

# The 4Es of Management: Managing cultural exchange in Multinational Corporations.

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**Abstract.** Despite the obvious benefits that Multinational Corporations (MNCs) have on developing economies, those often come together with tremendous externalities. Rather than exploiting cost drivers and cost savings to deliver cheaper products to the Western customer, MNCs could try to find more ways to cater to local markets profitably whilst contributing to resolving social challenges. This paper introduces a management framework that facilitates knowledge-exchange between local organizations and the MNCs for a more targeted product development that can effectively respond to the local needs. This research explores the relationship between MNCs and developing markets; it highlights the pitfalls of new product development efforts for such markets in depth before touching upon more effective ways of generating innovative intellectual capital for product development practices; it introduces the 4Es Management Framework that can solve cultural exchange challenges in MNCs, and lastly, it elaborates on how this can constitute alternative CSR initiatives.

**Keywords:** Multinational companies · New Product Development · CSR · International Business · Organizational Culture · Company Democracy

## 1. Introduction

The role of the Multinational companies (MNCs) in developing countries is considered controversial; many blame them for exploiting the resources of the host country, such as raw materials and cheap labor, others praise the advances they enable through foreign investments, such as improvement of infrastructure, upskilling of the workforce and a shift away from the agricultural sector [1].

Corporations understand the value of penetrating less developed markets where big population size and strong growth prospects of such countries are important factors in the race for global market share. However, to assure sustainable development in the developing and emerging countries, MNCs have to take ownership of their social and environmental impact.

The fact that MNCs often struggle to understand local customs and cultures creates challenges as they operate with systems, processes, and products that are very much oriented after the Western business models and customer preferences. Thus, MNCs fundamentally lack an understanding of the local customer and fail to deliver, or mostly not even attempt to develop, the right products for each market they target. The findings of this research prove that closer communication between local communities and Multinational Corporations would bring mutual benefit; companies can establish their market presence more effectively whilst sustainably contributing to economic growth. However, it is well known that merging cultures is never a simple endeavor.

This research responds to these concerns. It suggests the 4Es of Management for democratic organizational culture, which gives upper Management of MNCs the tools to facilitate effective collaboration between employees and locals, to invent and develop products that better respond to local needs, tying MNCs with the local culture. The 4 Es of the model, Envision, Empower, Extend, Enforce, represent the stages through which management transforms the company into a democratic entity that can simultaneously adjust its existing processes to reflect on the local market needs.

Based on this model, management can achieve a better cultural exchange between local and foreign employees, but also ensure a cultural fit of their product in the market. Such a collaborative approach benefits the local society on different layers and can be part of alternative, but less costly CSR solutions. This can create a positive impact on the way MNCs are seen in the foreign business ecosystems and help them integrate and grow it stronger from within.

## **2. Multinational Corporations in Developing Countries**

There are different reasons why international firms choose to access less developed regions. Some MNCs tend to move only their production to such countries, as offshore production can create huge cost savings due to cheap labor, lenient regulations or regulation enforcement, and a low cost of raw materials. Other MNCs expand to less developed regions in a strategical race for global market share and understand that such markets offer a tremendous consumer base in quantitative terms, high market growth potential, and unfulfilled demands for products and services [2].

Even though MNCs often use developing markets for their Corporate Social Responsibility campaigns, such unscalable efforts mostly exist for reputational purposes instead of their desire for the common good. Whichever reason MNCs have for expanding to a developing country, it appears that profits are always at the core of motivation, therefore it is important to highlight that profit-orientation is not a challenge. However, problems arise when profits are not balanced with social equity and environmental justice, leading to unfair exploitation of the local resources and cause strain on the local communities.

If companies keep wanting to operate in such countries, they must significantly decrease their externalities and beyond this, become degenerative. Thus, they must focus on positively contributing towards the host nation's sustainable development, sustainable infrastructure development, economic opportunities, and skills development for the locals by providing solutions for environmental destruction and climate change.

### **3. Pitfalls of product development for developing markets.**

As part of this research, two forms of primary research have been conducted. In the first part of the research, 25 citizens of different developing countries have been interviewed to determine the product need. In the second, interviews have been conducted with upper management of MNCs in developing countries, to examine the challenges they are facing and the solutions they have attempted to resolve. Interviewees were Nabil Habayeb, CEO of General Electric Middle East, Thomas Schäfer, Chairman & Managing Director Volkswagen Group South Africa, and Philipp Schiemer, CEO of Mercedes-Benz Trucks in Brazil.

