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**MANAGEMENT WITH DIFFERENT CULTURES
IN DIVERSIFIED BUSINESS ENTERPRISES**

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Universidad de Alcalá

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DIVERSIFIED BUSINESS ENTERPRISES**

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I. INTRODUCTION¹

The current extensive debate about business conglomerates is not, as it traditionally was, a juridical-fiscal debate - or even a political-social one. It has rather been transformed into a wide-ranging discussion of the management capability within these widely diversified enterprises and of their management cost. The debate is about the economic efficiency of the organisation in these types of diversified conglomerates.

The organisational exhaustion of the matrix models for these kinds of complex conglomerates, with their differentiation between divisions and functions, is due to the high degree of rigidity in their structures - a rigidity which affects both the configuration of decision-making processes and also leads to resistance, insuperable in many cases, to the processes of change. Slowness in adapting to change is the great barrier to change. It is for this reason that these models are not

¹. Contribution entitled 'Der Umgang mit unterschiedlichen Unternehmenskulturen beim diversifizierten Unternehmen' manuscript, January 2000, to the collection edited by Prof. Dr. H. H. Hinterhuber, Friedrich St., Matzler, K., Pechlaner: *"Die Zukunft der diversifizierten Unternehmen"*

sufficiently effective in co-ordinating the factors affecting both cultural and product diversification in a modern conglomerate.

The search for new ways of decentralising activities, both in the area of management and in the business structure, in order to allow for greater flexibility and capacity to adapt to the changing situations of the new divisions of labour resulting from globalisation is focused on business units integrated much more in the form of holding companies, open and able to adapt themselves².

As the different areas of activity within a conglomerate become increasingly heterogeneous, there is without doubt growing difficulty in configuring the business management - as has been shown in many of the complex matrix models. This paper will concentrate on the role played by cultural diversity in a diversified enterprise as a constituent element in the design of the management and organisational structure of the business. This, therefore, raises a question: Is the fundamental key to the future management of holding companies to be found in cultural management, in the way in which such different cultures - a consequence of diversification - are managed?

². Bernhardt, W., Witt, P., "Modelos y modos de estructuras de Holding" in *RIDE*, N. 2, June 1998, pp. 137-163.

II. THE DEVELOPMENT OF DIVERSIFIED ENTERPRISES

It is worth briefly recalling how, during the sixties, diversification in many business environments was directed by a business vision, which was specifically that of business risk. Such a vision was fundamentally directed towards compensating for the impact on a company of the situational evolution of each one the economic sectors. From the business point of view, what was sought after was diversification, within a business portfolio, which permitted the achievement of a situation of balance in the company in terms of the balance sheet and risks - that is, risk compensation in relation to the expectations of results.

This business diversification during the sixties, widely and questionably heterogeneous, led to the formation of conglomerates with areas of activity so disparate that they introduced basic errors into the business policy. The aim pursued through diversification in areas of business was nothing less than the already mentioned business compensation of the asymmetries in the situational evolution of the different economic sectors. A company, therefore, planned its diversification with primary orientation towards achieving equilibrium in its balance sheet in order to offset inequalities in the dynamic of the different production and service sectors.

As a consequence, such portfolios of diversification led less to the taking advantage of business synergy within an enterprise and rather more to the search for portfolios which balanced the risks of the results. Core competences were not taken as a point of reference by management.

An overall evaluation of this type of business diversification will conclude that it led, not to a balance between risks and results, but rather to many companies encountering great difficulties, both in relation to their economic-financial situations and to problems of management.

A further later motive for such business diversification was frequently the vertical integration of the phases previous to and posterior to the basic activity of the company. The aim of this was to utilise what was considered to be the own internal demand potential of the business activity.

This idea of controlling the whole vertical process of a business activity has also been the root cause of great failures in diversification, failures which became evident at the very moment when economies opened up to competition. Such an interpretation of vertical diversification, a consequence of a closed conception of divisions of labour, developed because of the lack of competitive markets and

through a vision of utilising own internal demand in order to guarantee the full use of plant and capital.

The creation and opening up of markets, and the consequent intensification of competition, caused a systematic reduction in many of the activities of these conglomerates; this was precisely due to their inefficiency when faced with competitor enterprises. In addition, heavy investment in plant and capital made by these vertical conglomerates resulted in a permanent splitting up of many of these activities, so making them independent of each other with the aim of competing on the open market and being capable of using their own potential.

The eighties produced a gradual splitting up of activities in conglomerates as they adopted the structures of business holdings, so evident in many organisational and management designs of the nineties³.

