Soft Institutions and the Diffusion of Management Innovations across Borders

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Abstract

This paper proposes an approach to support the understanding of the role of soft institutions (i.e. cultural values and norms) on the introduction and use of management practices when diffused across cultural (national/organisational) borders. This paper builds on empirical data from a case at Ericsson Radio System (Kista, Sweden). This case illustrates the impact of national values on the diffusion of process management practices in three different Ericsson subsidiaries in Sweden, Argentina and New Zealand. The paper concludes with the definition of research issues regarding the role of soft institutions on the diffusion of management innovation across borders.

Key Words: soft institutions; management innovation; national culture; organisational culture; values; process management; learning and change.

Background

A large majority of last century's management practices, which have influenced the way people relate to each other and how organisations work, were either created or developed in the USA or, in recent years, in Japan. However, this influence has often not been translated into successful implementation, and hence, literature comments extensively on failures in the international diffusion of management practices. For example, recent ‘management innovations’ (e.g. Lean Organisation, Business Process Reengineering-BPR, Total Quality Management-TQM) presented to be alternatives to management models from the earlier industrial era (mass-production), have often failed to be successfully introduced and used within organisations. In a similar way, Scandinavian solutions to management with a high degree of delegation and self-management have not necessarily been successful in foreign subsidiaries/organisations.

Various explanations exist to explain such failures. One important aspect that has been largely overlooked and proposed for further research is the importance of soft institutions, i.e. cultural norms and values. Indeed, management practices usually carry a set of built-in assumptions concerning what is a natural way of working. These built-in assumptions may fundamentally differ from the culture of the organisation in which the practice is to be introduced and used. This organisational culture, which has been taught, learned and rewarded as 'the correct way of doing things', is deeply institutionalised. Thus, natural and powerful resistances to change, exist both at an intellectual and an emotional level, which prevent the organisation from adopting different ways of working. In brief, the cultural change for a successful introduction and use of new management practices may be deeper and more fundamental than had previously been anticipated.

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1 [Schneider and Barsoux, 1997]
2 [Hamed and Miconnet, 1998]
3 See e.g. [Edquist, 1997]; [Hofstede, 1980; 1994]; [Laurent, 1983; 1992]. According to Edquist and Johnson (1997), norms and values are referred to as 'informal' and 'soft' institutions. According to their definition, "Institutions are sets of common habits, routines, established practices, rules, or laws that regulate the relations and interactions between individuals and groups." (p.46)
Our group at *Industrial Dynamics* at Chalmers has been conducting different studies on the impact of cultures, both national and organisational, on the diffusion of organisational innovations and sharing of ‘best practices’\(^4\). In these studies it has been found that both national and organisational culture can strongly influence the successful diffusion and use of practices; and that it is possible to conduct an analysis of this influence prior to the start of implementation. Based on such an analysis it is possible to take measures of changing e.g. the innovation/practice itself, the method of introduction or, to a certain extent, the culture of the organisation to which it will be introduced. The assumption is that this kind of analysis could assist in understanding the possibilities and limitations of introducing and using new organisational practices\(^5\).

**Purpose**

The purpose of this paper is to present a new approach to analysing how national and organisational culture influence the use of and adaptation of a management innovation. And to examine the extent to which culture has an influence on the diffusion processes of a management innovation.

**Problem Area**

The concepts of ‘culture’, ‘paradigm’, ‘mental model’ and ‘organisational reality’ have been interchangeably used in organisational research, and have similar meanings and implications. Culture, as defined in anthropology\(^6\), refers to four cultural layers: *artifacts*; *behaviours*; *norms-beliefs-values* and *basic assumptions*, and to cultural products (which are an outcome of the four cultural layers in combination), that are shared within a community (c.f. figure 1).

![Figure 1: The Layers of Culture\(^7\)](image)

**Artifacts** is the easiest layer of culture to observe, e.g. the way members of a culture eat or dress. In a company environment, artifacts can be, e.g. the company logo or the design of office space\(^8\). This layer can easily be changed. **Behaviour** is any form of human action\(^9\). In a company, behaviours can be understood by looking at the way people, e.g. make decisions or solve problems. Behaviours and roles are related: as we move from role to role, our behaviour can be expected to change, e.g. from manager-subordinate to husband-wife\(^10\). Behaviours can be changed to a certain extent in adults, for example in adapting to a corporate culture\(^11\). **Norms, beliefs and values** are shared by most of the members of a culture and very seldom questioned in the culture itself. Norms and values express the way people should behave or the philosophies and ideals of mankind, e.g. what is beautiful or ugly, good or evil\(^12\). This layer is acquired in one’s youth at school and is strongly influenced by the parents\(^13\). **Basic underlying assumptions** are the core of culture. They are shared mostly at an unconscious level by all members of a culture and are nearly impossible to change: a person is more

