IMPACT OF CULTURAL DISTANCE ON ORGANIZATIONAL CITIZENSHIP BEHAVIOR (OCB) AND MNE PERFORMANCE: SOUTH KOREAN SUBSIDIARY AT THE MAQUILADORA

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ABSTRACT

Multinational enterprises (MNEs) play an important role in global markets. Many factors can affect an MNE’s performance. This paper uses Hofstede’s cultural dimensions to define the relationship between organizational citizenship behavior (OCB) and MNE performance. It provides propositions concerning the moderating role of cultural distance between OCB and MNE performance by looking at South Korean subsidiaries operation in the maquiladora.

Keywords: Organizational citizenship behavior (OCB); Multinational enterprise (MNE); Cultural distance; Subsidiary; Maquiladora

INTRODUCTION

Offshore manufacturing firms are one of the most prevalent phenomenon and industrial trends in US manufacturing. Intensified international competition has led to an increase in manufacturing imports from foreign countries and subsequent outsourcing among US manufactures (Balasubramanian & Padhi, 2005). This paper deals with a specific area of outsourcing, maquiladora manufacturing firms, to find the influences of cultural distance on the relationship between OCB and MNE performance. Maquiladora firms are companies, located in northern Mexico at the US-Mexico border area spanning from the Pacific Ocean to the Gulf of Mexico (Jung & Hong, 2008). The maquiladora region has manufacturing companies from the all over the world and is an important source of US manufacturing profits. Because of the high number of international companies operating in this area, the maquiladora provides an excellent opportunity to identify the influences of cultural distance on the relationship between OCB and MNE performance. The approximately 1.3 million Mexicans and many foreign workers employed in the area’s international manufacturing firms have been studied to better understand the unique characteristics of Mexican laborer. Culture-focused research is becoming more widespread as the impact that culture has on business is recognized (Mooij & Hofstede, 2010). Studying international manufacturing strategies can lead to benefits in many areas of multinational enterprise (MNE). This study uses Hofstede’s cultural dimensions to identify the significance of cultural distance on the relationship between OCB and MNE performance in South Korean subsidiaries in the maquiladora.
LITERATURE REVIEW

Foreign Direct Investment (FDI) and Multinational Enterprise (MNE)

There has been a growing body of research on MNEs defined as firms that control and manage their operations or are registered in at least two countries (Teece, 1985). There is a close relationship between MNEs and foreign direct investment (FDI). Many economists argue that the MNE is an arbitrageur of capital (Teece, 1985). MNEs are located in countries where the domestic marginal productivity of capital is relatively low and transfer capital to locations where the marginal productivity is higher (Teece, 1985). Hymer (1979) suggests that FDI is motivated by attempts to decrease competition among corporations in different countries. He also argues that the FDI is motivated by domestic firms’ attempts to increase returns from the utilization of firms’ special advantages (Hymer, 1979). Country risk is also seen as an important factor in terms of FDI. In spite of the negative correlation between country risk and FDI, factors such as rapid economic growth and lower factor cost encourage MNE to increase FDI in high-risk countries (Feinberg et al., 2009). Feinberg et al. (2009) believe that MNEs that decide to establish wholly owned or majority-owned subsidiaries in high-risk countries use a combination of political and operational strategies to resolve exogenous risk. Malnight (1995) maintains that globalization involves a complex mix of strategic objectives over time as the corporations respond to changing external and internal challenges and opportunities. The performance of MNE subsidiaries can be enhanced in many ways. For example, MNEs use expatriates to transfer essential information from headquarters to the subsidiary (Chang et al., 2012). MNEs, therefore, have the competitive advantage due to their ability to create and transfer knowledge from headquarters to a subsidiary (Chang et al., 2012).

