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# TRANSNATIONAL CORPORATIONS AND CROSS- -CULTURAL MANAGAMENT

## 1. Introduction

Transnational corporations have been seen to emerge for a long time now. Although the term *transnational corporation* was used for the first time by the US economist E. Karcher in 1964, it became popular as late as the 1970s and 1980s, when the UN formed its Commission on Transnational Corporations. In the early years of the 21<sup>st</sup> century, international corporations were estimated to number over 64 000 organizations, which controlled at least 870,000 local subsidiaries [see Obłój K., 2007, pp. 40–41]. The existing literature on strategies pursued by multinational corporations and small-sized companies that decide to go international gradually is very extensive. Without this knowledge, we would not be able to grasp “the complexity of processes affecting the conditions under which modern organizations make their decisions, the behavior of their managers and other members of the organization; whether a firm is local or international, it influences its external environment, thus becoming an important component of the global system” [see Kostera M., Śliwa M., 2010, p. 12]. It has been proven beyond any doubt that cultural determinants strongly shape the functioning of transnational corporations. According to R. Linton [2000, p. 151] one of the most significant moments in the development of modern science has been the recognition of culture. Some say that the last thing that a creature living in the depths of the sea will discover will be water. Likewise, entrepreneurs do not notice the weight of factors determining cross-cultural management until they start

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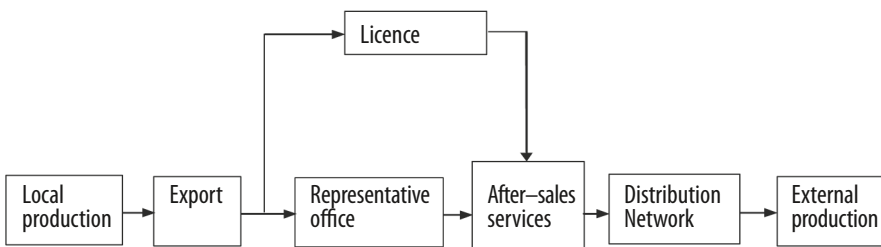
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internationalizing their companies. This study, which examines the internationalizing of medium and large-sized domestic companies in the textile and clothing industry, aims to extend our knowledge of the marketing tools they use, their organizational culture and the techniques of international negotiations.

## 2. The internationalization of domestic textile and clothing companies

The pace of internationalization arises from the company's size and its line of business, the relations it has with the business environment and the government's policy towards the business sector. In the high-tech firms whose exports reach 25% of their total sales within three years from their establishment, the process is usually fast (the Born Global model), while local firms need more time to become international (the Uppsala model) [Madsen T.G., Servais P., 1997, pp. 561–583]. The surveyed textile and clothing firms were found to represent the second model, which means that their internationalization was divided into stages. They started with export activities of various intensity, then established their own chains of outlets, signed licenses or similar agreements, finally setting up manufacturing facilities in foreign countries [Buckley A., 2002, pp. 96–100]. Chart 1 provides a graphic illustration of the process.

Chart 1. A business internationalization model



Source: A. Buckley, *Inwestycje zagraniczne. Składniki wartości i ocena*, Wydawnictwo Naukowe PWN, Warszawa 2002, pp. 97.

It is worth noting that the model above is a simplification of a complex process. Other ways of achieving an organizations' expansion into external markets are illustrated by the internationalization stages in table 1.

**Table 1. Stages of business internationalization**

Company's status and stage of internationalization	Organization's sphere of activity
Domestic company	All operations are run in one country.
International corporation	Most operations are run in one country. Foreign countries provide a large part of the organization's resources and revenue.
Multinational corporation	The multinational market is the place where the organization purchases raw materials, borrows money, manufactures and sells its products.
Transnational corporation	A borderless organization that cannot be connected with one country.

Source: based on R. Griffin, *Podstawy zarządzania organizacjami*, Wydawnictwo Naukowe PWN, Warszawa 2004, pp. 143–144.

At the **domestic company stage** the cross-cultural aspects are not very important, especially in Poland where the labor force is, in fact, ethnically homogenous. At this stage, almost all the company's resources come from the domestic market and its products are also sold locally.

**The international corporation stage** characterizes an organization that is based in one country, but sells its products abroad. As an exporter, the organization needs to know the cultural background of its customers to sustain demand for its products. Because much of its resources are also procured abroad, the cultural elements gain importance. The knowledge of foreign languages and business protocol is a prerequisite for communicating with foreign suppliers and buyers, because business meetings make up a regular part of the business.

