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MESTRADO EXECUTIVO EM GESTÃO EMPRESARIAL**

THE CONSEQUENCES OF CULTURAL ASPECTS AND
POWER DISTANCE ON THE EXECUTION OF GLOBAL
STRATEGIES IN MULTINATIONAL COMPANIES IN BRAZIL

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THE CONSEQUENCES OF CULTURAL ASPECTS AND POWER DISTANCE ON THE EXECUTION OF GLOBAL STRATEGIES IN MULTINATIONAL COMPANIES IN BRAZIL: a study on the impacts of the Power Distance relationships between the Headquarters and Regional Offices leaderships in the implementation of global strategies.

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Dedication Page

I dedicate this academic work to my children Beatriz and Felipe Campos for the inspiration, love, patience, and support that they gave me throughout the entire time I engaged in this master's program.

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LIST OF SYMBOLS, ABBREVIATIONS AND ACRONYMS

BP	British Petroleum
BRICS	Emerging Economy Block composed by Brazil, Russia, India, China and South Africa
CEO	Chief Executive Officer
CLT	Culturally Endorsed Leadership Theory
CSAs	Country Specific Advantages
FSAs	Firm Specific Advantages
MNCs	Multinational Companies
PDCA	Plan, Do, Check and Act
PDI	Power Distance Index
VCM	Value Chain Management

ABSTRACT

One of the challenges presented by the current conjecture in Global Companies is to recognize and understand that the culture and levels in structure of the Power Distance in Organizations in different countries contribute, significantly, toward the failure or success of their strategies. The alignment between the implementation and execution of new strategies for projects intended for the success of the Organization as a whole, rather than as an individual part thereof, is an important step towards reducing the impacts of Power Distance (PDI) on the success of business strategies. A position at odds with this understanding by Companies creates boundaries that increase organizational chasms, also taking into consideration relevant aspects such as, FSAs (Firm-Specific Advantages) and CSAs (Country-Specific Advantages). It is also important that the Organizations based in countries or regions of low Power Distance (PDI) between its individuals be more flexible and prepared to ask and to hear the suggestions from Regional and Local Offices. Thus, the purpose of this study is to highlight the elements of effective strategy implementation considering the relevant aspects at all levels of global corporate culture that justify the influences of power distance when implementing new strategies and also to minimize the impacts of this internal business relationship. This study also recognizes that other corporate and cultural aspects are relevant for the success of business strategies so consider, for instance, the lack of alignment between global and regional/local organizations, the need for competent leadership resources, as well as the challenges that indicate the distance between the hierarchical levels – Headquarters and Regional Office – as some of the various causes that prevent the successful execution of global strategies. Finally, we show that the execution of the strategy cannot be treated as a construction solely created by the Headquarters or by only one Board and that it needs to be understood as a system aimed at interacting with the surroundings.

KEY WORDS: Power Distance, FSA (Firm Specific Advantages), CSA (Country Specific Advantages), Corporate Culture, Headquarters, Global Strategy.

1. INTRODUCTION

In recent years we have observed the growth and development of a new tendency of the economy focused on the emerging countries, one of the most well-known being the popularly referred to BRICS. In view of this trend, a new management approach is proposed, submitting global leaders to new challenges when thinking about strategies and their development throughout the Company.

Analyzing this scenario of new business platforms for Global Companies, we have the opportunity to develop, through practice, the theoretical contexts that have been influencing new studies on the implementation of new strategies between headquarters and affiliates, considering for the projects all external factors that may contribute to the failure or success of strategies in Companies. It is also relevant to consider the effects of cultural aspects, government incentives, international policies, regulatory systems and infrastructure and how they can influence the implementation of these strategies.

In this respect the strategies involving the Regionalization of processes must be thought of as two basic blocks for international business strategy implementation: CSA – Country Specific Advantages – and FSA – Firm Specific Advantages. They will be clearly explained in this study, but I introduce here a brief presentation since these concepts are the basis for the development of our understanding of the relevant aspects for the implementation of new strategies in this parameter considering the scenarios between Headquarters and the Regional Offices. FSAs (or Firm Specific Advantages) is the unique ability which the Organization possesses. They include those “built upon products or process technology, marketing or distributional skills”, (RUGMAN, 2005). They refer to the internal assets of an Organization, such as production, knowledge, managerial, or marketing capabilities and all the departments under the firm’s control. CSAs (or Country Specific Advantages), as the name suggests, include the economic, financial, political (national and international) and cultural aspects that influence, as exogenous parameters, the implementation of a strategy and the direction of the business. The CSAs guide the decisions of the global corporate leaders according to the configuration and coordination of a global analysis of the value chain that accompanies the implementation of the business, and corporately include aspects of FSAs.

The prominent position of the BRICS on the global economic scene and the incipient opportunities for new business create a challenge in assuring alignment between Headquarters and the Regional Offices and, in some cases, the CSA differences and the hierarchical position, under certain aspects, notoriously influence the acquisition, acceptance and implementation of new projects and new business strategies.

In my experience as a Country Manager and as an executive, I was able to observe that culture variations create different lines of analysis under the same corporate policies. Thus, the initial factor that motivated this academic work was the empirical observations, made while exercising this corporate position as a practitioner in this field, regarding this reality practiced by some Companies. A significant portion of the analysis and data collection undertaken in this work was directed towards confirming, validating or refuting these observations and to provide analytical elements that allow us to understand and to act on this reality.

However, in some organizations we find a different reality, mainly in relation to the behavior of the employees. Influenced by their customs and values they accept rules without reflecting on the importance of this activity for all the processes of the Company in general and they agree with the situation automatically disregarding the understanding of the overall process. The automatic execution of activities without challenging and comprehending them, have an impact on the value chain, and could compromise the efficacy of the overall results.

With these differing scenarios, understanding the importance of the alignment of strategies for the corporate culture when implementing a global strategy in multinational companies has considerable importance in relation to the need to improve the results of the Company at a global level. In this analysis, the corporate mentality and the results can be interpreted under the influence of concepts of the cross-culture, on the one hand, and power distance on the other hand, but both acting in the same direction.

There are various features of the cross-culture (or CSAs) that influence power distance in a vertical position — that is to say, hierarchically — and which contribute to the fragmentation of the internal framework, expanding and reinforcing the individual levels that make up the Company. When the CSA aspects are very strong, this rigidity can have a reflection on decisions and the implementation of new strategies. Furthermore, it is also important to consider that the conflicts arising from the power distance are closely related

to the prosperity and success or failure rates and the results, being positive or negative, which will affect the whole Company. There are specific issues related to the market and to the local consumers that may demand different decisions from those initially idealized by the headquarters. These issues should be raised with their specific circumstances to give to the local executive both the mandate and the authority to act on them with the support and the knowledge of headquarters.

Another aspect that should be highlighted under both of these concepts is the comprehension of global leadership in the way that the Company must be analyzed as a whole with different values, but with the same focus, the same priority, and not as an individual organization. A multinational Corporation, by nature, needs to develop the competences or the flexibility to deal with different national cultures without losing the capacity to orchestrate differences. The capacity to cope with diversity, however, should not jeopardize internal integration and/or the adequate level of local autonomy to deal with country-specific issues. The most important aspect to cope with this variety of behaviors and cultural values is through the development of the skills of the local and global leaders in dealing with such diversity without losing focus on the business results, which today, is one of the many challenges for global leaders. From this point of view, the execution of a strategy can no longer be treated as a construct that is solely created by one Board, because the execution of the strategy needs to be understood as involving and integrating all the systems in their surroundings. One aspect proposed by this study is to identify the reasons why some Companies and some countries are more successful than others and show how the alignment of cultures between the Headquarters, Regional Centers and Local Companies is relevant for this purpose.

In view of the limitations involving the magnitude and complexity of the research in order to achieve the objective, we propose a specific case-study with a global Company in the energy and marine field, with an exploratory nature, and a brief study, so as to comprehend the causes of the difficulties in improving the relationship between the headquarters and the affiliates, with the intention of improving the effectiveness of the implementation of the strategy. In order to hold them harmless, the name of Company and the information relating thereto will not be disclosed. In this situation, the project's purpose is to highlight the critical elements of effective strategy implementation management across different cultural contexts.

Understanding the Power Distance as a degree to which members of a culture expect power to be distributed unequally, determines how a community stratifies its individuals and the groups with respect to power, authority, prestige, status, wealth and material possession and the control of who has more competency to take decisions. In this perspective, the influences on the concepts of Power Distance, Cross-culture and Strategy Implementation in the relationship between Headquarters and Regional Offices' individuals when implementing new projects on global strategies will be used in this study for confirmation and defense of the thesis that a strong alignment of the global leadership with regard to the implementation of global strategies ensure the effectiveness of the results in the business.

To explain the consequences of Power Distance we will consider some CSA contexts (exogenous and endogenous) and how these perspectives improve the results. This is also considered when we analyze the different results and goals presented by the Companies with the Low PDI and High PDI relating this to the internal independence relationship between the employees in the same departments and autonomy in strategic relationships between the Headquarters and Regional Offices.

Another concept to be explored in this study involves the culture and values as part of the construction of the corporate values intending with both concepts to show that the PDI is influenced by historical and cultural aspects. In the words of Geert Hofstede (1984):

In the poorer countries, historical events point strongly to the confirmation and perpetuation of inequality in power... However, where cultural differentiation comes in is in determining the level of power distance at which the tendency of the powerful to maintain or increase power distances and the tendency of the less powerful to reduce them will find their equilibrium.

Thinking about these words, when we talk about the Power Distance we are implicitly talking about the cultural differences – and in a deeper analysis about CSA factors – that contribute to the formation of the Corporate Society.

Thus, the challenges presented with this study is the search for unity in the diversity, through which the aim is to ensure the global strategy in applicable regions, incorporating the local knowledge into emerging strategies that also ensure the needs the global business has to develop the skills of those taking the lead. Furthermore it acknowledges the hidden

values in differences between the Headquarters and the regional offices and reconciles focus and flexibility in the quest for the economic and social objectives.

However, it is important to understand the impossibility of knowing all the variables, and even with this understanding, of being able to develop strategies to live productively with the asymmetry of information (a situation in which one party in a transaction has more or better information in comparison with another) and having the scope to act in a fairly coordinated manner between both central businesses – Headquarters and affiliates – in complex and unpredictable scenarios. In this case, the headquarters must have the capacity and the willingness to hear the emerging strategies and be flexible in order to find the room and local opportunities to implement a new strategy.

In order to corroborate this analysis, the research methodology used was the inductive method, since this study was developed in a specific case that can be applied more generally, in view of the need to improve the relationship between the corporate level aligned with the understanding of the cross-culture relations of the Company, and considering the integration and interaction between the levels. In order to analyze the opinions of the employees of some global corporations on the core theme of this study, a questionnaire with objective questions was used so as to measure the degree of interaction between the hierarchical levels of the Headquarters and the Regional Offices, as well as their own internal levels, and to show how these issues relate to the successful execution of a strategy.

2. JUSTIFICATION

Based on the relationship between the Headquarters and Regional Offices and all the various levels presented in a Global Company, as Country Manager and executive, I was able to observe in many business situations the resistance of the Headquarters toward involving the Regional and Local Offices in the design of the new global strategies. At the same time, the Regional and Local Offices usually do not argue or require participation in this effort and take a passive role in the process. It is evident that, the better the alignment between these stakeholders is, the better the strategies will be executed and the greater the results will be.

The global company leaders must consider other relevant aspects such as: the importance of the internationalization process (including the models and expansion to international parameters), the implications for research in view of the scenario of international competitiveness, the implications for research when focusing on integration and the responsiveness in internal sphere as well to own MNCs structure and the effects of performance in geographical analysis, including the geopolitical and geophysical aspects. All these relevant aspects are studied in order to implement a new strategy of global scope, and in each one of these aspects the global leaders need to include integration with their Regional Offices, to improve research and competitiveness.

Yet a strong tendency is still observed in some companies to resist new proposals for integration of different hierarchical levels and power structures in the development of strategic projects. One of various reasons that can explain this behavior is the PDI concepts supported by cultural aspects and other CSA influences. Thus, we have the first hypothesis to explain the dichotomy between the Headquarters and their Regional Offices mostly located in countries with emerging economies.

In the case study under analysis, the headquarters is based in a Nordic country, where it is possible to observe a better integration between the hierarchical levels, permitting interaction between the levels, regardless of the hierarchical position. This characterizes the Low Power Distance (PDI), where the short distance between the levels allows for greater autonomy and better communication among the team and consequently, a better performance presented by the Company.

In contrast with this environment, we have the Regional or Local Offices in emerging countries where we observe strong fragmentation and a decreased integration of the levels, even though under the same corporate policy as its Headquarters. The hierarchical position is clearly identified in the framework, reducing the interaction between the various levels that represent the Company as a whole. Another relevant aspect that we must consider in these cultures is the intense dependence between the levels, especially for the execution of tasks, and consequently the delay in the submission of the final results. This corporate behavior, known as High Power Distance (High PDI) is identified by strong internal fragmentation and usually presents results that are not as effective as their holding companies. Considering that this can compromise the goals of the Global Company, the global leaders should make efforts to implement strategies focused on the integration of the entire system.

