code of Conduct or improved employment requirements, Shell's claims of "bringing wider benefits to the areas where [they] operate" would largely have been seen as a veiled effort in appeasing the growing demand for CSR by customers. Actual efforts in this region of the world as well as various other countries in which they operate has afforded Shell the title of one of the world's "Most Sustainable" companies (*Are these the world's 'most' sustainable companies?*, 2014).

While sustainability efforts for such a large company - and especially for a company whose reputation lends consumers to believe the opposite - are never complete, Shell has made incredible strides in improving their sustainability efforts. From technological innovation to commitment to ethical treatment of employees, Shell consistently ranks highly in companies to work for because of their sustainability commitment (Coyle, 2013).

## Corporate Social Responsibility and Company Profitability

Corporate social responsibility (CSR) is increasingly becoming a concern for multinational corporations. How these organizations treat their employees, the environment they operate in, and the world are the concerns of the end consumer. Human Resources policies implemented by the organization are often the result of the push for greater CSR. In its function, Human Resources is designed to “foster regulatory compliance with employment and human rights standards” as well as “developing and motivating people” (Strandberg, 2009). Policies surrounding the fair and equitable treatment of employees, cultural awareness trainings, leadership development programs, strong succession planning, and benefits are all created from the Human Resources departments and critical pieces in increasing employee involvement - a “critical success factor for CSR performance” (Strandberg, 2009). Without the efforts of the Human Resources department, much of a company’s CSR efforts would fall by the wayside as a top-down approach for CSR lacks the ability to motivate employees to identify with the objectives. But, why are these CSR efforts so critical to the success of multinational corporations? Theoretical and empirical research indicates a positive relationship between CSR and competitiveness in the global marketplace (Weber, 2008: 247). Thus, strong efforts to maintain an image of social responsibility and sustainability could influence the profit margins of the firm, making it a key concern of top executives.

Executives of these top organizations understand “that CSR can promote respect for their company in the marketplace,” resulting in “higher sales, enhanced employee loyalty,” and better attraction and retention of personnel to the firm (Robins, 2015). However, a credible CSR initiative depends on delivery and action, not rhetoric released by companies, and Human Resources is “responsible for many of the key systems and processes” on which effective delivery depends (Strandberg, 2009). Organizations that release statements about CSR while “neglecting to foster a CSR culture run the risk of damaging their corporate reputation” or eventually lead to their demise (Strandberg, 2009). Human resources’ “mandate to communicate and implement” policies, ideas, cultural awareness, and change in organizations “makes it central to fulfilling an organization’s objective to integrate CSR” into daily business operations. Attraction and retention of talent can be the single most influential factor to determine the success or failure of a corporation. As individuals are the backbone of any company, the way the organization attracts and retains people who are intelligent, ambitious, and innovative is crucial to not only corporate success, but sustainability efforts

as well. Individuals who are well positioned to be high achieving employees ultimately create a corporation that is more profitable - increased employee efficiency, lower overhead costs, high margins of profit for the greater organization. Figure 4 represents the importance that employees place on working for a sustainable organization. As indicated by the chart, a significant amount of people prefer to work for organizations who are socially responsible and make a positive impact. These trends are growing as well as more millennials and younger employees join the full-time workforce. The important takeaway for companies is that in order to realize these profits from increased employee retention and commitment to the organization, they must be sustainable in their efforts.

**Figure 4: Employee desires for sustainability**



Source: Graduating Student Population - 2012 *Net Impact*

The relationship between sustainability and CSR efforts to profitability is a challenging one to define. As CSR is often an immeasurable effort, there is no exact way to see how CSR impacts a company's profitability in the short and long term. However, engaging in CSR activities can "generate favorable stakeholder attitudes and better support behaviors" including purchasing behaviors and company investment and can "build corporate image, strengthen stakeholder-company relationships, and enhance stakeholders' advocacy behaviors," all leading to a positive effect on company profitability (Du, Bhattacharya, & Sen, 2009). The most effective CSR initiatives and subsequently ones that make the most impact on profitability are those that are "integrated [into] business strategy, linked to core business objectives and core competencies" providing the positive financial

