

CHAPTER 1

INTRODUCTION

1.0 Introduction

Many recent studies on organizational culture often relate to human resource issues such as leadership and management styles, likewise to business performance. Even though wide literature focused on how organizational culture relate to business performance, the link between these two variables remains unclear because of the mixing results of the empirical studies (Liviú, 2008). Countless studies remain to discover the best culture variables and the objective of this paper is to highlight on MNC issues that have been evidently neglected. Raduan Che Rose (2008) report on various MNCs in Malaysia consisting of Japanese, European and American companies was among the few. The report does provide insight on how Malaysian culture matters in organizational business performance; the extent to which it contributed to the MNCs performance. However, there is dearth of further study of the issues that focus on the MNC host.

One of the most important developments in international trade and foreign direct investment (FDI) in Asia during recent years has been the rapid growth of cross-border production networks, driven by widespread multi-plant operations of multinational corporations (MNCs), and their extensive use of outsourcing and intrafirm trade in parts and components (Athukorala and Yamashita, 2006; Jones and Kierzkowski, 2001; and Jones, 2000). FDI through the investment of MNCs

in Malaysia is evidently important. Various trade arrangement and tax relief have been offered to attract foreign companies to invest in Malaysia. Japan, being the largest investor in the manufacturing sector in Malaysia and the second largest trading partner accounting for 16.7% of Malaysia's global trade of US\$180.4 billion (MITI,2009), has been religiously exploring the business opportunity and with bilateral economic co-operation between both countries since more than two decades ago. Nevertheless, these business opportunities are not spared of socio-cultural challenges pertaining to culture- organization issues of both the host and the MNCs.

While the rise of production networks is a general phenomenon, it has been suggested that the nationality of MNCs characterizes the functions of production networks (Sturgeon, 2003). For example, in the electronics industry the Japanese electronic networks have been a relatively closed system with a tightly controlled buyers-suppliers linkage excluding outsiders (Hackett and Srinivasan, 1998). Japanese production networks have been developed based on the social relationship of “trust” and “reputation”. Product and process specification remain relatively tacit, and involve intensive information flows between firms and suppliers; this leads to greater asset specificity and relation-specific investment. Understanding the nature of these Japanese company and Malaysian culture will ensure smooth operation and optimization of performance.

1.1 Background of the Study

Organizational culture can make or break an organization. Level of influence of a culture on the performance and achievement of a business deserves an in-depth study. This study therefore focused on the core of the Japanese MNC's organizational culture and to find out to what extent it utilizes cultural-organizational strategies related to their business. A critical understanding of culture and MNC as a business organization is vital as the glue that holds everyone together towards mutual benefits.

Hofstede's definition of culture is the major referential points for this study, Hofstede's original design for evaluation of cultural issue at national, international levels; and in measuring organizational power distance, individualism, uncertainty avoidance and masculinity (Pratt & Beaulieu, 1992). According to Hofstede, it is important to recognize that national culture and organizational culture differences and noted that national culture mostly stems from consistency in values; while organizational culture stems mostly from consistency in practices. Pratt, Mohrweiss, and Beaulieu (1993) suggested that future research "could usefully benefit from using the measure of organizational culture recently developed by Hofstede et al. (1990)" (p.627). Moreover Hofstede's cultural framework has been replicate and validated by many studies abroad over the time (Chow, Shields & Wu, 1999; Harrison & McKinnon, 1999).

Various performance indicators categorized both financial and non-financial, and the best practice are also incorporated in the design of this study. These include broader indicator for performance include productivity, quality, consistency, market share, sales growth and related aspects. For performance measures, these include survey and statistical results, behaviors (criterion – based) and relative (normative) measures, education and training concepts and instruments, including management development and leadership training for building necessary skills and attitudes of performance management (Richard, 2002). This study also acquired MNCs data such as financial (company latest financial statement) and non-financial measures (market share and customer perception) for more comprehensive results.

1.2 Problem Statement

Malaysia remained as a top choice to foreign investors as implied by the FDI position which grew more than double since 2001 and non-stop reinvestment as well as new capital injection among the existing foreign companies indicated their confidence in the investment climate of Malaysia. This showed that Malaysia remained as a profitable centre for global MNCs (Mohd Ridauddin Masud, 1998). Undoubtedly, the ‘invasion’ of Japanese foreign direct investment (FDI) into Malaysia especially manufacturing and electronics industry between 1986 and 2000 has had enormous positive effects upon infrastructure development and employment creation.