These disparities of the reality between both scenarios of the same corporate culture configure two antagonistic internal parameters, as shown below:

- **Low PDI** → better communication → better interaction → low fragmentation of the hierarchical framework → egalitarian society → TEAM → Positive Results
- **High PDI** → lower communication → lower interaction → lower integration → further fragmentation of the hierarchical framework → Unequal society → EMPLOYEES → Negative Results.

The direct impact on the results created a challenge for the global leaders who need to consider the exogenous values in the implementation of strategies for new global projects. These strategies should be focused on the development of the capacity at all levels to live productively with the asymmetry of information and scopes in order to act reasonably in complex and unpredictable social scenarios.

A key element justifying this study is to show how important it is for the Headquarters to be flexible when dealing with emerging economies giving to their regional centers an opportunity to explain their strategies. Also, the Headquarters must be open to hearing the suggestions, creating room for new research projects and giving local opportunity to implement the strategy that, with the internal culture of the Regional Centre

and Local Companies, can contribute towards improving the global results. Affiliates of multinationals based in countries with a high PDI tend not to make careful contextual scenario analysis and wait for the headquarters to provide the business intelligence. It is of fundamental importance to plan the alignment actions and to give support to the development of the local solutions.

Bringing this corporate reality to the national scenario, the leaders of Global Companies that base their regional business centers here have another challenge besides creating and developing new execution strategies. The regional leaders also need to develop their leadership skills, focusing on strategic projects capable of integrating, at all corporate levels, the expectations and effective results of the Companies as a whole.

3. OBJECTIVES

3.1 – Overview

Considering the concept of Power Distance as being the “measure of interpersonal power or influence between the different levels in society”, (HOFSTEDE, 1984, p.72) and the consequences at various levels and to relationships, this study focuses on the consequences presented by PDI to emerging economies. Aligned with the concepts of PDI, the study also concentrates on its core approach, the difficulties imposed by power distance structures when implementing new global strategies, especially considering the relationship between Headquarters and Regional Offices.

The most important objective of this study is to show the importance of reducing the impact of the different levels of the PDI in Companies, through the development of the global leaders in Multinational Companies with the ability to create new strategies for execution and implementation of new projects that permit alignment between the strategies of local and regional leaders and offices to occur. It is relevant to highlight the role performed by leaders when creating strategy alignment between both business centers thinking at all levels that will contribute towards their better integration and, in this way, to the equality of the system.

As a method for proving the consequences of PDI fragmentation inside Companies and for analyzing the results, the research methodology applied in support of the grounds of the thesis will be case studies backed by a brief survey and by the literature.

3.2 – Problem Definition, Delimitation and Research Objectives

According to the studies influenced by Rugman (2005), Multinational Companies can be separated according to their performance in international territories considering, among other factors, revenue. There are four types of multinational: the Global-Firms, Bi-Regional Firms, Host-Region Oriented and Home-Region Oriented. Each type of Multinational is influenced by external factors (CSAs) that together will contribute towards building the Company and at the same time, will be subject to different barriers when implementing the strategies. These barriers include models for internationalization,

international competitiveness, and geographical aspects and also, internal challenges, such as the differences in cultural values.

In this sense, considering that an Organization is composed of different aspects and values that must be aligned with its global expectations and needs with the objective of providing better results for the strategic projects, the global leaders should be able to develop in these heterogeneous scenarios strategies to integrate them in the quest for homogenization. In view of this, Rugman (2005, *apud* OHMAE, 1985) defines the foundations for finding a successful strategy: “[...] equal penetration and exploitation capabilities and no blind spots in each of the triad regions”.

Making an analogy of the concept of Ohmae, applied to the “triad power” and the objective of this study, the understanding and the practice of the first concept for global leadership is suggested in order to find a balance in the relationship between the Headquarters and Regional Offices in their strategies.

Nowadays with the new proposal for the global economy, we can observe behind the growth of the emerging economies a positive perspective for global business, but in contrast, a higher fragmentation of the levels in the Organizations with a gap between Low PDI and High PDI levels. This can be influenced especially by different cultural values and strong social patterns.

The consequences involving this problem can be extended to the general business context and to resolve them one aspect that can be considered is the implementation of new strategies focused on the development of global leadership, increased awareness, and alignment with the actual needs to integrate the Headquarters and Regional Offices under the same perspectives.

All of this can only be possible if all leaders acknowledge this fragmentation as a barrier to new business perspectives and start to develop the strategies thinking of the company as a single body, a single Organization, disregarding the values hidden in each culture that separate the Low PDI and High PDI, contributing towards the improvement of the Company at all levels.

3.3 – Hypothesis to Achieve the Objective

Once the consequences arising from the PDI gaps are identified, disregarding the individual values inherent to each level, the Global Companies need to think and to develop their strategies focusing on the reduction of the chasms that separate Low and High levels (PDI) and the global leadership needs to understand that cultural multiplicity has importance since it contributes towards building Company values. Recognizing these as equal is the first step toward comprehending that the Company needs to implement alternatives to match the levels and grant them a larger autonomy and independence when executing the activities and implementing the strategies.

Global Organizations must start developing the global strategies giving the same importance to the proposals coming from the Headquarters and from the Regional Offices, regardless of where the Regional Offices are based in the emerging economy countries. The strategies need to be aligned with the demand of the whole Organization as a corporate unit. To achieve this objective, the leaders have a significant role in their function once all strategies are developed by them – since the first stage, that involve the ideas and planning up to the implementation of the project – considering all levels of PDCA when they are implementing new strategies. The leaders must be trained to do the implementation considering the differences and limitations between each level, despite their values.

Another relevant aspect of the global leadership position is to encourage flexible policies to consider the role of the affiliates' societies - in this case, from emerging economies – so as to integrate the whole system with understanding to ensure the efficiency of the processes that together make up the system, and consequently improve the global results. Considering the leadership's management and the implementation of the strategies, these need to be directed to achieve the equilibrium of the different corporate levels when designing the strategies.

It is advisable that the global leaders develop efforts to expand their leadership skills and align, in the same corporate surroundings, the expectations of the Global Company, even with all the asymmetry of information, seeking the adoption of a reasonable posture in unpredictable scenarios.

Coming to the national scenario and considering the relevant role that the Brazilian economy represents for the emerging economies on the one hand, and global business, on

the other, we must consider some strategies adopted by some Companies and the Government for the development of the skills and capacity of the employees, which have permitted a greater integration of the system and have enhanced the communication between the PDI Levels at the Headquarters and Regional Offices.

The improvement that occurred in the Brazilian educational system, together with the need to aggregate values to new business in the country, raises another hypothesis that may influence the reduction of the gaps existing between the levels of Headquarters and Regional Offices. The investments in education have qualified the workforce and given to Brazilian employees' greater dynamism and stimulus to match the expectations of the corporate headquarters, thus improving the performance and results of the Global Company. As a consequence, we can clearly observe a remarkable improvement in the autonomy of the employees in the exercise of their functions and the reduction of the dependence on the headquarters.

However, the hypotheses for the successful of implementation of strategies can only be put into practice if the Local Offices comprehend that the Company needs to be understood in its global sense and not as independent parts. Following the same reasoning, it is advisable for the Company to adopt a flexible approach in order to cope with the global economic scenario in view of the growing importance of the emerging economies. In this way the Local Offices will be cooperating with the Regional Offices and Headquarters, taking into consideration and listening to their suggestions and apt to apply them in the implementation of their global projects.

4 – LITERATURE REVIEW

PART I – THE CULTURAL ASPECTS INFLUENCING CORPORATE STRATEGIES

4.1 – Introduction

The strong processes of integration of global corporate negotiations allowed for a new configuration of the organizational systems of the MNCs between the Headquarters and the Affiliates. Regardless of socio-economic plurality involving both business centers and their cultural and economic realities, this process of integration has increased in view of the needs of mature-economy countries to increase production and consumption. Considering that, in most of the cases, the MNC Headquarters are located in mature-economy countries whereas the Affiliates are located in emerging economy countries, this configuration of the corporate frameworks proposes a new approach of those in the leader to the development, planning and conducting of the implementation of new strategies that must be elaborated with the objective of integrating the various levels that make up the organization's environment.

Understanding that cultural contexts, values and patterns of conduct are integral components of the social equity in all its forms, including organizations and human relationships, it is rational to consider their influences when studying and planning new global strategies. Thus, in view of the relevant role that the emerging economies have been acquiring on the world economic scene, it is logical to consider the contribution of these new economy centers when conducting the new strategies according to social and cultural realities.

As observed, the greater part of these affiliates are located in emerging economy countries and in this sense we need to include these cultural directives in the development of strategies, also integrating the features of social cross-culture in this specific society and using them as a guide for strategic negotiations. This represents the first – and the most important – obstacle to be overcome by the leaders of global companies, once the implementation of strategies prompts the leaders to develop the ability and capacity to act in an asymmetric corporate environment without disregarding the exogenous aspects (CSAs

– Country Specific Advantages) that will make up the internal framework of the organization (FSAs – Firm Specific Advantages).

When implementing a strategy, it is also relevant to consider the profile of the global company according to the revenue presented by each organization and with the understanding on how to apply the correct strategy. This means aligning the strategy according to the cultural aspects (cross-culture) and company size (global, bi-regional, host-region oriented and home-region oriented firms). Initially, the impacts of these internal corporate relationships seem abstract but, become tangible when the results are presented. These *a priori* abstract influences are called Independent Variables, according to the definition used by Geert Hofstede in his research, and they are related to the social attributes that become part of the dimensions of the corporate culture. The dimensions of the Independent Variables are: **Uncertainty Avoidance, Power Distance, Institutional Collectivism, In-group Collectivism, Gender Egalitarianism, Assertiveness, Future Orientation, Performance Orientation, and Humane Orientation.**

This study will focus on Power Distance concepts and the impacts on the implementation of strategies between the Headquarters and the Regional Offices as well as the consequences for the internal corporate framework and also on the deficient communication between the corporate hierarchical levels.

Thus, understanding that strategy studies are the basis of all projects and all stages of the processes by MNCs, all the social influences of an exogenous character must be considered in their development, with the objective of integrating, under the same corporate policies, an equal framework with a healthy environment and positive results for the Headquarters and Regional Offices. The exogenous social parameters include: the government aspects as main facts since they complete and guide the business to implementation the new strategies considering the political and social aspects and frequently diplomatic relationships that together will offer support to global companies that will permit the MNCs to develop the corporate projects in the emerging economy. As an example, we could mention triad power and economic groups such as Mercosul, in Latin America. Strategies like this improve commercial relationships and facilitate business between the member countries. We must include as exogenous parameters, the political and social cultural patterns that also are the foundation for building equal corporate strategies, involving all structures of the Company. According to an observation by Rugman (2005):

Location-bound industries face barriers to international expansion in the form of government regulations, dependence on geographical location, transportation costs and cultural barriers. [...] Many large utilities are government owned and depend on national infrastructure and natural resources. Finally, cultural barriers in the form of cultural attitudes, ethics, and language make exporting cultural products across borders very difficult.

In this regard, the cultural patterns will be contributing to the revenues of Companies when the leaders comprehend the meaningful importance of the culture of the subsidiaries in the construction of the entire corporate environment, not forgetting to give due attention to the framework of internal relationships between levels.

To better illustrate the importance that subsidiaries have in the regional business, we can analyze the classic example of Nike, which, according to the revenues presented by the Company is classified as a Regional MNC. Nike has 99 % of its sources of production centered on China (38 %), and in South East Asia (61 %), but the majority of its sales are in the Americas (58.2 %), United States (52.1 %) and Europe (29 %). The sales in the Asiatic Continent are registered at 12.9 % (RUGMAN, 2005). This example clearly shows us the importance of Nike's subsidiaries in all the processes of the Company, principally in the production processes.

However, to achieve success in the end results, especially with quality of the final product – including the steps of the process chain – the global leaders must develop the implementation of strategies focused on the integration of the framework of all hierarchical levels and also consider the different cultural aspects that make up a corporate society seeking to decentralize the processes. This means considering the differences between the corporate levels both in the Regional Offices – levels in the internal core, employees/employees – as well as in the Global Offices – levels in the external core, Headquarters/Affiliates. Thus, the leaders need to implement strategies aimed at shortening the Power Distance between the levels of corporate hierarchy.

4.2 – The Cultural Influence on Business Strategies – Power Distance Index and the Building of a Corporate Culture

I start this chapter by using an analogy from the philosophy thought out by the British poet, John Donne, who lived in the XVth century (1572-1631): “No man is an island, entire of itself, but a piece of the continent, a part of the main”. With this statement, John Donne proposed that no man was made to live alone but, rather, in society, relating to other men, as well as to the environment in which he is inserted. This means that all forms of human relationships seek the integration and equilibrium of differences, aiming at the peaceful coexistence between the anthropological differences that make up society and their heterogeneous features. Thinking about this reflection, whether in the corporate environment or not, the differences that involve relationships impose the adoption of a flexible posture on the part of those who are involved through the environment.