Initially, the survey has revealed that market drivers should not be the pushing force that brings MNCs to developing countries. Market drivers assume that products, as well as marketing, are transferable from an existing market to a new, international market [3]. However, a clear majority of survey participants believe that the developing world does require very different products than the rest of the world (96%)

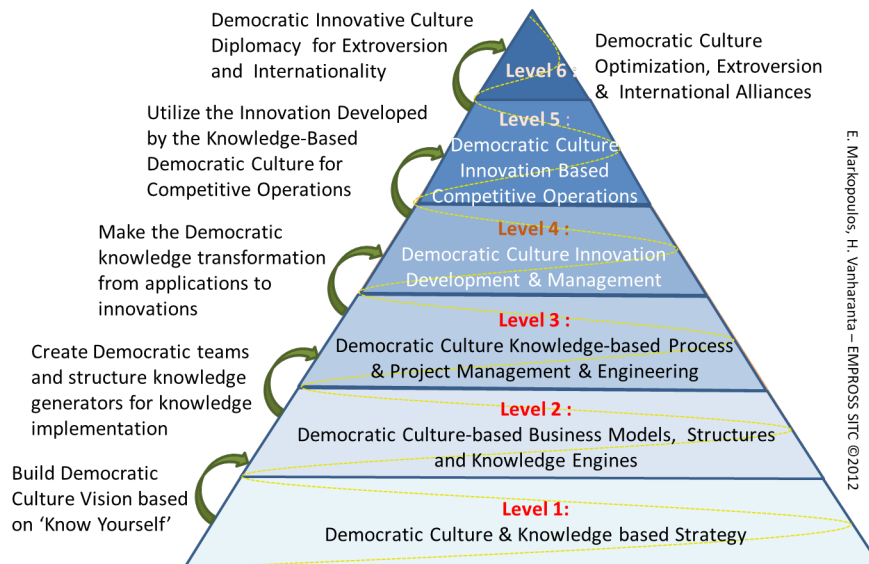
Nevertheless, the interview with Thomas Schäfer, Managing Director of Volkswagen South Africa, revealed that in the automotive industry, it is almost impossible to develop new products for developing markets. Thus, markets have to work with what was initially developed for big markets. This is problematic, as Mr. Schäfer acknowledges because culture and behaviors are significantly different from country to country and therefore, there is an unfulfilled demand for more localised products. This equally applies to an emerging country like Brazil, as interviewee Mr. Schiemer highlights: the product requirements in Brazil are substantially different to the ones in Germany, for example.

Despite existing challenges, all three interviewees agree on the importance of the integration of the local knowledge into product development efforts and that every part of the product development process should link back to the purpose that the product has for the local market. Moreover, this allows reducing the risk of failure, as local cooperation is highly effective to leverage national pride, with the participation of the locals to change their country for the better. Furthermore, it leverages knowledge about local conditions, helps to find out the right product requirements, and establishes direct communication with the customer.

### **4. Democratic Knowledge Management**

It is common knowledge that a rigorous understanding of the customer is essential for successful product development [4], and as this research proves, this is even more important for Western MNCs to survive in volatile foreign markets [5]. Nevertheless, many struggle to accumulate local knowledge and therefore fail to introduce relevant products to those markets for the right price point [6].

A very effective yet cost-efficient way for companies to gather intellectual property is to derive it from their employees and other stakeholders. The Company Democracy Model, (Fig.1) developed by researchers Markopoulos and Vanharanta in 2012 offers a framework for companies to achieve internationally competitive products from internal knowledge [7].