**The multinational corporation stage** takes place when an organization decides to move its manufacturing activity abroad. Employing a foreign labor force, the organization has to deal with the host countries' government agencies in charge of labor relations. When its managers come from the firm's home country, then the cultural elements become even more important. It takes a great deal of knowledge to cooperate with local staff, suppliers and consumers.

**The transnational corporation stage** is reached when an organization establishes many centers forming a global business network. Decisions about the organization's development are made by managers that come from different countries and represent a variety of cultural backgrounds. Because strategic decisions require consensus, the cultural factors are also significant at this stage of internationalization.

Polish textile and clothing companies tend to choose the step-by-step internationalization process. The events that have paved the way for their stronger involvement in internationalization are as follows:

- on 1 March 1992, the Interim Agreement gradually liberating trade in goods between Poland and the European Union was put into effect. The standstill principle

was adopted, banning the introduction of new customs duties on exports and imports, as well as the quotas. The agreement expired in 1997;

- the GATT 1994, which was intended to remove the restrictions imposed by the Multi-Fiber Arrangement within a period of 10 years, was agreed upon. The bilateral restrictions under the arrangement were gradually removed inside the organization;
- after the Polish Parliament ratified the agreement on 1 July 1995, Poland became a full WTO member;
- since 1 January 1998, after an interim period, Polish enterprises have been allowed to trade freely in the Single European Market (customs barriers to textile and clothing products, etc. were lifted).
- in December 2001, China, one of the largest exporters of textile and clothing products in the world, became a WTO member. With the expiry of the interim period in which the *Agreement on textiles and clothing* is effective, China will enjoy the same rights as all the other WTO members.
- on 1 May 2004, Poland (with nine other countries) became a full EU member and adopted the common customs tariff and instruments protecting the internal market.
- 1 January 2005 ended the ten-year interim period in which the *Agreement on textiles and clothing* signed during the Uruguay Round (Marrakech, 15 April 1994) was effective. As a result, the selective clauses protecting trade in this group of products were nullified.

The above events enabling the free movement of goods inside the EU triggered internationalization processes among the Polish textile and clothing manufacturers. Looking back over the last several years, we can see that the organizations:

- intensified their restructuring and modernization processes,
- lowered their prices and extended the ranges of products on offer,
- gradually improved their international competitiveness.

Becoming an EU member state, Poland assumed the obligation to apply the common external tariff to trade in textile and clothing goods with other countries, whose customs duties were lower than the Polish rates that were applied before the country integrated with the European Union. The average customs duties on textiles and clothing stand at 7.9%, compared with 13.1% imposed under the national Polish customs tariff [Kaczurba J., Kawecka-Wyrzykowska E., 2002, pp. 108–109]. Following lower customs duties and because of the international agreements that Poland actively signed up to as an EU member, many textile and clothing companies that were unable to compete went bankrupt, while others launched sophisticated restructuring processes. At the same time, new firms able to cope with the new economic environment were established.

In the firms covered by the survey, internationalization started with the export of products. It should be noted that all the surveyed organizations exported (2%) or export (98%) **their own products and/or B2B services**. The services mainly involve the making of apparel with the client-provided materials. The weight of this segment of the textile and clothing firms' international business can be illustrated by the fact that, in 1994, the services accounted for 26% of UK's output, with the rate steadily rising [Ambler T., 1999, p. 138] (the statistics for Poland are not available). The domestic producers' competitiveness in this area is based on the high-quality workmanship and competitive costs of labor. This observation was confirmed in the K. Wadell' report, the Boston Consulting Group, according to which, with wages being twelve times as low as those paid in Germany, the quality and productivity of labor were comparable. As a result, the actual cost of making one man's suit were 30% lower in Poland than in France or Germany [Wróblewski T., 2004, p. 120]. The Polish apparel-assembling services still have competitive advantage over those provided by Asian producers, but only in the segment of high-end products that are produced in limited numbers and frequently replaced, which is a requirement not met by clothing manufactured in Asian countries.