MNCs operate in different environments and cultures. Similarity of culture and practices between MNC and the host will provide extra advantage for smooth business operation that contributes to better business performance. However, problems may arise when the cultures do not mesh with each other. Argument or assumption that certain organizational cultures lead to superior organizational performance still become one of the main reasons for the common popularity and interest in the study of organizational culture. Many researchers noted that culture would remain linked with superior performance only if the culture is able to adapt to changes in environmental conditions. Furthermore, the culture must not only be extensively shared but it must also have unique qualities, which cannot be imitated (Lewis, 1998; Lim, 1995; Ouchi, 1981; Pascale & Athos, 1981).

Challenges for Japanese MNCs in Malaysian come from a rich mix of Malaysian multicultural and multi-ethnicity background pervading its business organizations. It is indeed a challenge for a largely monocultural Japanese to come to term with multi-culture values; to understand and to adapt to the host and home culture dimensions. The depth and breadth of home culture influence business decision making and strategy, and the extent of the home culture values has to absorb for host culture values to fit in. It is vital for business strategist to discover to what extent do MNCs whose cultures may well equivalent of their home country, monitor performance improvement when these company operate in another country with diverse cultural elements. Hence these are the focus of this study,

the underlying organizational culture that contribute to business performance among Japanese multinational corporations (MNCs) relocated in Malaysia.

1.3 Aims of the Study

The aims of the study is to examine the influence of local culture of host country (Malaysia) on organizational culture of Japanese MNCs that contribute to business performance; through a construct of a hypothetical model based on Hofstede's major four major culture dimensions to test the cultural variables and their relationship with the business performance of Japanese MNCs.

1.4 Objectives of the Study

1. To determine the Malaysian and the MNCs organizational culture per Hofstede's culture dimensions (individualism vs collectivism, power distance, uncertainty avoidance, and masculinity vs femininity)
2. To determine the extent of the Japanese MNCs adaptation of their home country organizational culture to that of the Malaysian per Hofstede's culture dimensions to achieve better business performance.
3. To determine the effects of MNCs adaptation to the Malaysian cultural dimensions on the MNCs business performance.
4. To recommend practical approach to enhance the Malaysian and the MNCs adaptations of MNC-Malaysian culture dimensions to enhanced business performance.

1.5 Research Questions

The following are major research questions which shall be subsequently abstracted into respective sub-research questions for data collection instrument, to be described in full in chapter 4 on methodology.

1. What are the organizational cultures of Malaysia and the MNCs per the Hofstede's culture dimensions?
2. What is the extent the Japanese MNCs adaptation of the cultural dimensions of their home country to those of Malaysian to achieve better business performance?
3. What are the effects of the MNCs adaptation to Malaysian cultural dimensions on the MNCs business performance?
4. What are the recommendations to enhance the Malaysian and MNC-Malaysian culture dimensions to enhance business performance?

1.6 Significance of the Study

The determination of the Malaysian and the MNCs organizational culture per Hofstede's culture dimensions shall provide insights into the extent of the Japanese MNCs adaptation to a host country organizational (Malaysian) culture and their effects to enhance their business performance. The subsequent

analysis and findings shall be useful for making practical recommendations to enhance the organizational culture adaptation between the Malaysian and the MNCs towards enhanced business performance for mutual economic interests.

This study is significant especially for Japanese MNCs currently operating in Malaysia or plan to do so. The study shall provide some insights into the organizational culture and the way it might assist in having better organizational performance. A prime motivation of this study is driven by the adage or assumption that certain organizational cultures lead to superior organizational performance. The findings of this study shall be useful to fine tune business and marketing strategies to tackle these culture dimension issues. The findings of this study shall be an addition to an Asian studies on the cultural- organizational issues, which for now has been overwhelmingly pepped up with studies of organizational culture, often involving cross-national comparisons of American, European and Japanese firms (Daris 1984; Deal and Kennedy 1982; Hofstede 1980).

Furthermore, there has been heightened in measuring and understanding cultural impact on business performance, especially as it relates to market share, product quality, sources of competitive advantage and industry structure (Buzzell and Gale 1987, Porter 1985). Even more recently, marketing scholars have begun to explore the intersection of cultural issues and the marketing concept and business performance (Jaworski and Kohli 1992, Kohli and Jaworski 1990; Nawer and Slater 1990,1991).

1.7 Conclusion

With the background of the study; problem statement; objectives of the study; research questions, and significance of the study clarified; the following chapter two, shall provide the literature review informing the conceptual and theoretical framework of the study.