

German Hidden Champions in Brazil: institutional & cultural challenges

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Guest lecture



Madeleine Bausch

- research associate at the Chair for Intercultural Communication, University of Passau, since 2016
- PhD thesis: Cross-cultural transfer of quality management practices: three cases of German Hidden Champions in Brazil
- Master thesis: The influence of multicultural teams on creativity and innovation processes
- Master's degree: International Cultural and Business Studies, University of Passau, Germany and Universidade Federal de Juiz de Fora, Brazil
- Research topics:
 - International practice transfer and quality management in cross-cultural settings,
 - language in international business, intercultural communication,
 - creativity and innovation in organizations and cities

Agenda

1. Introduction

- What are ‘Hidden Champions’?
- German Hidden Champions in Brazil
- Cross-cultural practice transfer

2. Institutional & cultural challenges

3. A case: Yellow is not yellow

4. Conclusion

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What are 'Hidden Champions'?

- Mittelstand and/or family business companies
 - operate in the business-to-business-sector (B2B)
 - no. 1, 2 or 3 in the world market
 - operate in a niche
 - export market leaders
 - mostly unknown to the end customer
- (cf. Simon 2009)

Examples?

What are 'Hidden Champions'?



6 characteristics of ‘Hidden Champions‘

1. represent high quality and expertise globally
2. high priority given to training / expert knowledge & specialization; investment in advanced training & employee development
3. Innovation is daily business (HC hold 5 times as many patents as large corporations)
4. often family business, mostly full self-financing by the family (no shareholder companies)
5. long-term employment, high employee retention and motivation
6. corporate culture is based on founders & family, values prevail globally

(Bausch 2019, own research; GTAI 2018)

German companies in Brazil

- 1970s and 1980s: many German companies open production sites in Brazil due to the import substitution law after 1964
- Nowadays: aprox. 1.600 German companies in Brazil
- German immigration to Brazil since 1824
- Brazil as one of the most important business partners for Germany in Latin America
- Germany as the most important business partner in Europe

(AHK Brazil; GTAI 2018; FGV)

Free trade agreement EU - Mercosur

Press release

MERCOSUR | Brussels, 28 June 2019

EU and Mercosur reach agreement on trade

The European Union and Mercosur reached today a political agreement for an ambitious, balanced and comprehensive trade agreement. The new trade framework - part of a wider Association Agreement between the two regions – will consolidate a strategic political and economic partnership and create significant opportunities for sustainable growth on both sides, while respecting the environment and preserving interests of EU consumers and sensitive economic sectors.

[Other language versions](#) 

The EU is the first major partner to strike a trade pact with Mercosur, a bloc comprising Argentina, Brazil, Paraguay and Uruguay. The agreement concluded today will cover a population of 780 million and cement the close political and economic relations between the EU and Mercosur countries. It represents a clear commitment from both regions to rules based international trade and will give European companies an important head start into a market with an enormous economic potential. It will anchor important economic reforms and modernisation undergoing in Mercosur countries. The agreement upholds the highest standards of food safety and consumer protection, as well as the precautionary principle for food safety and environmental rules and contains specific commitments on labour rights and environmental protection, including the implementation of the Paris climate agreement and related enforcement rules.