Organizational Citizenship Behavior (OCB) and MNE Performance

OCB is an important concept and value that must be considered when evaluating an organization’s performance. Organ (1988, p. 4) defines OCB as “individual behavior that is discretionary, not directly or explicitly recognized by the formal reward system, and that in the aggregate promotes the effective functioning of the organization”. Studying OCB can provide important information about MNE performance. It gives insights into both the direct and indirect influence of organizational culture on employee characteristics (Stamper & Van Dyne, 2001). It also provides a means or manages the interdependencies among members of a work unit, thereby increasing the collective outcomes achieved. Understanding OCB reduces the need for an organization to devote scarce resources to simple maintenance functions, which free up resources for planning, scheduling, problem solving, and other activities that increase productivity (Organ, 1988). Organ (1988) proposes five dimensions of OCB: (a) conscientiousness- the ability to carry out in-role behaviors well beyond the minimum required levels; (b) altruism- the help that employees give to others; (c) civic virtue- employees participate responsibly in the political life of the organization; (d) sportsmanship- employees do not complain but have positive attitudes; (e) courtesy- employees treat others with respects. Podsakoff et al. (2000) expanded Organ’s list to include seven common dimensions of OCB: helping behavior, sportsmanship, organizational loyalty, organizational compliance, individual initiative, civic virtue, and self-development. OCB plays an important role in an organization’s performance (Podsakoff et al., 2000). It has been argued that OCB facilitates organizational performance by lubricating the social machinery of
organizations thereby reducing friction, and increasing efficiency (Podsakoff et al., 1997; Smith et al., 1983). Organ (1988) also claims that OCB is an indicator of job performance measuring not only the degree to which an employee reaches a work requirement, but also the employee’s level of spontaneous and innovative behavior. OCB increases the efficiency of performance by enhancing coworker or managerial productivity (MacKenzie et al., 1999; Organ, 1988; Podsakoff & MacKenzie, 1994). Podsakoff et al. (1997, p. 135) argue that “managerial productivity may also increase when employees (a) provide valuable suggestions for improving unit performance or feedback on his or her idea and (b) avoid creating problems for coworkers, which allow the manager to escape the trap of falling into pattern of ‘crisis’ management.” They increase the efficiency of an organization by freeing up resources for more productive purposes (Borman & Motowidlo, 1993; MacKenzie et al., 1991; Organ, 1988; Podsakoff et al., 1993). OCB also contributes to performance by (a) helping to coordinate the activities both within and across work groups, (b) strengthening the organization’s ability to attract and retain the best employees, (c) increasing the stability of the organization’s performance, and (d) enabling the organization to more effectively adapt to environmental changes (Podsakoff et al., 1997). This study focuses on OCB’s influences on the performance of South Korean subsidiaries in the maquiladora. Tables 1 and 2 show that OCB’s dimensions and its influences on organizational effectiveness.