The survey also identified some more advanced activities that the domestic clothing firms pursue in the international markets. They corresponded to the stages shown in Chart 1:

- **establishment of firm's own chain of outlets;**

This process is costly. The cost was not a problem for the largest domestic apparel maker, the Gdańsk firm LPP, whose 2009 sales exceeded 2 billion zlotys (an increase by 25% compared with 2008). LPP, a public company from 2001, has created six mainstream brands of clothing: Reserved, Cropp, Mouse, Mohito, Esotiq and Promostars. LPP sells its products in Poland and 11 countries in the region, from Estonia to Bulgaria, and also in Germany, Russia and the Ukraine. The Reserved brand alone has 263 stores, whose commercial space, totaling 180,000 square meters, has been provided at the cost of around 400 million zlotys. Other clothing companies have been equally expansive for many years now; for instance, the Łódź company KAN (the Tatum brand) sells its products in the Benelux countries, the UK and Ireland, and runs its own stores in Hungary, Prague and Moscow. In Russia and the Czech Republic, KAN is expanding its network of stores.

- **procurement of intermediate materials;**

The European manufacturers of intermediate materials for the clothing industry supply fabrics and accessories for high-end products. Such products are made in limited numbers and, according to the latest fashion, mainly designed in Italy and France. Apparel manufacturers producing for other market segments have Asian suppliers, who copy the most popular models or modify the original products to avoid accusations of infringing copyright. The Asian manufacturers come to all major

fabric fairs in Europe and run their representative offices in various countries (including Poland), because one way of checking fabric quality before it is purchased is organoleptic testing. Personal business contacts are more effective, when business communication is aided by cross-cultural communication.

- **product manufacturing;**

It has become common in the 21<sup>st</sup> century to place orders for apparel delivery with the Asian manufacturers. The practice stems from rising production costs and it is likely to go on in Poland until the country enters the euro zone. It is also worth noting that the Asian manufacturers have better access to fabrics, which is basically made in their region. Their global competitiveness arises from their cheap workers with outstanding skills, favorable property prices and legislation, efficient transport between the corporation's headquarters and its subsidiaries, on one hand, and the network of outlets, on the other. One working hour in China costs around 80 cents on average. Manufacturing costs are so low in China that even if they doubled, they would still be lower than in Poland, K. Waddell from the BCG believes. This encourages large domestic companies to move their production to China, India, Indonesia, Thailand or Vietnam. These countries' cultures are so exotic that the knowledge of them can frequently determine whether a business undertaking will be successful or not.

- **capital transactions;**

In addition to capital transactions involved in the establishment of a firm's own network of outlets abroad, the study found two other examples of capital operations run by domestic firms. One is the Kalisz firm, Big Star Ltd. (jeanswear) that purchased shares and the rights to the brand from the Swiss corporation Big Star Holding. The other case is a joint-venture company that was established by a Łódź firm with a Lithuanian partner to enter the Lithuanian market. The Polish firm contributed machinery and expertise, while the foreign partner provided premises for the new company's headquarters, a distribution network and knowledge of the market.

### 3. Cross-cultural activity and firm internationalization

In addition to financial barriers, the internationalization of the domestic textile and clothing firms is mainly obstructed by their limited knowledge of foreign markets, foreign legislations and cultural norms. To avoid pitfalls that are likely to occur at each stage of internationalization, a firm has to improve its knowledge of so-called "soft" factors. In failing to do so, a firm may retard its growth or experience unnecessary failures. Let us analyze now the types of internationalization as found among the textile and clothing companies with respect to the cross-cultural factors.

**To export textile and clothing articles** to international markets, a strategic decision has to be made, whether the product will be standardized or differentiated. Standardization means that the same range of products will be offered to the same target segment in all supplied markets. In the world of satellite TV and global media, lifestyles can be seen to converge. Managers' dress codes are similar regardless of the country of their employment. The front office personnel or TV presenters have to look almost the same in most countries of the world. With pastime activities becoming more alike, the dresses people wear on such occasions are becoming standardized too. Sports fans going to see a game dress the same, whether in Europe, RPA or the USA. Only the colors of their favorite teams are different. Cyclists, rowers or climbers wear the same dresses in various parts of the world. (The Scandinavian and Mediterranean consumers favor different colors, though, because the volumes and intensity of sunshine in the two regions are different too). It follows from the above that it is rational to standardize a textile and clothing product, when [Bartosik-Purgat M., 2006, p. 47]:

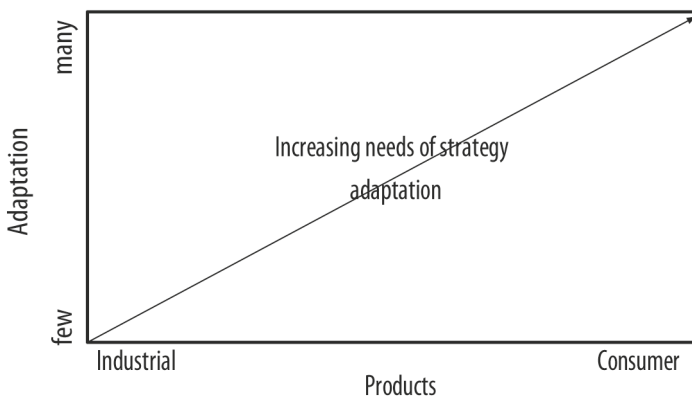
- the volume of production reduces unit production costs,
- R+D savings reduce the manufacturer's costs,
- the marketing costs involved in the promotional strategies targeting particular markets can be decreased,
- global competitive advantage can be gained by concentrating resources around a small number of programs,
- similar products can be sold in different foreign markets; buyers are very mobile today and wherever they go they tend to seek brands they know and recognize (e.g. sportswear brands such as Nike, Adidas, or high-end clothing by Dior, Armani, Boss),
- high-quality products are involved,
- standardization facilitates the delivery of after-sales services and spare parts (for products other than clothing).

There are certain exceptions to clothing standardization that arise from cultures that developed from centuries-old traditions of many nations. For instance, orthodox Muslims will tend to use their clothing as one way of manifesting their attachment to tradition, wherever they live. On the other hand, the global market for textile and clothing products for such customers is so large that a product differentiation strategy can be justified too. An example of customized sale is the LPP's decision not to sell its Cropp brand on the Russian market. Cropp is a special brand addressed to young people, characterized by tracksuit tops with hoods and baggy, low-crotch pants. The products and the related hip-hop music are not in demand on the Russian market. Hence, the main objective of a product differentiation strategy should be to adapt the product to local culture, when [Bartosik-Purgat M., 2006, pp. 48–49]:

- a foreign market shows a diversity of conditions determining product use (in the case of apparel these are mainly climatic conditions),
- the markets have different legal, political and economic characteristics (e.g. when the levels of populations' incomes are different),
- the product technical standards are considerably different between markets (clothing is basically excluded from this),
- products are offered to culturally diverse customers (preferring different colors, having different consumption habits, values, religions, etc.),
- product use is market specific,
- competitors adapt their products to the given foreign market,
- the firm pursues a management decentralization strategy.

When an item of clothing is adapted to meet the requirements of the selected segment of a foreign market, the risk of the product being rejected can be reduced, or its competitiveness may even improve, thus increasing the manufacturer's profits. An item of clothing targeted to many market segments may have "culture bound" traits. Chart 2 illustrates the relationship between a product type and its capacity for standardization or differentiation. Examples of the so-called culture-free products are products made by the armaments industry.

Chart. 2. Product type and the degree of standardization/differentiation



Source: L. Hoecklin, *Managing Cultural Differences. Strategies for Competitive Advantage*, Addison-Wesley, London 1996, p. 97.

The marketing strategy that firm pursues in foreign markets can also be standardized or differentiated. While the first approach reduces marketing costs, the other offers a better match between particular marketing elements, so customers can be reached more easily.



For an international textile and clothing corporation, foreign purchases of intermediate materials are as important as the export of its products. In this specific industry, the import of the **intermediate materials** involves more interpersonal communication than the export of products, because organoleptic testing is one way of confirming fabric quality. In the course of the survey, the respondents stressed that in dealing with the Chinese suppliers the client's surname and the appropriate title have to be used. The surname is always at the top of a business card, followed by two given names. Business protocol describing the appearance of a business card and the proper manner of handing it over is an important element of interpersonal communication and its details are discussed in the literature. However, the verbal and non-verbal aspects of communication are crucial. Communication can be divided into three levels: macro, organizational and micro. The middle level is connected with organization's culture. Even the appearance of the employees' and managers' offices alone may give a lot of information about their organization. For instance, „(...) who has a personal office and who shares space with others; whether the office doors are usually closed or open; ... how the office space is arranged; how easy it is for external persons to get access to the organization's premises (...)” [Kostera M., Śliwa M., 2010, p. 82] reveal the organizational culture and the hierarchy of the personnel. The way the organization's members say hello and goodbye to each other is also important. The author had an opportunity to watch Hyundai's personnel in their free time. Particularly low bows unmistakably indicated the superior in the group. While in Poland, addressing a superior by his or her name signifies close contacts with the person, in the UK the practice is common. People of the same cultural background may view a person raising their private and family issues during a business meeting as straightforward, but others may consider this non-business behavior. Some of the surveyed respondents mentioned that the dress code was part of their organizations' culture. In Poland, it is obligatory for employees meeting with outside persons to have a very tidy appearance. A British bank that offered its female staff to set up training in dressing attractively for work met with protests, as the initiative was interpreted as a discriminatory practice against women [Kostera M., Śliwa M., 2010, p. 83]. Other elements of non-verbal communication are gestures, postures, mimics, proximity, etc., that are specifically discussed in the literature. In conclusion, non-verbal communication treated as part of interpersonal communication can be an important source of information offering significant advantage in negotiations to the party that can use this acquired information.

