



# ADAPTATION STRATEGIES OF TRANSNATIONAL CORPORATIONS AT THE CULTURAL SPECIFICITY OF THE INTERNATIONAL BUSINESS ENVIRONMENT

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**Abstract** *Regardless the field of activity, transnational companies must respond to the market challenges and also must fit in the new dimensions of world economy, that are marked, on a first side by the deep globalization trend of markets and standardization of business models and on the other side, by the impact of cultural particularities to business environment. The last years have shown how important is for the transnational that their management have a long-term vision, taking into account the risks which the companies must respond and the continuing pressures for change. Practicing an efficient management must be an important desideratum of the future multinational companies and business expansion beyond its original country. A basic requirement for success in business is represented by the modality in which the strategies are adapted at the cultural specificity of the international business environment. Therefore, this paper aims to identify the most effective ways of the firms' adaptation, such that doing business to be carried out in accordance with the specific values of the host countries.*

## Key words:

International business, transnational companies, strategic management, cultural particularities of business environment, business strategies

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## 1. Introduction

Globalization, seen through the interdependence of national economies of the states, is often perceived as a complex interconnection system of the markets, resources, technologies and business strategies. Approached as a whole, we see that globalization phenomenon has been strongly supported by two key actors in the international economy, namely, the *international economic organizations and transnational corporations*. Through their role and the regulation of relations between them, the international economic organizations have defined the new global economic order and brought a qualitative value of economic systems components. In the context of the expansion of interstate relations, enhancing the role of international organizations has become a real necessity for resolving the divergences and supporting international cooperation.

On the other hand, transnational companies play a key role among the factors that influence the process of globalization, being in its centre. From this point of view, the influence is both positive by increasing the international trade and direct investment and also negative, and in the specialized literature we can find many examples of negative corporate behaviours (Chițiba and Mionel, 2013).

In turn, the social, political and economic globalization, has led companies to expand their business beyond their origin country, thus benefiting from a number of advantages. The most significant factors which influenced the deepening of the world economy globalization process are represented by the goods free circulation, services liberalization, capital markets liberalization, increasing the freedom of foreign investors and granting the financial incentives. The globalization has reduced the relevance of the borders between countries and is presented as "*the most important economic process which marks the beginning of the third millennium*" (Militaru, 2009). In this context, the number of multinational companies began to increase significantly, and companies began to look for the best ways to meet new requirements and conditions encountered internationally. The term "business" began to experience a wide use and even if it is perceived differently from one area to another, everywhere it reflects the objectives of the international companies. The increased competition has led, in addition to improving the quality of products and services, to a higher attention to the business behaviour. The development of managerial methods and techniques, the involvement in actions of social responsibility, the respect for national values, the observance of the rights of the parties affected by the activity of the companies,

the protection of the environment and the adoption of an ethical behaviour in business are some of the most important aspects that define the general framework of the transnational company activities.

The specialised literature presents four main objectives which may cause a company to seek new markets. Generally they want *increased sales, acquiring new resources* especially new technologies and attracting foreign capital, *diversification of supply sources* and of course, *competitive risk minimization* (Constantinescu, 2000). However, whatever the purpose and the motivations behind the decision to internationalize, it should be noted that success and achievement of business performance depend on how companies manage to observe ethnic and cultural criteria that make the difference among the countries of the world. Depending on the cultural specific and the felt needs, each market segment has its own requirements and behavioural habits. Obviously, cultural variables are of particular importance, derived from how these participate in establishing the hierarchy of the consumer needs and how they influence the buying decision. The role of the transnational companies in the goods trade and services is quite obvious if you look at all the trade operations performed on large international markets. Through their organizational structure, transnational corporations may exercise managerial control over the activity of the component units and become promoters of origin country values internationally.

## 2. Methodology of Research

The global context subsequent to the economic crisis requires the transnational corporations to find new methods and techniques to change and adapt to the new dimensions of the international market. For their management, the economic recession was an important lesson for survival in a turbulent and unpredictable economic environment. The reduced purchasing power and the increased consumer reluctance when it comes to spending and purchasing have led to new challenges for the managerial activities of the foreign trade companies. Furthermore, the increase of the internationalization of the companies and the growth of the international competition intensified the need for classification of the products and services in the cultural dimensions of the marketing area. In this context, it is highlighted the growing need for more staff training, especially of the international managers who need to focus on the intercultural approach of the business activity in developing business strategies.

The main purpose of this paper is to highlight the management methods, techniques or strategies used within world renowned companies, companies that have managed to successfully infiltrate in business

environments having different features, thus representing real evidence that management is the engine of competitiveness and performance.

Through a synthesis of the specialised literature, it was mainly followed, how these companies have managed to adapt to the culture of the areas where they have expanded their activity and to meet the needs of the consumers who, depending on the values system, may associate the consumption with the symbolic significations code.