**Cultural Distance in Foreign Subsidiary and MNE Performance**

MNE performance is an important determinant in the decision to establish a subsidiary in a host country. Before FDI occurs, management in the home country must determine the performance of existing subsidiaries in the host country and how to best align their strategies with existing systems (Schmid & Kretschmer, 2010). Performance evaluations are a critical means of motivation for subsidiaries and their managers (Schmid & Kretschmer, 2010). MNE performance evaluations include financial measures such as profitability, and market or strategic criteria. In particular, strategic criteria include sales positions, competitive positions in the target market, after-tax returns on sales (ROS), and returns on equity (ROE) (Luo & Peng, 1999). Cultural distance refers to the differences between the MNE’s home country and its countries of operation (Tihanyi et al., 2005). These differences can affect MNE strategies and managerial decision-making (Tihanyi et al., 2005). Cultural distance can lead to operational difficulties due to a lack of understanding of the norms, values, and institutions that afford social exchange across markets (Tihanyi et al., 2005). Cultural distance is also an important factor in deciding cost of entry, operational benefits, MNE strategies, and MNE performance (Tihanyi et al., 2005). Cultural distance can lead to higher level of complexity and uncertainty for managerial decision-making regarding strategy and foreign operations (Tihanyi et al., 2005). There are two types of control used to overcome cultural distance in the host market and they are bureaucratic and cultural control (Balgia & Jaeger, 1984). Bureaucratic control refers to “an extensive set of rules, regulations and procedures that clearly limit the subsidiaries’ role and autonomy” (Colakoglu & Caligiuri, 2008, p. 224). Cultural control can utilize “a set of shared values and norms for work processes, behaviors and the like” (Colakoglu & Caligiuri, 2008, p. 224). Cultural distance can be greater in a subsidiary where the culture distance between the host and the home country is greater (Colakoglu & Caligiuri, 2008). Greater cultural distance can lead to greater information asymmetry and decreasing knowledge of the subsidiary’s environment, actions and performance (Gong, 2003). Gong (2003, p. 729) states that “as cultural distance increases, complete and accurate information about subsidiary actions and performance becomes more difficult and
expensive to obtain, and subsidiary activities thus become harder to interpret, making behavioral and outcome controls by the headquarters difficult”. Cultural distance can significantly increase transaction costs (Colakoglu & Caligiuri, 2008). OCB can increase performance. When entities are closely connected, they are motivated to exchange ideas and share resources. OCB can enhance connections between MNE headquarters and subsidiaries (Tsai, 2001). Similarly, OCB creates synergistic benefits, such as complementary knowledge, which also leads to higher performance (Lee et al., 2008). Global market turbulence is “the degree to which an MNC faces changes in consumers and competitors in a global market” (Lee et al., 2008, p. 9). It has a significant impact on how MNEs interpret market information and knowledge generated from their customers and competitors (Pfeffer & Salancik, 1978). OCB can help minimize global market turbulence by facilitating the establishment of a close network between MNE headquarters and subsidiaries. Studying the OCB dimensions of subsidiary country can help predict consumer demand and competitive actions in foreign markets.

**Hofstede’s Dimensions of National Culture**

Hofstede (1984) conducted surveys to identify common cultural dimensions arguing that each dimension is an important characteristic of a country. These dimensions also establish a systematic framework for assessing and differentiating national cultures. His original list included ‘power distance’, ‘uncertainty avoidance’, ‘individualism’, and ‘masculinity’ (Hofstede, 1984). He then analyzed data regarding work-related values collated between 1967 and 1973 from IBM employees working in 40 different countries and added a fifth dimension, long-term orientation, to his initial model (Slangen, 2006). Power distance is the extent to which the less powerful members of institutions and organizations within a society expect and accept the fact that power is unevenly distributed (Bang et al., 2004). Uncertainty avoidance is the extent to which a society feels threatened by uncertain or unknown situations (Slangen, 2006). Individualism is present when people in a society focus more on individual achievement rather than on collective or group goals. Individualism and collectivism refer to “the degree to which a society emphasizes the role of the individuals as opposed to that of the group” (Slangen, 2006, p. 363). Masculine cultures refer to the country where socially defined gender roles are distinct. Masculinity and femininity refer to “the extent to which a society emphasizes traditional masculine values such as competitiveness, assertiveness, achievement, ambition, and high earnings, as opposed to feminine ones such as nurturing, helping others, putting relationships with people before money, not showing off, and minding the quality of life” (Slangen, 2006, p. 363; Hofstede, 1984). Long-term orientation refers to the degree to which a society focuses on a pragmatic future-oriented perspective (Bang et al., 2004). Hofstede (1984, 1991) ranked 56 countries on each of the five cultural dimensions. His finding indicated that high power countries tend to be heavily populated with an unequal distribution of wealth (Bang et al., 2004). Countries that rank high on individualism rank significantly low on power distance. Countries with high uncertainty avoidance tend to have regulations and controls to decrease uncertainty because their people have a low tolerance for ambiguity and uncertainty. Countries that rank high on long-term orientation have a respect for tradition and long-term commitments (Bang et al., 2004). Research confirms Hofstede’s ranking and proposes that the model can be used to analyze countries according to their national cultures and determine the cultural distance between them (Slangen, 2006). This study uses Hofstede’s dimensions to explain the effect of cultural
distance on the relationship between OCB and MNE performance. Table 3 shows Hofstede’s cultural dimensions.