Verbal communication is similarly diverse. It can be divided into three styles. In the study, the Anglo-Saxon style was represented by the German suppliers. The Germans start talking as soon as the interlocutor stops and break off immediately when the other person resumes. They believe that cutting in is a very uncivil habit. The Italian suppliers represent the Latin style, where interrupting proves the person's strong

involvement in the negotiations. Negotiations with the Asian suppliers are very different and characterized by moments of silence that are meant to express respect for the interlocutor and to gain time for thinking decisions over. Because the oriental suppliers have become a major source of materials for the textile and clothing industry, the knowledge of their negotiation style is a necessity today.

Knowing the context of verbal communication is equally important. The Japanese represent a high-context culture, where the negating person loses face. The Japanese show their respect for the interlocutor by frequently repeating *hai* (yes), which does not necessarily mean that the Japanese person admits we are right, but rather confirms that we were heard and understood. Knowing these forms of behavior, we can save ourselves many misunderstandings during commercial negotiations.

There are many areas where verbal communication can be found to affect business relations. Even an awkward product's name may disqualify it from the market. The survey showed that the „Pupa” manufacturer of cosmetics had problems finding Polish buyers for its products, even though they were of high quality and elegantly packaged. The grand piano manufacturer “Calisia” had to rename its products exported to the Arabian countries to avoid inappropriate associations.

Many mistakes in the advertising business arise from mistranslated slogans or from advertisement authors missing the fact that some cultures write from right to left, while others from top to bottom. The context of advertisements is also important. For instance, the low-context advertisements transmit a direct message to the consumers. They are devoid of allegories and subtexts. Such messages can be typically found in the German, US or Belgian markets [de Mooij M., 1998, pp. 272–283].

Although a careful businessperson should also remember to bring samples of packaging and materials to a business meeting, the crucial aspect of the meeting is verbal communication. The first thing to be determined when a meeting is being set up is the language of negotiations. The situation is optimal when both parties speak the same language well (e.g. English, Spanish, French). The respondents covered by the survey indicated that English was the most popular language of business negotiations. Interpreters were invited when one of the negotiating partners could only speak his or her native language. Such persons were found among both Polish and foreign businesspersons. The respondents stressed that particular languages operate special, industry-related terminology and accurate interpretation can be a problem even to professional interpreters.

Similar problems in verbal communication were observed at the **product manufacturing stage**, where the cultural factors also play an important role. To find more solid arguments to confirm the observations made, the survey was extended to some domestic apparel manufacturers delivering B2B services to German producers. The technical and technological documentation with pattern descriptions that was attached to the intermediate materials was usually translated by a person from among

the provider's staff. Even with the person's good knowledge of the German language doubts occasionally appeared, when colloquial phrases (frequently difficult to translate into Polish) or very specialist terms (incomprehensible to a German philologist) were used for describing particular assembly processes. In the particularly difficult cases, the questions and more detailed explanations of the unclear processes were exchanged by mail. In some cases, the client's employee delegated to Poland to carry out some special assignments (e.g. to assess product quality) that would demonstrate how a given product should be made or how the more vulnerable processes should be performed. Such problems were usually unknown to providers with a long history of cooperation with their clients, as they had enough time to absorb the technical terminology the clients used.