In recent years many large business concerns have created organisational units based on the separation of their internal activities. In this the assets-centred idea plays a key role. Deregulation of the economy is causing the splitting up of production phases, and also those of particular services, with the aim of achieving greater efficiency in the utilisation of both material and the intangible potential of these large conglomerates. And so, companies of a monopolistic

³. Op. Cit.

nature which were integrating the multiple activities of the vertical section have now, in the nineties, rapidly restructured themselves as holdings - large highly decentralised conglomerates.

From the point of view of management in a diversified company, the criteria of internal competitiveness within the conglomerate can only be fulfilled by separating activities which must then perform in markets external to the conglomerate. This has been the precise motive for the splitting up of many of those activities not forming part of the core competences of these enterprises. It has therefore been service activities and others secondary in character to the principal business - for example, property and information technology services - which are generating a new dynamic in the structuring of a diversified conglomerate. It is this route which leads to the ordering of an enterprise in the form of a holding.

Such an evolution towards decentralisation in conglomerates is also driven forward in an open and competitive economy by the need for companies to cooperate with each other. The demands of economies of scale, and therefore the requirement for a permanent reduction in unit costs, obliges the use of all available technologies. The consequent increase in capital needs and the rigidity of fixed costs encourage growing diversification in business areas within holding-type conglomerates. This trend towards diversification in the form of a holding is an unstoppable process, given that:

- ξ It facilitates the processes of co-operation with other enterprises, so allowing for rapid and flexible adaptation, with little resistance, to new divisions of labour in specific areas of business.
- ξ It makes rapid transformation of the company and adaptation to change feasible at the lowest possible cost.
- ξ It creates units much more responsive to change, simplifies this process and identifies very rapidly the real nature of the economic activity and its results:

This external impulse, a consequence of globalisation of the economy, encourages the trend towards the diversification of companies in the form of conglomerates structured in the legal-fiscal form of holdings. Through its increasing complexity, current economic development and its organisation affects both the organisational reality of businesses and the demand for a rapid response to growing competitiveness. The identification of opportunities and risks in each business area leads to the definition and highlighting of responsibilities and, in particular, encourages the motivation and involvement of top management staff in such activity.

III. NEW CULTURAL REQUIREMENTS IN DIVERSIFIED ENTERPRISES

In tandem with this growing trend towards decentralisation in conglomerates, seen from the management point of view, there also exist at the present time the outlines of a growing decentralisation resulting from the demands of the economic and social order. The large business concerns now moving forward through mergers awaken concern because of their impact on a possible demarcation of the dynamic of the markets and their competitiveness. Against the advantages of these large conglomerates is placed their influence in the different markets. The requirement to open up, and keep open, the markets to competition is a process of the future; it requires that a company diversifies with new forms of management more neutral towards the operation of the markets.

There exists, however, a certain debate about conglomerates in relation to the demands of the capital markets.

Conglomerates which have developed over time in the manner referred to and which are structured around a single corporate unit with a unitary management are now faced with the challenge posed by the

economic requirements of the capital markets⁴. The intense globalising dynamic of these capital markets presents the management of such conglomerates, under their unified management, with a dilemma: the splitting up of activities which can then be floated on the stock market, so valuing expectations and risks and in this way evaluating each area of the business activities. This dilemma poses a question: who can most effectively deal with processes of coordination in diversified enterprises?

ξ The capital market - that is, the investors. In the current market globalisation, it is the investors who wish to assume as fully as possible the functions of coordination between the different business areas in a diversified enterprise. They consider this can best be done through the capital markets by making an overall evaluation as follows:

- Expected risk for investors in each business in which they participate.
- They, as owners, wish to define the composition of the portfolio as shareholders and the risk they are prepared to assume.

⁴ . Paul, W. Y., Zieschang, M.: "La dirección de una empresa industrial mediante un sistema integrado de objetivos de rentabilidad", in *RIDE*, N. 2, June 1998, pp. 163-196.

- In this way they control which type of business can be valued in the most relevant way and what the requirements are.

Through this it is the capital markets which are forcing the hand of management in highly diversified conglomerates into splitting up activities; for it is the capital markets which evaluate risks and expectations. This primarily affects high-risk businesses, in the same way as the capital markets themselves are dividing into different portfolio types with their own corresponding stock market indices.

ξ The management of a diversified conglomerate argues that it is they who can much more efficiently co-ordinate activities rather than the capital markets, independent of the size of the conglomerate and of how heterogeneous it may be. They can compensate risks and have at their disposal a greater value creation within the potential of the conglomerate.

What is certain is that the dilemma exists between, on the one hand, the demands of the capital markets, their investors and their valuations and, on the other, the capacity of management within a conglomerate to demonstrate that it is they who can more efficiently manage diversification.

