# Responsible Business Professionals

## A Strategic Perspective of the Global Challenges

Edited by

Rabi Narayan Kar,
Kaisa Sorsa
and Kusha Tiwari

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This book is a by-product of the international collaborative project "Responsible Business Professionals for Finland and India Trade" between Shyam Lal College, University of Delhi, India and Turku University of Applied Sciences, South Eastern Finland University of Applied Sciences and Pori School of Economics, University of Turku from Finland. The concept of Responsible Business Professionals is fast gaining academic attention for its potential to impact all facets of sustainability principles in business. Responsible business is a combination of all those practices that integrate social and environmental welfare with business. The preliminary discussions between all the investigators of the project brought out the broad theme of responsible business practices and created framework of interactions, lectures, workshops, seminars that were successfully conducted and completed. Interactions and deliberations amongst the editors and the project participant have led to explorations of complex intertwining between business, development, responsibility and sustainability. These explorations have also gained newer perspectives through interrogations and discussions at every stage of reading, discussing and understanding the business-responsibility dynamics with students, fellow contributors and academics. The brainstorming sessions in Finland as well as in India led to preparing the framework of this book.

This book aims to develop and examine responsible business knowledge and proactive management competences for the growing bilateral trade between India and other countries in the global context. The economy of India is an untapped opportunity for developed world as its economy has fastest growing economy of the BRICS' countries and has lot of scope for synergistic benefits which also has significant implications for the developed world. With the advent of MNEs, bilateral trade between India and countries from Europe and other parts of the world has increased manifold and which is very well documented in the literature. The Responsible Business Professionals (RBPs) of MNEs are also largely responsible for augmenting the trade engagements through their responsible stewardship. This book also aims to deepen the understanding of engagements and co-operation between India and European institutions and professionals in order to create spillover impact for the local and global business. Such a relevant and contextual

study may further expand the understanding of responsible business prospects of and challenges in sustainable growth within the perspectives of India's global trade engagements in general.

Another important aspect which has also been addressed while exploring further trade possibilities is the cross-cultural component affecting the expansion of businesses in the countries. We appreciate the institutional support and encouragement that the editors got in all the participating institutions that helped in understanding diverse responsible business practices in the two countries. The editors interacted and interviewed entrepreneurs and business professionals in the two countries to get deeper insights into the work ethics and innovative practices of business. These exposures also helped gather valuable inputs around the cross-cultural dimensions of the theme in the global context

As this book is the outcome of several discussions, exchanges, workshops, seminars and conference, we sincerely acknowledge the contributions of the Centre for International Mobility (CIMO), nowadays called The Finnish National Agency for Education. Finland for carrying out this experiment. We also sincerely acknowledge the support received from Turku University of Applied Sciences, South Eastern Finland University of Applied Sciences and Turku School of Economics, Pori Unit, University of Turku Finland, SLC University of Delhi and ICSSR India without whose support and encouragement, the book could not have seen the light of the day. We are grateful to all our colleagues, mentors, reviewers, friends who offered suggestions, support and the opportunity to discuss the progress, doubts and queries around this book project.

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We must thank all the authors and participants of the project who have contributed their original work on the larger theme of responsible business professionals in this volume. Their works have added and explored new dimensions of the business, responsibility, culture and social insinuations.

We dedicate this book to our families, well-wishers and friends for their enduring patience, love and support through all these years of togetherness and specifically during the period of research and writing of this book.

—Editors

# CHAPTER ONE

## INTRODUCTION: RESPONSIBLE BUSINESS PROFESSIONALS

### RABI NARAYAN KAR, KAISA SORSA AND KUSHA TIWARI

## Theoretical Background

This book, *Responsible business professionals: A strategic perspective of the global challenges* is a by-product of the international project "Responsible Business Professionals for Finland and India Trade" which aimed to deepen the understanding of engagements and cooperation between Indian and Finnish institutions and professionals in order to create spillover impacts for local and global business. This book project is an outcome of the long-term fruitful cooperation between the Shyam Lal College, University of Delhi, and Turku University of Applied Sciences and other participating universities from Finland.

Responsible business practices are a way of doing business in a manner that integrates responsibilities into all aspects of the enterprise by taking into account the benefits for all stakeholders. This framework of business is based on an edifice towards the creation of a responsible infrastructure for a business ecosystem. And this organizational infrastructure is incomplete without discussing business professionals/managers of enterprises where extant literature seems to be scant. Against this backdrop, the book *Responsible business professionals: A strategic perspective of the global challenges* deals with the thematic areas encompassing responsible business knowledge and proactive management competences for the growing bilateral trade between India and Finland, as well as other countries in the global context. The economy of India is an untapped opportunity for the developed world as it has been designated as the fastest growing economy of the BRICS countries and has a lot of scope for

synergistic benefits that also have significant implications for the developed world. This book also aims to deepen the understanding of engagement and cooperation between India and European institutions and professionals in order to create spillover impacts for local and global businesses. The responsible business professionals (RBPs) of multinational enterprises (MNEs) are also largely responsible for augmenting trade engagements through their responsible stewardship. Responsible business is the outcome of responsible career choices by the individual resulting from imbibing work ethics and social and environmental accountability from a very early stage of life. Thus, it is of the utmost importance that responsible career choices are defined as "careers in which people seek to have an impact on societal challenges such as environmental sustainability and social justice through their employment and role choices, strategic approaches to work and other actions" (Tams and Marshall 2011, 2). The notions of responsible business, social entrepreneurship, and sustainability create dynamic and responsible career choices for individuals who, by making these choices, become agents of change across contexts. There is rising academic interest in the analysis of responsible careers that reflect the individual's conscientious commitment towards bettering society. Responsible careers have been called "boundaryless" due to "the rapid proliferation of emerging sectors, cross sector collaborations and innovative occupational communities" (Tams and Marshall 2011, 2). Responsible business practices by RBPs, contributing to social change, have immense scope for learning and adaptations that help resolve dichotomies such as how business as a strategic enterprise can be responsible, socially relevant and philanthropic. Responsible business practices get an impetus from effective skill management with equal emphasis on addressing the interests of diverse stakeholders, organizational priorities and value addition ability. The interdependencies in responsible business practices sensitize a larger mass of people involved—through organizations, relational commitments, and customer loyalties—to ideological commitments towards social and environmental issues as well as employee welfare. Thus, responsible developments in business have the capacity to adapt, modify and change the very DNA of larger organizational frameworks in the fields of commerce.

In this context, such a relevant and contextual work may further expand the understanding of responsible business prospects and challenges in sustainable growth within the perspectives of India's global trade engagements. India has had a dynamic business association with various countries with exports and imports of numerous products signifying extensive yearly profits for a long time now. Nevertheless, as Indian

corporations gradually expand overseas, the promising global context as a prospective market can attract major shares of these outward investments. There are many trade possibilities to be explored between India and other developed and developing nations as these countries can exploit each other's areas of competitive advantage. The association, however, has to be centred on policies that can help both sides overcome existing limitations while leveraging current potencies. While for India, teaming up with prospering global economies would generate access to greatly developed technology, for foreign companies, an alliance with India offers great prospects not only in terms of cost savings but also in terms of opening up possibilities for jointly developing products and technologies for a potentially large market for exports.

Responsibility in global business is no longer an endeavour of a few frontrunner enterprises. There are different categories of enterprises—small, medium, large and multinational enterprises—that engage in responsible business practices in a very specific and characteristic fashion "as a supplier-compliance process, a new green start-up, or as a small family firm deeply embedded in their local community" (Ryan et al. 2010). Though responsible practices and strategies may differ in types and categories of enterprises, the end result is the development of a responsible approach to business, which is a dynamic and continuing process. Responsible management practices involve three focussed groups of participants who, in turn, also become the transmitters of responsible practices—employees, customers, and society at large. Over time, responsible business practices tend to become more focussed on the external positive impacts of business wherein concerns of the environment, local community setup, and sustainability issues are addressed. The basic character of MNEs, specifically, has been oriented towards contributing to environmental and local sustainability. But what needs to be understood is the equal importance of internalizing the responsible approach in managing and training the human resources of the enterprises for mentoring RBPs. Thus, the organizational mission and processes reflect and address larger issues of responsible business practices that are ultimately targeted to contribute to holistic welfare. This calls for the reassessment of capabilities, processes, innovations, and leadership. The natural question that comes to mind is: do they fulfil the criteria that responsible business needs to be built on? In the last decade, we have witnessed the emergence of sustainability issues as one of the most paramount business concerns in an enterprise's value chain. Striving for social and environmental sustainability is an important task for governments and non-governmental organizations as well as business and

civil society actors. The transition towards sustainable business requires transition management, which is a multilevel mode of governance that helps societies to incrementally transform their activities in order to achieve the necessary sustainability levels. Responsible business practices are most visible in the organic agriculture sector around the world and specifically in India. In contemporary times, organic agricultural practices are thriving due to economic and social connections between farmers, community clusters, non-government organizations and governments leading to systemic innovations towards sustainability. These negotiations also pose pertinent questions: can environmentally responsible enterprises also be market friendly and profit driven? Do responsible business practices ensure the sustainability of the enterprise as well as social and environmental sustainability? These questions are addressed when developing responsible business setups and mentoring RBPs based on the premise that innovation is a key player in creating sustainable business practices. Empirical evidence, in the past as well as in the present, shows that responsible innovations in the business context are key to ensuring inclusive knowledge management that positively impacts the value chains, ensuring that all dimensions of business—market, society, stakeholders, professionals—are addressed. The entire discourse can generate responsible business only when the primary players—responsible business professionals—are encouraged and promoted through flexible, inclusive, pioneering management structures "which encourages participation and interaction with a range of stakeholders including employees, customers, and suppliers" (Ryan et al. 2010). RBPs with strong work ethics, social principles, and diverse experience, are able to connect with local communities from which the enterprises draw their workforce and are also prompt in tuning into the changing needs and preferences of the larger customer base. This is specifically true of RBPs in medium scale enterprises that may not have traditionally developed formal Corporate Social Responsibility (CSR) strategies and programmes but are contributing tremendously to responsible business practices. The dynamic contribution of RBPs in promoting sustained responsible business practices needs to be recognized and further encouraged for fertile dialogue, learning, and implementation.

Another important aspect to be looked into while exploring further trade possibilities between prospering global economies and India is the cross-cultural component affecting the expansion of businesses in these countries. Rapid economic growth and globalization have led to the expansion of overseas business alliances and the establishment of subsidiary units of MNEs in different countries. Such enterprises, when

they open operations overseas, hire employees from the host countries, creating a diverse workforce. This diverse workforce from different cultural backgrounds generates dynamic intercultural work interactions and learning. Thus, it becomes all the more pertinent that the RBPs and organizations operating in multicultural environments understand intercultural communication differences and manage cultural divergences so as to maximize responsiveness, growth and profit output. Research on the field of cross-cultural studies is evolving over time. Thus, the present book has also dealt with investigating several cross-cultural aspects that have implications for MNE operations across countries and continents.

## The Architecture of the Book

The coverage of this book surrounding the thematic areas discussed above can be broadly organized under three categories:

1. *Business ecosystem and RBPs:* The present global business environment calls for the adoption of creative, innovative and sustainable strategies and practices based on the edifice of responsible business practices. Responsible business practices are taken as the achievement of a set of goals related to forward-looking creative, innovative and sustainable business practices yet based on the fundamental principles of ethics and employee and consumer satisfaction. Responsible business practices are considered to be all pervasive and play crucial roles in guiding the organization towards integrating ethical ways of functioning and inclusive and holistic workplace policies for both the advancement of employees and contributions towards the achievement of sustainable development goals. In its 2015 global survey, BSR/GlobalScan found that an increasing number of companies perceive value in pursuing sustainable business practices and have started to integrate sustainability into their overall business strategies. Further, the transition from an industrial to a knowledge economy is driven by globalization, technological progress, deregulation and democratization (Halal and Taylor 1999) at a very fast pace. This has necessitated the emergence of a breed of creative and innovative managers who always look forward to navigating enterprises even in turbulent times. The competitive pressure may create a context in which discontinuities are very likely and managers may struggle to make sense of the rapidly changing world. Thus, the focus on RBPs may not be addressed properly

without an understanding of the global business context of trade engagements focusing on existing institutional mechanisms, regulations, and sustainability practices.

Kaisa Sorsa and Tarja Salmi-Tolonen in Chapter 2 elaborate on this further. In their chapter, they argue that sustainability is an ongoing process that calls for a breed of responsible managers with new mindsets and new methods to succeed. This is possible through transition management, a multilevel mode of governance to help societies incrementally transform their activities in order to achieve the necessary sustainability levels. This requires the assistance of "building blocks" towards transition management such as proactive law, a concept that encompasses enabling regulation and sustainability schemes, and proactive competences in the context of Finland and India.

Rabi Narayan Kar in Chapter 3 explores how RBPs from emerging economies are managing and engaging with diverse institutional mechanisms. Enterprises in emerging countries are thus experiencing an emerging breed of RBPs and managers from diverse backgrounds working in a multicultural transnational environment grappling with unknown institutional issues in unfamiliar surroundings and contexts. The chapter also throws light on institutional idiosyncrasies and other contextual factors surrounding emerging economies that enhance the expertise of managers and professionals in shaping and handling the emerging dynamics of doing business.

While India and the European Union (EU) have shared economic relations for a long time, the passage of time has seen these relations strengthen in manifold ways. In 2016, India emerged as the EU's ninth-largest trading partner. In that context, the editors thought a chapter that deals with the trade and investment environment to develop the reader's understanding in the business context of this book would be useful. In that direction, Niti Bhasin and Rinku Manocha in Chapter 4 examine the dynamics of India–EU trade and investment engagement. This chapter further helps in identifying the strategies and policy directions that could result in effective trade synergies by exploiting the competences of each side.