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\(^5\) [Miconnet and Alänge, 1999]

\(^6\) [E.g. Kluckhohn and Strodtbeck, 1961]

\(^7\) Source: [Hamed and Miconnet, 1998], adapted from [Schein, 1992]

\(^8\) [Schneider and Barsoux, 1997]

\(^9\) [Bolton and Bolton, 1984]

\(^10\) [Hofstede, 1994]

\(^11\) [Hofstede, 1980]; [Scheinberg, 1989]; [Schneider and Barsoux, 1997]; [Trompenaars and Hampden-Turner, 1998]

\(^12\) [Hofstede, 1994]
likely to adapt or distort the reality instead of accepting that this layer can be questioned\textsuperscript{14}. This can concern, for example, what is considered as rational or irrational, unnatural or natural, or paradoxical\textsuperscript{15}. This layer is acquired in the first years of one’s life\textsuperscript{16}.

Individuals and groups communicate their culture through the outer layers of culture (artifacts and behaviours) but the main drivers of behaviour are found in the deeper cultural layers (norms, values and basic underlying assumptions). Culture represents an interrelated whole, a frame of reference, that is taught and learned as the correct way of doing things and that enables a community to live together as a group\textsuperscript{17}. Through their culture, members of a community will give a meaning to their environments\textsuperscript{18}. The fact that the different layers of culture are interrelated is important. It implies that changing a culture would mean to consider the four layers simultaneously.

The model ‘The Layers of Culture’ can be used to describe the culture of a community (e.g. nation\textsuperscript{19} or organisation\textsuperscript{20}), but also can serve as a lens through which one can interpret an organisational innovation. For instance, Process Management Practices\textsuperscript{21}, existing in e.g. BPR\textsuperscript{22} or TQM\textsuperscript{23}, are made of artifacts (e.g. work templates, process maps); behaviours (e.g. new role of leaders and middle management; greater emphasis on co-operation and teamwork); values, norms and beliefs (e.g. need of tolerance for uncertainty; greater importance of trust; lower prestige associated with power); or cultural products (e.g. different reporting channels, performance appraisal and reward systems; different allocation of responsibility and resources). In brief, process management is ‘culture-bound’, and may go against the existing culture of an organisation\textsuperscript{24}.

Therefore, successfully introducing and using a new management practice may mean for the employees at all hierarchical levels, to accept a \textit{contradictory frame of reference} to the one they are using. Powerful forces within the organisation may appear that goes against the introduction of a new practice\textsuperscript{25}. Indeed, culture is by its intrinsic nature a social construct to which human—in the words of social scientists—are both intellectually and emotionally deeply bound. It represents a source of certainty, identification and security and to question it can be psychologically destabilising. A person is more likely to distort the reality than accepting that his/her culture, especially the values and basic assumptions, can be questioned, in particular when they have proven to be valid and successful before.\textsuperscript{26} The next section of this paper, will exemplify how the worldwide diffusion of process management practices within Ericsson Radio Systems AB (Kista, Sweden) have been challenged by the differences in national values in the three countries studied for the case, namely Sweden, Argentina and New Zealand.

\textbf{Case at Ericsson Radio Systems AB\textsuperscript{27}}

The aim of the case at Ericsson Radio Systems AB aimed to explore if the global diffusion of "Ericsson's process management practices" would face difficulty due to differences in national values. As part of the study, a questionnaire was answered by local employees, which made it possible to define a cultural profile for each Ericsson unit. These statistically generated profiles were then complemented with interviews with key personnel at the three geographic units.

\textsuperscript{14}\cite{Schein, 1992}
\textsuperscript{15}\cite{Hofstede, 1980}
\textsuperscript{16}ibid.
\textsuperscript{17}\cite{Kroeber and Kluckhohn, 1952}; \cite{Schein, 1992}
\textsuperscript{18}\cite{Geertz, 1973}
\textsuperscript{19}See \cite{Hamed and Miconnet, 1998}; \cite{Jaumont, 1999}
\textsuperscript{20}See \cite{Findler and Wimmer, 2000}
\textsuperscript{21}For the definition of the concept of process management, see next section ‘Case at Ericsson Radio Systems AB’
\textsuperscript{22}BPR: Business Process Reengineering
\textsuperscript{23}TQM: Total Quality Management
\textsuperscript{24}\cite{Hamed and Miconnet, 1998}
\textsuperscript{25}\cite{Nevis \textit{et al.}, 1999}
\textsuperscript{26}\cite{Schein, 1992}
\textsuperscript{27}\cite{Hamed and Miconnet, 1998}
The Concept of Process Management