This is gradually resulting in certain companies splitting off their high-risk activities and floating them on the capital markets for valuation. It is producing a new type of shared diversification - shared between the capital markets with their different evaluations of high risks and traditional risks and the demands made upon the management of a diversified conglomerate to continually demonstrate innovative capability in the realm of business organisation and its contribution to value creation.

In consequence, the reality faced by diversified conglomerates is defined by two positions: on the one hand, requirements by capital markets for intervention in enterprises through valuation on these markets in terms of risks and expectations and, on the other, requirements resulting from the dynamic of business change in search of new divisions of labour, the abandoning of existing businesses and the acquisition of new ones - that is, the adaptation of the company to technological, economic and financial change; a move, in effect, to the changing of portfolios.

From the capital markets viewpoint, the trend is towards a decentralisation of conglomerates by restructuring them as holdings, so allowing for direct participation by investors in areas of high-risk business. From the other point of view, that of the business activity itself, the requirement is for significant decentralisation permitting



rapid adaptation of companies , particularly when in merger, OPAS, etc. situations.

In terms of the current economic reality, decentralisation of some of these diversified activities involves relatively easy adaptation, given that it is a segregation from the management point of view. In contrast, when the different business activities of a conglomerate are closely interdependent, then it will prove either difficult, very slow or costly to split off less profitable activities and, at the same time, may well endanger the total value of the company; the possibilities for a change in portfolios is much reduced.

That a change in portfolio be heterogeneous is a requirement seen from the viewpoint of own business growth. This involves radical decentralisation of the organisational structures of management with the aim of ensuring that there may be separation of the processes for adaptation to change with the greatest possible efficiency. The competitiveness of a company and its processes for adapting to change are a *sine qua non* for survival of that company and for its business growth.

Such a new economic and organisational dynamic generates a clear requirement for the decentralisation of diversified activities, and it is this which represents the key to the strategic development of enterprises. There are two ways in which to approach this process:

1. An organisation in the form of a legally constituted conglomerate of independent companies, already separated but with the single corporate management of the conglomerate.
2. Internal decentralisation by business area and, consequently, under a single integrated management within the management process.

The key to the overall internal management of a highly diversified conglomerate lies in how to coordinate the business areas of the conglomerate most effectively, not just in terms of results but also in relation to the ability to adapt portfolios to changing situations:

- ξ It may be the management of the conglomerate which does this directly by means of a highly decentralised organisational scheme; that is, it introduces innovations into the organisation by all possible means, so orientating it towards value creation, using capital cost as its reference point.
- ξ Or it may be the capital markets acting in an indirect way through stock market capitalisation which coordinate the areas of business with reference to their own external estimation of risks and expectations.

The perception that the second option above brings with it a loss of synergies, while the first option involves a resistance to change, represents the cultural impact of capital markets on conglomerates and on their management.

IV. GENERATORS OF THE CHANGE TOWARDS DECENTRALISED CONGLOMERATES

The new organisational designs of conglomerates in a highly globalised economy must fulfil the following criteria:

- ξ They must be capable of rapid adaptation to technological and economic changes, and to changes in their own value systems.

- ξ Harmonisation between organisational units, each of which should have its own maximum competence, be autonomous and have the capability to develop as a global unit, permits adaptation to change. It represents, therefore, another way of dividing the work within a conglomerate, giving operational life to each one of the organisational units and so preparing a springboard for their possible separation, should the situation arise.

ξ Within the context of a globalised economy, the organisation must consider itself to be a network of organisational units, each with its own life within a process of cooperation, both internal and external, and in such a way seeking economies of scale in its own differentiated economy. In this way it is possible to determine which organisational units are sound, both in terms of their identification as business units and also in terms of their clear orientation towards demand. A network only offers vitality and consistency when the units of which it is composed are individually sound, have their own life and, therefore, are directed towards a demand which can be met better through the network than through any other kind of division of labour.

ξ The synergies of a conglomerate, within a network structure of its business and organisational units, have also to be structured as internally segregated units, each with its own identity, in such a way that they can operate with internal markets but are at the same time prepared to adapt themselves to situations of external change.

In this way each organisational unit in the network must, therefore, have an operational identity together with its own cultural identity and, in addition, must offer the flexibility necessary to respond to processes of adaptation.

However, when a conglomerate is structured as a holding, each of its individual units having its own identification and its own life, then such an organisation presents greater complexity in terms of its vulnerability to acquisition and therefore makes it more difficult for an OPA to take place. The problem to be addressed is how to resolve co-ordination processes through cultural elements.