**Cultural Context in South Korean Subsidiary**

South Korea has one of the most homogeneous populations in the world and is rich in cultural history and tradition. South Korea is the world’s thirteenth largest trading nation and sixth largest country that trades with the US. Following is a discussion of South Korea’s ratings on Hofstede’s cultural dimensions scale. South Korea is a hierarchical society, reflected in its power distance index of 60, indicating that people accept a hierarchical order and tend to follow it (Geert Hofstede, 2012). South Korea’s individualism score is relatively low, which is 18, meaning that it is considered a collectivistic society (Geert Hofstede, 2012). Korean employees have a strong collectivistic spirit. They view their organization as a big family and treat their bosses and co-workers as family members (Kim, 2004). Korean employees usually use the word “our organization” and “our department”. South Korea scored 39 on the masculinity scale and is, therefore, considered a feminine society (Geert Hofstede, 2012). Feminine countries tend to focus on working in order to live. Managers from South Korean organizations strive for consensus; people value equity and quality in their working lives (Kim, 2004). South Korea scored among the highest in the world, 85, on uncertainty avoidance (Geert Hofstede, 2012). South Koreans tend to have an inner urge to work hard, be precise and punctual (Kim, 2004). South Korea is a long-term oriented society, score of 75, meaning the people tend to live their lives guided by virtues and practical good examples (Kim, 2004). According to Hofstede’s cultural dimension scale, Mexico is very similar to South Korea. Mexico, with a score of 81, is also a hierarchical country (Geert Hofstede, 2012). It is a collectivistic society that tends to foster strong relationships within the organization. However, Mexico is a masculine society, a score of 69 (Geert Hofstede, 2012). In a masculine society, people tend to live to work and employees are decisive and assertive. Mexico also has a very strong preference for avoiding uncertainty. Studying the similarities and differences between South Korean and Mexican culture can help interpret the role of Mexican culture on South Korean subsidiaries in the maquiladora.

**THEORETICAL MODEL AND PROPOSITIONS**

Based on Hofstede’s cultural dimension, South Korea and Mexico have similar cultures. This paper suggests that similar cultural dimensions would positively moderate the relationship between OCB and performance in South Korean subsidiaries at the maquiladora. Among the five cultural dimensions, long-term orientation is excluded since Mexico’s score on this dimension is not available. Power distance, individualism, and uncertainty avoidance are significantly similar in South Korea and Mexico and, therefore, have a positive moderating effect. Masculinity is the only dimension that is different. Due to this significant difference, this study proposes that the masculinity of Mexican culture negatively moderates the relationship between South Korean subsidiaries and MNE performance. Meirovich (2011) argues that partners must possess similar cultural characteristics in order to achieve success in an organization. Subramaniam et al. (2011) also propose that the perceived cultural similarity between the host and home country is an important boundary condition that determines expatriate job performance. Figure 1 presents the theoretical model in terms of the four propositions.
**Proposition 1:** Power distance (PDI) of Mexican culture positively moderates the relationship between OCB and MNE performance in South Korean subsidiary at the maquiladora.

**Proposition 2:** Individualism (IDV) of Mexican culture positively moderates the relationship between OCB and MNE performance in South Korean subsidiary at the maquiladora.

**Proposition 3:** Masculinity (MAS) of Mexican culture negatively moderates the relationship between OCB and MNE performance in South Korean subsidiary at the maquiladora.

**Proposition 4:** Uncertainty avoidance (UAI) of Mexican culture avoidance positively moderates the relationship between OCB and MNE performance in South Korean subsidiary at the maquiladora.