The notion that, a work process is 'a sequence of work activities', is rather simple. However, one can say that all the activities in an organisation can be seen as a succession of a large number of work steps going across the organisation over functional boundaries (c.f. figure 2). Yet organisations generally work according to their functional structure. Consequently, if each function performs in an efficient way, the sum of the work provided can still be a sub-optimisation of the whole\(^{28}\). Taking a process-orientation, thus shifting from a vertical to a horizontal work perspective, an organisation aims at overcoming this problem by managing the 'white spaces' in between functional areas\(^ {29} \).

![Process versus Functional Organisation](image)

Figure 2: Process versus Functional Organisation

A shift from a functional to a process-based organisation implies deep changes in almost every aspect of an organisation’s activities. An organisation ‘managed by processes’ will have more of a matrix-type of structure, i.e. the employees are more likely to experience a feeling of double loyalties, both to the traditional functional reporting structure and to the flow in which work is conducted. As a result, priorities and what is valued will be challenged, which in turn leads to new demands on the incentive structure, the promotion procedures and not the least, on leadership. Regarding the latter, the new role of becoming process leader, at different levels in the organisation, creates new challenges. And for those leaders, remaining functional leaders, the 'management by processes' implies a different set of demands on co-operation and possible changes to their authority.

Process Management in Sweden

One main assumption in process management is that the person closest to a specific process knows it best and has good ideas on how to improve it. Relying on this assumption, Swedish managers will tend to delegate improvement work to lower levels in the organisation: they generally trust their employees to do a good job and they will accept to lose part of their control and authority. Accordingly, Swedish employees will accept the responsibility of the task at hand and will organise themselves to solve the task. These behaviours (delegation) and implicit assumptions (trusting employees to do a good job) are in line with Swedish national values. For instance, trust is based on the Swedish value that humans are basically good by nature\(^ {30}\); losing of control is possible in Sweden since people do not fear uncertainty\(^ {31}\), i.e. do not feel the need to strictly control their environment (cf. figure 3).

![Impact of Values on Process Management](image)

Figure 3: Impact of Values on Process Management

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\(^{28}\) [Alänge, 1994]

\(^{29}\) [Rummler and Brache, 1995]

\(^{30}\) The cultural dimension ‘Human Nature’ is based on [Kluckhohn and Strodtbeck, 1961]

\(^{31}\) The cultural dimension ‘Fear of Uncertainty’ is based on [Hofstede, 1980].
Process Management in Argentina and New Zealand

However, when the Sweden based practice of process management was diffused to New Zealand and Argentina, there were different reactions to the new practice. Considering the national values of Human Nature and Fear of Uncertainty, the Swedish and New Zealand employees were similar - like their Swedish counterparts, the New Zealand employees believed that humans were good by nature, and they did not fear uncertainty. These two values, together, form a good starting point for trust and delegation, which are cornerstones in the Ericsson process management approach. Interviews with local managers also showed that the implementation of process management was very successful in New Zealand. For Argentina, on the other hand, our analysis of Human Nature and Fear of Uncertainty, showed that the Argentinean employees considered humans to be naturally evil and that they tried to avoid uncertainty. In line with this analysis, it was found that the practical introduction of process management encountered problems in Argentina. For example, a Swedish Manager working in Argentina reported that Argentinean employees did not want to take on responsibilities and to self-organise: Argentinean employees instead demanded more straightforward and detailed guidance from managers, which to them seemed to be a natural way of working.

Conclusions of the Case at Ericsson

Two conclusions can be drawn from this case: first, the Ericsson ‘way of working’ (company culture) is not the same worldwide. While Ericsson’s employees may have the same artifacts (e.g. company’s chart, work tools and templates), they differ in their values, which mainly depend on their national culture. Second, process management in the Swedish way is built upon a certain value set. It was easily adopted in New Zealand, an Ericsson unit with national values similar to Ericsson Sweden, while problematic in Argentina, where employees hold considerably different national values. In order to successfully introduce process management in Argentina (or countries with similar values) two ‘contrary’ scenarios can be proposed. The first would be to consider modifying the Swedish approach to process management into something that is more consistent with Argentinean values. The second would be to change the culture of the Argentinean unit so as to be more consistent with the Swedish way of managing by processes. However, research tends to show that the change of deep national values can be difficult to achieve. The next section further elaborates on this issue.