V. ORGANISATIONAL FORMS FOR THE MANAGEMENT OF CONGLOMERATES THROUGH THE BUSINESS CULTURE

Business decentralisation is, without doubt, one of the basic requirements for business growth. Such decentralisation is orientated towards efficient adaptation to changing divisions of labour, and these processes of adaptation in a decentralised enterprise within a globalised economy take on a dynamic of adaptation facilitated by this cultural heterogeneity.

The organisational designs and the management within a conglomerate with decentralised activities must of necessity harmonise two aspects:

ξ On the one hand, the potential affecting the whole of the conglomerate with a differentiation according to whether its is a single economic-managerial unit or a holding.

ξ The potential of each one of the business areas, of each one of the decentralised units.

From the viewpoint of the business culture this has an effect at two levels:

ξ The existence of, and the need to develop, as a high priority a basic culture within the conglomerate, whatever may be its organisational form, in such a way that the systems of values, norms and basic behaviour⁵ affecting the life of the business transactions and the managerial behaviour and that of the personnel are established as a universal basis with which all the conglomerate is identified and which allow for its effective co-ordination.

ξ Each of the business areas, including in particular each of the spatial (i.e. geographically-distanced) cultural areas, must construct subcultures corresponding specifically to the value systems and instrumental requirements in each of these business areas, or in every organisational unit within the enterprise.

⁵. Púmpin, C.; García Echevarría, S., "Cultura Empresarial", Madrid 1988

The function of co-ordination in a diversified enterprise rests upon the design and development of these two cultural levels:

ξ Firstly, co-ordination through the basic culture in such a way that the global dimension of the conglomerate seeks synergies through management by values and behavioural norms, so giving corporate doctrinal unity to all behaviour, both in business dealings and by people.

ξ Secondly, co-ordination between this basic culture and the subcultures of the business areas, organisational units and spatial cultures, so producing a function of adaptation and dialogue between the global dimension of the business activity and the specific and particular actions in each one of these areas of activity.

All of this is reflected in new organisational forms, which represent the current cultural bidimensionality forming the basis of the new organisational schemes.

Management through the basic culture is based on the corporate sphere of the conglomerate. Such a corporate sphere embraces, therefore, those non-decentralised areas which provide overall co-ordination to the enterprise, and it is these which create the foundations

for the establishment of a basic culture within the cooperation. The diversification of activities and their organisational requirements, whether in the form of a single management unit within the conglomerate or as a reflection of the conglomerate as a holding structure, must of necessity be managed from the viewpoint of this basic culture and must embrace the following corporate areas:

ξ *The corporate sphere of finances.* This involves the generation of a doctrinal unity in everything within the area covering the disposition of financial resources and in everything affecting the valuation of the business, its creation of value and the contribution of each of its activities according to unique criteria - for example, in the current debate about the search for indicators such as capital costs, the valuation of the increase in value, etc.

ξ *The corporate sphere of management development.* The basic key to this corporate culture is found in the cultural vision established in the development of managerial capability in all those people taking on responsibilities in the diversified areas and in the different spatial cultural areas. This example may be clearly perceived in the orientation taken by General Electric and Nestle, among others⁶. Such a corporate dimension of

⁶ Maucher, H., "El arte de dirigir la empresa" in *Working Paper IDOE*, Universidad de Alcalá, Alcalá de Henares 1996. Welsch, J.F., "To our share owners", Annual Report, 1996.

managerial development represents in the nineties, within the current process of the globalisation of the economy, one of the most sought-after standpoints at the present time.

ξ *The corporate sphere of human resources.* Coordination, its flexibility and speed of adaptation, fundamentally rest upon human behaviour. On the other hand, the identification of individuals with each of the business areas and their dominant cultures constitutes the reality within which they must deal with all processes and functions. In a conglomerate, the co-ordination processes must necessarily comply with a corporate definition of human resources in terms of principles, values and basic conditions; and in this way establishing a reference framework so that each one of the diversified organisational units with their own capacity for adaptation may be identified.

ξ *The corporate sphere of the management systems.* It can be difficult to co-ordinate a diversified conglomerate if unique systems of management do not exist. Such difficulty applies not only to the problem of determining criteria but also to the way in which a reference framework is established, together with appropriate technological support; so permitting effective decentralised evaluation of the processes of resource utilisation and of the levels of utilisation of capabilities and results. The aim of all of this is to be able to make an overall evaluation of

the strategies for introducing new and terminating existing business activities. Such is the new role of controlling strategies in a conglomerate. The systems for value creation and other approaches within the management system, predominantly in the economic area, represent the basic responses to pressure from the capital markets.