Anu Lähteenmäki-Uutela, Tuomas Paulin and Martti Nieminen in Chapter 5 explore the regulatory aspects of responsible business from the experiences of business contexts of India and Finland. Regulatory aspects create a strong foundational framework for responsible business practices. The authors deal with the similarities and differences in regulatory aspects

encompassing the business of both the countries that are expected to help the business professionals and managers to prepare for this.

2. *Developing responsible leadership and challenges:* Corporate leaders have pointed out that there is a dearth of professionals and managers who have the creative, critical and socially relevant mindsets required to transform business and society and to meet global challenges while being locally responsive. These professionals and managers are necessary to instil the idea of responsibility in the minds of managers and decision makers and impress the importance of responsible business practices on business processes. Responsible managers are thought to be constantly increasing their knowledge and skills through new experiences, personal insights and handlings, feedback and decision making. This helps them to have a creative knack of new awareness and to be able to rise to situations and position themselves to manage emerging risks and opportunities, besides correcting errors and mistakes. In the words of Ajay Kapur, managing director and CEO of Ambuja Cements, the company has consistently pursued "planning and performance on the triple bottom line (environmental, social and economic aspects). In fact, all our initiatives are governed by carbon mitigation, water conservation and augmentation, waste utilization, energy efficiency, community development, corporate governance, etc." (Live Mint 18th Sept 2017). The increasing presence of MNEs in emerging economies has also opened up avenues for new experiments while contributing towards societal developments. In that context, responsible business practices could be well described in the success story of Indian Tobacco Company's (ITC) e-Choupal model. The problems of Indian agriculture characterized by fragmented holdings, weak infrastructure and the involvement of numerous intermediaries, etc. gave rise to the e-Choupal solution developed by the RBPs through the use of ICT platforms. Under e-Choupal, ITC sets up a back-up physical digital support system at the village level through the engagement of a lead farmer. The lead farmer acts as the interface between the computer and farmers. This community-centric responsible model from ITC has added critical value to the existing supply chain by serving about four million farmers growing a range of crops in over forty thousand villages in India (Bowonder et al. 2007).

In its 2015 global survey, BSR/GlobalScan found that an increasing
number of companies perceive value in pursuing sustainable business
practices and have started to integrate sustainability into overall business
strategies. However, some companies still do not embrace it
wholeheartedly or view it as a stand-alone initiative. Among the practices
surveyed, respondents rated managing energy use and controlling green
gas emissions as the highest priorities followed by saving water and the
use of renewable energy alternatives. In addition to having a global focus,
the survey questions relating to sustainable business practices tend to be
more general rather than specific.

This book also has two chapters dealing with issues relating to responsible
business leaders. In Chapter 6, Ari Lindeman examines responsible
leadership from principles to business practices in the cases of Finland and
India by taking a comparative view. His chapter explores responsible
leadership outlooks from the point of view of the middle to upper level
management in the case of family-owned firms. He identifies further
challenges, which may aid managers in bringing in a more responsible
work culture in their organizations. The main findings of this chapter are
that there are differences in the responsible leadership outlook of Finnish
and Indian managers. The empirical analysis reveals that interaction
between managers and subordinates is directed at fostering an ethical
culture as well as concern for organizational performance. The comparison
of responsible leadership outlooks also brought up interesting challenges
for future management development in the case of managers of both
countries. The three-level analysis reveals that the focus of responsible
leadership is more on the micro- and macro-levels. At the micro-level,
Finnish managers focus more on team atmosphere and Indian managers
more on the processes or standard operating procedures. On the meso-
level, Finnish managers consider the character of the organization's
culture with a view to achieving a more results-oriented culture. Indian
managers would like to be identified as the promoter of the headquarters
and host country culture. On the macro-level, the company's legitimacy is
based mainly on the quality of its products and how the stakeholders and
markets value its efforts towards sustainability and associated responsible
practices.

In Chapter 7, Olena de Andres Gonzalez argues that the emergence of
MNEs allows access to the skills of highly qualified foreign
professionals/managers, manufacturing resources of the host country and
the possibility of fostering collaborative innovations and solutions for
sustainable development. On the one hand, it gives an opportunity to

obtain unexpected competitive advantages and to reach a new level in both production and marketing. On the other hand, interethnic barriers and cultural differences can adversely affect activities, not only at the level of team and employees but also at the leader level. This could lead to misunderstanding among the managers and hamper organizational synergy, thereby resulting in unforeseen expenses and significant problems. She also deliberates how competent managers should be able to maintain a balance between their own cultural values and the cultural values of foreign employees in order to obtain the advantages of management diversity. This learning could be used to create innovations and to provide solutions for sustainable development.

3. *Managing cross-cultural communication and management*: Globalization and internationalization of economic markets have led to severe competition, forcing companies to engage in exploring growth in new areas and markets. As a result of such business expansions, MNEs have set up bases in diverse cultural settings that create scenarios of cross-cultural interfaces, in turn giving rise to cross-cultural communication conflicts and challenges. In an MNE setup, the cultural diversity of the workforce results in communicational diversity that impacts organizational growth and management. Communication practices vary across different cultures and spaces, defining and separating ethnic identities all over the world. Cross-cultural communication plays an important role in negotiating cultural variations and national identities in multinational business organizations. In a multicultural MNE setting, the way in which employees communicate can set the tone and foundation for promoting a work environment that supports its operations and consumer requirements, while infusing unity and high employee morale. It is pertinent to identify the way people understand, converse and make decisions across diverse cross-cultural backgrounds so as to recognize managerial insinuations of cross-cultural management. Although it may be difficult to interpret certain statements and behaviours in a multicultural setting of those MNEs with subsidiaries in other countries, there must be considerable stress on acceptance and open-mindedness towards communicational diversity. Language and cultural misapprehensions, in such settings, can be evaded by expanding our understanding of other people and their cultures. This has given impetus to the importance of cross-cultural communication in shaping and developing RBPs/managers while doing business in complex territories with uncertain issues and

challenges. The global business context in the present times gives
rise to enormous responsibility in culturally diverse contexts and
the best practices for reporting, management, and assessment of
sustainability in the supply chain.

In this context, Kusha Tiwari examines intercultural communications in
multicultural settings for MNE operations from an Indian experience
(Chapter 8). This chapter aims to explore certain important issues and
challenges relating to cross-cultural communication and to find possibilities
of exploring cultural misinterpretations in employee interactions in the
cross-cultural settings of MNEs and subsidiaries. She also examines how
these MNEs formulate strategies to assimilate the diverse cultural
influences they encounter in the Indian cultural setup, simultaneously
balancing the national cultural characteristics of both the host and the
parent country for effective communication. The chapter further advises
MNEs on coping with differences in values, strategies and practices
between organization culture, national (home country) culture and host-
country culture by constructing cultural profiles for their managers
drawing from research, experiences of cultural adaptability, sensitivity and
negotiation skills.

In Chapter 9, Victor Manuel Piedrafita Acin, Kaisa Sorsa, and Keijo Varis
present an interesting cross-cultural route to explore sustainability in
supply chains from an assessment of Finnish industrial companies. They
conducted a comparative case study of CSR reports in five Finnish
companies having business operations in India. The findings from the
chapter seem to indicate that companies will tackle sustainability in supply
chains in the next few years, once it is fully implemented into their core
values, activities, and sustainability leaders push their suppliers to follow
sustainable practices.

Chapter 10 by Jagat Kanwar presents a comparative analysis of cultural-
based orientation towards group processes between India and Finland. The
empirical analysis reveals that a respondent's preference for group work is
not associated with their respective country of origin. There were also no
clear differences between the respondents regarding their perceptions
towards time and flexibility in scheduling. From the findings from the
chapter, it is quite apparent that the most significant difference between
Indian and Finnish respondents is their attitude towards building
relationships and trust. The findings suggest that Indian respondents
exhibit more relationship orientation and require much more personal
approaches to developing trust in comparison to Finnish respondents.

# Conclusion

The chapters in this book primarily deal with three aspects of RBPs: business ecosystems, developing responsible leadership, and managing cross-cultural communication and management. In these contexts and core discussion areas, this book represents an effort to generate academic discourses, develop an understanding and contribute to the literature on RBPs without deviating to focus on the CSR component for which there has been plenty of literature. CSR initiatives across multinationals have highlighted hierarchical divisions in business enterprises (large, medium and small) making this book more applicable to urban business. At the same time, the contributions in this book help expand the understanding of business commitments and cooperation between India and European institutions and professionals in order to create spillover impacts for the local and global markets, polity and environment. This book initiative is a significant intervention in underlining the ethical, moral, environmental, social and individual responsible practices that enhance the human accountability of business. Sustainability concerns are also addressed within the framework of this academic enterprise as one of the most significant business concerns in a company's value chain involving participation from governments, non-governmental organizations as well as business and civil society actors. This book encompasses the synthesis of many complementary features of RBPs and their tactical management endeavours that include interpersonal, intrapersonal, cultural, technological, relational and organizational angles. Thus, RBPs need to regularly update knowledge and skills and gain expertise to tackle risks, create opportunities, correct errors, manage the demand-supply equation and most importantly to contribute towards the responsible progress of business. Our contributors present their works based on the experience of the RBPs project, research literature and their own empirical analysis calling for the need for more insight into the responsible aspect of present-day business reality. Though the book has limited coverage due to many constraints, it is successful in raising issues and questions that broaden the context of present-day business operations towards better understanding by business professionals/managers in the contemporary knowledge era and opens avenues for further exploration.

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CHAPTER TWO

TOWARDS RESPONSIBLE BUSINESS:

TRANSITION MANAGEMENT THROUGH
ENABLING REGULATION, SUSTAINABILITY
SCHEMES, QUALITY MANAGEMENT,
AND PROACTIVE COMPETENCES

KAISA SORSA AND TARJA SALMI-TOLONEN

## Abstract

Striving for sustainability is an important task for governments and non-governmental organizations as well as business and civil society actors. It is an ongoing process that calls for a new mindset and new methods to succeed. Transition management is a multilevel mode of governance that helps societies incrementally transform their activities in order to achieve necessary sustainability levels. The process towards sustainability is accelerated with the aid of intermediaries. In this chapter, we discuss proactive law, a concept which encompasses enabling regulation and sustainability schemes, as well as proactive competences to provide feasible building blocks for transition management in this process. A special reference is made to the textile industry and to Finland–India trade.

## 1. Introduction

The year, 2018, marked the publication of the Intergovernmental Panel on Climate Change Report on Global Warming of 1.5 °C, known as SR1.5. The report "assesses what a 1.5 °C warmer world would look like, and the different pathways by which global temperature rise could be limited to

1.5 °C."[1] To reach this target new systemic solutions are needed to address current industrial production processes and to reduce consumption.

This level of systemic environmental change presents a number of real and significant risks to the economic longevity of a corporation. Remedies do not take effect overnight but incrementally and therefore transition management competences and intermediaries need to be in place to accelerate the changes.

The transition perspective recognizes the need to transform societal systems as the key mission of sustainable development (Grin et al. 2010). Societal systems are, however, embedded in societal structures which are constantly changing and require continuous efforts from multiple domains and actors. Therefore, shifting from current unsustainable development trajectories to more sustainable ones requires "a fundamental change in structures, culture and practices" (Rotmans and Loorbach 2010: 109). Transition management theory is a practice-oriented model that emphasizes the multi-domain and multi-actor characteristics of transition processes in different contexts. This theory aims to understand, analyse and explain the dynamics between actors and their activities in the process of sustainability transitions. Transition theory takes a governance approach to effect sustainability transition by constructing a management framework to propose and differentiate four levels of transition management activities, namely the strategic, tactical, operational, and evaluation levels. This paper employs transition management theory to help analyse the transition to sustainability within the textile industry.

We propose that the transition to achieving more sustainable business and sustainable development requires radical changes not only as far as government policies are concerned, but also to the systems of governance. According to Kemp et al. (2007), the need for change concerns not only national governments' policies but also the governance of international and global systems. Therefore, we will discuss transition management from regulatory and management points of view focusing on the actors and their regulatory activities—proactive law and sustainability schemes.

In order to enable responsible business, it is also important to investigate transition management from a company's point of view. How can organizations prepare themselves to meet the ever-changing requirements

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[1] https://research.un.org/en/climate-change/reports

and duties imposed on them by national governments and/or the global markets? Companies with different backgrounds and levels of maturity may view responsible business in different ways. When doing business in the global context involving increased competition and sweeping regulatory change (EYGM 2014), companies need to adjust their practices to those of the others in the market.

This paper unfolds as follows: we will discuss proactive law that encompasses enabling regulation and sustainability schemes integrated into contracts as well as proactive competences and propose them to be feasible building blocks for transition management. Firstly, in sections 2 and 3, we set up the scene and context—the textile industry in transition, and two states: Finland and India. Secondly, in section 3, we discuss the concept of proactive law and sustainability schemes, and then in section 4 the proactive competences and maturity levels. Finally, section 5 includes a discussion and concluding remarks.

## 2. Textile Industry in Transition—With a Special Reference to Finland–India Trade

The textile industry consists of establishments engaged in spinning natural and synthetic fibres into yarns and threads, which are woven or knitted into fabrics, and the fabrics are then dyed and finished. "The global consumption of textiles increases with an average annual growth rate of 3.6 percent, but the current growth path has come to its limits as the lack of arable land stagnates the production of cotton and synthetic textile materials have recently been put under inspection for micro-pollutants" (Seppälä et al. 2016).

The textile industry is facing huge environmental and resource challenges, as 63 percent of textile fibres are derived from petrochemicals (Lenzing 2017). Their production contributes to considerable carbon dioxide emissions (Shen et al. 2010). Furthermore, 37 percent of textile fibres are predominantly cotton, the cultivation and treatment processes of which require huge amounts of water (dyeing, finishing, printing, etc.). Textile reuse and recycling would reduce environmental impacts compared to incineration and landfilling. According to Sandin and Peters (2018), reuse is more ecological than recycling.