## 3. Literature Review

As found in the specialised literature (Kicsi and Buta, 2012), the main coordinates that helped the expansion of the trade companies were:

- dynamic growth of trade and investment;
- rapid increase of cross-border mergers and acquisitions;
- wider dispersion of the value chain globally;
- liberalization of market and economic policies;
- proliferation of regional trade agreements;
- globalization, as a multidimensional process that can be found in any field.

Heavily influenced by the economic and social globalization, the international businesses have evolved significantly, leading to a growing number of companies, from different geographical areas. The continuously growing international activity involves new requirements for actors involved in different cross-cultural activities (Militaru, 2009).

In the specialised literature, transnational companies are defined in multiple ways, depending on the way in which the analysis of their work is performed, either in economic or legal terms. As economic entities, they are regarded as "*companies that engage in foreign direct investments and which carry out value creating activities in more than one country*" (Munteanu and Horobet, 2005). Other authors define transnational companies as those companies that "*have expanded their economic and financial activity beyond the boundary of the country of origin, through a vast assembly at the international level, consisting of a principal firm and a number of subsidiary companies dependent on the parent company, implanted in different countries*" (Dumitrescu and Bal, 1999).

After much research, the global economics theorists concluded that transnational companies are the main economic agents that support the international movement of the capital. Basically, the transnational companies system generates, according to the researchers, not only goods and services but also the capital for investments, new technologies, and innovation and training capacities of the labour force for the use of technologies. The organization and management thereof are generally aimed at increasing

the competition potential, the profitability of the companies and of the entire system (Vlad, 2013). The number of the transnational companies has increased significantly in the last decade and their expansion in terms of geographical coverage has become increasingly wide. The data provided by the surveys carried out by UNCTAD on the 100 largest transnational companies, reflect the general increasing trend of the international production, the foreign sales and the employment rate in these companies being significantly higher than at the national economies level. The latest data recorded by UNCTAD [1], in the "World Investment Report" for 2011 indicates that the most significant distribution of transnational companies and their subsidiaries are located in countries with developed economies:

Table 1. Localization of the transnational companies by geographical coverage

Region	No. of parent companies	No. of subsidiaries
<b>Europe</b> (in countries with developed economy)	73 144	373 612
<b>North America</b> (Canada and USA)	11 257	33 759
<b>Other developed economies</b> (Australia, Japan, New Zealand)	8 136	16 420
<b>Asia</b>	25 148	483 715

Source: UNCTAD Report- "World Investment Report", 2011

According to the same source, it is estimated that globally there are currently 103 786 parent companies and 892 114 subsidiaries. As can be seen from the table above, the main transnational companies have emerged in countries with strong economies and subsequently expanded worldwide, covering all fields of activity.

Obviously, all these companies, whose contribution to the achievement of world exports is significant and can not be challenged by anyone, succeeded in developing through the continuous improvement of the applied management methods and techniques, increasingly suited to the business environment dynamics.

#### 4. Cultural specific of the business environment

The significant differences in terms of culture between countries, especially between continents, require to the transnational corporations a careful study of the areas where they choose to open new branches.

The values system can significantly influence the choices made by potential customers who assign the consumption different symbolic meanings according to the norms, beliefs and values of their area of origin.

In general, the culture has a strong impact on the activity of a company, regardless of the field in which it operates. Issues such as material culture (mainly focused on technology and economics), social organization, language, customs and traditions, education, religion or the fundamental values system of the society have a strong impact on the activity of the multinational companies, defining the character and the specifics of the potential consumers. The cultural differences encountered from one area to another can be a barrier with significant implications on the international business. The legal framework of each country must be observed by all the companies coming from abroad. They also must consider the importance attributed by the society to issues such as environmental protection, business ethics (e.g. the extent in which the society tolerates the minors being involved in different types of activities), corporate social responsibility, citizens' rights, etc.

Europe is recognized as one of the most important partners in the implementation of international trade. The companies seeking entry on the European markets must be aware that their activity will be influenced by a large common market in which different religions and cultures meet. There are Catholic countries (e.g. Italy, Poland), where the religious structures and forces may intervene in regulating the trade and may influence the sales of various products. The European business environment has several key features such as: high importance given to technological factors and information flow, relatively little emphasis placed on issues of moral and ethical behaviour in business, economic recovery capacity.

Asia is the area where the impact of the culture on business is the most visible. Asia is characterized by consensus, harmony and social order, discipline and respect for traditions. The companies seeking entry into Asian markets should know that the Government's role is extremely important to maintain the economic order and the social and economic development. In general, Western companies face the greatest difficulties, the Asian cultural values being somewhat contradictory. It is important to note that there are common behaviour patterns universally valid throughout Asia, patterns built on respect for the traditions and fundamental values.