ξ *The corporate sphere of information technology.* One of the fundamental keys to the management of a diversified conglomerate is, in addition to the need for decentralisation, reduction in structures; however, such structures remain in place, but in a soft rather than a hard format. Such structural areas fundamentally correspond to the availability of information technology systems and effective communication systems. They must, of necessity, be corporate - but within the framework of the requirements for global co-ordination, leaving specific spaces for each one of the business areas and for each one of the activities and functions within this area of information structures.

ξ *The corporate sphere of capital assets.* The capital market constantly evaluates the risks and expectations of assets invested in the company. Decisions relating to the adaptation of the company to new strategies are also related to the knowledge and availability of capabilities derived from the asset resources;

and such an evaluation of asset risks and usefulness constitutes, without doubt, one of the fundamental bases of corporate culture.

ξ *Corporate management of research and development.* The competitiveness of an enterprise depends upon its capacity for innovation. In particular, the growing trend towards a reduction of product life cycles and the processes for generating new products and services require a need for corporate co-ordination based on values which orientate the innovating force within the company.

Each of the subcultures which generate both business diversification and the development of spatial cultures is a constituent part of each one of the business units which, at the same time, have their own individual life. A conglomerate must be capable of splitting up activities which, due to a new division of labour, require an alteration in the business portfolio composition - this may be due to risk motives or to the demands of the capital markets.

On the other hand, it can be difficult to establish coherent dialogue between the basic culture of a corporation, with its particular values and norms, and the subculture of a particular business unit if the latter does not have its own self-identification. Maximum operational

decentralisation, with all the characteristics in the configuration of processes, demands active development of each one of the subcultures.

If actions are not taken within this cultural bidimensionality, then it can be difficult to respond to:

- ξ The search for the conglomerate effect through the basic culture, so enabling global utilisation of resources and facilitating communication by means of the corporate identification of each one of the units within the conglomerate.
- ξ Compatibility of this with the line effect - the effect within the area of the business activities or cultural spaces, in which the dynamics of the market exert their effect and demand conditions their development.

Corporate cultures, as basic cultures and subcultures within the different business areas, facilitate co-ordination throughout the different levels of the conglomerate and are quite independent of any management unit that may exist or any management directed through holdings. The criteria to be met are:

- ξ Flexibility
- ξ A dynamic of change
- ξ Rapid adaptation

§ Low co-ordination costs

Such have been the elements defining the great managerial capability shown by General Electric under Welsch and by Nestle under Maucher⁷.

A specific observation should be made about both cases when analysing this cultural dimension. In both companies, one reflecting an American business culture and the other European, both CEOs, Welsch and Maucher, have been long-time CEOs. However, in general, in many conglomerates the CEOs are short-time (Schrader, St. U; Lütke, Ch. 1998). The question arises as to whether the configuration of management within companies through systems of cultural values requires a long-term commitment from top management as a basic reference point and as the way towards generating this dialogue between the basic culture and the cultures of the diversified business areas.

VI. BUSINESS DIVERSIFICATION AND CULTURAL DIFFERENCE

As we have already mentioned, the impact of globalisation of the economy with its corresponding opening up and dynamizing of

⁷. Maucher, H., op. cit.; Welsch, J.F., op. cit.

competitiveness, generates greater demands and introduces greater complexity into an enterprise in its search for a dynamic of growth which permits the achievement of economies of scale. This dynamic of growth may be sought through diversity in the business areas and/or in a diversity of spatial cultures - that is, through multinational or transnational activity.

In Figure 1, three types of business development are differentiated from the perspective of their cultural roles - that is, the importance of cultural values in the way of conceiving and realising the management and organisation of these enterprises.

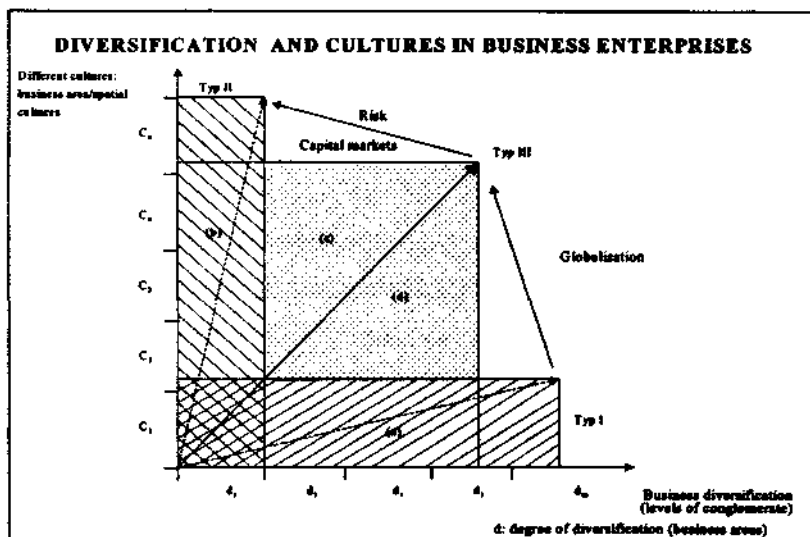


Figure 1: Diversification and cultures in business enterprises

Figure 1 shows both the diversifying dimension of the enterprise and also the cultural differences resulting from the influence of both its business areas and also from a consideration of spatially differentiated cultures.