Bringing this philosophical thought to the corporate scenario, especially relating to the cultural differences that make up the corporate environment, we perceive the need for integration between the hierarchical levels that shape the power relationships, the definition of which is supported by the concepts applied by Hofstede as Power Distance.

In summary, Power Distance is a measure of the interpersonal power or personal influence between different levels in any society. It can be identified in every type of organization: castes, states, and classes represent more or less integrated systems. This inequality can occur through prestige, wealth and power, influenced by values and cultural patterns of inequality between the groups, resulting in dominant and subordinated social classes. In other words, this means “the degree to which members of an organization or society expect and agree that power should be stratified and concentrated at higher levels of an organization or government (HOUSE, Robert; JAVIDAN, Mansour, 2004, p. 12). Thus, completing and corroborating this reasoning, the same literature states:

Broadly speaking, this dimension reflects the extent to which a community accepts and endorses authority, power differences, and status privileges. It is an important aspect of a community's culture related to a variety of behaviors in organizations and societies.

In “The GLOBE Study of 62 Societies” Dale Carl, Vipin Gupta and Manour Javidan (2004 *apud* French and Raven, 1959) defined five categories that compose the Power Distance concepts:

- **Coercive Power:** based on fear. It is the application, or threat of application, of physical harm or other unpleasant outcomes as a form of punishment for the lack of compliance.
- **Reward Power:** at the other extreme, it is based on the opposite motivation: people enact positive behaviors to obtain valuable rewards controlled by the powerful person.
- **Legitimate Power:** is the power that is vested in a person as the result of his or her position within the formal hierarchy. The subordinate responds to a request or demand because the superior has the right to request it and the subordinate has to obligation to comply.
- **Expert Power:** is the ability to influence on the basis of technical expertise, special skills, or special knowledge that is both relevant and necessary to the organization. [...] It is based on the personal power of the individual rather than on power emanating from the position itself.
- **Referent Power:** refers to a subordinate’s feeling of oneness with the leader and a desire to identify with, emulate, and internalize the values of the superior. [...] Referent Power is operationalized by showing consideration for the needs and feelings of subordinates, by expressing feelings of trust, acceptance and concern for their welfare and by challenging them through a personal appeal to move beyond the formal requirements of their roles. (*apud* Bass, 1985; French & Raven, 1959; Hinkin&Schriesheim, 1989; House , 1977; Yukl, 2002)

Inside the corporate organization, inequality sustained by the Legitimate Power, featuring the differences between the hierarchical levels is inevitable and functional but, at the same time it can be damaging for business relationships, for the new strategy implementation project proposals, especially between the Headquarters and Regional Offices, and consequently for the global results of the Company.

The new configuration of global corporations, supported by the growth of emerging economies, inevitably enhance the Power Distance among the corporate hierarchical levels and present to the leadership new parameters in the implementation of strategies considering the understanding of the cultural influences on leadership decisions and also on

organizational practices. In this way leaders have to deal with situations that are highly complex, constantly difficult to interpret, and all of this in the face of unprecedented competition.

It is evident that the power distance existing between the corporate levels contributes to the success or the failure for the global result, since the concepts that define them is supported by cross-cultural issues in multinational organization structures.

For the better understanding of the concepts involved in the relationships existing between the Power Distance, Hofstede didactically divided business scenarios into Low PDI – where commonly the Headquarters of MNC is located – and High PDI – where commonly the Regional and Local Offices are located, that is, in the emerging economies – including in each core their respective cultural patterns. The relationship configuration between the Low PDI and High PDI corporate levels will corroborate the inequality among the various levels of the corporate society.

In high power distance cultures such as some countries of emerging economies, individuals with more social influence, wealth and power are recognized and respected as having a higher rank whose power is unquestionable and virtually unattainable by those with lesser power. In compliance with the observations made by Hofstede's studies, members of high power distance cultures accept large differences in power relationships among the various levels of hierarchy, explaining that in societies where the superiors endorse large power distances, subordinates prefer a dependent relationship with the superiors or prefer a superior to decide all situations of some process, even if it is not within his/her scope. Thus, subordinates under the high power distance “accept artifacts such as titles, ranks and commensurate privileges and status” as a way to impose authority and respect upon the members in lower position.

In contrast with this reality we have the low power distance cultures – Low PDI – such as Scandinavia, Netherlands and Finland, where each member of society “is respected and appreciated for what that person has to offer, and the people expect access to upward mobility in both their class and their jobs”. Inside the low power distance cultures the most important characteristic that individuals try avoid is exactly that the power corrupt the person, and that the immoderate use of power result in the abuse of power over people in a less powerful position. Within this cultural scenario the spirit of cooperation is developed among the members expecting to achieve virtually equal treatment on the basis of self-

worth, dignity and social contribution to the organization, regardless of status, seniority, age or social influence. Other important aspect that we must consider is that superiors have the authority, but the collaborators are treated with respect, regardless of their social reality.

This behavior in low power distance cultures allows for better communication between the levels in the organization and the integration of internal frameworks as well the contribution toward the flow of the process chain, since the subordinates are closer to their bosses and have the autonomy to adopt constructive criticism as a professional profile. So influenced by this behavior focused on the interaction of employees and consequently the integration among the structures and the alignment of activities in corporate process, the results presented by these corporate cores are continuously positive.

In contrast with this scenario, high power distance cultures are associated with the dependency relationship among the levels, especially between bosses and subordinates since they prefer to let the bosses decide and resolve all problematic circumstances and also corporate issues, whether on the basis of personal preference or in a majority vote even though they are not involved with the process, rather than think about the activity or process and its importance by the all the chain. At these social levels, subordinates agree with any decision without discussing, reflecting or giving an opinion about them as well as the consequences for the activities or strategy projects of the Company as a whole.

We also need to consider that the power distance index can be related to the occupation inside the same corporate core. The table below clearly illustrates that the Power Distance Index has a tendency to be higher in activities with lower skill occupations than among other professional activities such as medicine, engineering and science.

<i>Category of Occupations</i>	<i>Number of Occupations in the Category</i>	<i>Power Distance Index</i>		
		<i>Range</i>		
		<i>Minimum</i>	<i>Maximum</i>	<i>Mean</i>
Unskilled and semi-skilled workers				
Clerical workers and non-professional salesmen				
Skilled workers and technicians				
Managers of the previous categories				

Professional workers				
Managers of professional workers				
Total				

Table 1: Hofstede's Occupational-Level Power Distance Index
(Source: Culture, Leadership, and Organizations – The GLOBE Study of 62 Societies, p.530., April 2004)

In the table, according to Hofstede's study, the PDI was analyzed for 38 occupations using records from the United Kingdom, France and West Germany. The numbers suggest that power distance can emerge in all countries. As a contrasting scenario, even in the countries with low power distance, whereas the employees with a high occupational qualification present a low power distance index and the employees in a lower occupational qualification present indices for PDI similar to their counterparts in cultures with high power distance.

In their analyses and using observations about the influences of the external aspects among the power distance relationships and the scale variations such as climatic and geographical, Hofstede suggests that in countries with high latitudes, the power distance is smaller, while at low latitudes, the power distance tends to be higher.

In corporate scenarios, culture plays a fundamental role in guiding the implementation of new strategies since it encompasses the values of society and the aspects that contribute to the formation of alliances and business opportunities, aligning needs and seeking to balance them in compliance with the general interests of the organization. Thus, we must include in this analysis the social norms and social arrangements in the organizations that will compound the hierarchical levels as well as the dynamic of relationships among the levels of the power distance.

Furthermore the cultural aspects often provide the information about needs which will affect the conducting of business in the face of the different social features. As a consequence the strategic leadership of an organization will align the business strategies with the societies that have similar cultural influences – including the power distance aspects – trying to avoid the society in which a cultural gap is significant.

In summary even the understanding that the degrees of power distance are inherent in internal hierarchical systems and also, indispensable for the operation of some corporate

companies, including the regularity of some aspects such as organizational coordination and control, we must consider that the most important gains for the Company are achieved through the equilibrium between the efforts to reduce the levels of the power distance within the organization. According to the explanation presented by “The GLOBE Study of 62 Societies”, about the consequences of power distance on the Companies

Reducing power distance can contribute to the flexibility of the organization and enhance competence building and learning. The gains from empowerment may be particularly great in high power distance cultures, in which the workforces may otherwise not feel free or encouraged to make suggestions and be committed to the organizational mission.

In the table below, we illustrate the main differences between high and lower power distance cultures.

<i>Parameters</i>	<i>Higher Power Distance</i>	<i>Lower Power Distance</i>
1. Social inequities	Society differentiated into classes on various criteria	Society has large middle class
2. Power bases	Power bases are stable and scarce (e.g., land ownership)	Power bases are transient and sharable (e.g., skill, knowledge)
3. Role of Power	Power is seen as providing social order, relational harmony, and role stability	Power is seen as a source of corruption, coercion, and dominance
4. Social Mobility	Limited upward social mobility	High upward social mobility
5. Information Control	Information is localized	Information is shared
6. Governance	Different groups (e.g., women) have different involvement, and democracy does not ensure equal opportunities	All the groups enjoy equal involvement, and democracy ensures parity in opportunities and development for all
7. Indigenous orientation and independence	Strong non-native historical influences and recent independence of the society	Strong native historical influences and long standing independence of the society
8. Civil Freedom	Civil liberties are weak and public corruption	Civil liberties are strong

	high	and public corruption low
9. Resources and capabilities	Only a few people have access to resources, skills, and capabilities, contributing to low human development and life expectancies	Mass availability of tools, resources, and capabilities for independent and entrepreneurial initiatives, as reflected in wide educational enrolment
10. Consumption	High growth rates of consumption and high need for resource coordination	Mature growth rates of consumption and high per capita purchasing power
11. Technology	Mass use of technology, which supports general power distance reduction	Need for specialized technology, adapted to each user

Table 2: Higher Power Distance Societies versus Lower Power Distance Societies. (The table and illustrations are derived from the website <http://www.geert-hofstede.com>)

4.3 – The Degree Measurement PDI and the Brazilian Position in the Scale

The studies proposed by Hofstede seek to demonstrate how the social values influence corporate culture. Hofstede used a model considering five dimensions of the cultural aspects and this is measurable in a scale from 0 (zero) to 100 (one-hundred) for each dimension. With the result presented by the specific dimension, each country has a position on the scale or index, comparing the result with the relative position of other countries. The five cultural aspects considered in the Hofstedes' studies are listed below:

Dimensions	Definitions
Power Distance Index (PDI)	PDI is the extent to which the less powerful members of organizations and institutions (like the family) accept and expect that power is distributed unequally. This represents inequality (more versus less), but defined from below, not from above. It suggests that a society's level of inequality is endorsed by the followers as much as by the leaders.
Uncertainty Avoidance Index (UAI)	UAI deals with a society's tolerance for uncertainty and ambiguity; it ultimately refers to man's search for Truth. It indicates to what extent a culture programs its members to feel either uncomfortable or comfortable in unstructured situations.
Individualism (IDV) <i>Individualism vs. Collectivism</i>	IDV on the one side versus its opposite, collectivism, that is the degree to which individuals are integrated into groups. The word "collectivism" in this sense has no political meaning: it refers to the group, not to the state.
Masculinity (MAS) <i>Masculinity vs. femininity</i>	MAS versus its opposite, femininity, refers to the distribution of roles between the genders which is another fundamental issue for any society to which a range of solutions are found. The assertive pole has been called "masculine" and the modest, caring pole "feminine".
Long-Term Orientation (LTO) <i>Long-Term Orientation and short-term orientation</i>	LTO versus short-term orientation. It can be said to deal with Virtue regardless of Truth. Values associated with Long Term Orientation are thrift and perseverance; values associated with Short Term Orientation are respect for tradition, fulfilling social obligations, and protecting one's "face". Both the positively and the negatively rated values of this dimension are found in the teachings of Confucius, the most influential Chinese philosopher who lived around 500 B.C.; however, the dimension also applies to countries without a Confucian heritage.

Table 3: The dimensions of the Culture Measurement in the Hofstede Model.¹ The definitions are derived from the website <<http://www.geert-hofstede.com/>>.

As explained in the last chapter, this study will be concerned with the Power Distance Index Dimension and its impact on the implementation of new strategies, mainly in the Brazilian scenario. However, we cannot ignore the interdependence of global business relationships among the nations especially influenced by globalization.

In this way, the model of study proposed by Geert Hofstede is measured using the extent to which the members of organizations and institutes accept the unequal distribution of power. The results will represent the inequality (more versus less) using as a parameter, the analyses from below, not from above. It is suggested that the inequality level inherent to each society is endorsed by followers as much as by their leaders.