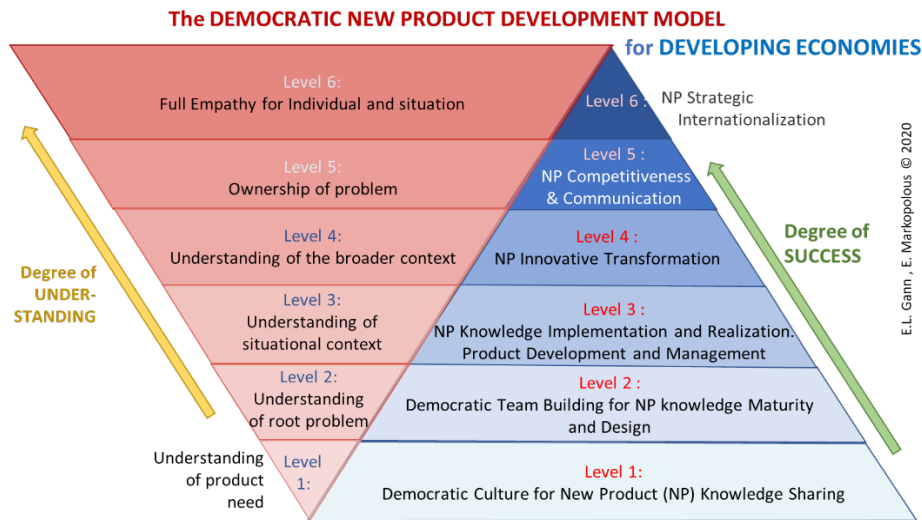
**Fig. 1.** The Company Democracy Model.

The model presents six steps towards a democratic company culture, displayed in a pyramid structure which represents the incremental progression of the levels.

Being designed primarily for Western corporations, the Company Democracy Model must be adapted to a developing country context; often, there is a lack of local employment in MNCs, which limits the internal local knowledge pool. Therefore, previous research has extended the Company Democracy Model to a developing country context; The Democratic New Product Development model for developing economies provides a framework to connect Multinational Corporations with local knowledge (Fig.2). The model is presented in a reverse pyramid structure, representing the evolution of the product from a broad idea to a competitive product and the simultaneous development from a clear understanding of the local needs. At the core of the model lies the industry-society relationship between organizations and individual, deriving from democratic NPD practices [8].

In Level 1 of the model, the organisation establishes a democratic culture that opens up to external ideas for new products in pursuit of local knowledge that can allow the organisation to develop an understanding of the specific product need. In Level 2, the organisation undertakes democratic team-building around the local individual, helping employees understanding and uncovering the product idea of the individual and grow the idea into a solid concept. In Level 3, the product development process starts, entailing a tight collaboration between local individual and company, while ensuring cultural relevance of the product. Level 4 focuses on making the product robust and solid on what leads to its innovative impact on the respective market, including in-depth analysis on the broader innovative impact that the product will have on local communities. In Level 5, the product is readily developed to compete in the local markets and the focus moved to developing a solid marketing strategy appropriate for the local context. Once

Level 6 is reached, the company has “matured to an empathic entity”. It can now scale the product impact and extend its outreach to other regions.



**Fig.2.** The Democratic New Product Development Model for Developing Economies.

The 6th level of the module shifts such MNC’s strategies towards reverse innovation [9] and geo-entrepreneurship [10], where the utilization of the local intellectual capital can generate new products for the local markets which can also be offered to the western world as affordable innovations.

## 5. The 4Es of Cultural Exchange Management

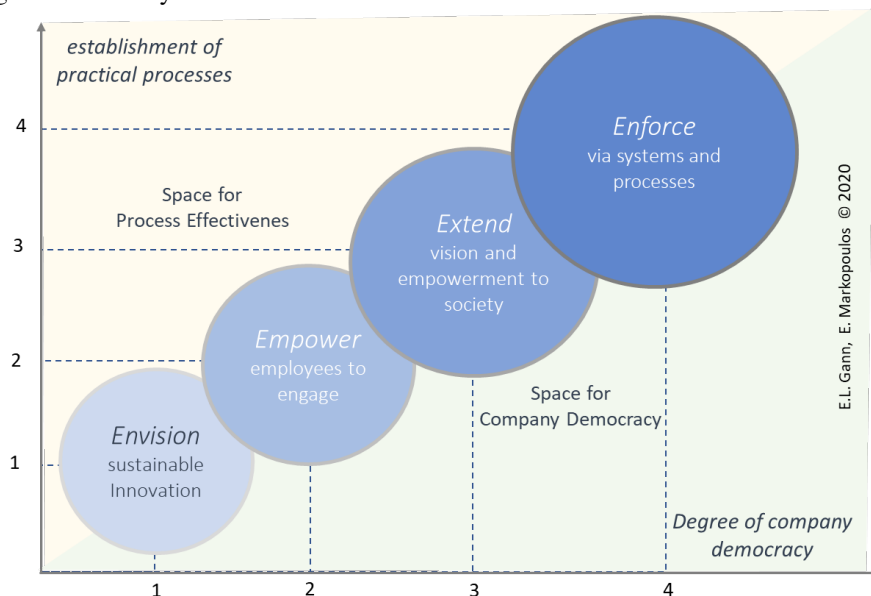
When expanding operations to less developed markets, corporate leadership faces the challenges of navigating through a complex business environment, consisting of unstable political systems, ambiguous regulatory frameworks, environmental and humanitarian challenges.