**Capital transactions** represent an especially complex area of international cooperation. Like the aforementioned aspect of interpersonal communication, they also require both parties to have good knowledge of each other's national cultures that, according to E.B. Taylor, also incorporate national legislation. In 1871, Taylor defined the term 'national culture', in his work "*Primitive Culture*", as a complex set consisting of knowledge, faith, arts, morale, law, customs and other abilities and habits that people acquire as members of society. Because international capital transactions frequently involve contracts of substantial value, the latter are meticulously prepared by lawyers, translators and the representatives of the contracting parties. Contracts are required to be drawn up in the national languages of all interested parties. Unclear provisions are usually rephrased, so that all partners can understand them in the same way. In a company internationalization process, capital transactions appear with the company starting to establish its own network of outlets. The purchase or rental of property marks the beginning of foreign investments, which are preceded by analyses of the local market and of those elements of local culture that may have an effect on business operations. As far as the Polish textile and clothing producers are concerned, foreign distribution networks are set up not only by the aforementioned LPP and KAN, but also by Simple Creative Products (founded after 1989, like LPP and KAN); Monnari, which started restructuring after being hit by the 2008 crisis; Redan, the owner of the brands Troll, Top Secret, Happy Kids, Adesso Fashion and Top Promotion; Vistula & Wólczanka and Bytom, three popular Polish brands that have been restructured and now are expanding into international markets. The Łódź-based underwear company Elear exports around 35% of its products. Today, high quality underwear and lingerie products sold in international markets represent an important part of the domestic textile and clothing industry's business. Polish companies are likely to increase their involvement in foreign capital transactions, when the WTO members complete their negotiations on the reduction of third countries' duties on textile products. For instance, the custom duty that India imposes on imported clothing is 99.72%; Thailand, New Zealand, Canada and Mexico levy higher

customs duties (12.35%) than the EU. For the domestic textile and clothing transnational corporations to be able to demonstrate their cross-cultural management skills, the EU will have to launch some actions to protect the industry from unfair competitors.

## 4. Conclusion

This study, which examined cross-cultural management, focused on the domestic medium and large-sized firms operating in the textile and clothing industry. The formal determinant of the firms' expansion into the global markets is international agreements, mainly Poland's WTO membership and the country's integration with the European Union. However, the "soft" factors are equally important. Any company failing to address them is likely to suffer from obstructed international growth or failures. The author's analysis of the cultural background's meaning for cross-cultural management was based on her survey of domestic textile and clothing manufacturers. The analysis intended to identify the status of the process in the selected segment of the country's economy. Theory confronted with practice allowed formulating the following conclusions:

1. Domestic textile and clothing firms internationalize themselves step by step, in line with the Uppsala model. The surveyed companies were either international or multinational corporations, which means that they exported their products and imported intermediate goods, established their own distribution networks outside Poland and manufactured their products in other countries. Expansion intensified their processes within cross-cultural management.
2. The surveyed companies exported (2%) or export (98%) their products. This means that they sell their own products abroad or assemble apparel under B2B services for foreign clients. These two areas of business activity involve different cultural requirements.
3. Domestic textile and clothing companies have competitive advantage in the high-end product segment. Such products are made of high-quality materials, according to the latest fashion and involve a high standard of workmanship. The actual interpretation of the terms "quality" and "fashion" depends on the customer's national culture.
4. The exported textile and clothing products can be either differentiated or standardized (i.e. targeted to customers emphasizing cultural factors or susceptible to globalization processes, respectively).
5. Import of intermediate materials emphasized the importance of interpersonal communication with foreigners in the surveyed companies, as this type of transactions involves organoleptic testing before a product is accepted or when its

quality is questioned afterwards. The knowledge of the oriental style of verbal communication turned out to be particularly useful, as the Asian suppliers are becoming the major source of intermediate materials. Domestic companies that were skillful enough to derive information from non-verbal messages confirmed their importance as a source of knowledge about their business partners that offers a certain advantage in negotiations.

6. The main vehicle of verbal communication during the business partners' face-to-face meetings was the English language. When the partners were Polish and German firms, trying to translate the German industry-specific terminology into Polish, via the English language, sometimes caused difficulties. Then, the non-verbal communication was used.
7. Foreign capital transactions are usually preceded by the analyses of local markets and of those elements of foreign culture that are likely to affect business activity. Whether the transactions will expand depends on the results of the negotiations conducted with the other countries in order to reduce their customs duties (also those on textile and clothing products) and on the EU member states' effectiveness in protecting their markets against dishonest competitors. The initiatives can be expected to provide Polish enterprises with conditions enabling the development of cross-cultural management.

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## Abstract

The process of going international shows stage by stage how an organization becomes a transnational corporation. Companies embark on such transformations to improve their market position and to boost their growth. To achieve the goals, internalization has to take account of cultural determinants, as the knowledge of cultural factors makes it easier to run business on an international scale. The entrepreneurs are increasingly aware that the pursuit of formal and rational goals also involves ethical, legal or strategic aspects. The article deals with some selected dimensions of national cultures that significantly affect negotiations with foreign partners, production management and the sale of products manufactured by transnational corporations. The article is based on surveys carried out in the textile and clothing industry.

**KEY WORDS: TRANSNATIONAL CORPORATIONS, CORPORATION CULTURE, MANAGEMENT**