As illustrated below, Germany is in the 35th position in the measurable cultural scale of Hofstede. Compared to Guatemala, where the PDI is very high (95), Germany occupies a prominent position in the scale. However when we compare it with Denmark, where the PDI is very low (18), the position of Germany is in the middle. This means that, comparing

¹ SHI, Xiumei; Interpreting Hofstede Model and GLOBE Model: Which Way to go for Cross-Cultural Research (International Journal of Business and Management, v. 6, n. 5; May 2011.)

this Hofstede dimension – PDI – Germany has a good social reference when compared with Guatemala, but offers some social gaps when compared to Denmark.

The Brazilian position in the scale (69) shows that the country presents social deficiencies when compared with other countries in the same social reality in Latin America, such as Argentina for example, which presents the index of 49. According to the explanation available on the website <http://geert-hofstede.com/brazil.html>, we have:

With a score of 69, Brazil reflects a society that believes hierarchy should be respected and inequalities amongst people are acceptable. The different distribution of power justifies the fact that power holders have more benefits than the less powerful in society. In Brazil it is important to show respect to the elderly (and for children to take care for their elderly parents). In companies there is one boss who takes complete responsibility. Status symbols of power are very important in order to indicate social position and “communicate” the respect that should be shown.

Please see below:

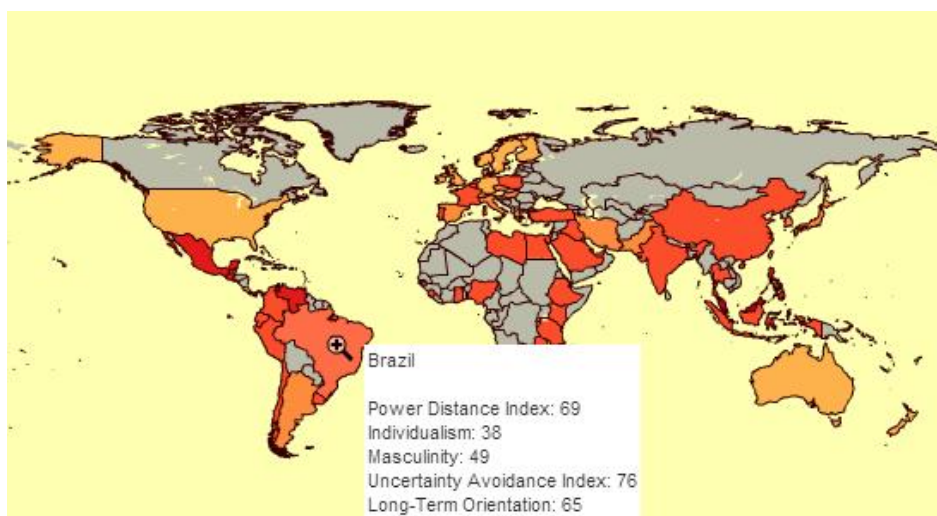


Fig. 2: Brazilian status in the PDI Score

(Source: <<http://goo.gl/at5u8>>)

Power Distance Index in the World					
Country					
Malaysia					

Guatemala					
Panama					
Philippines					
Mexico					
Venezuela					
China					
Egypt					
Iraq					
Kuwait					
Lebanon					
Libya					
Saudi Arabia					
United Arab Emirates					
Ecuador					
Indonesia					
Ghana					
India					
Nigeria					
Sierra Leone					
Singapore					
Brazil					
France					
Hong Kong					
Poland					
Colombia					
El Salvador					
Turkey					
Belgium					
Ethiopia					
Kenya					
Peru					
Tanzania					
Thailand					
Zambia					
Chile					
Portugal					
Uruguay					
Greece					
South Korea					
Iran					
Taiwan					
Czech Republic					

Spain					
Pakistan					
Japan					
Italy					
Argentina					
South Africa					
Hungary					
Jamaica					
United States					
Netherlands					
Australia					
Costa Rica					
Germany					
United Kingdom					
Switzerland					
Finland					
Norway					
Sweden					
Ireland					
New Zealand					
Denmark					
Israel					
Austria					

Table 4: The PDI measurement in 69 countries.²

This means that even though Brazil presents a prominent position in the economic landscape among the Latin American countries their social reality still faces a high level of social inequalities. The Brazilian social gaps are reflected in corporate relations and may, as a rule, compromise negotiations and projects with strategic implementation in the international context since the distance between high levels of society (reads here, corporate levels) have an impact on the autonomy of employees in the performance of their corporate activity, and therefore the final result of the production chain and its revenue.

²<<http://goo.gl/at5u8>>.

4.4 – CSAs & FSAs: The Basis for a Corporate Strategy Framework

Now that we understand the impact that the cultural differences have on the implementation of business strategies, in this chapter we will analyze the relationship between the different cultural aspects and PDI levels in societies when inserted in the same group, this means CSAs supporting the building of the strategy processes for the regionalized Company, which means FSA aspects.

In this sense, the global leadership should understand that MNCs need first to be concerned with the development of the strategies aligned with the regional solution rather than continue discussing about the global strategy (RUGMAN, 2005) considering that the implementation of strategies in global sense is an endogenous corporate process. In other words, a global company is composed by lower strategies, that is to say, regional strategies. This reality may confirm that the success of the Global Office is individually linked to the success of their regional strategies.

This can be emphasized with the concepts attributed to Regionalization and Globalization. According the electronic dictionary³ definition:

Regionalization — the process of dividing into smaller segments called regions. One of the more obvious examples of regionalization is the division of a nation into states or provinces. Businesses also use regionalization as a management tool and a way to make certain that needs unique to particular areas are met.

Globalization – the worldwide movement toward economic, financial, trade and communication integration, globalization implies the opening of a local and national perspective to a broader outlook of an interconnected and interdependent world with a free transfer of capital, goods and services across national frontiers. However, it does not include unhindered movement of labor and, as suggested by some economists, it may hurt smaller or fragile economies if applied indiscriminately.

The importance of the comprehension of both concepts guides the implementation of the strategy, which cannot happen while just thinking about a global company as an

³ <http://www.businessdictionary.com/definition/regionalization.html>
<http://www.businessdictionary.com/definition/globalization.html>

independent entity. The leaders should consider all relevant aspects involved in this process, and this must include the study of the strategy, analyzing each regional business center. Thus, the basic model presented to direct the international business strategy is supported by the country-effects and firm-level effects; this means respectively CSAs and FSAs. These are two basic blocks that will build the frameworks of strategies in Company.

The first – FSAs – cover the factors that will determine the competitive advantage of an organization. Rugman (2005) defines this as “a unique capability proprietary to the organization” and it is related to all the values built by the Company such as the product or process technology, marketing, distributional skills, internalization of assets, such as production, knowledge, managerial. Thus the FSAs are composed by the aspects that the company may coordinate the use of the advantage in production, brands or customization of services.

The second – CSAs – is related to the country factors. They are extremely relevant for the Companies, since they involve the international trade investments. Also in this group are the political, cultural, economic and financial aspects, which function as exogenous parameters to be followed by the Company. Rugman's (2005, p. 35 *apud* PORTER, 1990) terminology in this sense, say that “CSAs form the basis of the global platform from which the multinational firm derives a home-base ‘diamond’ advantage in global competition”. In this way, the CSAs perform a relevant role for the leadership since it guides the directives for decisions about the efficient global configuration and coordination between the various sectors of the chain of values and processes. Here the leaders must have diplomacy and ability to overcome the exogenous aspects that may have an impact on the business strategies and consequently, success.

CSAs and FSAs function as the pillars that support all strategic processes of the Company therefore it is evident that the CSAs concepts influence the processes of FSAs. However, it is vital to comprehend that the aspects which compound the CSAs are integrated with the same aspects reflected in the Power Distance Index levels. In other words, if we identify in a society hard exogenous patterns such as policies, culture, economy and financial systems – this means CSA aspects – probably this society will present high PDI levels, including the corporate environments. In this way, it is relevant to build regional strategy frameworks of the organization which need to interact with CSAs and FSAs, focusing on the decrease the high hierarchical levels that compound the Power

Distance Levels and aligning the business units – here read Regional Offices – in a unique strategic space.

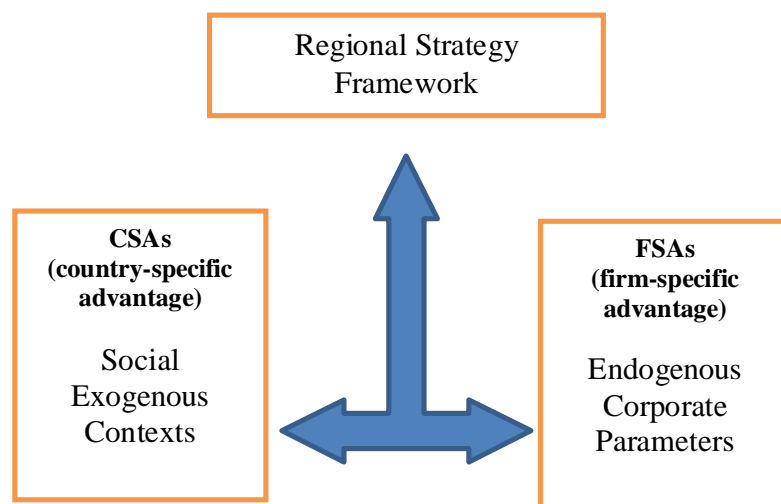


Figure 3: CSAs aspects influencing FSAs aspects. Both support the strategies.

To formulate a consistent and possible strategy, with time to achieve a positive response, it is useful to identify the aspects of relative interaction, strengths and weaknesses of the CSAs and FSAs in their possession, and to talk about the implementation of strategies and the consequences of the gaps between the Headquarters and their regional strategies. It is also necessary to consider the decentralization of the process, since there are inherent characteristics in the strategies, different from the Headquarters that guide the business and success of the strategies.

The understanding of this system, aligning the knowledge of CSA parameters and their integration in the design of the strategies contributes toward explaining why some strategies are successful in some countries and unsuccessful in others. To exemplify the importance of the alignment between the CSA and FSA parameters and strategic planning, we mention here the case of Wal-Mart presented by Rugman (2005, p.19).

In 2001, Wal-Mart was the biggest company according the sales revenue. The success of the group can be attributed to a scale strategy strongly based on reduction of costs with the policy “always low prices”. Influenced by the NAFTA economic block the group became known in Latin American and North American countries and this represented a successful strategy in sales for the Regional Offices located in both economic centers. The success of the strategy applied by Wal-Mart in Latin and North American Countries is

linked to the influence that the brand has on both Regional Centers, especially widespread through the NAFTA. In contrast with this, we have, for the same strategy applied in Europe, a decrease in sales that can be explained by some simple reasons, s shown below:

First, Wal-Mart is not known in Europe. This is why the company chose to retain the name ASDA in England. The European customer is also more quality oriented, and a strategy that relies on just low prices is not successful. A notable exception is British Asda, which had adopted the Wal-Mart focus on low-cost strategy was secondary to developing long-term relationships with suppliers of well-known, quality-oriented, differentiated brands. Second European competitors have emulated the company's most successful strategies in cost reduction and supply-chain management, reducing Wal-Mart relative competitive advantage in their local markets. Third, Europe has a different cost structure. [...] Finally, the scale effect does not work in Europe.

With this example, we observe the importance of considering, in strategy implementation, the factors inherent to each Regional Center, including cultural, educational, policy factors, that is, CSAs and FSAs factors, to achieve success in the company results.

PART II – BUILDING THE STRATEGY

4.5 – Introduction

Corporate strategy overall can be understood as where the company bases the course and direction of the business structure, considering the various business operations and acting cooperatively to achieve the Company's goals in a foreseeable future.

Each corporate organization bases its business program on strategies aligned with the corporates objectives considering the strategic planning aspects that can have an impact on the course of the process. Strategy planning involves time to analyze the factors that contribute to achieving the corporate goals and that need to be aligned with the implementation and execution of the strategy. The study and development processes, in

turn, must be in accordance with the Company's reality and also with business perspectives, meaning, with the firm-specific advantages.

Although each activity which makes up the set of corporate elements has its own importance and particularity in the value chain system, considering the complex operational system inside the Company – and thus each activity of the Value Chain Management (VCM) has its own strategy –, this study will consider all the strategies developed and planned to meet the Company's objective as a business unit. However, to achieve the purposes of this academic work we will analyze the corporate strategy processes considering the importance of some exogenous (mainly the country-specific advantages) aspects which guide the strategy for the Company as a whole. These aspects are submitted to external analysis and their aspects are shown in figure 7 below.

To develop and plan the execution of the corporate strategy one must think beyond the boundaries of the physical corporate structure and consider all the exogenous factors that may intervene in their endogenous aspects, in other words, the success of the business goals.