In terms of intensity, the textile and clothing trade is the world's second-biggest economic activity and accounts for seven percent of world exports. Today the bulk of textiles and clothing are manufactured in Asia,

particularly in China and India. The textile sector is also an important part of the European manufacturing industry.[2]

There is considerable business potential for the transition to a circular economy (hereinafter CE) in the textile industry and for improving the sustainability of the textile market. A CE of textiles is an increasingly sought-after solution that calls for new business ecosystems and textile recycling technologies as well as opening up entirely new, innovation-based opportunities for Finnish and Indian industries and companies.

## 2.1. CSR in Finland

Several recycling technologies have been developed in Finland, embedded in an ecosystem working strongly towards a CE. The *Finnish Roadmap to the Circular Economy* sets a clear target for Finland to become one of the leading countries in CE by 2025 (Ellen MacArthur Foundation 2017). However, reclaiming textile waste is not well organized at present and, in addition, some synthetic materials are such that they cannot be reused. Therefore, presently, textile waste is mostly incinerated. In 2012, only 1.6 percent of the total 71.2 million kilograms of textile waste produced in Finland were recycled (Seppälä et al. 2016), which falls dramatically short of the common EU target set at 65 percent of municipal waste by 2030.

Finnish companies have been relatively progressive in CSR (corporate social responsibility) and some of them perceive it as a potential competitive advantage. In the 2007 comparative report by AccountAbility, Finland was in third place globally concerning responsible competitiveness. [3] The Finnish government emphasizes the voluntary aspect of CSR in its public policy and has been very keen on promoting Finland as a CSR frontrunner. Key pieces of legislation related to employment, accounting, social security as well as environmental protection form the baseline for corporate social responsibility. The Finnish government also promotes key international initiatives such as the OECD guidelines, UN Global Compact, and International Labour Organization (ILO) principles (Kourula 2010).

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[2] https://ec.europa.eu/growth/sectors/fashion/textiles-clothing/eu_en
[3] https://www.issuelab.org/resources/11227/11227.pdf

## 2.2. CSR in India

India is the world's second-largest exporter of textiles and apparel, with a huge raw material and manufacturing base. The textile industry is a significant contributor to the economy, both in terms of its domestic share and exports. The sector is one of the largest sources of job creation in the country, employing about 45 million people directly.[4]

CSR in India is emerging; it is still in the initial stages but will grow in the forthcoming years. The practice of CSR remains in the philanthropic space but has progressed from institutional buildings (educational, research and cultural) to community development through various projects (Sabharwal and Narula 2015). The Companies Act of 2013 brought the idea of CSR to the forefront. Through its disclose-or-explain mandate, the Companies Act promotes better transparency and disclosure. Schedule VII of the Act lists the CSR activities and suggests that communities be the focal point. By discussing a company's relationship with its stakeholders and integrating CSR into its core operations, the draft provisions suggest that CSR needs to go beyond communities and beyond the concept of philanthropy. It will be interesting to observe the ways in which this will translate into action, and how the understanding of CSR is set to undergo a change.

CSR in India is undoubtedly getting more strategic in nature. Large numbers of companies are reporting the activities they are undertaking in this space. The CSR clause in the Indian Companies Bill, however, is unique, and the first for a big economy. It is a golden opportunity to set a new model for how businesses can make a real contribution to solving society's critical problems (Sabharwal and Narula 2015).

# 3. In Search of New Governance Instruments, Styles, and Intermediary Actors

Transition management and the role of intermediary actors has been discussed in various research papers since 2009 (Kivimaa et al. 2018). Intermediaries are agents or agencies that function as mediators to "work in-between, make connections, and enable a relationship between different persons or things" (Moss 2010). Kivimaa et al. (2018, 9–10) provide a definition of transition intermediaries and a typology of five intermediary types. Some intermediaries are specifically set up to facilitate transitions,

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[4] https://www.ibef.org/exports/apparel-industry-india.aspx

while others grow into the role during the process of socio-technical change. All types of intermediaries relevant to the textile industry will be discussed below in Section 3.1.4.

For future innovation governance, according to Kivimaa et al. (2018), systemic and niche intermediaries are the most crucial forms of intermediary actors in transitions, but they need to be complemented with a full ecology of intermediaries, including regime-based transition intermediaries, process intermediaries and user intermediaries. We will reflect on the role of intermediaries in the context of proactive law.

A new way of governance is needed, as the existing policy frameworks are piecemeal and policy areas are not suited to social complexity and long-term change. The new way of governance should be more open, adaptive, and oriented towards learning and experimenting (Kemp et al. 2007). Therefore, for instance in Finland, deregulation is a typical phenomenon when innovative solutions need to be piloted. Deregulation aims to open doors for learning and experimentation on the strategic fields of society as well as when there is the need for experiments between authorities from several sectors and civil society organizations (Finnish Government Action Plan 2018). Nevertheless, finding a balance and the optimal mix of steering and freedom is of critical importance.

Mäkinen and Kourula (2014) remark that although the boundaries of the governance of sustainability might be blurred between national and global levels, the national level is still important. Finland, a Nordic European welfare state, provides an interesting case of the political connectedness of CSR (Mäkinen and Kourula 2014). Mäkinen and Kourula (2014) argue that the globally emerging division of responsibility between firms and states (where the public tasks of society are increasingly on the side of corporations) is not new in Finland. In India, again CSR is an emerging activity, at the initial stages and will grow in the forthcoming years. On the other hand, companies willing to participate in global businesses have to find ways to demonstrate their responsibility and sustainability. This brings sustainability schemes and contracts into the spotlight.

It has been argued that deregulation opens doors for private actors to develop the governance instruments needed, for instance, in their governance of global business ecosystems. Moss (2009) claims that intermediaries originate specifically in response to new modes of regulation. This has been shown, for instance, in deregulating the coffee industry (see Sorsa et al. 2015).

## 3.1. Proactive Law is About Creating an Enabling Legal Environment for Organizational Actors

The word "proactive" implies acting in anticipation, taking control, and self-initiation. These elements are all parts of proactive law, which differentiates two further aspects of proactivity: one being the promotive dimension—promoting what is desirable, encouraging good practices; and the other being the preventive dimension—preventing what is not desirable, keeping legal risks from materializing.

Proactive law and a proactive approach to law are two angles of proactivity in the legal context. The first one emphasizes the content of the legal instrument and the other one the user of the law. In 2009, the EU's Economic and Social Committee, having heard some Nordic legal scholars and practitioners, published an opinion where they explained the proactive approach in a nutshell: "The Proactive Law approach looks for a mix of methods to reach the desired objectives: the focus is not just on legal rules and their formal enforcement" and further that "to secure the most appropriate mix of means to achieve them requires involving stakeholders early, aligning objectives, creating a shared vision, and building support and guidance for successful implementation from early on (Official Journal 2009, 26)."

Salmi-Tolonen (2011, 26) defines proactive law in a detailed way, not only describing it as a concept but also giving its domain, the forms it takes, its purpose and objectives: "A comprehensive concept concerning civil and commercial matters which refers to any regulation measure/activity undertaken by public or private actors, as well as its methods, instruments and results, whose purpose is by imposing duties, conferring rights and creating competences to enable and empower individuals concerned, or private or public bodies, in achieving their commonly defined goals. In practice, the forms this concept takes are rules, practices and/or processes." Thus, this paradigm covers the whole life cycle of the law from law-making and implementation to monitoring and also the substantive point of view (Sorsa 2011, 31).

The term co-regulation indicates that it does not seek to determine the norms which must be observed by certain actors, nor even the content of those norms, but rather the manner in which certain norms succeed in determining the behaviour of actors. The idea of control of the superior, for instance, the state, is softened and regulation has more of a co-operative character. In co-regulation, the contents of the law are created

together with the private actors, which enables sector-specific knowledge to be taken into account.

## 3.2. Enabling Regulation and Intermediaries

According to Sorsa's (2011, 31) descriptive and qualifying definition, proactive law is "enabling, empowering, user-friendly and dynamic law." This definition does not aim to define what kind of legal strategies or legal instruments should be used in order to make the law proactive, but rather to describe the quality of the outcome of the regulation procedure.

Regulatory authorities at international, regional and national levels have understood that sustainable development can be achieved only by all actors collaborating towards the sustainability goals. Rigid public laws and regulations do not support cooperation, therefore new governance modes and instruments are called for. According to Meloni (2010, 240) "in the past 20 years, governments have come to understand that regulatory reform is both an end in itself and a means to the end of enabling markets and supporting competition and trade liberalization, while promoting economic, social and environmental welfare." The nature of the regulatory process has been dramatically changed in the complex world. The transition from a "command and control" model to the model of regulatory governance has been the key focus of public sector reform in a number of OECD countries.

### 3.2.1. Regulatory Instruments Facilitating Transition Management

Co-regulation is one way of promoting proactive law's regulative strategy. It is an example of a legal instrument, which clearly mandates private actors to develop rules for different purposes together with the government. The UK example of nuclear regulation also indicates that enabling regulation is feasible even concerning such a critical sector as nuclear power regulation. This kind of strategic approach presumes that the regulator has trust in citizens, the target of regulation. The regulatory culture in the Office for Nuclear Regulation (ONR) is constructive. We propose that this could be a valuable approach for the textile industry's transition to sustainability, for instance in the European Union (EU) member states.

Sorsa (2009) used the proactive law concept to emphasize that the content of law could be proactive, but not the only approach to law. After investigating self-regulation and private regulation schemes, she found

that self and private regulation are more dynamic and user-friendly than government-based laws and regulations. They are easier to adapt to the different business contexts than state made laws, as they are created by the users of the law themselves. She also argued that these instruments should be used more by, for instance, the Finnish government. The Finnish government aimed to improve the regulation systems during the decade from the year 2000.

Regulatory strategies, for instance, co-regulation, outcome-based regulation, management-based regulation (Coglianese and Lazer 2003) and performance-based regulation, indicate the proactivity of the law from the process (law-making, implementation, monitoring) and contents points of view. Co-regulation refers to the strategy, which combines both public and private actors into the whole life cycle of the law. Normally in co-regulation, there is a reference in the law to private standards and private actors who are mandated to issue the standards. From the context point of view, the states or intergovernmental organizations' role in co-regulation is to set outcome goals, for example, UN sustainable development goals.

### 3.2.2. Intermediaries Facilitating Transition Management in the Textile Industry

EU legislation on fibre names and labelling aims to ensure consumer protection and provide the correct information to stakeholders: Textile Regulation (Regulation (EU) No. 1007/2011) on textile fibre names and related labelling and marking of fibre composition of textile products). According to the impact report, the Textile Regulation has had proper functioning in the internal market, giving accurate information to consumers, introducing more flexibility to adapt the legislation to technological changes, and simplifying the regulatory framework (COM(2014) 633 final).

Under the Textile Regulation, all textile products must carry a label indicating the fibre content including the fibre names, descriptions and particulars on the packaging, labels and markings, and in catalogues, trade and advertising literature. Another area of textile labelling consists of textile care labelling which is not compulsory. Care labelling, i.e. washing, dry cleaning instructions, etc. is recommended as a code of practice and has become an industry norm. The recognized and commonly-used

symbols are covered by I.S. EN ISO 3758:2012 Textiles—Care Labelling Code Using Symbols.[5]

Various sets of standards address everything from chemical use (waterproofing agents and flame retardants) to water processing procedures; from working conditions to animal welfare—an important consideration for companies that source raw materials such as wool, leather, and down. [6] Society is also gaining awareness of green consumerism and looking for eco products. Sustainability standards and certificates are also concerned with the safety of the consumer, the manufacturer, the society, and the environment at large. The standards are developed after cautious research, and certificates are issued upon the proper implementation of these standards (Amutha 2017).

*Systemic intermediaries* operate at a system level. They spell out, negotiate and define multiple interests across small industries and actors or across regimes to be more compatible with each other, advancing standardization and preventing strategic opportunism (Van Lente et al. 2003; Rohracher 2009).

The European Commission is engaged in dialogue with non-EU countries on policy and regulatory issues that affect the textiles and clothing industry. The legal framework for the textile industry in the EU is based on EU regulations and rules. The EU-India Directorate-General in the EU, in cooperation with European standardization organizations, supports and operates the Seconded European Standardization Expert for India (SESEI) project. Its objective is to raise awareness of the European standardization system, values, and assets in India.

*Regime-based transition intermediaries* are part of the established institutions in the prevailing socio-technical regime, but they are mandated to work towards transformative change. They may be government agencies, business networks or building professionals, which can take on roles of regime-based transition intermediaries and form networks with newly set up systemic or niche intermediaries (Kivimaa et al. 2018, 9).

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[5] https://www.ccpc.ie/business/help-for-business/guidelines-for-business/textile-labelling-regulations/
[6] https://outdoorindustry.org/article/true-state-sustainability-outdoor-gear-apparel-supply-chain/

In the regulatory context, the regime-based transition intermediaries very often seem to be non-governmental organizations which are mandated to work towards transformative change by the regime-actors. According to Amutha (2017), at present most industry practices are modified or transformed in order to achieve sustainability, and for these, standards are indispensable. Sustainable practices have introduced the three Rs—reduce, reuse, recycle.

The Textile Exchange (hereinafter TE) is committed to the responsible expansion of textile sustainability across the global textile value chain. It is a global non-profit organization that works closely with its members (textile suppliers, service providers, manufacturers, brands and retailers, and farmers) to drive industry transformation in preferred fibres, integrity and standards and responsible supply networks. The TE has developed several important industry standards, including the Organic Content Standard, the Responsible Down Standard, the Responsible Wool Standard, the Recycled Claim Standard, and the Global Recycled Standard.

*Process intermediaries* are actors who revolve around developing connections between different groups of actors as supposedly neutral actors and advancing day-to-day activities or information exchange to benefit transitions (Kivimaa et al. 2018, 9).