However, the managerial practices of multinational corporations are to target social responsibility impact and the dynamic development of the developing or emerging nations. These targets can assure shared value innovations and product development for the benefit of both the MNC and the local society and economy [11], but also sustainable development that can reach to green oceans and contribute to the MSNs ESG and CSR targets [12].

To operate successfully in those markets, leadership must master corporate culture management to facilitate the right balance between western practices and empathy for the local culture. The latter, even though widely overlooked, is essential to reflect mar-

ket needs in the development of their solutions and thus, sustain relevant product development for the market. This opens the need for an inclusive management system, established on proven western systems and processes but built around local knowledge.

The 4 Es Management Framework for Cultural Exchange in MNCs (Fig. 3) allows management to lead their organisations through the process of corporate democratisation and create a basis for multi-cultural management, as well as increased responsiveness to challenges and trends. The model measures progress on two axes; The x-axis measures the degree of democracy that management enables for an organization. This is the degree of participation that management facilitates amongst stakeholders respective the corporate activities. The y-axis measures the extent to which a company establishes structured processes around this knowledge democratisation. Both variables are correlated, meaning that a company can only move up one axis effectively if it progresses similarly on the other.



**Fig. 3.** The 4 Es Management Framework for cultural Exchange in MNCs

This parallel progress creates two spaces highly related to each other. The increase of the degree of democracy provides the space needed for the democratic culture to deliver the expected results [13]. A high degree of democracy creates a larger space to think and innovate, which delivers better results. Likewise, the degree of the established practical processes creates the space needed for the process to be effective. A low degree on democracy restricts the adaptation and effectiveness on the organizational processes.

## 6. The 4Es execution process.

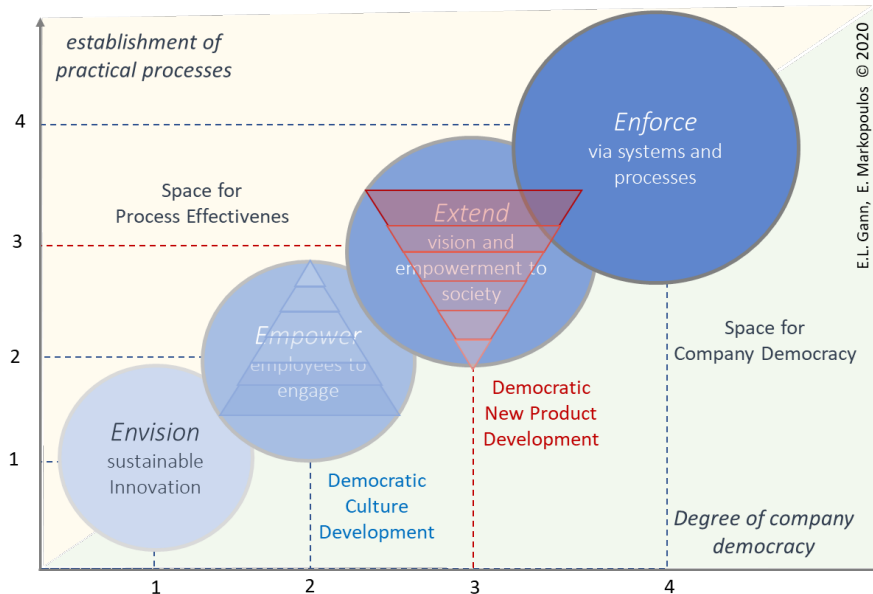
When an organisation starts operating in a developing or emerging market, the first step for management is to build the organisational purpose based on social needs, as

the GE CEO Nabil Habayeb has highlighted in his interview for this research. Therefore, management must develop a vision that binds the company and locality together in pursuit of sustainable innovation.

By articulating this vision to relevant corporate stakeholders, the organisation moves up on the x-axis. This is the first step on the y-axis as it marks the foundation of the development of internal processes around this purpose.

In the second step, the management must empower people internally. By giving employees a stake in working towards the defined and announced purpose, the organisation moves up another step on the x-axis. As this employee involvement can only encounter with the right processes in place, such as effective communication channels, the organisation moves up similarly on the y-axis. This symmetric progress in the degree of company democracy and practical processes initiates the implementation of the Company Democracy Model to empower employees to engage.

