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
Agenda

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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: approx. 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.

(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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   – 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
Institutions & Culture

- Organizations & people face challenges when internationalizing business activities

**Institutions**
- e.g. laws
- educational system
- trade unions
- countries & organizations

**Culture**
- language & meaning
- Interpretation
- values
- practices, routines
- behavior
- people

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

<table>
<thead>
<tr>
<th>Laws &amp; legal system</th>
<th>Germany</th>
<th>Brazil</th>
</tr>
</thead>
<tbody>
<tr>
<td>• many laws</td>
<td>• many laws</td>
<td>• many laws</td>
</tr>
<tr>
<td>• strict sanctions if breaking the law</td>
<td>• corruption &amp; ways to bypass the law <em>jeitinho brasileiro</em></td>
<td></td>
</tr>
<tr>
<td>– rule of law</td>
<td>rank 6 (126)</td>
<td>rank 58 (126)</td>
</tr>
<tr>
<td>– corruption perceptions index</td>
<td>11 (180)</td>
<td>105 (180)</td>
</tr>
<tr>
<td>– import &amp; export</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• local content regulation (65% has to be sourced in Brazil when exporting)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• trade taxes as well between federal states</td>
<td></td>
<td></td>
</tr>
<tr>
<td>– relation of org. &amp; employee</td>
<td>• strong employee protection</td>
<td>• strong employee protection</td>
</tr>
<tr>
<td>• goal: life-long employment</td>
<td>• shorter employment (economically driven): aprox. 3 years on average</td>
<td></td>
</tr>
<tr>
<td>• ca. 50% stay &gt;10 years</td>
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</tbody>
</table>
## Institutions

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<th>Organizational &amp; societal norms</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Great importance of quality certifications for legitimacy (ISO9001 /14001, TÜV, VDA)</td>
<td>belief in German brand <em>estrangerismo</em></td>
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<table>
<thead>
<tr>
<th>educational system</th>
<th>Germany</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Long history (craft guilds)</td>
<td>rather university</td>
</tr>
<tr>
<td></td>
<td>vocational training</td>
<td>vocational training</td>
</tr>
<tr>
<td></td>
<td>dual system</td>
<td>More generalist education &amp; focus on general skills</td>
</tr>
<tr>
<td></td>
<td>specialization &amp; focus on expert knowledge; „love for detail“</td>
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</table>

- significance of certified skills

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<tr>
<th>Germany</th>
<th>Brazil</th>
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<tbody>
<tr>
<td>Titles and degrees very important (Dipl. Ing., Dr., Prof.)</td>
<td>Titles and degrees less important</td>
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Institutions & Culture

• Organizations & people face challenges when internationalizing business activities

Institutions
- e.g. laws
- norms
- educational system
- trade unions

countries & organisations

Culture
- language & meaning
- interpretation
- values
- practices, routines
- behavior

people

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

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<tr>
<th>Categories</th>
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<td>Personal orientation</td>
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<td>Planning &amp; scheduling</td>
<td>Flexibility, improvisation</td>
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<td>Conflict resolution in private (&quot;loss of face&quot;)</td>
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Human relations

How to eat Pizza?
# Cultural values

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- **Task accomplishment**:
  - **Germany**: Planning & scheduling, monochronic
  - **Brazil**: Flexibility, improvisation, polychronic

- **Authority relations**:
  - **Germany**: Low power distance, Participative leadership
  - **Brazil**: High power distance, Directive / paternalist leadership

- **Communication + Feedback**:
  - **Germany**: Low context, Direct communication
  - **Brazil**: High context, Indirect communication

- **Dealing with conflicts**:
  - **Germany**: Open handling of conflicts (error culture)
  - **Brazil**: Conflict resolution in private ("loss of face")
## Relationship with time

### Monochronic people - Polychronic people

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