The Global Reporting Initiative (hereinafter GRI) is a global knowledge hub on sustainability reporting policy and sustainable development. The GRI works with a global multi-stakeholder network that includes experts who participate in working groups and governance bodies, reporters, and report users. GRI is not focused only on certain industry sectors. Instead, it is developing transparency and information exchange from companies to stakeholders. It specifically aims to improve the trustworthiness of knowledge (Wilborg and Söderholm 2013).[7]

Governments and public policy: the GRI serves as a policy knowledge broker, providing policy relevance on various global themes. GRI's Guidelines refer to and are based on several international human rights, environmental and labour treaties, standards, and conventions.[8]

According to Kivimaa et al. (2018, 11), user intermediaries are peers, or user support organizations, who connect new niche technologies and

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[7] https://www.globalreporting.org
[8] ibid.

practices to citizens and everyday life. In the private regulation case, these intermediaries connect different sustainability labels and schemes to citizens. As there are competing sustainability labels, consumers need information about the contents and trustworthiness of these labels and standards. User intermediaries also offer comparative information for consumers.

For instance, Fabric of the World. Learn. Share. Act (FOTW) is a community of thought leaders who support textile and fashion sustainability. Their aim is to create awareness and inspire changes across the textile life cycle. FOTW aims to produce unbiased, reliably sourced information about the textile and fashion industry to educate as a means to action. It hopes to become an empowering resource that enables one to learn, share and act on the challenges of the textile and fashion industry.

Of the private standardization organizations, Fairtrade can be mentioned. It was certified in the cotton industry in 2005.[9] Ever since, in order to address challenges in the textile and garments industry, Fairtrade has sought to expand to the rest of the textile industry supply chain.

The approach is geared towards comprehensively engaging employers and workers in the value supply chain in order to move towards better working conditions and pay. Its members believe that there is a necessity for cotton to be produced and used more sustainably, not only to reduce its burden on the environment but also as a pathway to lift farmers and their families out of poverty.

Standards, codes of conduct and sustainability schemes are as dynamic regulatory instruments as their contents and are typically evaluated after three to five years. Co-regulation may also make reference to private sector codes of conduct and other sustainability instruments, which evolve in the same way as standards. The proactive nature of law in co-regulation is based on its forward-looking character so that when regulation is developed together with those who will implement it, the implementation of the rules is easier and the willingness of those who are the subject of regulation to comply with the rules increases.

The proliferation of private regulation in view of sustainable business in the global economy has brought about the need to develop new proactive

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[9] Fairtrade textile standard, www.fairtrade.com

law competences (Sorsa 2011). There is also an ever-growing need to implement proactively sustainable management practices at a company level. Köksal et al. (2017) and Beske et al. (2014) found that a company's internal orientation is the main assisting factor for sustainable supply chain management. Proactive behaviour and initiatives are found to be more and more critical determinants for organizational success in Europe (see for example Crant 2000; Goerdel 2005; Pitt et al. 2002).

## 4. Proactive Competences

Finally, we map out competences to analyse their internal and external managerial tools for their transition towards more sustainable processes at all levels of the organization. Proactive law competences provide new practices and instruments in order to help businesses shape their business strategies and to succeed in the future business environment in a more sustainability-driven climate. Developing proactive management and proactive business law competences in an organisation are particularly crucial in global business networks.

The new components that companies need to add to their business strategies and policies are transition management competences. By competences we mean the proven ability to use knowledge, skills, and personal, social or methodological abilities in work and in professional and personal development. Competences describe factors beyond the success and performance of the firm and refer to an organization's ability to deploy resources. Competences here are of four main types: contents, process, relational, and organizational. Below, we describe in detail the components that we find are essential to a company's business strategies and policies and managerial toolkits to aid the transition towards more sustainable and responsible ways of doing business. In earlier studies, we recognized these four competence components to work towards proactive contracting (see Salmi-Tolonen 2008, 1–17).[10] We (Sorsa and Salmi-Tolonen 2009; 2011, 268) worked further to propose a maturity model for proactive contracting competencies and find that a similar matrix is useful for proactive transition management competences.

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[10] Corporate Contracting Capabilities, a project funded by the National Technology Agency of Finland and the Academy of Finland led by Kaisa Sorsa (TuAMK) and Soili Nystén-Haarala (UEF). Kaisa Sorsa and Tarja Salmi-Tolonen (UTU) conducted research in the project.

## 4.1. Contents Competence

An essential component of a company's contents competence is knowledge of the relevant line of businesses' environmental context. Environmental context entails knowledge of the legal context, both public (national, international, supranational) and private (international standardization organizations, e.g. ISO, industry-specific), compliance strategy, and in addition, information possessed and generated within the company.

For instance, in our showcase industry, the knowledge of the purpose and function of intermediaries in serving a particular firm's level of advancement and their purpose optimally and effectively. In other words, recognizing the best methods and posing the correct questions, for instance: what are the activities, skills, and resources the intermediaries should possess to serve this particular line of industry and this particular company best? Thus, the knowledge of allocating roles and responsibilities to the best actors both externally and internally and correctly conferring control and decision rights to appropriate actors are crucial. Perhaps most importantly since the future perspective of the businesses' lifecycle and horizon have been lengthened and widened understanding and managing future contingencies is a component that should be an integral part of every company's management strategy (see Salmi-Tolonen 2008, 1–17).

## 4.2. Process Competence

In the transition management concept process competence means the resources a company has to conduct projects both internally and externally, controlling compliance and increasing sustainable meaningful production methods within the company and all through its value chains step by step. This will entail negotiating and bargaining skills, in other words, interactive procedures and distributing roles and responsibilities. These are skills that are very much dependent on individual competences and therefore it is the management's duty to recognize these individuals and assign each one to a role best matching their particular skills (see Salmi-Tolonen 2008, 1–17).

## 4.3. Relational Competence

It goes without saying that relational competence is strongly tied to reputation and market position. Ideally, however, sustaining cooperation should be dependent on interactive skills and capacities and not only

unbalanced power relations. To ensure sustainability thrives in all aspects of business, ending a relationship that does not satisfy the company's own aspirations is more important than ever. Keeping communication channels open throughout the business relationship's lifecycle will undoubtedly reduce the risk of ending a relationship early and perhaps reroute the relationship without drastic measures that could disrupt, if not the whole niche of markets, some part of it (see Salmi-Tolonen 2008, 1–17).

## 4.4. Organizational Competence

Organizational competence is about the loci of competences in an organization. This is a question of the organization possessing knowledge rather than individuals. If it is the person appointed to a certain position who has the knowledge, risk is presented to the company if such a person leaves the company. Organizational competence is about organizing a knowledge repository to reside within the organization so that changes in personnel and management will not weaken the company's competences —considering an organization's level of maturity in helping the organization to utilize this in their future strategies and operations (see Salmi-Tolonen 2008, 1–17).

## 4.5. Assessment Tools for Transition Management

Maturity models are planned and designed for the improvement of business processes. Whatever a business improvement or change process is, it has to be a long-term commitment in order to succeed. Maturity in the transition towards sustainability concerns development and growth. The transition process is easier if there is a roadmap and a matrix to assess exactly where the company is on that map. First, one needs to decide how detailed the model needs to be or can be to be practicable and useful, and then decide on key performance indicators and levels from change resistance and pre-sustainability levels to more advanced levels.

Our work is still in progress and space does not allow us to go into all the details, but we will present a draft construction for a matrix of a Transition Management Maturity Model (see Table 2-1). Its further development will be presented in our forthcoming studies. The model displays some similarities in structure to the Contracting Capabilities Maturity Model but is, of course, focused on transition elements for sustainable business.

Chapter Two

**Table 2-1 A draft framework for a sustainability assessment model**

| KPA | PRE-SUSTAINABILITY | INITIAL | FUNCTIONAL | INTEGRATED | OPTIMIZED |
|---|---|---|---|---|---|
| CONTENTS | reactive | compliance | standardized | templates | proactive tools |
| PROCESS | no alignment | evolving | process plan | fully integrated processes | processes streamlined |
| RELATIONAL | no strategy | operative coop | tactical coop | strategic advantage | value generation |
| ORGANIZATIONAL | no company-specific management tools | teams assigned to create strategies | fully established | policies aligned | comparable to standards |

Every organization, public or private, needs indicators and benchmarking to assess the sustainability maturity of an organization. A sustainability maturity model may work as such a tool on both micro- and macro-levels. In other words, organization management can employ a sustainability maturity model to assess the organization's maturity or a regulator—private or public—can use it for assessing at the macro-level. Here we have presented a sketch of such a framework which we will develop further, but we feel that since definitions are many and regulation piecemeal even attempts to create such models are needed.

## 5. Discussion

Finding a balance between the free market and government regulation is a challenge to the public regulator as well as companies and civil society, but, in view of SR1.5, no more can this be in the future but needs to be right now in this day and age. In 1992, Ayres and Braithwaite argued that by working more creatively with the interplay between private and public regulation, the government and citizens can design better policy solutions. A number of studies indicate that overly specific rules can crowd out ethics and that strict enforcement, sanctions, and specificity can harm cooperation (Hodges 2015; Tenbrunsel et al. 1999: 684; Falk et al. 1996, 1161). On the other hand, public regulation can promote private market governance through enlightened delegations of regulatory functions. No one knows exactly at what point the remedy turns into a toxic cocktail. However, looking at the concept of corporate social responsibility we can see it has an impressive history in organization literature long before the legislators included it in their conceptual toolboxes. This very fact seems to indicate that, to begin with, organizations and organization theory saw that advancing corporate social responsibility is beneficial to business—a competitive advantage. Therefore, the commercial actors should be enabled and delegated to find the best transition methods with the help of intermediaries for each line of industry. So far, reuse and recycling in textiles, for instance, is hindered by the realization that it has not been economically sustainable. Crises are often catalysts for change and, given the reports, innovations will surely emerge to make textile reuse once again economically feasible the way it once was.

The SR1.5 report clearly indicates the urgency of measures to be taken to intercept the present trends and find novel routes to sustainability in all areas and levels of production, markets, and our way of life. It is clear that such a change can only be achieved gradually, step by step. For the transition period, a management strategy is needed. To speed up the

change, intermediaries as catalysts are needed. For instance, in India, "in order for more companies and social enterprises to work with each other, the sector needs 1) a knowledge database and a marketplace to create awareness among companies and social enterprises about each other's models and connect them, and 2) more enabling platforms or intermediaries, who can support and manage relationships and expectations between companies and social enterprises until they are used to each other's ways" (Parekh and Tenneti 2018).

It is traditional to categorize modes of legal enforcement into public or private mechanisms. In this paper, we have tried to show how transition management can transform this split between public and private enforcement into a coherent mechanism in aid of the common effort towards more sustainable markets (see Hodges et al. 2016). Outcome-based regulation irrespective of the enforcer seems to be the route to ensure the common goal of sustainability is reached.

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# Chapter Three

# Institutional Mechanisms and the Responsible Business Ecosystem: Experiences from Emerging Economies

## Rabi Narayan Kar

## Abstract

Over thirty years since the advancement of managing across borders research, multinational enterprises (MNEs) from developed economies are turning more and more towards developing and emerging nations in search of new markets, customers and the hunt for new talent after a prolonged stagnation, if not downturn. Meanwhile, companies from emerging and developing economies whose ambitions have outgrown their own countries are also seeking opportunities to expand through strategic choices. With the felling of some MNEs in the recent past, again the focus has shifted towards a responsible business ecosystem in the new structure. The emerging and developing country markets are characterized by a complex business environment, a plethora of institutional pressures and transitional issues and challenges. The international community finds it more challenging to do business as Western management practices and processes cannot be copied in developing and emerging countries. What works in one country does not necessarily work in another. How enterprises accept or engage in practices in developing and emerging countries would never be considered in the West. Enterprises in emerging countries are thus experiencing an emerging breed of responsible business professionals (RBPs/managers) from diverse backgrounds working in a multicultural transnational environment and grappling with unknown institutional issues in unfamiliar surroundings and contexts. This chapter has applied the framework of institutional mechanisms to the business ecosystem of MNEs to focus on the nuances of the emerging dynamics of business among these countries. It also reveals institutional idiosyncrasies

and other contextual factors and variations surrounding emerging economies which will augment the expertise of managers and professionals in shaping the emerging dynamics of doing business. These insights might further be useful in the formulation of improved national economic policies and institutional reforms towards the attainment of national competitiveness.

# Introduction

Globalization is the most important factor for the evolution of the changing business capacities with increasing integration in the world. Over thirty years down the line from the advancement of managing across borders research, multinational enterprises (MNEs) from developed economies are turning more and more towards the developing and emerging nations in search of new markets, customers and the hunt for new talent after a prolonged stagnation, if not downturn. Meanwhile, companies from emerging and developing economies whose ambitions have outgrown their own countries are also seeking opportunities to expand through strategic choices. With increasingly blurred boundaries of trade and investment, globalization has opened doors for these emerging economies to establish a competitive position. One of the reasons for the difference in the emerging/developing and developed countries could be in the context of the institutional mechanism. An institutional mechanism here may be defined as the "regulative, normative and the cognitive structures and activities of a nation that provide the desired stability and meaning or social behavior" (Scott 1995, 33). It has been argued that the institutional mechanism is the key determinant of competitiveness (Di Maggio and Powell 1983) and defines the general level of efficiency of a nation. Accordingly, MNEs are likely to invest in countries with strong institutional pillars of regulative, normative and cognitive structures, with high standards of rules and regulations, good professionalism and a strong cultural base of values and beliefs.