In the third step, the organisation starts sharing knowledge and brings the purpose from theory to action, by opening up to external individuals that wish to contribute to the organisational purpose. This is an essential step in corporate democratisation and moves the company forward on the x-axis. To register such contribution and formalise the collaboration, the company must evolve its systems and processes further, moving up on the y-axis. At this point, management facilitates empowerment not only internally, but extends the empowerment to society. This results in the democratic creation of new product development from and for the developing economies (Fig. 4).



**Fig. 4.** The 4Es of Management for democratic new product development

At the fourth and last step, the management enforces this progress by solidifying and improving the systems and processes, moving up to the last step on the y-axis. The previous includes having effective improvement systems in place, which ensure that

the company constantly evolves and does not stand still on a continuum. This is achieved with the continuous feedback of the people involved in the three previous stages and moves the organisation similarly up on the x-axis.

## **7. Cultural Exchange for Democratic Product Development**

Reaching the second progress step in both axes is a fundamental milestone that links the 4Es management framework with the Democratic New Product Development Model, which can only be applied successfully if employees embrace the vision created by the upper management.

This effort must be based on the formerly established purpose and aim to prepare employees for the knowledge-sharing mission. It is important to highlight, that the democratisation serves a common goal and will result in mutual benefit, for the employees, the communities, and the organisation. If employees understand the purpose and value of this vision, management can make them vision advocates and empower them to take active roles in the establishment of new processes. Such a level of internal engagement empowers management to democratise outwards by seeking engagement from external stakeholders.

During the third step of the 4E management model (Engage), the 6 stages of the Democratic New Product Development for Developing Economies model can be applied and local individuals can step in to start a collaboration with the organization, moving their knowledge from the initial product idea a commercially sound solution. The last stage, the enforcing stage, is executed after the Democratic New Product Development Model for Developing Economies. Once the company has moved to Level 6 on this model, the product is fully developed and can strategically be distributed. At this stage, the management must ensure that the organizations has become a learning organization [14] with improved and strengthened processes are for future applications

## **8. Limitations and areas of further research**

One limitation of this research is the sample of interviewees, which included only Managers. For the research to be more holistic, the opinions of employees and local citizens should have been considered equally in the development of the 4Es model. As the model suggested is build on a democratic philosophy, inputs of the employees and other stakeholders might have pointed out challenges or weaknesses in the model.

A second limitation is that all the managers were German, sharing a common western management mentality in thinking and acting. Despite the fact that they were all top executives from impressive multinational corporations, the research would have been more precise if more executives with different cultural backgrounds were involved.

Therefore, an area of further research could be the study of the entrepreneurial tendencies in developing countries, and the attitude and motivation of the local workforce to support Multinational Corporations in developing countries. Such research could conclude on citizens' willingness to engage with those MNCs that positively impact their country's development. and provide more precise insights in the way in which they can best contribute to such corporations.



Another area of further research can be considered the study of the management structures of Multinational Corporations. Specifically, it would be helpful to explore the most effective ratio between the origin of management, meaning the ratio between people from the host and home country of the corporation. This can make the proposed management solution more effective and adjust its execution process accordingly.

Lastly, an additional area of further research could be the CSR impact of the proposed model. More specifically, how well can democratic new product development in developing countries be turned into official CSR campaigns and how effectively will they contribute to the organisations reputation globally.

## 9. Conclusions

The role of MNCs in developing countries must change. Rather than exploiting the host country merely for the bottom line in a race for a global market share, companies should attempt to balance profit aspirations with social inclusion and responsibility for the sustainable development of the country. This can be achieved by integrating local knowledge in the product development processes. MNCs can design and develop products that have an impact on local communities by addressing their respective needs. Moreover, profits generated by such social products can stay within the nation's borders and contribute to the economic development of the respective country.

Managing such cross-cultural knowledge exchange within MNCs can be enabled through the 4Es framework for Cultural Exchange Management. It provides Management with guidance on how to extend their product development processes to the local market and facilitate successful collaboration between locals and individuals. As a result, innovative products can emerge, tackling the innovation paradox which holds back developing countries from sustainable development. With such Democratic New Product Development practices, Multinational Corporations can sustainably grow their market share whilst supporting the economic growth of the developing world and increasing social welfare.

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