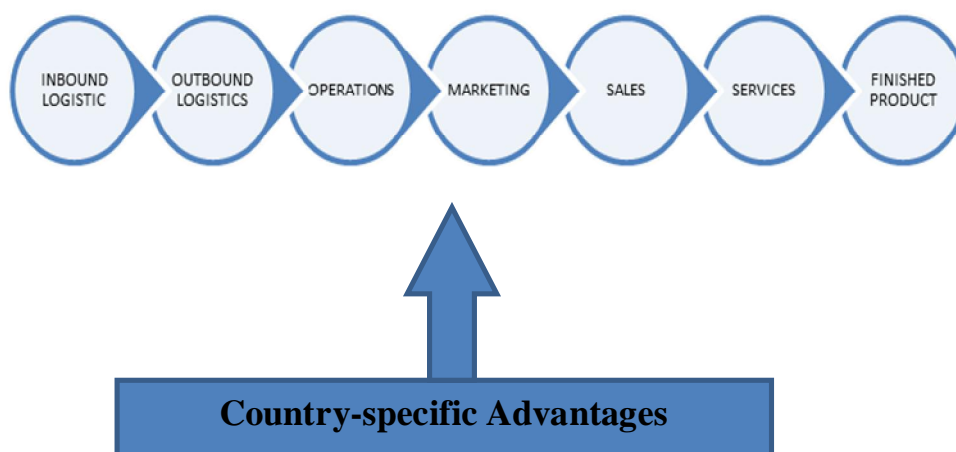


Figure 7: The relation of country-specific Advantages influencing the Value Chain System

Political Analysis <ul style="list-style-type: none"> • Risk of military invasion • Legal framework for contract enforcement • Intellectual property protection • Trade regulations and tariffs • Favored trading partners 	Economic Analysis <ul style="list-style-type: none"> • Type of economic system in countries of operation • Government intervention in the free market • Comparative advantages of host country • Exchange rates and stability of host country currency • Efficiency of financial markets • Infrastructure quality • Skill level of workforce 	<ul style="list-style-type: none"> • Labor costs • Business cycle stage (e.g., prosperity, recession, recovery) • Economic growth rate • Discretionary income • Unemployment rate • Inflation rate • Interest rates
Social Analysis <ul style="list-style-type: none"> • Demographics • Class structure • Education • Culture (gender roles, etc.) • Entrepreneurial spirit • Attitudes (health, environmental consciousness, nutrition) • Leisure interests 	Technological Analysis <ul style="list-style-type: none"> • Recent technological development • Technology's impact on product offering • Impact on cost structure • Impact on value chain structure • Rate of technological diffusion 	
Environmental Analysis <ul style="list-style-type: none"> • Greenhouse gas emissions • Solid waste produced • Liquid waste discharged • Energy consumption • Recyclability • Clean water consumption • Overall environmental footprint 	Legal Analysis <ul style="list-style-type: none"> • Antitrust laws • Pricing regulations • Taxation—tax rates and incentives • Wage legislation—minimum wage and overtime • Workweek • Mandatory employee benefits • Industrial safety regulations • Product labeling requirements 	

Figure 8: Elements for External analysis

(Source: KAPLAN, Robert and NORTON, David. **The Execution Premium: Linking Strategy to Operations for Competitive Advantage**. 2008, p. 19)

4.5.1 – Strategy: Development, Planning and Executing

A strategic decision affects the main factors which regulate the success or failure of an Organization. In order to achieve the corporate objectives, a strategic decision involves, besides the development of the strategy, the planning processes inherent to each level of the value chain and the strategy execution. However considering the effect that the strategy implementation has on the Company's result as a whole, this must be elaborated to promote both competitiveness and efficacy of the Company at all levels. This highlights the importance of developing a specific strategy to satisfy integration at all levels, especially between the headquarters and subsidiaries.

The development of the strategy must be supported by the structure that synthetically represents the profile of how the strategy behaves at each level until achieving the Strategic Plan. The start represents the high-level of the strategy development and incorporates the essential focal points of the planning and execution of strategy, in other

words, the organization's destination of the strategy process and what objective to achieve at each strategic level and finishes with the executive leaders and team, who execute the strategy at their corporate levels and operational function implementing portfolios aligned with strategic initiatives. (KAPLAN, 2008, p.35)⁴.

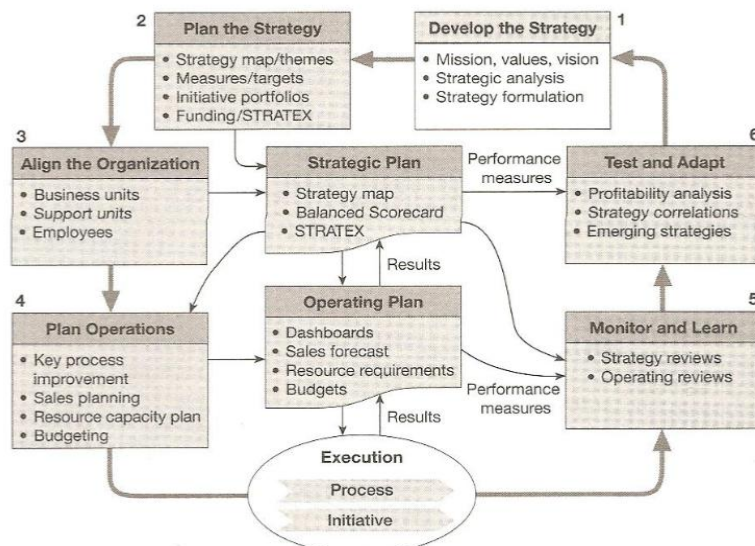


Figure 9: Elements for Developing Strategies
(Source: KAPLAN, Robert and NORTON, David. **The Execution Premium: Linking Strategy to Operations for Competitive Advantage**. 36p.)



Figure 10: Building the Strategic Plan
(Source: KAPLAN, Robert and NORTON, David. **The Execution Premium: Linking Strategy to Operations for Competitive Advantage**. 37p.)

⁴ KAPLAN, Robert and NORTON, David. **The Execution Premium: Linking Strategy to Operations for Competitive Advantage**. Boston, Massachusetts: Harvard Business Press, 2008. 35p.

The strategic planning involves aspects such as business needs, the Company's magnitude and profile, the employees and their interpersonal relationship, cultural aspects, government policies, the goals to be achieved by the project strategy, the competitive intention, the geographical resources and all other aspects that should contribute positively to the success of the strategy for the Company, including the execution of the strategy itself. This, in turn, incorporates the management inference about the surrounding business and topics that influence the strategy goals supported by the formulation of the implementation process and also the monitoring of the operational systems.

According to Lawrence G. Hrebiniak (2008, p.1)⁵, "planning involves positioning decisions and steps to differentiate the organization in significant ways and then protecting its position from competitive challenges and risks". The strategic planning and its development at the same time seeks to improve corporate profitability in face of the variability of the consumer market and also leads the Company to occupy a strategic position in the competitive market, which is only a part of the set of elements that contribute toward building the profile that will be adopted to execute the strategy. In view of this the leadership should give importance, during the strategy planning, to the exogenous aspects (country-specific advantages) that will influence the future results, in the value chain and in decisions of the Company, considering that the consequences, being positive or negative, will attain all corporate levels. It is relevant to emphasize that the analysis should include the corporate levels and also the internal levels of Headquarters and the Regional Offices, especially the factors that influence the relationship between both business centers.

Completing the strategy planning process is the strategy execution process. Still according the concept adopted by Lawrence G. Hrebiniak (2008:6)⁶:

Execution represents a disciplined process or a logical set of connected activities that enables an organization to take a strategy and make it work. Without a careful, planned approach to execution, strategic goals cannot be attained. Developing such a logical approach, however, represents a formidable challenge to management.

The execution of the strategy is the most important step of the three spheres that make up strategy conception when applied to the business strategy, since it will be put in

⁵ HREBINIAK, Lawrence. **Making Strategy Work**. 2nd ed. New Jersey, United States: FT Press, 2013. 1p.

⁶ HREBINIAK, Lawrence. **Making Strategy Work**. 2nd ed. New Jersey, United States: FT Press, 2013. 6p.

practice all aspects that were considered during the development and planning of the strategy process. The execution of the strategy is considered the way to success, however, to achieve perfection in the execution, even with all the effort used in the processes that precede the strategy execution – this means development and planning of the strategy – the practice is the most representative challenge for all the operational body responsible for its execution. To confirm this argument, we highlight the statement from Tony Hayward, CEO of BP (2007) mentioned by Kaplan (2008, 3p)⁷: “...the problem is not about the strategy itself, but about our execution of it”.

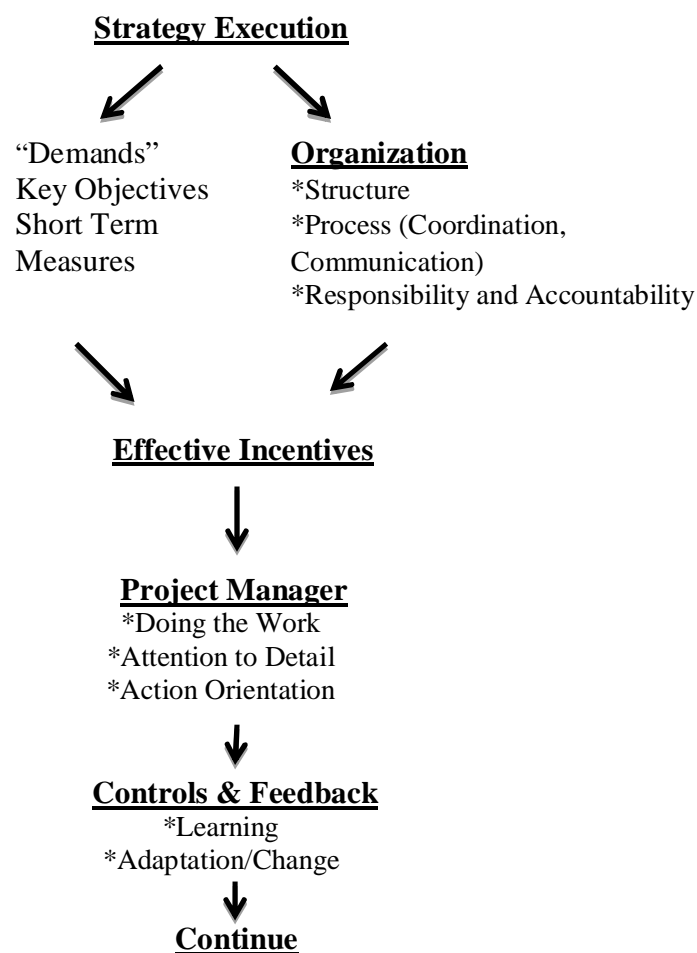


Figure 11: Successful Execution: An Overview of Making Strategy Work
(Source: HREBINIAK, Lawrence, **Making Strategy Work**. 2013, p.67)

⁷ KAPLAN, Robert and NORTON, David. **The Execution Premium: Linking Strategy to Operations for Competitive Advantage**. Boston, Massachusetts: Harvard Business Press, 2008. 3p.

To achieve the final goals the strategy must be able to be realized, this means, executed and in this context “includes a decision about the strategy, structural analysis, coordination, information sharing, incentives, and controls” (HREBINIAK, 2008, p.73)⁸. In turn, to be able to be executed it implies massive planning aligned with the communication processes between the corporate levels. This clarifies two important aspects of the strategy execution that will be emphasized in accordance with the purposes of this study: the strategy planning aimed at the integration between corporate levels - high and low PDI - in strategic decisions. To achieve this, communication has a relevant role in the strategic scenario.

The execution of the strategy needs to be understood by the leadership as a process composed by elements that demand time to study the planning. Consequently we can conclude that planning and execution are interdependent concepts, as Hrebiniak (2013: p.11, 12) defines:

Even though, in reality, there may be a separation of planning and execution tasks, the two are highly interdependent. Planning affects execution. The execution of strategy, in turn, affects change to strategy and planning over time. This relationship between planning and doing suggests two critical points to keep in the mind.

Successful strategic outcomes are best achieved when those responsible for the execution are also part of the planning or formulation process.

[...] A related point is that strategic success demands a “simultaneous” view of planning and doing [...].

The entire corporative body is supported by the cultural values that are inserted in the corporate policies and the internal communication and integration processes will respect these values that incorporate the corporate culture. Thus, global companies when elaborating their strategy program should include in the communication processes strategies focused on partially reducing the levels of power structure favoring integration between them and giving relevance to the interaction between the global and local leadership in order to avoid a negative impact on the strategy execution.

⁸ HREBINIAK, Lawrence. **Making Strategy Work**. 2nd ed. New Jersey, United States: FT Press, 2013. 73p.

A Global Company that culturally practices a strong fragmentation of its power structure at various levels, considering its strategy essentially supported by the division between high-PDI and low-PDI and their specific features, is at risk of having its strategy impacted by its own great importance given to power influence, neglecting the fact that power is often attributed to a personal position and the relationships are based on a dependency between the lower level before the superior level.

The strong power structures act as barriers between the communication process and the execution of the strategy, impacting on the flow of activities making up the value chain. Thus a layered and rigid corporate culture totally dependent on its power relations reflects a contrasting scenario to the proposal of a globalized economy, thus tending to make its strategies fail.