It can be seen that:

ξ Type I companies are those characterised by growth and development dominated by diversification in business areas within a corporate business culture. Independent of whether the company operates in different countries (cultures), as occurred during the internationalisation of past decades - particularly in European multinationals - the domination of the parent company culture over the culture of the subsidiaries forces the imposition of this parent culture, with the creation of latent conflicts. This has generated a loss of synergies in the business area as a consequence of the lack of consideration given to the specific cultures in each of the business areas, regions or even countries.

Type I companies demonstrate high diversification of product/activity but little cultural differentiation.

ξ Type II companies demonstrate low diversification of products/activities and are almost "single crop". However, they

manifest a high spatial culture differentiation, principally because of their multinational spread in search of economies of scale. These are companies dominant in one business area and have at the present time in many cases become concentrated into high-risk enterprises - formerly they were in a variety of cases public monopolies.

§ Type III companies have reacted to the impact of globalisation of the economy by growing in both dimensions - in terms of the heterogeneous nature of their areas of activity (diversification) and in terms of their expansion into different regional and national cultures.

It follows, therefore, that Type I companies are those showing strong growth in one basic activity, frequently under the strong influence of the parent enterprise culture. The principal requirement is the development of managerial and organisational systems, with little consideration paid to cultural differences. Technical/product and instrumental cultures dominate.

Such kinds of companies have been systematically diversifying. They have, however, maintained a corporate management structure which has been imposed on all their units, applying to both systems and to business behaviour in all geographical areas. This rigidity to management change has frequently resulted in important losses in

synergies and even to the termination of their own existence. This is the type of international enterprise in which the ruling parent culture dominates all technical and instrumental functions.

Type II companies are highly specialised with a strong potential of core competences in which there exists a clear dominance of the business, product or service culture. Their development has been based on the implantation of their own business culture in other spatial cultures in the search for economies of scale, thanks to their competitive capability. In particular, this development has been characteristic of the period in which economies were predominantly national and during which there existed many barriers restricting access to markets. Such companies have developed a "multiple" type growth policy - that is, they have pursued the implantation of their core competences in other spatial cultures by means of multiple repetition of a business design dominated by the technological and commercial subculture.

Dominant at the present time are Type II companies, with growing diversification increasing their complexity: their transnational development with multiple business/spatial cultures makes great demands upon the management. The complexity resulting from the heterogeneous nature of their activities, together with the different spatial cultures, without doubt presents the greatest challenge to management at the present time.

It can be said that the kind of development of Type I and Type II companies makes them monocultural, whereas Type II may be called multicultural.

In Figure 1, all the area of business development labelled space (a) corresponds to the large multinationals with a technical and spatial culture dominating all the management design and, consequently, showing little consideration for cultural differences.

Businesses represented by space (b) are currently high-risk companies separated from, but within the development of, the conglomerate; they are orientated fundamentally towards the requirements of the capital markets, on the one hand, and to demand on the other. The dominant current trend is to make these high risk companies independent and so keep their development separated from the holding. This achieves access to a sharing of such high-risk work areas with other competitors; so making cooperation viable and thus avoiding many mergers with few possibilities of success.

Space (c) represents the process of splitting-up business activities, with a consequent reduction in the diversification of conglomerates, and so increasing to a significant degree the process of growth in intercultural values.

Space (d) represents a multicultural development whereby national conglomerates must of necessity open up transnationally in order to respond to demands resulting from the globalisation of markets and also to demands from capital markets. This is difficult to maintain in Type I.

It can therefore be asserted that a Type I enterprise must necessarily open up to multiculturalism in its process of growth through high diversification with multiple areas of business. By "multiculturalism" what is meant is that the company must enter into what has already been described as cultural bidimensionality (see Figure 3) and must be integrated into an organisational management structure which is highly decentralised. This is the business response to the impact of economic globalisation. The organisation must take the form of networks. With this structure the company can develop processes of cooperation with other enterprises, predominantly those with high-risk activities; it can also respond in a flexible manner to the differing demands of markets and customers.