In addition, the cultural dimension of the institutional framework plays a very significant role in the working of business professionals and managers across nations. Cultural differences arise due to differences in values, beliefs and practices across organizations. The multicultural environment among MNEs and local companies can create clashes at different levels. The norms of working and expectations of workers at a given workplace can vary considerably for people from different cultural backgrounds working together. These cultural differences are suspected to

hinder the innovations that a manager could use for the growth of the business. Although managers acknowledge the potential benefits that diversity brings to a business, they also perceive that cultural diversity makes it difficult for organizations to collaborate across borders. Such cultural integration failures may not always lead to disasters, but often many cross-border mergers and acquisition (CBMA) deals fail on account of cultural clashes leading to high employee dissatisfaction and turnover. Thus, there are differences in the institutional frameworks of different economies based on governance, ethics, and cultural factors. As an example, India (or any other emerging nation) would have a very different regulative, normative and cognitive environment compared to any developed country like the USA where the institutional mechanism is much more developed. In this context, this chapter has applied a framework of the institutional mechanism on the business ecosystem of MNEs to focus on the nuances of responsible business dynamics while operating in different countries and emerging countries in particular. It also reveals institutional idiosyncrasies and other contextual factors and variations surrounding emerging economies which will augment the expertise of managers and responsible business professionals (RBPs) in shaping the emerging dynamics of doing business. These insights might further be useful in the formulation of improved national economic policies and institutional reforms towards the attainment of national competitiveness. This chapter is organized into five sections including the introduction. The second section presents a review of institutional mechanisms and operations of MNEs in the context of emerging nations. The third section analyses how managers and business professionals are grappling with issues and challenges in managing across cultures and nations. The fourth section deals with recent developments related to managing research, development and innovation (RDI) by MNEs from emerging economies. The last section presents a discussion and conclusions.

## Institutional Mechanism and Emerging Economies Business Ecosystem

The institutional theory explains that multinationals encounter multiple levels of institutional environments (Chan and Makino 2007; Huang and Sternquist 2007). On the one hand, it is the environment of the home and host country and the local industry faced by those MNEs operating in the same environment. On the other hand, it is the MNEs own institutional environment consisting of systems and practices that are established by

every MNE over time (Ingram and Silverman 2002). Therefore, according to Dunning and Lundan (2008), there is a need to reconcile the macro- and micro-levels by studying the influences between MNEs and institutions. It has been argued that the weak regulatory systems in these emerging economies hinder the growth of the domestic firms since having weak institutions increases the costs of sourcing inputs, distributing products, and mobilizing resources (North 1990). But the same is not true of the MNEs that enter these emerging economies. These MNEs optimize upon the prevailing economic situations they operate in. In fact, these MNEs often employ their unique organizational form to arbitrage between varying institutional constraints and reallocate resources across national borders, effectively putting "sovereignty at bay" (Kobrin 2009; Vernon 1971, 3). However, it may not always be easy to enter and survive in a new market for an MNE. The political and economic differences underline the importance of good management for an MNE to succeed in the long term (Howcroft, Ul-Haq and Hammerton 2010). However, this scenario has been changing very fast since the turn of this century. Traditionally, emerging markets have been destinations of investment from the developed world. In the last few years, the trend has reversed drastically, with more MNEs from emerging nations investing in developed countries. Many new economies are emerging to be a part of the world economy, countries like India, China, Brazil, Russia, and South Africa, in addition to the world's largest emerging markets on account of population and land area. The competition in these economies is not only from other MNEs from the developed world but also from local counterparts. As per the BRICS Joint Statistical Publication 2015, BRICS countries share around 58.4 percent of the world population and cover more than a quarter of the world's land area. There are tremendous opportunities in these rising economies as consumers are getting richer faster than their counterparts in the West (Woolridge 2010). There have been limited numbers of studies on the outward FDI (OFDI) from emerging nations and these only after the World Investment Report of UNCTAD dedicated its 2006 edition to this subject.

> The Report stresses that such outward investment offers an additional avenue for developing countries to link up to global markets and production systems. If managed successfully, these investments can help firms access markets, natural resources, foreign capital, technology or various intangible assets that are essential to their competitiveness but that may not be readily available in their home countries. Appropriate policies are needed to mitigate the risks and costs and seize the opportunities arising from outward investment. (World Investment Report 2006, UNCTAD)

Figure 3-1: BRICS OFDI 1980-2017
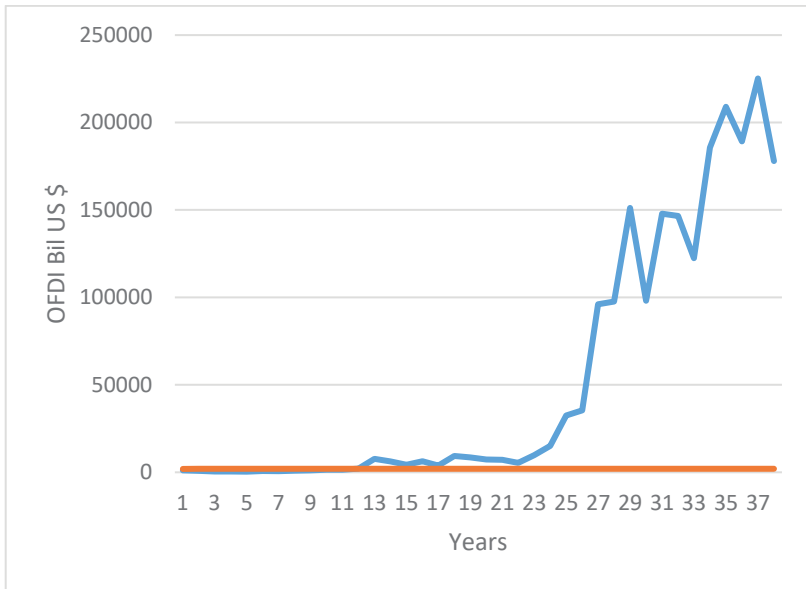


*Source: Authors compilation based on UNCTAD OFDI data*

One of the major drivers of this change is the trend towards trade liberalization in most emerging economies. Many emerging countries are encouraging OFDI with a view to bringing benefits back to the home country such as building up the competitiveness of their firms and access to markets, technology and knowledge of the other economies (Fig. 3-1).

As argued by Findlay (1978), the benefits of investment to an MNE will depend on the technology gap between multinational and local firms. The greater the difference the greater the spillover effect. If the destination of investment is a developed nation, the gap could be too large and technology too remote for an MNE to reap the benefits (Taki 2005; Girma et al. 2001). It is also observed that in poor countries, MNEs from emerging countries often do better than MNEs of developed countries. This is due to the fact that an MNE from an emerging nation will well understand the challenges in a poor country, along with having lower overheads and technology better suited for the country. MNEs from the emerging world are usually closer to the host country, both geographically and culturally, and are more familiar with the risks associated with

investing in such less-stable economies having uncertain political and regulatory environments (Economist 2005; Aykut and Ratha 2004).

However, MNEs have to counter a lot of difficulties and challenges while operating and growing in markets different from their own. Institutional frameworks, cultural factors and consumer preferences are among the factors that make it challenging for an MNE to sustain itself in other geographies. While it has been observed in the past that at times of recession or downturn companies tend to restrain themselves from investing in order to reduce their exposure to the uncertain environment, the current economic downturn has triggered many companies to go global hoping to change their outlook and to become more aggressive. MNEs face diverse challenges when it comes to dealing with and operating in these dynamic multi-country environments, including cultural differences, standards and practices (Sauvant, Maschek and McAllister 2009). According to Zainulbhai (2005), appropriate market segmentation, relating to the low spending power of the major part of the market, and developing effective marketing strategies to apply in different sections of the transforming society are some of the other major issues facing MNEs in emerging markets. He also sheds light on the education system, judicial system, political system, and cultural differences while talking about the challenges that MNEs face.

As the world is getting smaller with MNEs trying to cross borders, obstacles that arise from the emerging and developing countries as compared to the developed world—such as weak organizational structures, constitutional competence issues, and the integrity and adequacy of personnel systems and administrative processes—hamper efforts to build up relationships with partners and customers. MNEs have a positive influence on their local counterparts such as making them more competitive, putting in place better technologies and methods and hiring skilled labour (Malchow-Moller, Markusen and Shjerning 2007). Although MNEs are said to bring in a number of benefits to the emerging markets such as advanced technology, increased employment, improved balance of payments, better fiscal positions, and improved quality of products and services, less credit has been given to them for it. It has been argued that since these companies mostly come from the developed world—the USA, UK, Germany, France, etc.—they try to impose Western cultural practices on third world countries rather than bringing in economic development. There have been instances where economic progress is achieved but with significant damage to natural resources, the environment, and social justice. Some examples from the past are the

Bhopal Gas tragedy, the BP oil spill, Vedanta, POSCO, and Royal Dutch Shell in Niger Delta.

To date, researchers have mainly focused on MNEs coming into emerging economies as well as firms competing domestically in emerging economies (Hoskisson et al. 2000). Less focus has been given to the internationalization of firms from emerging economies (Luo and Tung, 2007; Wright et al. 2005a). MNEs from emerging economies are increasing performance while crossing borders and making their presence felt. According to a report by Deloitte Touche Tohmatsu (2006) around fifteen new ventures from developing nations made their way into the top one hundred fastest growing Asia-Pacific based firms. The top three firms recorded an astonishing three-year growth rate of above one thousand percent. It is imperative to give attention to such new wave cross-border activities from the emerging world.

Emerging nations are increasingly moving towards investing in developed economies as a strategic decision, changing their role in the global FDI activities as suggested by the World Investment Report (2006). According to UNCTAD 2006, the number of countries investing more than $5 billion OFDI had reached twenty-five compared to only six countries in 1990. What factors are driving these emerging and developing nations towards the developed world? Are there any factors which give impetus to emerging nations' MNEs for better performance in their host countries in comparison to home countries? Does the institutional mechanism of a country play a role?

MNEs from emerging economies might become so competitive in the domestic economy that it would encourage them to seek opportunities abroad in order to avoid clashing with huge MNEs in their home country. But, why would an MNE want to explore abroad in a developed nation rather than an emerging economy? The answer lies in the benefits that accrue to MNEs when entering a developed economy. Such benefits may be in the form of more learning opportunities, bigger markets with better potential, and reduced institutional and country risk. An added advantage is that an MNE from an emerging nation that opts to enter a developed economy would have opportunities to explore a better knowledge base, learning horizon and competitive position in its home market through learning from the host market. Lower risk of expropriation, less corruption, better technology, etc. are some other factors that contribute to the motivation of emerging nations to step out of their economies and invest in developed economies. Finally, there is simply the attraction of

the huge developed market in a developed economy that may entice the attention of new ventures from less developed emerging economies (Porter 1990) by providing them access to a market that can substantially increase their potential revenues, profits, and cash flows.

Another view is that the decisions and strategies of MNEs moving internationally from emerging to developed economies are based on the institutional framework theory (Baker, Gedajlovic, and Lubatkin 2005; Lee, Peng, and Barney 2007; Meyer and Peng 2005; Peng, 2003; Peng et al. 2008; Wan and Hoskisson 2003; Yeung 2002). Scott (1995) gives the three fundamental pillars of institutions in an economy: regulative, normative and cognitive. The regulatory dimension consists of rules and regulations relating to environmental compliance, pollution limitations, labour issues, and safety aspects, to name a few, that are generated from government, legislative authorities, courts and other regulatory bodies. Even after so many years of globalization and worldwide inter-connection of all economies, there is still a long way for many developing economies to go to match the developed world in terms of the regulatory environment. Developed economies are likely to have more pro-firm regulations, less corruption, and more transparent and better organized capital markets (Lee et al. 2007; Peng 2003; Puffer and McCarthy 2001).

The normative pillar refers to the values and norms held by the individual in a given country (Kostova 1999, 314) and is rooted in societal beliefs and norms and prescribes desirable goals and the appropriate means of attaining them (Xu and Shenkar 2002, 610). It refers to the broadly accepted values and norms within a society (Parsons 1960; Scott 2003, 136). An MNE from an emerging economy will need to build up legitimacy. Legitimacy is defined as a generalized perception that the actions of an entity are desirable and appropriate within some socially constructed norms, values, and beliefs (Zimmerman and Zeitz 2002). The desire to build up legitimacy is based on the view that the MNE will be better off associating with credible locations (Stuart, Hoang, and Hybels 1999). By investing in a developed market, they are signalling high quality and a better flow of resources to their customers and investors. Therefore, in order to have greater legitimacy, MNEs from emerging nations have the normative pressure to enter a developed economy.

The third dimension of the institutional mechanism is the cognitive dimension, which reflects the beliefs, values and assumptions of a particular society. This may be referred to as the 'right thing to do' in a society. The MNEs from emerging economies sometimes have the

ambition to go global from their very inception. By investing in a developed economy, they assume that they are doing the right thing as they are contributing to the nation's success and doing societal good after a solid foundation and experience of their home country. However, the large cultural differences between these nations may not be easily overcome by MNEs from emerging nations. Institutional distance constitutes a major source of liability of foreignness, which is defined as "all additional costs a firm operating in a market overseas incurs that a local firm would not incur" (Zaheer 1995, 343). These firms may find it difficult to effectively communicate with host-market constituents due to divergent values, beliefs and worldviews that result from differences in the cognitive and normative pillars (Kostova 1997). Thus, while managing across cultures, the relational hazard facing these firms comes from a lack of the innate host-cultural knowledge needed to monitor the potential opportunistic behaviours of the host-market constituents as well as the need to reconcile diverse values and beliefs.

## Managing Across Cultures

As more and more MNEs from emerging and developing countries operate across borders and cultures, business professionals and managers, as well as the workforce, need to broaden their views on the cultural and sub-cultural differences that prevail. The success of business professionals and managers in today's global economy would much depend on their abilities to deal with multicultural issues. Therefore, business professionals and managers must view this reality of cultural diversity as a challenge, rather than considering it a problem, by developing special skills in order to deal with the situations in sensible and synergic ways. It has been observed that the changes in the global automotive industry have transformed the geographic and cultural locus of control for the industry from developed to emerging countries. The rise of China, India and South Korea as top automotive producers gives lots of cultural challenges for the North American and European automotive industry and their employees. The cultural implications of these changes are profound, with "Eastern" countries emerging as dominant players in the industry and "Western" societies becoming less relevant. Such changes create challenges for international managers, business professionals, and employees who must now interact with and understand the cultural practices of other countries and societies (Luthans and Doh 2012, 140).