This does not mean that the power structures should be totally disregarded. The relevant role of the high power structures must be recognized when guiding and disciplining the corporate processes, however, it is necessary to reasonably consider the importance of **partial decentralization** of the power influence in the corporate structure, especially in the implementation and execution of business strategies. Hrebiniak (2008: p.11, 12) states, referring to the impacts of power on execution strategies, that their connection is more than individual personality, since they reflect a dependent relation before capability resources, compromising the course of the key decisions. However, at the same time that power creates a dependency relationship and its influence is also relevant for the execution and organizational change. The issues of power influence are related to the sphere of limitation of how the power relationship can intervene in the execution of the activity. This is what needs to be analyzed since, “to execute the strategy a support of powerful people is necessary” to influence and motivate the operational team.” (HREBINIAK, 2013: p.314).

In Global Companies, in view of the various levels existing between the operational systems, the powerful people have a relevant role in the execution of the strategy. These leaders are responsible for conveying the instructions besides the communication processes and also for guiding the actions to achieve the strategic goals. So, the boundary between **power, influence** and **dependency** when executing a strategy is tenuous and the understanding about when the influence relation becomes a dependency relation is the first step towards reaching autonomy of action.

According to the research mentioned by Kaplan (2008:4) fewer than 10 percent of employees reported that they understood their company's strategy and, if the employees do not understand the strategy evidently they cannot link their daily activities to its successful execution, since they do not understand the impact of the activity on the value chain. The communication of the strategy represents a key element of the execution of the strategy since it will be guiding the transmission of the Company's values and vision, involving the employees at all levels and all business centers under the same corporate mission.

Thus considering the importance of the execution of the strategy for the corporate success aligned with Company's commitments, Hrebiniak (2013, p.51) states:

Corporate strategy affects the choice of organizational structure. Alternatively, organizational structure is important to the execution of corporate strategy. To execute strategy effectively, managers must make sound decisions about structure and develop methods or processes to achieve the needed integration of structural units.

In summary to achieve success when implementing the strategy it is relevant to consider that the strategy process involves three elements: development, planning and execution and although these elements *a priori* seem independent, in reality they are interconnected. Likewise being a process, the strategy is influenced by external corporate factors (CSAs) that need to integrate the strategy development in order to achieve an increase of corporate profitability. Integrating the strategy execution sphere, the communication represents an element which has a relevant role, since it is the responsible for conveying the instructions to execute the tasks planned in the preceded processes and facilitating the information flow. To achieve the goals, the communication needs to be clear and objective with the purpose of promoting comprehension about the Company's values and also to facilitate the understanding of the strategy during its implementation.

4.5.2 –Strategy in Emerging Economies: the link between Global and Regional leadership.

The growth of the emerging economies provided a new environment and a new challenge for the global leaders in order to develop the strategy, aligning the divergent realities of their economic and social scenarios. In this way, the Global Companies need to align their goals and expectations, considering in their strategies the strengths and weaknesses of cultural aspects that characterize this new economic block.

Corporate conflicts arising from cultural values, rigid government policies, change and exchange rates, taxation policies and granting of subsidies, for example, imply the adoption of policies and more flexible business practices that can be achieved through the integration of corporate centers and the interaction between their levels and power structures and also by the partial reduction of power distances between corporate hierarchies.

The comprehension by the global leadership of the importance of studying the cultural aspects when developing the strategy is based on the strict relationship between culture and behavior, since the first will dictate the second, and guide the cross-cultural relations. Likewise, the global leadership must have the skills to act in the various types of society, since culture is a heterogeneous system. In harmony with this, Hrebiniak (2013, p.285) defines culture as “the way an organization does things [...] creates a propensity for individuals in an organization to act in certain ways”.

If the culture influences the behavior, and guides the actions that can be more relevant to the success of the performance of a strategy, it is evident that it will also be relevant in guiding the Organizational Performance, provided that it offers the implicit methods on to “how achieve the goals”. To clarify the relation existing among these three concepts for corporate strategies, Hrebiniak (2008, p.287) states that “culture elicits and reinforces certain behaviors within organizations. These behaviors, in turn, affect organizational performance in vital ways. If this weren’t true, culture would hold little interest for managers involved in execution efforts”.

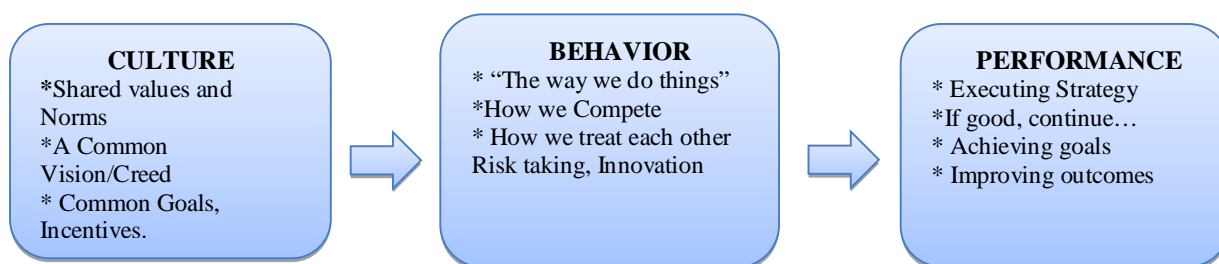


Figure 13: The Culture guiding the Organizational Performance

A strong feature in the culture of emerging economies is a strong dependency relationship in the high-power institutions and superior hierarchies. In the economic sense, in emerging economies we can observe, for example, the government actions and societal influences acting strongly through decisions that affect foreign investments and all levels of the economy whereas, in mature economies, the reality shows a flexible behavior and low intervention from these social agents in the economy. Thus, in the case of emerging economies the relations based on power structures consequently has a dependency relationship, which will have an impact on the goals, in the case of corporate relationships.

As was explained in the previous chapter, we cannot deny the importance that the power structures have for the execution of tasks and also the contribution upon the organization's discipline. However, the challenge is when the influence relationship becomes a dependence relationship and, thus, Hrebiniak (2013, p.325) concludes stating that "power is the opposite of dependency. Differences in dependency denote differences in power". Further, according to the author's position:

Power is social influence that arises from differences in dependencies. It's affected by choices of strategy and structure, and the resource allocation decision that follow logically from these choices. Power, in turn, drives the choice of strategy and consequent execution needs. Individuals in power usually want to retain or perpetuate it, so choices of strategy clearly reflect the power of individuals creating it. Power, then, both affects and is affected by strategic processes in organizations.

Once the effects that the power has on social structures and cross-culture relations are recognized, its impacts will be evident when implementing the execution strategies for

global corporations. Supported by the differences between the cultures that build the corporate relations and the power distance between the corporate structures (Headquarters and Regional Offices), the global leaders need to develop the corporate strategies focused on reducing the levels between the power distance, in order to achieve better results for the Company aligned with the needs to create an egalitarian corporate environment.

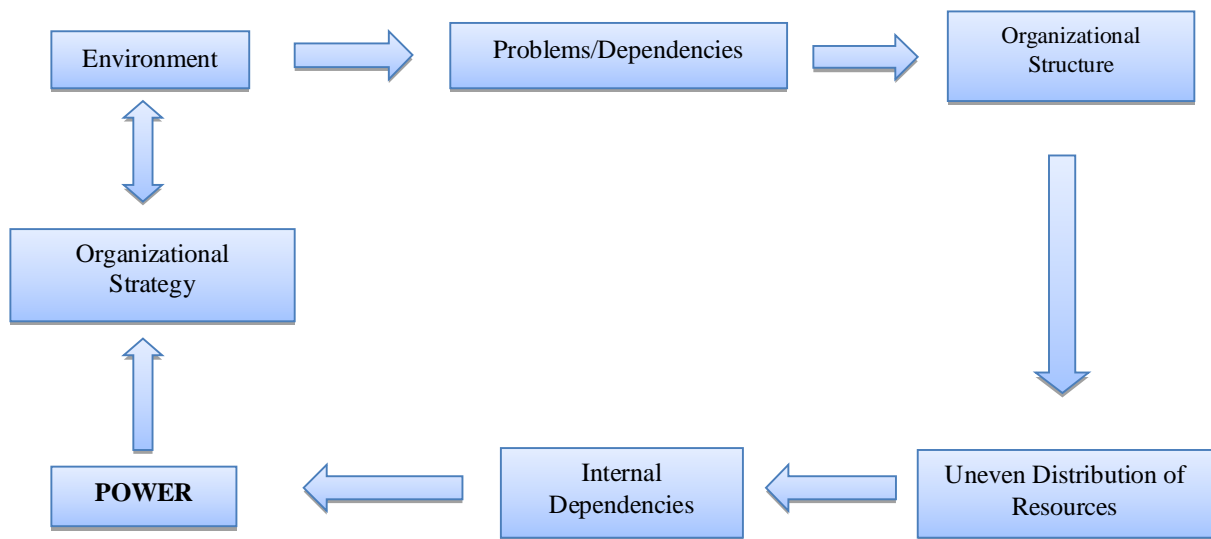


Figure 14: Power in Organizations

The culture values contribute to guiding the execution strategies and to measuring the degree of influence of the power relations on corporate behavior. Thus, when developing the strategies it is also relevant to search for the elements of synergy that can promote a successful application of the strategy between the emerging economies (where the most part of Regional Offices are located) and the mature economies (where the majority of Headquarters are established). The identification of the key elements that can contribute towards improving corporate performance should be incorporated into the analysis of business strategy in order to align the corporate objectives from Headquarters with the social reality and natural resources in emerging economies that will boost the global corporate business of the Company as a whole. Some of the aspects that should be analyzed by the Headquarters and their relation to strategic needs in order to align the

organization, according Kaplan and Norton (2008, p.127), and which can be useful for this study, are reported below:

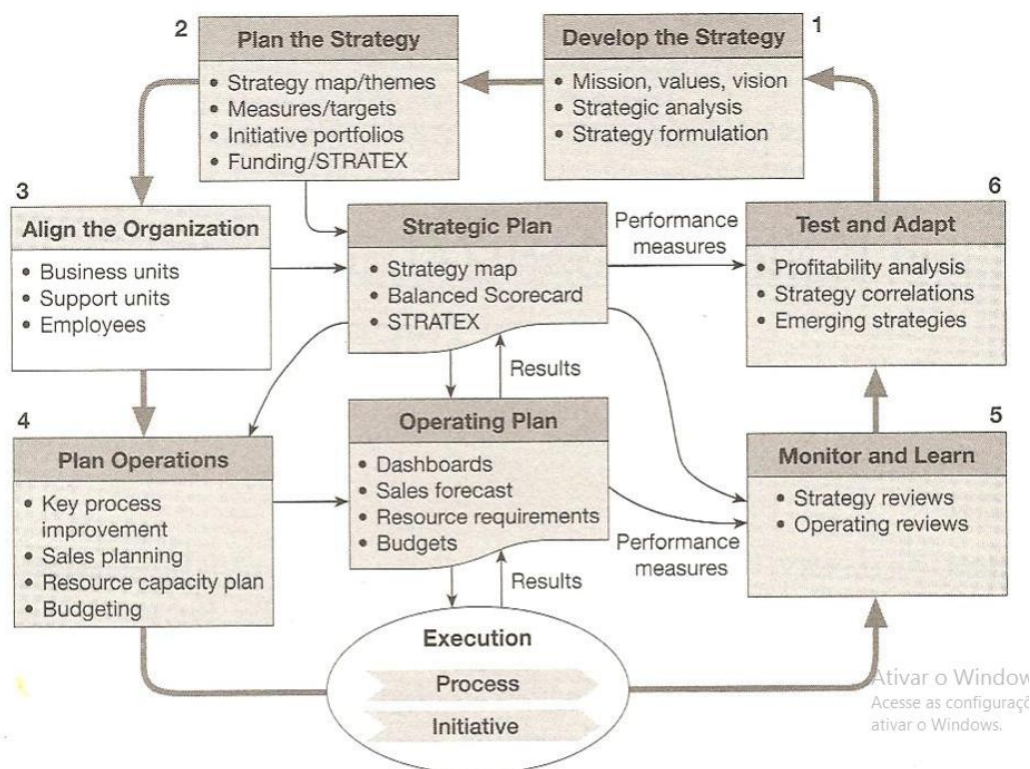


Figure 15: Align the Organization Processes.

(Source: KAPLAN, Robert and NORTON, David. **The Execution Premium: Linking Strategy to Operations for Competitive Advantage**. 126p.)

In the complex scenario present in emerging economies, the communication and interaction between the hierarchical corporate levels is a needed step in order to break down the barriers that separate the Regional Offices and Local Offices, and consequently, the power distance levels that exist in the business centers.