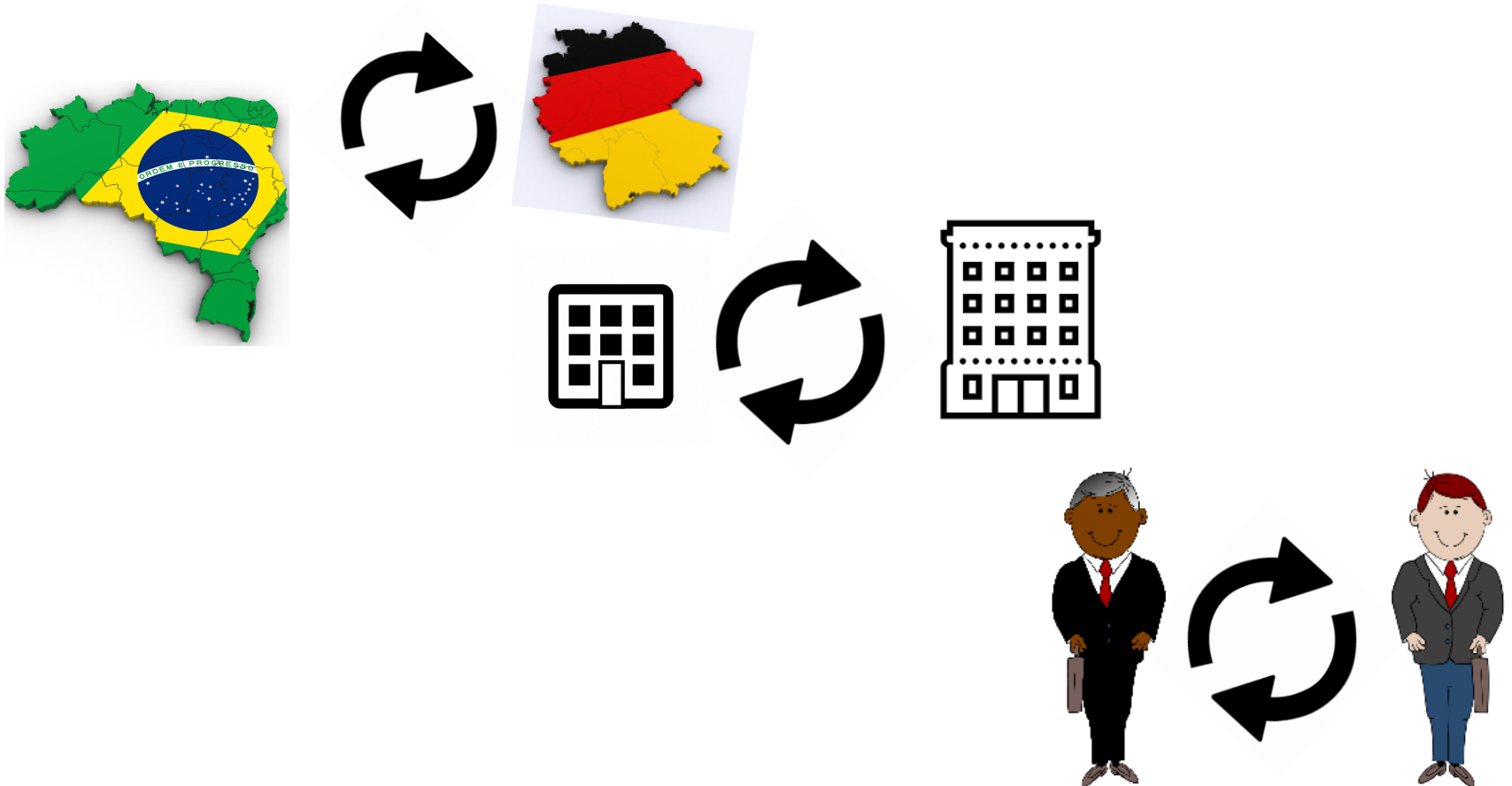
(source: <https://trade.ec.europa.eu/doclib/press/index.cfm?id=2039>)

Cross-cultural transfer

- German Mittelstand *Hidden Champions* grow considerably over the last years due to internationalization, M&A and joint-ventures
 - growth of the firm leads to increasing standardization of corporate processes and practices
 - global value chains need standards for import & export
- MNC transfer organizational practices and knowledge between company sites globally
- Management thinking: “What works here also works there”
 - ‘Ethnocentrism’