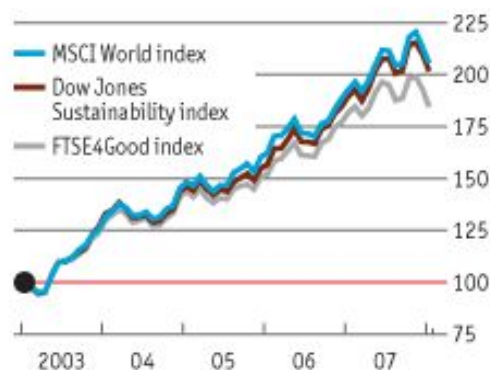
returns by the company while also providing positive social and/or environmental impact in the world (McElhaney, 2009: 14). These financial benefits can be found “in the areas of Human resources, reputation and branding, and operational cost savings” (McElhaney, 2009: 35). Improved working conditions and labor practices also help to increase productivity and reduce error rates, thus influencing the bottom line even more (Tsoutsoura, 2004: 7). Figure 5 represents the importance of a company having a social purpose and CSR efforts and how consumers respond to these efforts. As shown in the figure, these financial benefits of adhering to social principles pays off for companies and that this trend is rapidly growing. Figure 6 represents these trends of increased commitment to CSR efforts and the effect on stock prices, further showing the financial benefits of ascribing to a sustainable business strategy.

**Figure 5: Social purpose and profitability**



Source: Edelman goodpurpose 2012

**Figure 6: Stock prices, Sustainability Index, and the FTSE4Good Index Trends**  
**Share Prices, January 1st, 2003-07**



Source: Thomson Datastream, 2007

Overall, the relationship between CSR and profitability is clear. Socially responsible organizations are not only more desirable to work for, but they are also more profitable. CSR efforts are thus important to consider when addressing concerns such as employee retention and image management as these initiatives can directly influence profits. Thus, Human Resources, as a critical function in the CSR process, should not be overlooked in their capacity to influence the effectiveness of these socially responsible business practices and the fostering of a CSR corporate culture.

### Summary and Conclusion

Shell and GE both exhibit the relationship of CSR and profitability. As two of the world's top performing organizations, both companies show incredible profits each year. As the number 3 and number 24 companies according to Fortune's Global 500 in 2016, each company earns returns greater than some of the world's nations. Indicated previously, Shell's commitment to catering to the world's energy demands in a sustainable and responsible way has landed them a spot as one of the top companies to work for globally. GE's commitment to ethical business practices has also landed them as one of the world's most ethical companies. Each organization that appears on Fortune's Global 500 has some form of CSR initiative, which has thus made them some of the most desired brands. Walmart, Apple, Exxon Mobil, BP, Toyota, General Motors, and more are just some examples of the ways in which consumers have rewarded companies with responsible and sustainable business practices. After all, these organizations would not have become the most profitable companies globally without the consumer. However, without the efforts of the Human Resources department, many of these CSR practices would be moot. As demonstrated by Figures 4, 5, and 6, employee desire to work for socially responsible organizations is increasing rapidly and has an impact on company profitability, a decidedly positive impact. A company's ability to effectively engage in many different environments - recognizing cultural differences and the role of the organization in promoting positive change - is a growing concern of the consumer.

Shell and GE both encountered significant cultural challenges in their operations along the way, however the way they addressed these challenges was key to their success. From policies such as training and development on corporate cultural practices to acknowledgement of the local community, each organization implemented Human Resources strategies to help with the international integration of the organization. While not

perfect in adapting to and resolving cultural challenges, each organization has earned incredible titles for their global efforts to operate ethically. Recognition of differences is one of the most important parts of this feat. These efforts have largely helped each organization portray the socially responsible image and gain admiration and respect from consumers around the globe.

In conclusion, Shell and GE represent just two examples of multinational corporations and the challenges they faced with corporate and national cultural differences. The role Human Resources has played in solving these challenges was critical in developing the image of the organizations as they are today. With the increasing importance of corporate social responsibility and sustainability efforts, these solutions have been focused on the firm and its effective interaction in the global arena. Profitability, as a result, has steadily increased as more and more consumers place a value on responsibly operating organizations. These two companies illustrate what is happening on a much larger scale. As companies seek to improve cultural awareness and operate on a much more ethical and responsible level in every nation they operate in, the international gap is slowly being bridged. It is now much easier for companies to operate in nations much different than the base country. It is now much easier for companies to adapt to these local environments and play an essential role in developing economies. As Human Resources departments develop new and innovative ways to handle differences at nearly every level, they are also helping to integrate CSR into the overall business strategy, and in effect, increase a company's profitability - the ultimate end goal of any for-profit organization.

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