Normally supported by the power structures, the relationship between the high-level hierarchies and the actions of the low-level ones creates a detrimental and unequal environment for the attainment of corporate business objectives. In order to reduce the impact of this behavior on the business results, the leaders must develop strategies aimed at reducing the distances between the levels, promoting interaction among the business

centers through the inclusion and participation of the Regional Leaders in the global strategies rather than stimulating corporate practices supported by power structures.

Hrebiniak (2008, p.326) presents a study that contributes towards understanding the impacts of relationships based on power for corporate business strategies. The most important notes of the study are listed below:

Dependency relationships: Who is dependent on whom and for what? Is the dependency mutual or reciprocal, or is it unilateral? Unilateral dependencies denote strong power relationships. Those who totally depend on others for vital knowledge or other resources are in a vulnerable position, with low bargaining power and little influence.

Degree of substitutability: Are there many sources of the needed information or resources, or does a particular unit or individual have a monopoly over the information or resources? Recall that the ability to monopolize the vital resources that others need is an important contributor to power and influence.

Centrality of an individual or unit: The degree to which an individual or units is linked to others in the flow of communications or resources is often linked to power. Organizational units that routinely interact with many other units are highly pervasive. Units that can cause an organization to literally shut down by not performing their tasks or functions are highly essential. [...]

The close relationship between **power** and **dependency** inside the corporate strategies and influenced by increasing of the PDI Levels, function as a barriers between the high corporate level and the low corporate level. This can happen inside of just one business center as well as among them (Headquarters and Regional Offices) and the consequences can affect all the objectives that were considered relevant for the success of the strategy process.

5 – RESEARCH METHODOLOGY

5.1 – Introduction

The results presented in this study were obtained through a case study supported by academic literature and newsletters, as well as questionnaires responded to by leaders of global companies operating in Brazil, in the petrochemical, energy, marine and oil&gas industries.

The understanding that according to the revenue presented by a Company we can classify them as being: home-regional, bi-regional, host-regional and global companies, contributed toward the research since it guided the correct approach methodology used for the research that must be applicable for each Company profile.

Initially, it was important to define the market that the Company was operating in and that would be used as a parameter in research with the objective of delimiting the corporate scenario, which provided consistent results and allowed for deeper analysis of the corporate social reality in accordance with the needs to implement strategic projects.

Also with the objective of achieving the proposal of research, the relevance of each sample – meaning, here the corporate scenario – was analyzed based on the internal hierarchical structures present in the organization, the internal processes, the degree of corporate acceptance, interaction between the organizational levels and the internal layout of the Company, as well as flexibility through the reaction of higher level position-holders when the lower level position-holders make suggestions and proposals for implementation of some strategies and, most importantly, the consequences of the acceptance – or denial - on the internal process and on the results.

To measure this reaction, possible problematic situations were included in the questionnaire aimed at understanding about their profile when they are in their leadership position not as bosses, but as collaborators. Also related to this real situations were studied where the Company, adopting a flexible position, had been successful in its strategies and, in contrast, when a more resistant position was adopted, the result was not satisfactory.

5.2 – Structure and Technical Aspects of the Research

All forms of research should be focused on a specific objective with the objective of clearly showing what the researcher wants to prove and all research must have a specific purpose.

To develop this research, five specific aspects were considered, directly related to the physical features of the processes: choice of the problem situation to be submitted to investigation, analyses of the hypothesis of the work, data capture, analyses and interpretation of data, report with the results presented.

Understanding the structure of the processes involved in this research and also the alignment with the empirical methodology aspects, we list below the relevant topics for the development of the research.

- **Method adopted as parameters to develop the research:** Inductive. This method analyzes the situation problem of a particular case (or situation) for a general case.
- **Nature of the research:** methodology applied aimed at producing knowledge for practical application and to provide solutions for specific problems.
- **Qualitative approach:** seeks to consider the existing relationship between the social scenario and their individuals that cannot be translated with numbers.
- **Exploratory research:** proposes a greater interaction with the situation problem, also involving bibliographic research and interviews with people that shared the same experience in practice. It is assumed here that case studies are the main feature of this research.
- **Technical Procedures:** research of bibliographic references, case studies and a questionnaire.
- **Objectives of the research:** the consequences of the conflicts between the Headquarters and their subsidiaries – here the analysis considers the

Brazilian scenario – when implementing strategies, especially when there is a misalignment between these two corporate bodies and their views of the best approach for the local strategy.

5.2.1 – Data Analysis

Based on a concept applied to data analysis, three hypotheses were developed to sustain the questionnaire, aligning them with the purposes of the study:

- Hypothesis 1 – The distance and lack of alignment between the corporate levels interferes with the corporate relationship and consequently, the implementation and the success of new strategies.
- Hypothesis 2 – The distance between the hierarchical levels and the resistance of Headquarters to get involved with the subsidiaries (Regional/Local Offices) in the development of the strategy generate conflicts and asymmetry of information that hinder the successful execution of the strategy as a whole.
- Hypothesis 3 – If the power distance between the individuals forming the Organizations was lower, it is likely that the processes to implement strategies would be successful

5.2.1.1 – Questionnaire

The purpose of questions elaborated and used in a questionnaire is to make the problem situation more evident and real, due to work with concrete information about the problem presented by the respondents. Relating to content, the following were considered in this research as the main aspects:

- **Investigating the facts:** to discover whether the respondent who kept the information is able to understand it.
- **Determining the opinion about the facts to be investigated:** understand what people think or believe that the facts represent.

- **Conscious motives for opinions, feelings, or behavior systems:** find out which aspects could influence opinions, feelings and behaviors and why.
- **Method of Interview:** standardized (or structured) using questions previously elaborated in a questionnaire. The interviewer follows a predetermined schedule. The questionnaire was developed combining multiple-choice questions, with the aim of achieving concrete and objective results.

5.2.1.2 – Case Study

This study was supported by a particular case study involving a Global Company with some of its Regional/Local Offices located in Brazil and belonging to the Oil & Gas and Energy market.

In 2009, influenced by the discovery of sub-salt oil fields and given the expected GDP growth in the coming years, the Company, with head offices in North Europe, notably a Low-PDI region, decided to seize greater opportunities for growth and improve their results by including Brazil as one of their strategy markets and by developing a new specific strategy exclusively for the businesses in Brazil. To develop such a strategy, senior leadership teams from the global, from the regional offices and from the Brazilian subsidiary were involved and participated actively in the design of the strategy. The strategy was designed and developed in an integrated manner with three geographic business centers and in January, 2010 this strategy was launched.

At the time the main leader of the subsidiary Company in Brazil was an expatriate from the country of origin of the Company with many years of business and cross-culture experience, who had arrived in Brazil 5 years earlier to take care of the Company's business management in Brazil and in South America. During his experience as a Country Manager in Brazil, this leader had the opportunity to acquire knowledge about the strategic business in the Brazilian scenario, the local culture and customs, customers and people's behavior and the country, and identified the need to hire a new Country Manager to lead the strategy implementation, a person who could combine both the knowledge about the local market and culture and about the company business and structure (policies, culture, way of

working, hierarchy) aligned with practical experience and track record about executing strategies in Brazil.

Some months before the startup of the development of the Brazil Strategy, a Brazilian executive who worked in the Company for many years decided to leave the Company to face new challenges in the energy market. This executive had a successful career in the Company and had multiplied the results in the energy market in recent years, having a well-aligned and trustful partnership with the Country Manager.

The Country Manager who was located in Brazil perceived in this leader who left the Company some months earlier the needed experience and the abilities and skills needed to implement the previously developed strategy, together with the knowledge of the Company and of the Country culture. It goes without saying that such Brazilian executive, being educated and cultured in a High-PDI country, managed to get acquainted with the way of working and the decision making profile of the executives coming or based in the Northern Headquarter. The knowledge to act in different business situations and expertise in executing strategies in different cultures and integrating the corporate levels by reducing the power distance at the corporate levels were essential features for his choice. In addition to this, since the Company's culture is based on the values that compose the local culture where the Headquarters is based, from the Nordic countries located in Scandinavia, where often the levels of power distance are low. This contributed for this leader to develop his management methodology supported and influenced by these values, and consequently for an egalitarian management, and how to move internally in the corporation to make things happen.

In mid-2010, this executive was hired back by the company to become their new Company Country Manager and to lead the execution of the Brazil Strategy. One of the first actions of the new manager was to identify how the local team participation in the development of the strategy took place. After some months of adjustments in the strategy, the execution started at full speed and some of the results were:

- By December, 2014 the sales growth was over 150%;
- The market penetration in the oil & gas market had a considerable increase
- The company increased its workforce by 30%;
- The profitability of the main business unit turned into positive for the first time in several years

- A new factory was constructed, the first in the whole of the Americas, and two new service centers were inaugurated;
- The Company was elected one the best Companies to work for in Rio de Janeiro and in Brazil for many years in a row by one of the most important national magazines;

This case validates our argument that one of the key and most critical competences of the executives being most successful when implementing global strategies in emerging markets, notably in countries with high-PDI culture profile, is, besides the knowledge about the company, the business and the market, to be able to navigate through the company internal structures, expose its opinions, preserve and take them forward even if confronted with resistance from the headquarter.

5.3 – Aspects Considered to Develop the Research

To develop the research, some notes were considered about the key aspects inherent to the implementation of strategies in Brazil, as well the Brazilian influence when performing business strategies comparing them with the implementation of strategies in the mature economy scenario. It is relevant to make a comparative analysis of the Brazilian economy's influence on both economic cores aimed at achieving an isonomic position in the business relationships, emphasizing here the role that the Brazilian leadership has in view of the global scenario in order to build a strong corporate framework aligned with a positive corporate environment and also to achieve positive results for the Company as a whole, contributing towards a relevant position when compared with their market place.

Below are listed the main aspects analyzed to develop this research:

- 1) The behavior adopted by Headquarters when developing strategy implementation in its Regional Offices – here emphasizing the Brazilian scenario – relating to the aspects of interaction between both business centers during the process.
- 2) Change in the analysis of main aspects of strategy implementation in Brazilian scenario over the last 10 years. What change related to:
 - a. The PDI levels and integration between both business centers

- b. The internal PDI levels within the business strategies (analyze the levels inside the Regional Office)
- 3) The definition of the businesses used for research: Energy, Marine, Oil&Gas and Lubricants MNCs.
- 4) The degree of influence of the Brazilian economy in implementing and agreeing with strategy suggestions comparing the position in relation to the mature economies.
- 5) Profile of strategy implementation according to the company size:
 - a. Home-regional
 - b. Bi-regional
 - c. Host-regional
 - d. Global Companies
- 6) Profile of the business implemented in the Brazilian affiliates according to the main parameters of the Headquarters.
- 7) Analysis of aspects by the Headquarters relating to the Brazilian scenario to agree with the strategy:
 - a. The criteria adopted to implement the strategy;
 - b. What is considered as the predominant factor in order to agree with the decision to implement the strategy;
- 8) Adaptation of the global strategies in view of the plurality of scenarios: how the global companies develop and adapt their strategies under the various cultural aspects (For example: the business of Coca-Cola, Nike in Brazil and China);
- 9) The globalization and the implementation of global strategies.

5.4 – Analysis and Discussion of the Result

In this section of the study, the analysis of the questionnaires answered by senior executives (senior manager, general managers and directors) in multinational companies operating in Brazil in the industries of Energy, Oil & Gas, Marine and Petrochemical, and the information gathered, key findings and interpretation is presented.

When interpreting the data, the focus was directed to the factors influencing the failure or the success of the implementation of global strategies in Brazil. The data is presented following the logic order of the questions answered by the executives.

The questionnaire was formulated as shown in the annexes and involves 9 objective questions with multiple choice options. Out of the 26 questionnaires sent, only 10 were responded to and for the purpose of our findings, connected with the case study and the literature. Out of the 10 executives that answered the questionnaire, one was a foreigner and the other nine were Brazilian.