Type II enterprises are being created by the splitting-off of new products and services. Because of their risks, these on the whole tend to be shared not only with shareholders but also with other competitors. Such a requirement of high risk and dynamic valuation by the capital markets requires a separation of this type of activity with the aim of

providing a response to the demands of multiculturalism and at the same time to the demands of the capital markets.

Such a vision of the processes of business growth, through corporate cultures on the one hand and by driving forward subcultures in each one of the business areas on the other, represents a necessary response in order to draw closer to the demand/customer. Such a response is also needed for better integration of the cultural differences in order precisely to adapt to the requirements of specific markets.

VII. THE CONFIGURATION AND ROLE OF BUSINESS CULTURE IN BUSINESS DIVERSIFICATION

The changing reality of business enterprises is not produced today only by technical complexity and by the opening up of the economy; rather, and in particular, it reflects future expectations of their capability to adapt rapidly to changing business situations of in terms of their business value.

The search is for institutional corporate and management forms which can answer these demands and fulfil the expectations of capital markets in terms of the capacity of a conglomerate to adapt itself to changing situations. The valuation made of the ability of a business and of its conditions to respond to the competitive demands of the markets

and customers are the criteria. The speed of adaptation to change demonstrated by conglomerates and by their activities are without doubt a reference point for those who must construct management designs in diversified enterprises.

Figure 2 shows the bidimensionality between levels of diversification in a company with the passage of time and cultural diversity.

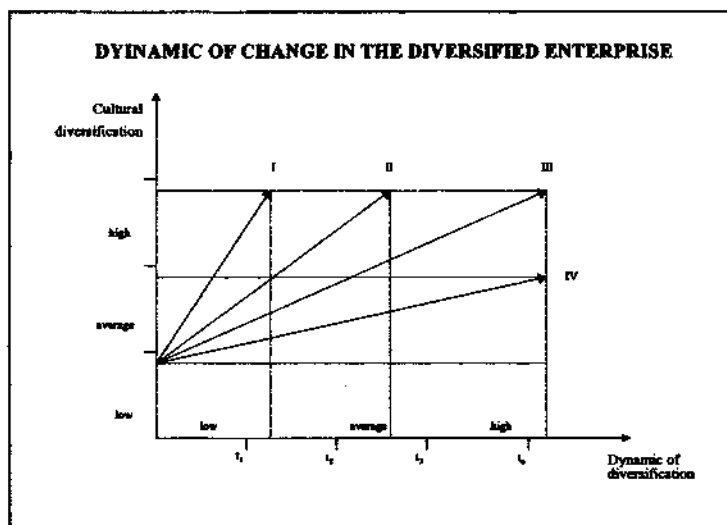


Figure 2: Dynamic of change in a diversified enterprise

An examination of Figure 2 reveals various possible business developments in terms of the dynamic of the diversification of business resulting from risk assumption on the one hand and expectations of

results on the other. The basic characteristic of Type I companies is their need to enter into different cultures immediately and in the shortest time possible in order to achieve economies of scale. At the present time these are high-risk companies in such areas as telecommunications, etc. - sectors of rapid technological advances and those strongly directed towards the globalised economy, with a single market from the point of view of product and service. Types II, III and IV companies are those adapting either slowly or more quickly from low to higher diversification through their expansion into areas of different cultures.

The fundamental key to the new orientation of business development lies in two basic criteria:

ξ The need for appropriate growth in enterprises in order to have available sufficient potential to adapt to the processes of change in determined business areas or to enter or leave certain areas - that is, to be sufficiently flexible for processes of adaptation.

ξ Growth must therefore be analysed through diversification and also through the requirements made for greater cultural diversity. It must therefore be considered from the viewpoint of business areas and also the requirements imposed by spatial areas with different cultures, according to value creation.

The search for such a dynamic between Type I and Type IV must comply with these two criteria. Companies must themselves decide upon the speed of reduction in diversification, how they leave existing or enter new business areas and to what extent they increase or reduce their activities in different cultures.

In the face of the growing need for collaboration through networks, there is a growing trend towards separating those business areas which need to be shared with other business cultures.

This adaptation process may take place at different speeds. Type I companies are shown in Figure 2 - i.e. those adapting to cultural differences in the shortest time possible. This requires a high dynamic of organisational change towards very flexible structures. These are specific business areas with restricted or very homogeneous programmes, and the possibilities of success are reduced if multiculturalisation is not achieved through the product.

In contrast, in Types II, III and IV companies, adaptation times are slower as they are related to the reduction in the life cycles of products and services. In consequence, these are slow adaptation processes which require a change in order to speed up the transformation of Type IV companies into Types II or III.