Taking care of cultural differences is also very important for an MNE as it is bound to be facing issues relating to values, beliefs, assumptions and attitudes when dealing with different groups of people across borders and cultures. Cultural differences are difficult to observe and measure but are critical when it comes to choosing the right destination for investment. According to Hopkins (1997), cultural diversity refers "to an individual's affinity or identification with a particular cultural dimension which may include, but is not limited to, the following: race, ethnicity, nationality, color." However, in order to survive in the competitive world, organizations today need to welcome diversity within and across organizations (Wright et al. 1995; Arredondo 1996; Hopkins 1997). Large MNEs dealing across nations, in particular, are more exposed to cultural diversity in their day-to-day operations. Such organizations need to understand and shape their practices according to the diverse cultural situations they operate in. They need to make their workforce diverse in order to cater to the needs of their customers from diverse cultures and inculcate a spirit of responsiveness.

However, some studies have shown that diversity may also lead to inefficiency and poor performance of the workforce (De Beer 2009; Mayhew 2011). A number of conflicts arise with diversity in the workforce. Therefore, it becomes imperative to have flexible and broad management strategies (Joplin and Daus 1997). People coming from different cultures to work together do share the common basic concepts, but the way they look at and interpret things are from different perspectives, which makes them behave in different manners thus creating misunderstandings (Lewis 1999). There could be direct as well as indirect costs associated with managing diversity poorly. Direct costs may include the likelihood of increased labour turnover and absenteeism. Indirect costs may be associated with the loss of reputation and difficulty in attracting high-quality employees to the organization (Childs 2005). Thus, managing across cultures requires a careful understanding of the local environment, because common assumptions and stereotypes are no longer valid and may contribute towards increasing cultural distance. Cultural differences must be addressed, and this is why cross-cultural training and research will continue to be critical in helping enterprises, managers and other business professionals learn how to manage across cultures.

# Managing RDIs: Recent Developments

It is a general misconception that RDIs are always generated in developed countries and are exported to the developing world. But this perception is changing around business innovation in present times. Over the past two decades, MNEs from emerging economies are increasingly contributing to RDI activities. Emerging economies like Brazil, Russia, India and China are increasingly promoting firms that are developing their own innovative capabilities and are emerging as big players in technology-intensive sectors such as mobile communications, electronics and information technology (Mathews 2002) as well as automobiles. MNEs from emerging economies are increasingly innovating new products that are much cheaper than the products of developed economies since they are able to design products/services in the most cost-effective way. Their focus on cost and price has proven fatal to industry leaders who fail to resist the price competition. This is vividly illustrated in the cases of textile and shoemaking manufacturing, among others, which have virtually disappeared in the U.S. and European countries.

What is driving these emerging nations to compete in the global innovation landscape? For a long time, the traditional innovation model based on an internal focus was highly effective, and many managers felt very comfortable about controlling internal organizational processes. "However, in the last twenty years, the world has changed significantly. The traditional internal focus has become less relevant as a result of accrued competition, accelerated rates of technological change and the progressive erosion of organizational boundaries. The rise of communication technology and the diffusion of suppliers, buyers or designers within industries have contributed to the reduction of the locus of control that managers once sought to maintain" (Kaminska and Toustou 2016). In this new context, managers need to open up their companies to all possible sources of diversity. This is where MNEs from emerging nations have an advantage as they can solicit inputs from many actors, both internal and external, for organizational creativity, adaptability and faster learning geared towards innovation. In this context, we put forth the notion of the Indian system of *Jugaad* used to describe the kind of ingenuity that enables Indians to manage the large and small challenges of everyday life. The essence of *Jugaad* is to improvise and to quickly and cheaply cobble a solution together from the materials you have at hand (frugal innovation). Thus, it has a strong learning connection in that there are elements and innovations in the Indian methods and attitudes that are so general, they can be transferred and used by others as an inspiration and

challenge to the usual way of thinking about business development (frugal innovation/engineering) (Kar et al. 2016). The other version of *Jugaad* may be related to the relationship context where one can manage to do anything by beating the system—a notion that is passed down to lower management levels within a spirit of normality. The same relationship context is also visible in other developing and emerging nations. The enterprise learning and relationship building perspectives are complementary, as networks and relationships can facilitate knowledge sharing and learning within the firm and throughout management lines and levels (Mathews 2006); their interrelation allows managers to help subordinates with the identification of opportunities and problem-solving capabilities based on prior knowledge and experience and to accelerate the learning of middle managers though imitation (one of the most effective ways of learning) from the higher management that is managing them (Kar et al. 2016).

Recent literature identifies some of the factors driving these emerging MNEs. Firstly, emerging-nation MNEs are increasingly internationalizing across borders which increases the need to research, develop and innovate in order to meet the needs of today's customers and compete with the developed world. By going across borders, firms get an opportunity to exploit the host country's scientific and technological inputs and innovate in line with the products and facilities available there. Secondly, in order to be a part of today's competitive market, there is an increasing need for firms to innovate products faster and provide them at competitive prices so that they can survive in the global market. Thirdly, emerging economy governments have provided favourable policies to encourage research and development investments by domestic as well as global companies (Cheng and Bolon 1993; Li and Zhong 2003; Mathews 2002). Finally, by collaborating with developed MNEs, emerging MNEs are learning to develop innovation capabilities and are transforming from imitation to innovation (Li and Kozhikode 2008; Mathews 2002).

Emerging countries have innovated unprecedented leadership in developing new multilateral institutions, even after the 2008 global economic crisis. During the post-2015 slowdown observed in many emerging economies, two new multilateral financial institutions of consequential size and scope were created to steer growth: The Asian Infrastructure Investment Bank (AIIB), a Chinese-led initiative; and the New Development Bank (NDB), an effort championed and owned by the BRICS nations (Brazil, Russia, India, China, and South Africa) (Casanova and Miroux 2017).

# Discussion and Conclusion

Since 2000, the world has seen a new MNE order as MNEs from emerging and developing countries have been found to be among the largest firms in the world as shown on the Fortune Global 500 companies list. This has been possible due to the resilience of emerging market economies even in the wake of recent challenges. The discussions in this chapter have listed several challenges and difficulties while operating across nations and cultures. However, these economies continue to defy expectations as they prove to be the new engines of world economic growth as they have not only become major production centres or trading hubs but also increasingly are making their mark as investors and innovators. Strong policy support, coupled with a desire to seek new markets, resources, efficiency and strategic assets, has fuelled much of their surge among developed countries.

The context and evolution of managerial processes in emerging and developing countries are not identical to those in developed countries. Emerging and developing country firms, whatever their origin and ownership, are part of a transition that requires managers and their own management to adapt to very rapid contextual change that is all-encompassing and multi-layered. While management theories of developed countries have claimed that the leadership taught is of conceptual use within this context, in reality, it is the capacity of leaders to transpose this learning into local contexts and cultures that makes them particularly able to manage middle or lower level managers. In this context, the modern business professionals and managers from emerging nations are looked to to foster innovation, to act as facilitators and culture builders. It is expected that they will bring the right people and other resources along with whatever support mechanisms are required in the processes and layers to foster innovation and new thinking across borders which ultimately benefit the enterprises. These dynamics have set the stage for the continuous engagement of enterprises and their managers with the emerging challenges and with the search for opportunities for growth. However, more research is needed on what is done by MNEs and managers from emerging nations about handling different issues, governance challenges and ethical practices in cross-cultural settings. More research also needs to be undertaken to understand the processes involved and how these could be used by MNEs from these countries to provide adequate preparations for managers undertaking international assignments.

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# CHAPTER FOUR

# AN EXAMINATION INTO THE DYNAMICS OF INDIA-EU TRADE AND INVESTMENT ENGAGEMENT

## NITI BHASIN AND RINKU MANOCHA

While India and the European Union (EU) have long shared economic relations, the passage of time has seen these relations strengthen. In 2016, India emerged as the EU's ninth-largest trading partner. Both India and the EU have been growing as prospective markets for trade: countries within the EU have been liberalizing trade, capital, and labour mobility among themselves as well as making efforts to strengthen trading partnerships outside the EU, while India has emerged as a fast-growing economy with low-cost skilled labour, liberal trade and investment policies, and a massive consumer market. These favourable conditions create immense opportunities for greater trade engagements between both sides. The present paper is an attempt to understand the level of India-EU trade and investment engagement and identify the strategies and policy directions which could result in effective trade synergies by exploiting the competences of each side.

## India-EU Trade Relations: A Prelude

Both India and the EU have been progressively engaged in the process of trade and investment liberalization. The EU has actively participated in the WTO exercise of liberalization and the largest number of regional trade agreements have been negotiated (and are in force) in the European region (both intra-regional and extra-regional). Almost half of the world trade agreements notified to WTO have emerged in Europe (Mohapatra 2015). Like trade, the EU is also working towards investment liberalization. As per the Investment Policy Hub, UNCTAD, the EU has negotiated sixty-nine Treaties with Investment Provisions (TIPs). Such a scenario indicates

an intent to promote trade and investment both intra-continent (the European continent) and inter-continent. At the same time, India has also kept pace with the global liberalization wave and has emerged as an attractive prospective destination for both trade and investment. Subsequent to the first liberalization wave in 1991, India has negotiated sixteen Regional trade agreements (out of a total of eighteen that have been negotiated and are in force).[1] Further, there was no BIT (bilateral investment treaty) or TIP ratified by India prior to 1991. Since 1991, India has negotiated around sixty-one BITs, of which fifty-two are in force, and thirteen TIPs, of which nine are in force.[2] Many of these BITs have been negotiated in EU countries such as France, Finland, and Greece.

India and the EU have been strategic trade and investment partners for many years and are further strengthening and expanding their key partnership areas to gain mutual benefits. India was the eleventh-most significant market for EU goods and the ninth-most important source of imports into the EU in 2015 (European Union and India, Trade and Investment 2016). Moreover, in 2015 the EU and India have been significant contributors to trade in services.

India was one of the first economies to develop relations with the European Economic Community (ECC) in early 1960. In 1994, the EU and India signed a cooperation agreement to strengthen their political and other diplomatic relations. Fourteen EU-India summits have successfully taken place up to the 6th October 2017. Since 2007, India and the EU have been negotiating a bilateral Broad-based Trade and Investment Treaty (BTIA) on a fast-track basis. Seven rounds of discussions have occurred since then and both governments are trying to figure out the best possible modalities. These covered not only trade and investment—India and the EU have also initiated other notable agreements in areas such as science and technology, energy, coal, financial services regulations, environment, sustainability, and others.

Over the years, both the EU and India have endorsed a large number of memoranda of understanding (MoUs) and bilateral agreements, which include the following:

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[1] Based on data retrieved from www.wto.org on 26th Nov 2018
[2] Based on data retrieved from https://investmentpolicyhub.unctad.org on 27th Nov 2018

- Science and Technology Agreement negotiated in 2001 (renewed in 2007 and in 2010)
- Joint Vision Statement for promoting cooperation in the field of Information and Communications Technology signed in 2001
- Customs Cooperation Agreement (2004)
- MoU covering cooperation in Employment and Social Affairs negotiated in 2006
- Horizontal Civil Aviation Agreement signed in 2008
- Joint Declaration in the field of Education and Training signed in 2008
- Joint Declaration on Multilingualism negotiated in 2009
- Agreement in the field of Nuclear Fusion Energy Research (2009)
- Joint Declaration on Culture signed in 2010
- Memorandum of undertaking on Statistics negotiated in 2012
- Joint Declaration on Research and Innovation Cooperation signed in 2012
- Joint Declaration on Enhanced Cooperation in Energy negotiated in 2012
- Joint Declaration on Water Partnership signed in India-EU summit held in 2016
- Joint Declaration on Common Agenda on Migration and Mobility held in 2016
- Joint Statement on Clean Energy and Climate Change signed 2017
- Joint Statement on Clean Energy and Counter Terrorism in 2017
- Joint Declaration on a Partnership for Smart and Sustainable Urbanization negotiated in 2017[3]

Despite the above agreements, India and the EU have not been able to exploit the immense trade and investment potential that can be harnessed to the mutual benefit of both regions. A number of studies have captured the trade potential of an FTA (free trade agreement) between the two and also identified the areas of ambiguity or disagreement between India and the EU that have prevented the conclusion of a free trade agreement between the two countries (Francois et al. 2008; Sharma 2009; Khorana and Perdikis 2010; Chakraborty 2012; Felbermayr et al. 2017). Francois et al. (2008) quantifies the economic impact of a possible EU-India FTA

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[3] Data collected from European Commission press release for EU-India Summits held in 2001, 2007, 2010, 2004, 2006, 2008, 2009, 2010, 2012, 2016, 2017

using a computable general equilibrium (CGE) model and finds a positive impact of FTA formation for India both in the long and short run, whereas positive effects were predicted for the EU only in the long run. Felbermayr et al. (2017) quantifies a potential India-EU FTA using a multi-country, multi-industry Ricardian trade model and concludes that the proposed FTA may approximately double the Indian-EU trade in business services.