Answers Codification

Num.	Question	Answer Options	Codific.	Qty. Answer
	The communication between the hierarchical levels of your Company is:	a. Intense and Productive		
		b. Moderate and Productive		
		c. Complex but effective		
		d. Nearly non-existing		
	The interaction between internal hierarchical levels of your Company is:	a. Positive		
		b. Moderate		
		c. Complex		
		d. Bad		
	The relationship among the subsidiaries and headquarters levels, when relating to the suggestions from affiliate's Regional/Local Offices to implement a new global strategies is:	a. Positive		
		b. Moderate		
		c. Complex		
		d. Bad		
	How would you describe the local leadership's initiative before the headquarters' resistance or scornful attitude when the proposal of the implementation of strategies is made by you?	a. Subservience		
		b. Demotivated		
		c. Indifferent		
		d. Challenge		
	Describe the profile adopted by the corporate policies between the Headquarters and Local/Regional Offices relating to the proposals for the implementation of strategies	a. Pragmatic		
		b. Conscious		
		c. Flexible		
		d. Hard		
	Have you ever experienced a successful case involving the interface between the affiliates and their international Headquarters relating to the acceptance of a proposal to implement strategies coming from the affiliates?	a. Yes. Frequently		
		b. Yes. Observed but after persistence		
		c. No. Never		
	Have you witnessed a case where the headquarter by denying suggestions from the Affiliates for the design or for the implementation of strategies, presented bad results in its revenue or bottom line, or lost possibilities of business?	a. Yes. Frequently		
		b. Yes. Observed but in face of strong misalignment		
		c. No. Never		
	In your opinion the existence of strong and structured hierarchical levels within the Company as well as in the Headquarter/Affiliates relationship, act as barriers to the implementation of successful strategies for the	a. Yes.		
		b. Yes. Observed but after persistence		
		c. It depending		

	business?			
	What, in your opinion, would justify a possible rigid stance of the Headquarters in relation to suggestions for implementing new strategies suggested by the Local/Regional Offices?	a. The subservience position		
		b. Lack of alignment and cultural knowledge		
		c. I cannot comment since I do not observe		

Key Findings:

1. 3 out of the 9 questions have answers that are close to unanimous, representing a clear alignment of the senior executives of these companies in respect to the relationship with the headquarters.
2. As an example, when questioned about their reaction when they face resistance from the headquarters to strategy proposals they made, nearly all respondents replied that they feel challenged to improve the proposal and to prove the case. This is a clear answer from senior and trained executives that are used to working in complex environments in multinational companies and that have learned not to be hindered by the Power Distance relationship.
3. The other question with unanimous answers was if the executives have experienced a situation where the denial of proposals made by the affiliates have turned into bad results or even loss of business to the global organization. All of them replied that had already experienced such a situation, however, the headquarters' denial and the bad results are more linked to lack of alignment among the different leaderships in the organization rather than due to any other reasons.
4. When questioned about what would be a justification for a rigid approach from the headquarters in relation to a strategic initiative proposal coming from local or regional offices, the executives mentioned that, besides the misalignment in the different expectations of both entities, the lack of cultural knowledge plays an important role in determining the conflict between headquarters and affiliates.

5. The headquarters based in Low-PDI countries are reported by the respondents to have a flexible or pragmatic approach when dealing with proposals of strategy implementation coming from the subsidiaries or local offices. Here it seems we have a dichotomy since while the subsidiaries wait to be requested for the proposals or to be involved in the strategy process, the headquarter gets the strategy design and the implementation moving without involving the subsidiary merely because of the cultural difference between them. There is no rigidity as such. The bottom line is that either executive has to move towards the other direction: the strategy proposal has to come from the local office or has to be requested by the head quarter. The ones to bridge this gap are the key executives at both ends of the internal company structure.

The other replies to the questionnaire, together with the proposed literature, also confirmed how relevant certain aspects are for the successful global strategy and execution in Brazil and in other emerging economies, which was highlighted in various parts of this study, namely: (i) the right, senior, trained profile of the executives interacting between the different organizational levels (headquarters, regional and local affiliates); (ii) the Power Distance factor and the lack of cultural knowledge can affect the relationship and the needed alignment among the entities turns the strategy execution into a frustrating experience if not properly managed by the organization and (iii) the alignment and the existence of a flexible (as opposite to too rigid and tied to old habits) profile among the organizational entities interacting to execute the strategy is essential for the successful development and execution of the strategy in multinational companies operating in Brazil.

5.5 – Limitations and Problems of the Research

All the research methodology was developed so as to identify and corroborate the closer relationship between the hierarchical corporate levels and the success of Global Companies when developing and executing their business strategies, especially involving Subsidiaries located in Emerging Economies.

The reliability criteria for qualitative research should not relate to those of quantitative research, particularly with reference to the representation of the respondents when compared to the broader population. However, even considering these aspects when elaborating the questionnaire and explaining the academic purposes emphasizing the confidentiality of all information about the origin of answers, some professionals didn't want to participate in the research.

A number of limitations could be considered when assessing the results of this study, including the level of the professionals (managers and directors) and type of companies (medium and large multi-nationals) that participate in the research and the gap between the number of questionnaires that was submitted (twenty-six) and the number that returned with answers (just ten). Nevertheless, one should note that having these type of senior executives responding to a survey of this type is not an easy task as such. It should be pointed out that the concept of a representative sample does not apply to this research study, making it impossible to generalize the results in relation to any definable population (Bauer and Gaskell, 2003).

Furthermore, although the nature of exploratory probing does not allow the formulation of hypotheses *a priori* (Vergara, 2000), it is believed that through an analysis of the answers collected it is possible to generate new assumptions which may be useful to further explore the topic and conduct future research studies, thus contributing towards developing knowledge on business administration in general and, more specifically in the field of Strategy and Leadership.

Finally, the responded questionnaires achieved some reasonable level of theoretical saturation and indicated some conclusions, but caution is recommended regarding generalization of the findings. The information gathered consisted mostly of the personal experience of the respondents, a group of senior professionals with extensive experience in leading strategy execution of multi-nationals in Brazil and in South America. As the questionnaires were based on objective questions and with multiple choices, there was no room for the introduction of bias and subjective elements.

6. CONCLUSION

The pre-eminent position of emerging economies in the global scene presents a new challenge for the leadership and for the strategists in global companies when developing and executing strategies affecting these markets.

Among the several variables presented by Geert Hofstede in his study, the aspects involving the analysis of the Power Distance Index were considered here, supported by the cross-culture concepts as the object of this study, since the alignment and a flexible structure between the Headquarters and Regional Offices are crucial for the execution of a strategy. The leaders in these power spheres must have skills and abilities to act between these business centers without causing any impact on the global strategy.

As a main proposal of this study for global companies to achieve the results in the business strategies is by reducing the power structures based on hierarchical levels (high-PDI and low PDI), promoting proposals to achieve efficient results, integration between the levels, as well as the interaction between the employees of both business centers.

Therefore, based on the case study, on the literature and on the exploratory interview program performed to support our qualitative research, we conclude as follows:

According to the main case study that was the basis for this study and applied research, and based on the literature that corroborated them, some of the best ideas and most successful strategies came from leaders within the organization, with knowledge of the company, of the business and of the market place, who were able to express their opinions and push for their implementation despite some level of resistance from the headquarters.

Thus, with this it becomes increasingly evident that the Headquarters need to develop strategies considering integration between all levels that make up the global corporate hierarchies, as one of various manners to promote better outcomes and establish a strategic leading position in the global market.

Furthermore, we identified the following findings as additional reasons why some global companies are more successful than others in the implementing of global strategies in the emerging economies:

1. Contrary to what the general public believe, companies established originally in countries with low PDI are willing to accept proposals from the affiliates and regional offices as long as the local leadership have a strong alignment with the headquarters and have the knowledge and the will to challenge the status quo.
2. When a certain emerging economy (or country or region) becomes extremely relevant for the business of a global company, the headquarters, despite being located in low or high PDI countries, are not only willing to listen to the regional leadership but are ready to give a strong focus on developing and implementing a specific strategy in the region.
3. The selection and the development of abilities of the executives and of the leadership responsible for the implementation of strategies in the emerging economies are crucial for the success of the business. Such executives have to know how to navigate between the cultures of the headquarters and of the major affiliates and how to establish the proper link between them.

7. RECOMMENDATIONS

According to the observations evidenced by the research results, both the case study as well as the analysis of the questionnaires, it can be ascertained that a leadership that assumes as its main management methodology the integration of corporate hierarchies, has a greater chance of success in the execution of the strategy and of improving the Company's results than the leadership that disregards the importance of this alignment between the levels. Another relevant aspect that can be considered in the Global Company's corporate philosophy shown in the case study is the concern of the Headquarters when developing the strategy in choosing a leader to direct the execution of the strategy who can navigate effectively between the various corporate silos and who has deep knowledge of and experience in the main markets of interests, in this case, the emerging markets.

However, we cannot state that this isn't a reality of all Global Companies when designing their strategies to act in emerging economies. Still there are various global leaders that show a resistance in their internal structure that considers the reduction in the power distance as a step to achieving goals as irrelevant, showing with this a strong dependency of power structures to execute the strategies.

In view of the time and resource constraints in this study it, the reasons that lead companies to adopt strict corporate policies in their power relationship were not explored here and this can be the basis for other academic researchers who can use this theme as a focus for future studies on business relationships supported by a strong dependence of power influences and its impact on corporate strategies.

Finally, the research was concentrated on multi-national companies operating in Brazil in certain industries. One clear recommendation for the future and for other academic researchers is to expand and to enlarge the scope of the research to confirm if the same outcome applies for other emerging economies with similar Power Distance indexes.

8. ANNEXES



FUNDAÇÃO GETULIO VARGAS
ESCOLA BRASILEIRA DE ADMINISTRAÇÃO PÚBLICA E DE EMPRESAS
MESTRADO EXECUTIVO EM GESTÃO EMPRESARIAL

Questionnaire for Academic Research

- 1) *The communication* between the hierarchical levels of your Company is:
 - a. ☐ *Intense and productive*
 - b. ☐ *Moderate and productive*
 - c. ☐ *Complex but effective*
 - d. ☐ *Nearly non-existing*

- 2) *The interaction* between the internal hierarchical levels of your Company is:
 - a. ☐ *Positive. The hierarchical barriers are almost imperceptible and the levels interact independently of the corporate level or status position.*
 - b. ☐ *Moderate. There are hierarchical barriers but they don't prevent the interaction between the levels.*
 - c. ☐ *Complex. The hierarchical barriers are strongly structured on a corporate layout.*
 - d. ☐ *Bad. The hierarchical barriers are insurmountable when relating to interaction between the corporate levels.*

- 3) *The relationship* among the hierarchical levels of subsidiaries and headquarters, when relating to suggestions from affiliates/Regional Offices to implement of new global strategies is:
 - a. ☐ *Positive, provided that the Headquarters requests it and is even open to listening to new proposals from the Local/Regional Offices for the implementation of new strategies.*
 - b. ☐ *Moderate, since the barriers don't exist between the Headquarters and Local/Regional Offices but, the relation is fragile with respect to the Local/Regional Offices in the formulation and implementation of new global strategies.*
 - c. ☐ *Complex, in view of the barriers existing between the Headquarters and Local/Regional Office, however the profile from headquarters is subtly acceptable and flexible.*
 - d. ☐ *Bad. The existence of the hierarchical barriers are strong and impassable since the top hierarchies at the Headquarters do not accept or ask for proposals from the lower hierarchical levels, including the Local/Regional Offices.*

- 4) How would you describe the local leadership's initiative in view of the Headquarters' resistance or scornful attitude when the proposal for the implementation of strategies is made by you?
- ☐ Subservience, since you would expect anyway that your proposal would not be accepted,
 - ☐ Demotivated. In your view, there is a lack of interaction between your expectations as manager and the business objectives of the Company.
 - ☐ Indifferent as you don't care if your proposal is accepted or not by the Company
 - ☐ Challenged to improve and to have your suggestion recognized as relevant for the business of the Company.
- 5) Describe the profile adopted by the corporate policies between the Headquarters and the Local/Regional Offices related to the proposals for implementation of strategies:
- ☐ Pragmatic and can be observed by the corporate practices and policies
 - ☐ Conscious, since in the policies the possibility is mentioned but the practices don't reflect the corporate policies.
 - ☐ Flexible, not considered in the corporate policies but, in practice, it works.
 - ☐ Hard, since this possibility of interaction between the corporate levels (headquarters and local/regional offices) is not mentioned by the Company in their policies nor are put in practice.
- 6) Have you ever experienced a successful case involving the interface between the affiliates and their international Headquarters relating to the acceptance of a proposal to implement strategies coming from the affiliates?
- ☐ Yes, I frequently observe success in Multi-national Companies.
 - ☐ Yes, I have observed successful cases, but after persistence from the affiliate.
 - ☐ No, I have never observed this integration between the affiliates and Headquarters.
- 7) Have you witnessed a case where the Headquarters, by denying suggestions from the Affiliates for the design or the implementation of strategies, presented bad results in its revenues or bottom line, or lost possibilities of business?
- ☐ Yes, I have frequently observed cases as mentioned above in Multi-national Companies.
 - ☐ Yes, I have observed cases as mentioned, but only when there is a strong misalignment between the Headquarters and the Affiliate's leaderships.
 - ☐ No, I have never observed this situation before

- 8) In your opinion the existence of strong and structured hierarchical levels within the Company as well as in the Headquarter/Affiliate relationship, act as barriers to the implementation of successful strategies for the business?
- a. ☐ Yes.
 - b. ☐ No.
 - c. ☐ It varies depending on the specific business.
- 9) What, in your opinion, would justify a possible rigid stance of the Headquarters in relation to suggestions for implementing of new strategies suggested by the Local/Regional Offices?
- a. ☐ The subservience position adopted by the local leadership of Local/Regional Offices in view of the Headquarters' position.
 - b. ☐ Lack of alignment and cultural knowledge between the Local/Regional Offices and expectations of the Headquarters.
 - c. ☐ I cannot comment since I do not observe the existence of this corporate behavior between the Headquarters and Local/Regional Offices.

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