Figures 2 and 3 contain Hofstede’s cultural dimensions analysis of South Korea and Mexico. South Korea’s power distance score is 60 and Mexico’s is 81 (Geert Hofstede, 2012). Power distance index is relatively high both South Korea and Mexico. This similarity moderates the relationship between OCB and MNE performance positively. The individualism score is also relatively low for both countries; 18 for South Korea and 30 for Mexico (Geert Hofstede, 2012). This paper proposes that the individualism of Mexican culture is positively associated with the relationship between OCB and MNE performance in South Korea subsidiaries at the maquiladora. South Korea’s power distance score is 39 and Mexico’s is 69 (Geert Hofstede, 2012). This cultural difference affects the relationship between OCB and MNE performance negatively in South Korea subsidiary at the maquiladora. Lastly, uncertainty avoidance scores high in both South Korea and Mexico. South Korea’s score is 85 and Mexico’s is 82 (Geert Hofstede, 2012). This cultural similarity positively moderates the relationship between OCB and MNE performance in South Korea subsidiaries at the maquiladora.

**METHOD**

**Sample**

The sample was drawn from South Korean subsidiaries in the maquiladora. It consists of 163 respondents from a wide range of job titles and positions who have been in their current positions for an average of 5.5 years. This study investigates the impact of cultural distance on the relationship between OCB and MNE performance. OCB consists of five dimensions including altruism, courtesy, sportsmanship, conscientiousness, and civic virtue (Podsakoff et al., 1990). A five-point Likert type scale based on the total quality management (TQM) model is used to evaluate MNE performance. Prajogo and Sohal (2001) argue that TQM is positively related to performance because it establishes a system and culture that provides a fertile environment for innovation.

**Analysis**

The five dimensions of OCB are the independent variables, including conscientiousness, altruism, civic virtue, sportsmanship, and courtesy. Surveys consisting of four items on a five-point Likert
type scale are used to measure MNE performance. Samson and Terziovski’s (1999) test methodology is commonly used to test the relationship between independent and dependent variables. A multiple regression is used to evaluate the model and shows that R square is significant at 0.174. Table 4 shows descriptive statistics and table 5 presents the results of the regression analysis indicating that civic virtue and courtesy have a more significant impact on MNE performance.

**DISCUSSION AND CONCLUSION**

The purpose of this paper is to explore the moderating role of cultural distance between OCB and MNE performance. This study uses Hofstede’s five cultural dimensions (power distance index, individualism, masculinity, uncertainty avoidance index, and long-term orientation) to show the degree of similarity between South Korean and Mexican culture. The results of the analysis indicate that OCB have a significant positive correlation with the organization’s performance. This paper proposes four propositions based on the assumption that OCB has a positive correlation with an organization’s performance. This study argues that Mexican culture’s scores on the dimensions of power distance, individualism, and uncertainty avoidance positively moderate the relationship between OCB and MNE performance in South Korean subsidiaries at the maquiladora. On the other hand, Mexico’s score on the dimension of masculinity negatively moderates the relationship between OCB and MNE performance in South Korean subsidiaries at the maquiladora. Offshore manufacturing firm appears to be the most prevalent phenomenon and industrial trends in the maquiladora. Maquiladora is the appropriate location to test and define the relationship between different cultures and organizations. Previous research shows that cultural similarities can improve an organization’s efficiency. This study shows that the similarities between South Korea and Mexico can positively moderate the relationship between OCB and MNE performance in South Korean subsidiaries at the maquiladora. More specifically, it explores the moderating role of cultural similarity based on Hofstede’s cultural dimensions. This study makes both theoretical and empirical contributions to the OCB literature by contributing to a better understanding of how OCB functions in the maquiladora, especially in South Korean subsidiaries.

**REFERENCES**


Tables and figures available upon request from Wootae Chun: wchun@slu.edu