Culture: What is Possible to Change?

Popular management literature often considers culture as something that can be managed or changed for higher performance. Often, it is assumed that a firm can change the values and behaviours of its employees, and managers usually tend to implicitly assume that a strong corporate culture overcomes the effects of national cultures. Using the model ‘The Layers of Culture’, this would mean that the artifacts, behaviours, values and basic assumptions of individuals and groups could be subordinated by the company culture. The possibility to change values is however only true in a more limited sense. As research has shown, it can be extremely hard to change deep held cultural values and harder still to alter basic underlying assumptions. What a company culture mainly affects are the outer cultural layers (artifacts and behaviours) – acquired in the later stages of one's life – not the deeper layers (values and underlying basic assumptions) – acquired in the family and in early stage of socialisation (e.g. in school).

32 It is of course also possible to think about combinations, which can be found somewhere in between these two extremes. In addition, the way an innovation is being introduced can also affect its possible use, i.e. the behavior of employees. By this, we do not know, for sure, if we only affected the behavior layer in our culture model, or if we also to some extent influenced the values, which in turn, had an impact on the behavior.
33 See e.g. [Deal and Kennedy, 1982]
34 [Schein, 1992]
35 As expressed in the section ‘Problem Area’, basic assumptions refer to what is considered e.g. rational or irrational, logical or paradoxical or the conception of time and reality.
36 [Hofstede, 1994]
Still, research and practical experience have shown that change can occur. A body of research emanating from Kurt Lewin's pioneering research in the 1930's and the 1940's point at the possibility of at least changing peoples' behaviour through discussion processes and social interaction and pressure. In addition, it has been shown that through deep reflection processes, e.g. double loop learning, it is possible to create change by lifting up implicit assumptions, i.e. there are techniques, which make it possible to reach and change deeper layers of culture. However, these techniques and methods are not widely applied when management practices are being transferred, and furthermore, the demand on the skill level of the facilitator/leader is so considerable, that very few company leaders and facilitators are capable to use them to their full potential.

Management literature also points out how different methods can be used to trigger and sustain change in an organisational context, such as role modelling, participation methods, expectancy, promotion rewards systems, structural rearrangement, or the use of coercive forces. However, how these methods really work and in which phase of the change process they may be appropriate to use, remains unclear and needs further research.

Hence, there is a certain understanding that it is possible to affect deeper layers, primarily through processes which include deep reflection and/or which correspond to the early socialisation, which lay the ground for our basic underlying assumptions and deeply held values. Nevertheless, there is a need of developing a deeper understanding of the extent to which, and under what circumstances, it is possible in an organisational setting to influence deeper layers of culture, and change values and basic assumptions.

**On the Research Agenda**

Current management trends show that corporate culture and values continue to be promoted by many scholars and consultants as key success factors for a company. In addition, several recent management innovations are based on values and culture concepts; and in Business Excellence Models, the importance of core values and their deployment is underlined. However, the Ericsson study and other research show that corporate culture mostly affects the outer layers of culture, while management practices are based on deeper national cultural layers. This discrepancy has not been fully understood yet. In this context, reinforced by conceptual ambiguity, there is a need to clarify what is meant by values and, to investigate how corporate culture and values interact with national culture and values.

Further, there is a need to understand what impact a corporate vs. local subsidiary cultures may have on the implementation of management practices. Other essential questions concern whether it is suitable to modify the management practice and/or its implementation process, or whether it is possible to change values and behaviours of employees (e.g. making them see the value of a new innovation and use it)? Finally, the learning from new cultures contributing to continued innovation is less understood. These questions remain mostly unaddressed and they represent most interesting future areas for research.

37 [Lewin, 1948]. In this research he described the stages of the change process as: unfreezing, change and refreezing.
38 [Argyris and Schön, 1996]
39 However, these "implicit assumptions" are not what we call "basic underlying assumptions" in our model of culture, see Figure 1.
40 E.g. the intervention technique suggested by Argyris and Schön (1996, chapter 6-7) puts very high demands on the facilitator. Similarly, the skill demand on a facilitator working according to a Gestalt Psychology approach puts very high requirement on personal development and training, and still, to be able to work "here and now" is also partly dependent on the individual talent (panel discussion with [Petruska Clarkson, Sari Scheinberg and Michael Tophoff, The 6th European Conference of Gestalt Therapy, Palermo, Sicily, Oct.1-4,1998].
41 See [Nevis et al., 1999]
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