Cross-cultural transfer

- Transfer takes place between



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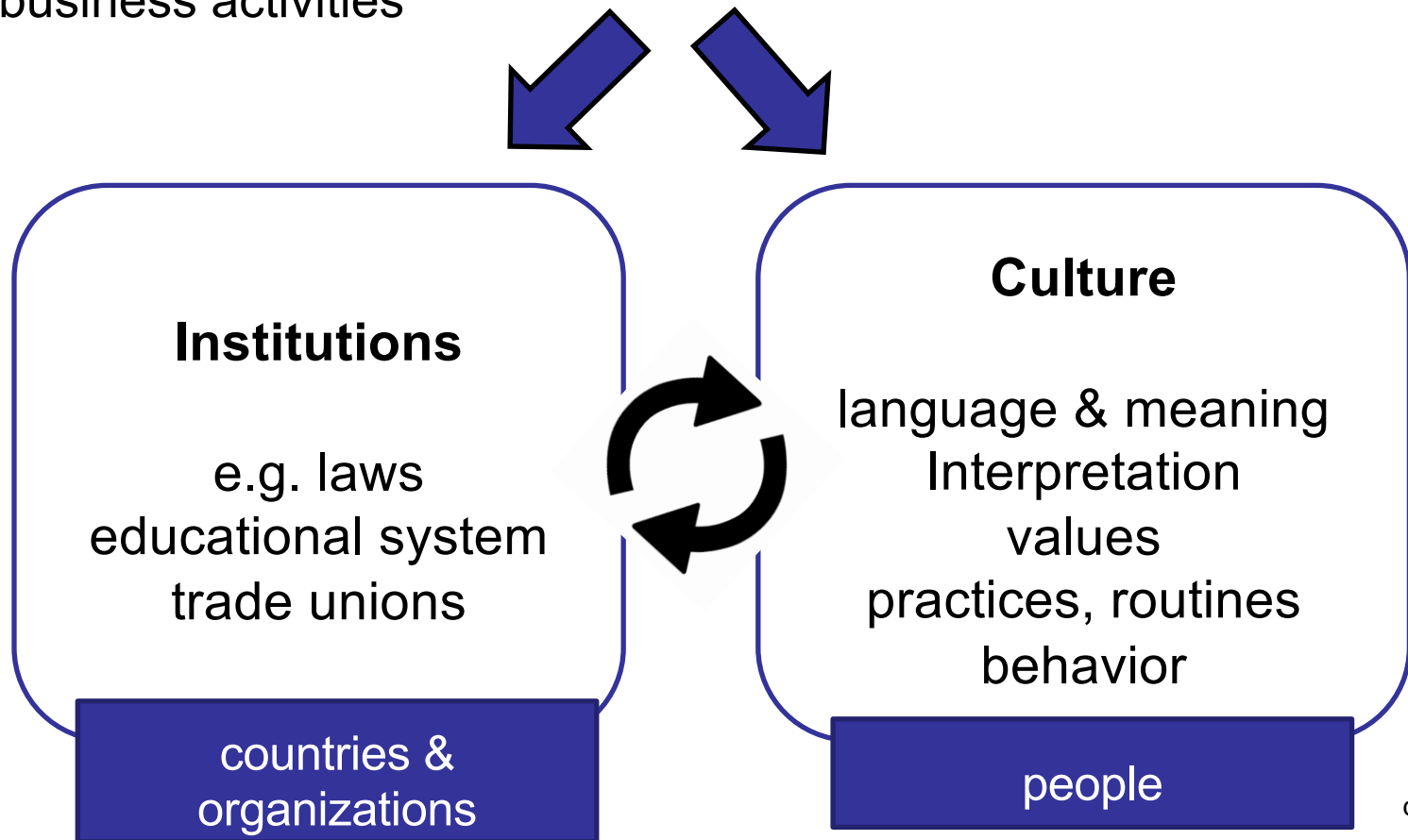
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Institutions & Culture

- Organizations & people face challenges when internationalizing business activities



cf. Whitley 1992

Institutions

‘Institutions are the humanly devised constraints that structure political, economic and social interaction. They consist of both informal constraints (sanctions, taboos, traditions, and codes of conduct), and formal rules (constitutions, laws, property rights). Throughout history, institutions have been devised by human beings to create order and reduce uncertainty in exchange.’ (North 1991, 97)

Institutions

	Germany	Brazil
Laws & legal system	<ul style="list-style-type: none"> • many laws • strict sanctions if breaking the law 	<ul style="list-style-type: none"> • many laws • corruption & ways to bypass the law <i>‘jeitinho brasileiro’</i>
– rule of law	rank 6 (126)	rank 58 (126)
– corruption perceptions index	11 (180)	105 (180)
– import & export		<ul style="list-style-type: none"> • local content regulation (65% has to be sourced in Brazil when exporting) • trade taxes as well between federal states
– relation of org. & employee	<ul style="list-style-type: none"> • strong employee protection • goal: life-long employment • ca. 50% stay >10 years 	<ul style="list-style-type: none"> • strong employee protection • shorter employment (economically driven): aprox. 3 years on average

Institutions

Germany

Brazil

Organizational & societal norms

- Great importance of quality certifications for legitimacy (ISO9001 /14001, TÜV, VDA)

- belief in German brand *estrangerismo*

educational system

- Long history (craft guilds)
- vocational training
- dual system
- specialization & focus on expert knowledge; „love for detail“

- rather university
- vocational training
- More generalist education & focus on general skills