However, this immense trade potential can be utilized only if the concerns of both countries related to trade, investment, and IPR (intellectual property rights) issues are amicably settled. Sharma (2009) and Khorana and Perdikis (2010) identify some key areas of concern of a potential India-EU FTA based on wider political and economic perspectives and suggest that both the EU and India should address trade barriers (both tariff and non-tariff) and services sector issues to maximize the benefits of a potential FTA. The EU policies which restrict the trade and investment potential of India include the provision of farm subsidies provided by the EU to domestic producers; imposition of anti-dumping norms on a number of Indian exports; provision relating to barriers on the movement of professionals; and the priority of the EU to include a number of WTO-plus provisions in potential FTAs (Chakraborty 2012). Khorana and Asthana (2014) state that public procurement is one of the significant issues of conflict for an EU-India FTA framework. Štěrbová and Trojanová (2013) analyse the Indian system of protection of pharmaceutical patents and its impact on the EU pharmaceutical research-oriented industry and on potential FTAs. Some other studies have examined the investment prospects between India and the EU and identified the major determinants of FDI flows to India from EU countries as GDP, domestic capital formation, trade openness, inflation, and BITs (Kumar and Bhatia 2018; Mohapatatra 2015). Roman et al. (2014) analyse the presence of Indian companies in the European market and identify some fields with investment potential along with the barriers they encounter. Studies have also suggested proactive ways of improving the trade and investment engagement between India and the EU (Upadhyay 2014; Natraj 2015). Upadhyay (2014) captures areas such as clean technology, renewable resources, research and development, sustainable development and knowledge sharing as significant for improving India-EU relations. Natraj (2015) states that improvement in Indian manufacturing through domestic reforms, slashing of tariffs, and proper government procurement processes will provide an incentive to EU companies post-FTA formation.

The extant literature thus acknowledges the potential of a wider and deeper trade and investment engagement between India and the EU while pointing out the barriers which have prevented this engagement from becoming significant.

# India-EU Trade in Goods

While India features among the top ten destinations as well as source countries for EU exports and imports respectively, it does not appear to be a major trade partner of the EU in terms of share in its total trade (with a less than one percent share as a destination country of the EU's total exports to the world and a less than one percent share as a source country for the EU's total imports from the world) (Tables 4-1 and 4-2). There are numerous opportunities which are yet untapped for India to become a significant trading partner for the EU both in terms of its exports as well as imports.

Segregation of country-wise trends of the EU with India as a trading partner reveals that Germany, Belgium, and France are the top exporting countries to India in terms of exports from the EU to India (Table 4-3) with Germany accounting for 28.63 percent of the EU's total exports to India. In terms of India's exports to the EU, the top countries receiving imports are the UK, Germany, and Belgium with the UK accounting for 17.51 percent of India's total exports to the EU (Table 4-4). Hence, among the EU countries, Germany and Belgium are important trading partners for India.

**Table 4-1: EU exports to the world—top ten destination countries in 2017**

| EU 28 exports to the world | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| YEAR-> | 2001 | | | 2005 | | | 2010 | | | 2017 | | |
| Partner Countries | Value (in US$) | % (Total Exports) | Rank | Value (in US$) | % (Total Exports) | Rank | Value (in US$) | % (Total Exports) | Rank | Value (in US$) | % (Total Exports) | Rank |
| USA | 217431744 | 8.960% | 1 | 313022596 | 7.85% | 1 | 326380269 | 6.42% | 1 | 418923521 | 7.33% | 1 |
| CHINA | 27061038 | 1.115% | 5 | 63192989 | 1.58% | 4 | 150234710 | 2.96% | 2 | 220685966 | 3.86% | 2 |
| SWITZERLAND | 67832874 | 2.795% | 2 | 108421020 | 2.72% | 2 | 148199870 | 2.92% | 3 | 170773834 | 2.99% | 3 |
| TURKEY | 18624892 | 0.767% | 9 | 55404014 | 1.39% | 5 | 81311881 | 1.60% | 5 | 94298282 | 1.65% | 5 |
| RUSSIA | 28360740 | 1.169% | 4 | 69640115 | 1.75% | 3 | 113617105 | 2.24% | 4 | 96633261 | 1.69% | 4 |
| JAPAN | 40233264 | 1.658% | 3 | 53894366 | 1.35% | 6 | 57655320 | 1.13% | 6 | 67056718 | 1.17% | 6 |
| NORWAY | 24293941 | 1.001% | 6 | 42183687 | 1.06% | 7 | 54932139 | 1.08% | 7 | 56500943 | 0.99% | 7 |
| UAE | 12589749 | 0.519% | 16 | 31406029 | 0.79% | 8 | 37153821 | 0.73% | 9 | 47618586 | 0.83% | 9 |
| SOUTH KOREA | 14147929 | 0.583% | 11 | 25387590 | 0.64% | 13 | 36978064 | 0.73% | 10 | 54783480 | 0.96% | 8 |
| INDIA | 11407462 | 0.470% | 19 | 26424028 | 0.66% | 10 | 45897728 | 0.90% | 8 | 46124075 | 0.81% | 10 |
| Total Export to ALL economies | 2426748885 | | | 3987262746 | | | 5082737589 | | | 5718665472 | | |

Source: Table formulated from data extracted from www.trademap.org

**Table 4-2: EU imports from the world—top ten source countries in 2017**

| EU 28 imports from the world | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| YEAR-> | 2001 | | | 2005 | | | 2010 | | | 2017 | | |
| Partner | Value (in US$) | % (Total Imports) | Rank | Value (in US$) | % (Total Imports) | Rank | Value (in US$) | % (Total Imports) | Rank | Value (in US$) | % (Total Imports) | Rank |
| CHINA | 79565335 | 3.25% | 3 | 220055663 | 5.40% | 2 | 419948896 | 7.99% | 1 | 45454510 | 8.06% | 1 |
| USA | 193142162 | 7.90% | 1 | 223944801 | 5.49% | 1 | 273886433 | 5.21% | 2 | 316757819 | 5.62% | 2 |
| RUSSIA | 52400443 | 2.14% | 5 | 136540106 | 3.35% | 3 | 209738787 | 3.99% | 3 | 147176764 | 2.61% | 3 |
| SWITZER-LAND | 52593241 | 2.15% | 4 | 79535570 | 1.95% | 6 | 115324673 | 2.19% | 4 | 127301524 | 2.26% | 4 |
| JAPAN | 83653480 | 3.42% | 2 | 114054658 | 2.80% | 4 | 109278830 | 2.08% | 5 | 94993631 | 1.68% | 5 |
| TURKEY | 19812343 | 0.81% | 9 | 46571818 | 1.14% | 8 | 59634950 | 1.13% | 7 | 82749673 | 1.47% | 6 |
| NORWAY | 39892722 | 1.63% | 6 | 82266296 | 2.02% | 5 | 104973366 | 2.00% | 6 | 74736599 | 1.32% | 7 |
| SOUTH KOREA | 22632298 | 0.93% | 8 | 48859231 | 1.20% | 7 | 57712167 | 1.10% | 8 | 61564392 | 1.09% | 8 |
| INDIA | 12773923 | 0.52% | 17 | 25668921 | 0.63% | 12 | 48424803 | 0.92% | 9 | 53942570 | 0.96% | 9 |
| VIETNAM | 430476 | 0.19% | not in top 30 exporters to EU | 8073305 | 0.20% | not in top 30 exporters to EU | 15443728 | 0.29% | 29 | 51202665 | 0.91% | 10 |
| Total Export to ALL economies | 2444558560 | | | 4078179767 | | | 5255140160 | | | 5640801174 | | |

Source: Table formulated from data extracted from www.trademap.org

**Table 4-3: India's imports from the top ten EU economies for the period 2001–2017**

| Exporters | Imported value in 2001 | Imported value in 2006 | Imported value in 2010 | Imported value in 2011 | Imported value in 2012 | Imported value in 2013 | Imported value in 2015 | Imported value in 2016 | Imported value in 2017 | % of EU aggregate in 2017 | % of world in 2017 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| World | 50671106 | 178212440 | 350029387 | 462402791 | 488976378 | 466045567 | 390744731 | 356704792 | 444052638 | | |
| EU 28 Aggregation | 10346881 | 28719134 | 42387174 | 55156131 | 54155641 | 49349723 | 43894217 | 40133345 | 44251893 | | 9.97% |
| Germany | 1906412 | 7187474 | 11444687 | 14901182 | 14765654 | 13079266 | 11829031 | 11499371 | 12671251 | 28.63% | 2.85% |
| Belgium | 2485655 | 4159803 | 7445630 | 10349754 | 10244338 | 10071885 | 8337646 | 7479922 | 5957375 | 13.46% | 1.34% |
| France | 776545 | 4388425 | 3820409 | 3898179 | 4342332 | 3375237 | 3195306 | 3167272 | 4944923 | 11.17% | 1.11% |
| Italy | 726355 | 2433238 | 4305811 | 5203652 | 5149393 | 4237649 | 4108937 | 3841293 | 4379704 | 9.90% | 0.99% |
| United Kingdom | 2758525 | 4030815 | 5166817 | 7453929 | 6636115 | 6430787 | 5375634 | 3863791 | 4346759 | 9.82% | 0.98% |
| Netherlands | 524046 | 1077148 | 2022700 | 2193301 | 2621722 | 2865991 | 1935724 | 1781384 | 2316084 | 5.23% | 0.52% |
| Spain | 147103 | 601458 | 1429765 | 1711532 | 1755634 | 1940453 | 1923557 | 1725773 | 1854997 | 4.19% | 0.42% |
| Sweden | 324384 | 1850023 | 1469486 | 2016924 | 1827747 | 1673389 | 1582112 | 1191692 | 1397218 | 3.16% | 0.31% |
| Finland | 158767 | 660461 | 1392681 | 1974621 | 1358393 | 961013 | 987857 | 933531 | 1273094 | 2.88% | 0.29% |
| Austria | 72217 | 404846 | 784125 | 1027646 | 1009141 | 849060 | 784163 | 905748 | 895597 | 2.02% | 0.20% |

Source: Table formulated from data extracted from www.trademap.org

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## Table 4-4: Trends of India's export to the top ten EU economies for the period 2001–2017

| Importers | Exported value in 2001 | Exported value in 2005 | Exported value in 2009 | Exported value in 2010 | Exported value in 2011 | Exported value in 2012 | Exported value in 2015 | Exported value in 2016 | Exported value in 2017 | % of EU aggregate in 2017 | % of world in 2017 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| World | 43878489 | 100352637 | 176765036 | 220408496 | 301483250 | 289564769 | 264381004 | 260326912 | 295846887 | | |
| EU 28 Aggregation | 10344572 | 22645006 | 36388891 | 41595235 | 54732556 | 48642542 | 44705937 | 45747582 | 51190795 | | 17.30% |
| United Kingdom | 2196629 | 4958861 | 6528851 | 6436413 | 8879115 | 8100177 | 8891195 | 8565159 | 8961521 | 17.51% | 3.03% |
| Germany | 1784763 | 3483161 | 5848329 | 5989522 | 8260406 | 7133757 | 7023455 | 7178091 | 8241383 | 16.10% | 2.79% |
| Belgium | 1400853 | 2788429 | 3550974 | 5025885 | 7395367 | 5558480 | 5005521 | 5356387 | 6215492 | 12.14% | 2.10% |
| Italy | 1267819 | 2528082 | 3297539 | 4187700 | 5049009 | 4294288 | 4228521 | 4464177 | 5653822 | 11.04% | 1.91% |
| Netherlands | 857303 | 2396432 | 6464920 | 6572932 | 9693191 | 9466429 | 4876540 | 4868488 | 5431974 | 10.61% | 1.84% |
| France | 988894 | 2015680 | 3305272 | 4903030 | 5045984 | 5020327 | 4819482 | 4867883 | 5040384 | 9.85% | 1.70% |
| Spain | 694797 | 1600434 | 1949389 | 2308731 | 2974190 | 2885980 | 3152258 | 3359493 | 3767285 | 7.36% | 1.27% |
| Poland | 110782 | 210822 | 413568 | 617496 | 775475 | 767481 | 997864 | 1140846 | 1468678 | 2.87% | 0.50% |
| Denmark | 154155 | 389442 | 588548 | 626676 | 775836 | 708078 | 676299 | 698118 | 760539 | 1.49% | 0.26% |
| Sweden | 161246 | 313091 | 468600 | 581501 | 801883 | 698204 | 693656 | 707255 | 754145 | 1.47% | 0.25% |
| Portugal | 147101 | 245138 | 335989 | 461224 | 567995 | 489984 | 581765 | 618127 | 735779 | 1.44% | 0.25% |

Source: Table formulated from data extracted from www.trademap.org

In terms of product flows of Indian imports from the EU (in terms of the value of the product imported) the significant items of imports were machinery; optical/photography/medical/cinematography appliances; ships, boats and structures; aircraft, spacecraft and parts thereof; and pharmaceutical products. This indicates India is highly dependent upon European economies for heavy-duty finished goods and pharmacy products. On the other hand, Indian exports to the EU largely consist of textiles, apparel, and leather goods, which constitute nearly a third of the total Indian exports to the EU (Eurostat 2012; Khorana and Soo 2013; Khorana and Narayana 2017). This is because of India's strategic advantage in the production of traditional goods. However, in 2017 India's product exports to EU economies depicted that India's exports to the EU are no longer dominated only by traditional goods (like clothing and apparel) but also covers products like machinery, iron and steel, mineral fuels, organic chemicals, electrical machinery equipment and others (based on data collected from www.trademap.com).

To sum up, trade in goods between EU countries and India is strengthening with the passage of time with an increase in the diversity of goods being traded; however, in gross terms, the share of trade does not turn out to be significant. Country-wise flow of exports and imports suggest that countries like Germany, Belgium, France, and the Netherlands are significant partners among the EU countries for India's trade and opportunities need to be explored for other EU countries as well.

## India-EU Trade in Services

The scope for trade in services between India and the EU has expanded rapidly in recent times owing to the growth of India as a services economy. The EU has a huge potential as a services market for Indian services as integration across the countries of the EU simplifies some of the rules relating to the movement of professionals within the EU. As per the EU-India Trade and Investment Report 2016, India stands as the seventh-largest supplier of services to the EU, even with a share of less than 2%, and India also serves as the eighth-largest market for services offered by the EU with a share of just 1.6% of total EU exports in services. As evident from Table 4-5, the trade in services from the EU to India is dominated by transport; travel; telecommunication, computer and information services; and other business services (such as those relating to research and development; patents; industrial designs and processes; professional and management consulting services; legal, accounting

consulting and public relations; accounting, auditing, bookkeeping and tax consulting; architectural; engineering and advocacy services). From 2010 to 2013, transport services dominated the export of EU trade in services to India; however, from 2014 onwards, telecommunication, computer and information services topped the list of services offered to the Indian market with a share of €4.2 billion (in 2016).