The first conclusion to be drawn from Figure 1 is that an orientation on the graph towards the abscissa - that is, conglomerate enterprises with widely diversified business activities - represents organisational management through the dominant corporate culture. In contrast, an orientation towards the ordinate- that is, a response to risks and valuation by the capital markets, rapid implantation, cooperative networks - basically corresponds to a management design dominated by technological or market subcultures.

The key to this process of assuming cultures as a means of effecting processes of transformation is illustrated in Figure 3.

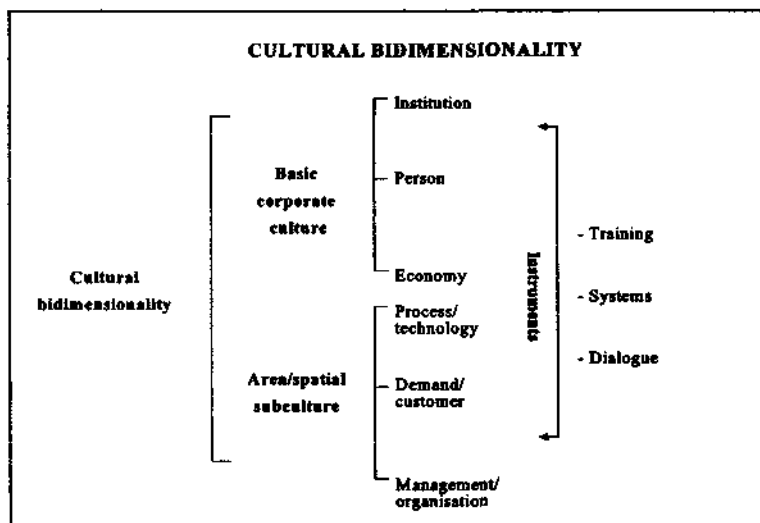


Figure 3: Cultural bidimensionality

As can be seen, cultural bidimensionality implies a differentiation between a basic corporate culture and a diversity of subcultures. The basic culture is centred on three key dimensions:

ξ Institutional orientation, which presents a clear reference to the requirement for corporate identity.

ξ Person orientation, through which actions by shareholders, managers, or via human resources impose corporate development through corporate values.

ξ Economic orientation, whereby the whole corporate management takes as the dominant priority the utilisation of resources (assets) using the criterion of value creation. The economic aspect takes priority in new management designs.

In the area of subcultures, their dominance is centred on development in three areas:

ξ The configuration of processes and the impact of specific technologies on each area of business.

ξ The characteristics of demand and of the customer as a basic orientation for all the subculture.

- ξ Factors affecting the way of realising the management of this subculture and its own organisational scheme.

The elements of the basic culture and of the subcultures are strongly differentiated and, according to the development of the company, each will carry more or less weight.

Both cultures, the basic corporate and the subcultures, are co-ordinated with each other through the instrumental dimensions of the business culture. These are:

- ξ Training processes, with clear predominance given to the areas of management and human resources.
- ξ The development of management systems affecting those aspects allowing for co-ordination between the corporate dimension and the functional subcultures.
- ξ Dialogue as a specific instrument for effecting co-ordination between both cultures.

The following final evaluation can be made:

The greater the orientation of the development of businesses towards Type III companies, the greater are the demands made on the

basic corporate culture to be able to generate growing decentralisation and to permit efficient management of the conglomerate.

The greater the development of companies towards Type I and Type II enterprises, the greater will be the dominance of the matrix subcultures. This will give clear predominance to the instrumental, technological, administrative dimension for each type of subculture.

The orientation given to business growth defines the management configuration and the role of the cultural configuration of the business from the point of view of the response to the dynamic of the capital markets in terms of risks and expectations; and, on the other hand, the internal co-ordination capability of the company with the aim of responding to these capital market requirements.

It is probable that the current impact of the capital markets has established a clear priority for the economic aspect in corporations and in their expectations. A new era of management designs is beginning in which the response will depend on how to effect cultural management.

VIII. CONCLUSIONS

The requirement for decentralisation in business organisations and the increasing responsibility for management imposes new

demands on business coordination. At the same time, the need for greater flexibility in order to modify business portfolios requires organisational structures with business units of high operational effectiveness.

The growing complexity of the business environment and of companies themselves obliges corporate management to allow for globally-directed co-ordination in each one of the operational units and, at the same time, to grant them great responsibility for the management of the business. The development of subcultures for a decentralised management, together with the growing need to have available a corporate culture capable of co-ordinating all the business units, are both becoming day by day more important. Cultural bidimensionality, its configuration and application as the key to the integration of business and people, offers the key to success for those business enterprises needing, because of their growing diversification, a dynamic of rapid adaptation in their portfolios.

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