North America is less conservative in terms of the values and traditions. In principle, the Occident is open towards new and encourages private business practices. Transparency, accountability, freedom granted to individuals (especially women) and increased global competitiveness are the main features

of the business environment. Often, the Western values, including those in more conservative areas, were borrowed. The way in which the Americans "do business" has come to be closely followed by Europeans and Asians, in their attempt to become more efficient in using resources and to become more competitive. Once arrived on the European or Asian markets, the American companies were able to observe the values of the host countries, but they also brought with them some of Western culture.

## 5. Strategies of international business development depending on the cultural specific

The transnational companies have the ability to adopt dynamic business strategies, relative to the global configuration of their activities and to the business environment specificities. Following this strength, they can control a quite complex internal system of centralization of the value-added activities. The complexity of doing business internationally has highlighted a number of issues on which the development of international companies depends. The decision to internationalize a business in a certain country is of strategic importance and should be developed following a thorough study of all the factors that can influence the activity of the company and the risks to which it is subject. The political and social stability, the economic development level, the education level, the health condition of the population, the social values and the national culture are only a few of the extremely important factors that determine the long-term competitiveness of a company.

The list of transnational companies that open branches or make investments beyond the borders of the country of origin is completed on a yearly basis. Ever since their setting up, a lot of companies have established the international business development as their specific objective. At this time, worldwide, there are many examples that in through a well established development strategy and supported by an intercultural approach of the business, outstanding performance can be achieved. The American companies are good examples in this respect. If we look at the food industry, we understand easily that the success of the companies in this industry depends on flexibility and adaptation to local consumption habits. Even big companies, known for product standardization strategies had to make some changes.

*KFC* enters the Chinese market (a country of values and consumer behaviour totally different from the U.S.A.) but applies a strategy to diversify the range of products (retains the basic products what made the brand famous, but the new menu includes new dishes specific to the area). The same strategy is applied by the rival *McDonald's* and amazingly, or not, at present,

the country with the most restaurants is Japan. However, out of respect towards the cultural values of Japan, the company gives up beef and adapts their products, being able to open including a fully vegetarian restaurant. Definitely, these companies have become promoters of the American lifestyle worldwide.

*Coca Cola Company* is another resounding name when it comes to product standardization. However, the company has realized the importance of cultural values, which is why the formula of the famous drink *Sprite* is modified when the product reaches the Japanese market. Another strategy applied in the same market is related to the change of name of *Diet* drinks (called *Light*), a strategy used because the Japanese associate the term *diet* with certain medical conditions.

The Swiss company *Nestlé*, the world leader in nutrition and health, is famous for the importance they give to cultural aspects. Thus, the company promotes internationally, as fundamental values, respect for different cultures and traditions. Although there were some controversies regarding the adoption of unethical behaviour in business, the company has always been given as an example regarding the cultural diversity respect. Through the research and development strategy, the company is constantly trying to integrate into the culture and traditions of the countries where it operates, bringing its own set of values in the local environment.

We made only a brief overview of the strategies applied by some world famous companies, but it is obvious that such list is not exhaustive and not only within the food industry. It is important to understand the importance of cultural values and try preserving the national identity, even if transnational companies brought a bit of their own culture in each market.

## 6. Conclusions

Nowadays, the transnational companies are the most important player that supports the globalization process, their activity being built on three fundamental pillars: production, international trade and foreign direct investment. In principle, technological changes (which brought more efficiency and effectiveness in business activities) and changes in national policies (which supported the interstate exchanges) are the two factors that have contributed to the emergence and development of the transnational companies.

Following the liberalization of the world economy, the transnational companies have contributed significantly to increasing foreign direct investments, which had significant positive effects on the less developed or developing economies. The economic growth due to the activity of these entities is outstanding.

However, the positive effects that we can see and analyze today would not have existed if transnational

companies had not have the ability to adapt their activity and especially their products to the specific of the international business environment. The speed of their adaptation to new cultural values encountered certainly represents a competitive advantage for companies, regardless of their field of activity and maintaining the position on that market is the evidence of exploiting this advantage.

It is clear that the services or products launched on the market must be closely linked with local consumption habits for a company to have a real chance of success in business. But in terms of adaptation to culture, although there are evident examples of successful business, there were a series of controversies and opinions supporting that would be good for companies to keep their products that made them famous. The issues discussed internationally at this time, is as follows: *Standardization of the products or their transformation?* Standardization means that, regardless of country and culture, the product remains the same, while the transformation involves making some changes so that the product complies with specific market requirements.

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9. \*\*\* <http://www.nestle.ro/cariere/viatanestle>

## ENDNOTES

- [1] UNCTAD = United Nations Conference on Trade and Development