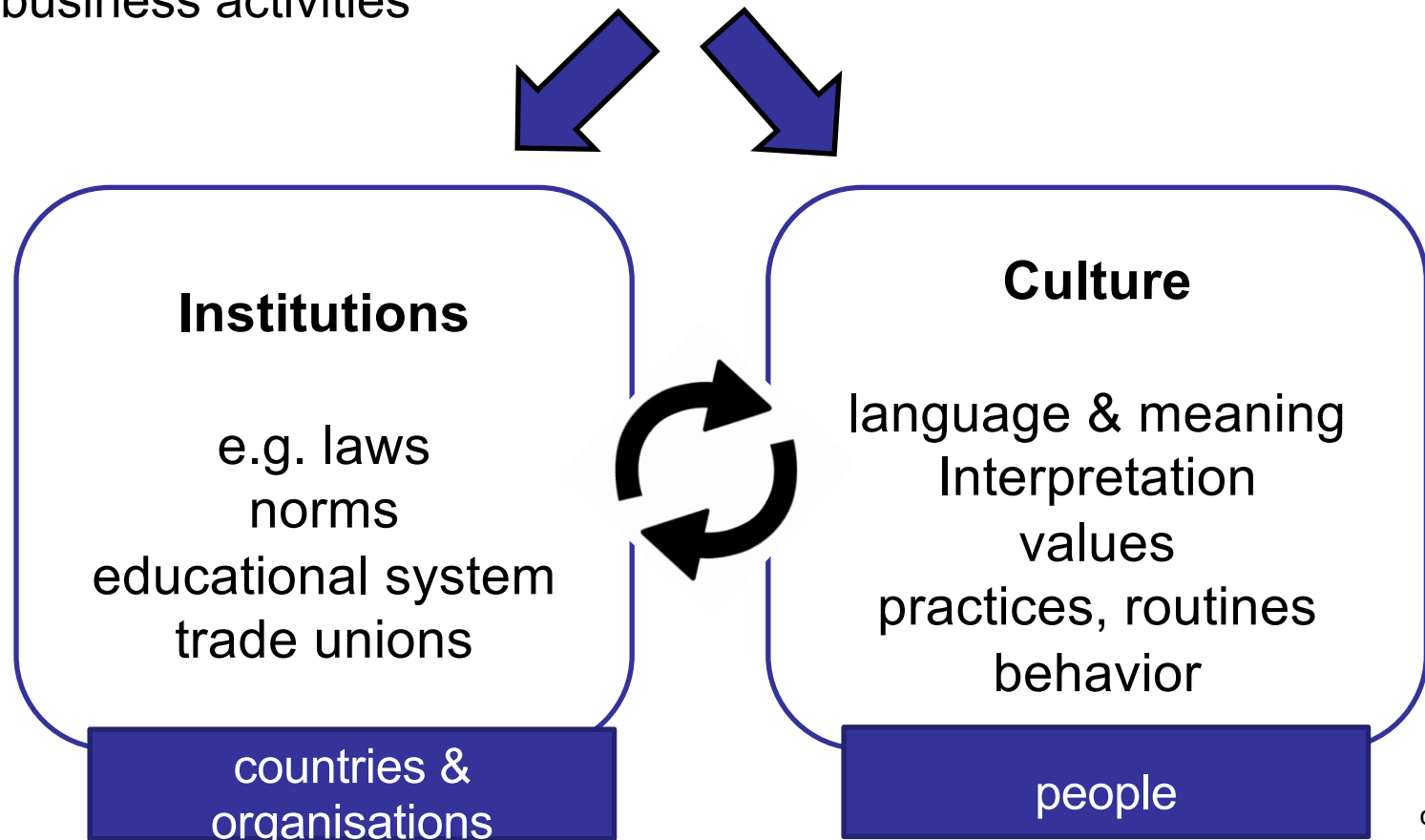
– significance of certified skills

- Titles and degrees very important (Dipl. Ing., Dr., Prof.)

- Titles and degrees less important

Institutions & Culture

- Organizations & people face challenges when internationalizing business activities



cf. Whitley 1992

Culture

“An orientation and reference system of values, practices and artifacts learned by individuals, that is lived and handed down collectively by members of a particular group or society and distinguishes them from members of other groups and societies.” (Barmeyer 2012, 95)

Cultural values

Categories	Germany	Brazil
Human relations	Task orientation Separation of work & life	Personal orientation Mixing of work & life
Task accomplishment	Planning & scheduling monochronic	Flexibility, improvisation polychronic
Authority relations	Low power distance Participative leadership	High power distance Directive / paternalist leadership
Communication + Feedback	Low context Direct communication	High context Indirect communication
Dealing with conflicts	Open handling of conflicts (error culture)	Conflict resolution in private ("loss of face")

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Human relations

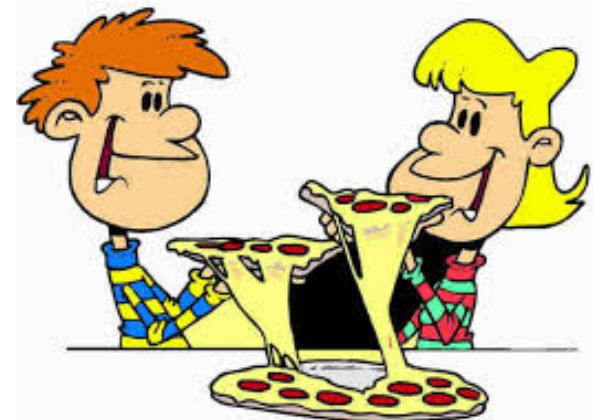


How to eat Pizza?



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Relationship with time

Monochronic people - Polychronic people

do one thing at time	do many things at once
concentrate on the job	are highly distractible and subject to interruptions
take time commitments (deadlines, schedules) seriously	consider time commitments an objective to be achieved, if possible
are committed on the job	are committed to people and human relationships
adhere religiously to plans	change plans often and easily
are concerned about not disturbing others; follow rules of privacy and consideration	are more concerned with those who are closely related (family, friends, close business associates) than with privacy

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Leadership



Cultural values

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Method

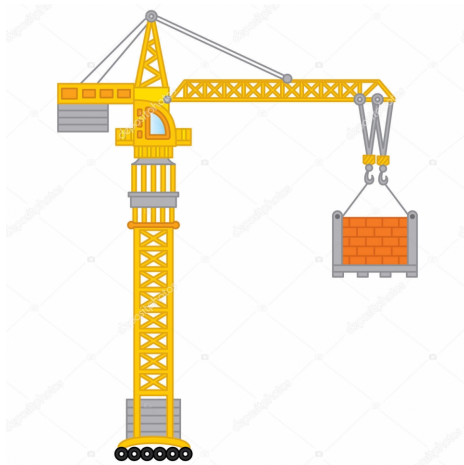
- three qualitative case studies of German Hidden Champions in Brazil (Piekkari and Welch, 2011; Taylor and Søndergaard, 2017)

Data:

- 62 individual/expert interviews with specialists and executives from quality management & production
- 7 focus groups
- Observation at the plants; research stay in Brazil in 2018
- Documents (e.g. quality guidelines, specified quality processes, company values)
- Ethnographic field research

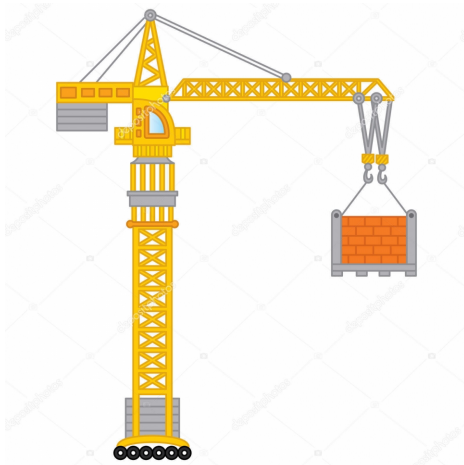
The case: Yellow is not Yellow

- German Hidden Champion for construction machines and cranes
- Part of the machine is produced in Germany, part in Brazil
- Germany exports gripper arms to Brazil, which are painted in the exactly defined colour of the company: the company's yellow no 101



The case: Yellow is not Yellow

- Brazil, however, paints the machines in an own type of color (yellow no CR2004) delivered by another, Brazilian supplier
- Parts are assembled in Brazil and were already sold to customers
→ the machines built and sold in Brazil had two types of yellow (only a slight difference)



How could we explain the case?

Germany

- Quality = appearance
- educational system: specialization & „love for detail“
- Norms: standards & surveillance of quality
- Culture:
 - Rule orientation
 - Task orientation
 - Strict respect of specifications
 - Quality is responsibility of each employee

Brazil

- Focus on functionality, not on appearance
- educational system: rather general than specific
- Culture:
 - Flexibility
 - personal orientation: ‚if customer does not complain, it’s ok‘
 - Specifications must not be 100% met
 - Quality is responsibility of management

Analysis

- Case might be explained by institutional factors
- However, it's not just institutions, but as well culture (background social institutions) that guides behavior
- They are most overseen, because they are mostly invisible

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Conclusion

- Hidden Champions face institutional & cultural challenges when transferring practices
 - Companies mostly focus on institutional (legal & normative) factors when transferring practices (availability of resources)
 - Cultural (social) factors are often undermined
 - However: transfer takes place between *people/humans* who are raised and embedded in different institutional & cultural contexts
- consideration of institutional differences **AND** cultural values when transferring practices and communicating with people from different cultural backgrounds
- incentivizing **intercultural learning** in Mittelstand companies helps to overcome these barriers

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