The major services offered by the Indian market to the EU 28 comprise transport, travel, telecommunication, computer, and information services, and other business services (Table 4-6). In 2016, the imports of telecommunication, computer and information services were recorded as approximately €3.1 billion and other business services as €7.1 billion. The large share of 'other business services' indicates the demand for consultation, technical and trade-related, and industrial designing services from the Indian market.

While there is substantial movement of professionals across India and the EU, India and the EU have not yet negotiated any FTA covering trade in service provisions. The bilateral exports and imports of computer and information services depict a considerable increase, with around one-third of the service exports to India dominated by IT services. While examining the movement and flow of IT professionals and IT-related services, Satija and Mukherjee (2013) observed that India, with a young and qualified workforce, compliments the growing requirement of IT professionals in the EU. This corresponding need of India and the EU has facilitated the flow of cross-border professionals (especially Indian) and the establishment of Indian and EU companies in each other's territory (Satija and Mukherjee 2013; Chanda 2003). The study also states that on an average, Indian IT companies (such as Infosys) applied for 4800–5400 visas to allow them to send their employees to European companies. Regarding the movement of other professionals such as architects and engineers, it has been observed that India and the EU have different occupational categories for engineers and architects (Goyal and Mukherjee 2013). While neither India nor the EU have disaggregated data on the bilateral movement of architects and engineers, business services remain a key component of trade in both economies.

While technology, IT and business-related services have seen increases in the movement of professionals, there are other areas that need some attention. For instance, Kodoth and Jacob (2013) examined the prospects and challenges for migration of nurses from Kerala (India) to the EU (capturing Denmark and the Netherlands) and found that the Netherlands

and Denmark have recruited small numbers of Indian nurses and operating theatre assistants in recent years. This is because there is a discernible mismatch between Indian and EU immigration policies with respect to nurses and there is a need to address the demands of hospitals and employers.

Therefore, while EU-Indian trade in services is significantly dominated by telecommunication and IT services, there is a need to improve the flow of services in other areas as well. This can be achieved by negotiating an FTA that deals comprehensively with different areas of services and movements of professionals. This would bring clarity of the rules, certainty of the environment and provide a platform for nurturing and enhancing the flow of other services.

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**Table 4-5: Trade in services (by sector) EU 28 with India 2010–2016 (in Euro million)**

| YEAR -> | EXPORTS (by EU 28) | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
| Services | 10,923.4 | 11,238.9 | 11,925.8 | 11,731.5 | 12,326.1 | 14,680.0 | 13,555.6 |
| Manufacturing services on physical inputs owned by others | 550.7 | 647.4 | 269.2 | 154.6 | 126.8 | 59.9 | 74.6 |
| Maintenance and repair services n.i.e.[4] | 53.5 | 123.7 | 277.3 | 234.8 | 184.1 | 295.8 | 305.0 |
| Transport | 3,233.0 | 3,667.3 | 3,787.6 | 3,110.9 | 3,063.0 | 3,274.7 | 2,903.8 |
| *Sea transport* | 1,423.1 | 1,841.7 | 2,130.6 | 2,065.4 | 2,122.8 | 2,137.3 | 1,723.7 |
| *Air transport* | 1,678.7 | 1,714.3 | 1,460.7 | 857.1 | 762.8 | 929.3 | 970.0 |
| *Other modes of transport* | 122.1 | 98.3 | 188.3 | 173.3 | 156.5 | 183.4 | 185.4 |
| *Postal and courier services* | 8.6 | 9.7 | 6.9 | 11.1 | 20.8 | 21.7 | 22.8 |
| Travel | 1,392.8 | 1,330.7 | 1,700.5 | 1,840.6 | 2,150.1 | 2,426.9 | 1,994.9 |
| Construction | 250.2 | 182.9 | 210.2 | 406.7 | 293.5 | 291.3 | 175.8 |
| Insurance and pension services | 133.6 | 164.3 | 212.6 | 95.5 | 91.5 | 107.5 | 160.7 |
| Financial services | 360.6 | 363.6 | 380.3 | 385.2 | 428.5 | 446.8 | 454.6 |
| Charges for the use of intellectual property n.i.e. | 302.6 | 402.1 | 428.1 | 519.7 | 635.8 | 733.9 | 807.4 |
| Telecommunications, computer and information services | 2,423.1 | 2,266.0 | 2,259.9 | 2,555.9 | 3,202.6 | 4,125.4 | 4,245.9 |
| *Telecommunications services* | 286.1 | 270.3 | 381.2 | 452.3 | 504.9 | 542.2 | 468.6 |

[4] n.i.e stands for not included elsewhere. *Maintenance and repair services n.i.e.* cover maintenance and repair work—by residents—on goods that are owned by non-residents (and vice versa). The repairs may be performed at the site of the repairer or elsewhere. The value recorded for maintenance and repairs is the value of the work done—not the gross value of the goods before and after repairs **[WTO Statistical data sets – Metadata).** http://stat.wto.org/TechnicalNotes/DataSetTechnicalNotes_E.htm

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| *Computer services* | 2,099.6 | 1,961.5 | 1,846.2 | 2,062.4 | 2,619.2 | 3,450.2 | 3,634.2 |
|---|---|---|---|---|---|---|---|
| Other business services | 2,081.0 | 1,939.9 | 1,968.3 | 1,912.9 | 1,783.0 | 2,472.4 | 1,956.7 |
| Personal, cultural, and recreational services | 48.2 | 65.6 | 29.7 | 99.6 | 49.5 | 70.5 | 50.6 |
| Government goods and services n.i.e. | 83.4 | 83.8 | 192.6 | 264.7 | 142.7 | 161.9 | 149.6 |
| Services not allocated | 3.1 | 0.0 | 206.4 | 150.0 | 170.0 | 208.0 | 269.0 |

Source: Tabulated formulated from data extracted from eurostat-data explorer.

Chapter Four

**Table 4-6: Trade in services (by sector) the EU 28 with India 2010-2016 (in Euro million)**

| YEAR -> | IMPORTS (by the EU) | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
| Services | 11,882.1 | 13,633.2 | 12,934.2 | 12,410.7 | 12,725.3 | 14,790.4 | 15,254.2 |
| Manufacturing services on physical inputs owned by others | 31.7 | 39.3 | 34.6 | 83.1 | 85.5 | 145.8 | 217.0 |
| Maintenance and repair services n.i.e. | 26.8 | 24.7 | 10.4 | 145.2 | 41.9 | 99.3 | 95.5 |
| Transport | 2,047.3 | 1,902.4 | 1,820.1 | 1,596.4 | 1,604.7 | 1,904.8 | 2,011.4 |
| *Sea transport* | 1,021.0 | 952.6 | 961.8 | 824.5 | 824.8 | 1,035.9 | 1,028.2 |
| *Air transport* | 793.4 | 769.8 | 661.1 | 565.6 | 542.2 | 603.0 | 704.1 |
| *Other modes of transport* | 225.3 | 176.0 | 194.1 | 200.3 | 219.8 | 256.2 | 264.9 |
| *Postal and courier services* | 5.1 | 3.7 | 1.8 | 3.7 | 16.1 | 11.0 | 13.9 |
| *Travel* | 1,831.6 | 2,104.5 | 1,967.9 | 1,918.1 | 1,930.2 | 2,065.5 | 2,063.5 |
| *Construction* | 126.5 | 90.7 | 140.7 | 224.3 | 107.8 | 86.1 | 79.6 |
| *Insurance and pension services* | 125.0 | 91.3 | 101.9 | 68.2 | 67.1 | 82.2 | 94.6 |
| *Financial services* | 232.4 | 205.5 | 143.7 | 239.9 | 523.5 | 343.4 | 218.4 |
| Charges for the use of intellectual property n.i.e. | 113.8 | 107.7 | 104.8 | 153.1 | 114.2 | 126.6 | 112.8 |
| Telecommunications, computer and information services | 2,566.5 | 2,760.2 | 3,017.9 | 3,354.3 | 2,855.6 | 3,031.9 | 3,097.0 |
| *Telecommunications services* | 207.0 | 159.4 | 238.7 | 325.9 | 303.4 | 319.5 | 315.9 |
| *Computer services* | 2,316.8 | 2,574.4 | 2,723.7 | 2,918.4 | 2,391.8 | 2,536.1 | 2,610.0 |
| Other business services | 4,632.5 | 6,190.0 | 5,451.7 | 4,443.8 | 5,226.5 | 6,809.5 | 7,101.9 |
| Personal, cultural, and recreational services | 35.0 | 20.9 | 17.5 | 72.2 | 40.1 | 46.5 | 60.7 |
| Government goods and services n.i.e. | 99.8 | 96.3 | 121.0 | 106.5 | 121.0 | 41.8 | 89.3 |
| Services not allocated | 10.0 | 5.0 | 4.1 | 2.0 | 5.0 | 5.0 | 3.0 |

Source: Tabulated formulated from data extracted from eurostat-data explorer

# India-EU Foreign Investment

As with trade in goods and services, there has been a surge in India-EU investment engagement with progressive liberalization and efforts towards a compatible infrastructure and environment for investment flows. As per the EU-India Trade and Investment Report 2016, the total FDI received by the EU from India was €6.7 billion, while India received €38.5 billion from the EU by the end of 2014. Moreover, the EU was recorded as the second-largest foreign investor in India while India was found to be the eighteenth-largest investor in the EU in 2014. The EU, one of the largest providers of FDI to the Indian market, accounts for 29 percent and 33 percent (approximately) of the global FDI inflow and FDI stock respectively received by India in 2012. Similarly, India has contributed around 17 percent of global FDI outflow to EU countries (Table 4-7). Among the EU economies, the main sources of FDI to India have been the UK, Spain, the Netherlands, Germany, France, and Cyprus (see Tables 4-7 and 4-8). In 2015 the Netherlands contributed 2330 US$ million. These economies also have also turned out to be the most popular destinations among EU economies for Indian investors in the last few years.

**Table 4-7: EU-India FDI flows and stock (2010–2012) (in US$ million)**

| YEAR | FDI inflows in India by EU (2010–2012) | | | FDI outflows from India to EU (2010–2012) | | | FDI stock in India (2010–2012) | | | FDI stock out India (2010–2012) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2010 | 2011 | 2012 | 2010 | 2011 | 2012 | 2010 | 2011 | 2012 | 2010 | 2011 | 2012 |
| WORLD | 14 937 | 23 474 | 18 286 | 18 337 | 11 405 | 10 973 | 212 725 | 197 529 | 218 134 | 71 315 | 73 774 | 79 857 |
| Europe | 4 114 | 7 479 | 5 615 | 2 807 | 2 138 | 2 348 | 85 363 | 79 653 | 84 033 | 20 148 | 20 208 | 22 103 |
| EU | 3 966 | 7 241 | 5 310 | 2 551 | 1 955 | 1 835 | 72 950 | 66 898 | 72 217 | 15 920 | 15 711 | 16 616 |
| % of EU FDI to World FDI | 26.5 % | 30.8 % | 29.04 % | 13.91 % | 17.14 % | 16.72 % | 34.29 % | 33.87 % | 33.11 % | 22.32 % | 21.30 % | 20.81 % |
| Austria | 43 | 20 | 41 | | | | 195 | 193 | 232 | 9 | 9 | 7 |
| Belgium | 34 | 40 | 33 | | | | 547 | 476 | 699 | 207 | 82 | 88 |
| Cyprus | 570 | 1 568 | 415 | 552 | 110 | 86 | 2 684 | 2 349 | 2 543 | 2 078 | 1 991 | 1 673 |
| Czech Republic | | | | | | | 136 | 126 | 102 | 35 | 31 | 26 |
| Denmark | 69 | 23 | 83 | | | | 605 | 532 | 636 | 101 | 29 | 27 |
| Finland | 22 | 15 | 3 | | | | 1 545 | 1 507 | 1 600 | - | - | 356 |
| France | 486 | 589 | 547 | | | | 2 768 | 2 900 | 3 776 | 55 | 51 | 69 |
| Germany | 163 | 368 | 467 | 57 | 77 | 76 | 13 454 | 12 112 | 12 561 | 235 | 308 | 360 |
| Greece | 1 | - | 2 | | | | 16 | 13 | 14 | | | |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Hungary** | 33 | | | | | | 3 | 2 | 37 | 9 | 9 | 9 |
| **Ireland** | 1 | 1 | | | | | 82 | 147 | 346 | 120 | 129 | 138 |
| **Italy** | 119 | 152 | | | | 63 | 949 | 960 | 1 279 | 70 | 62 | 111 |
| **Luxembourg** | 248 | 89 | 3 | 91 | | 34 | 851 | 355 | 400 | 5 | 74 | 100 |
| **Malta** | - | 3 | | | | | - | - | 1 | | | |
| **Netherlands** | 1 418 | 1 301 | 1 514 | 1 271 | 982 | 1 713 | 8 284 | 9 227 | 10 476 | 10 342 | 10 627 | 11 134 |
| **Poland** | - | 10 | | | | 517 | 144 | 128 | 120 | 20 | 26 | 40 |
| **Portugal** | 2 | 2 | | | | 11 | 31 | 28 | 7 | | | |
| **Romania** | 2 | 4 | | | | | - | - | 1 | 1 | 4 | 21 |
| **Slovakia** | 1 | - | | | | | | | | | | |
| **Spain** | 183 | 251 | 19 | 38 | 50 | 348 | 655 | 596 | 687 | 134 | 145 | 152 |
| **Sweden** | 34 | 43 | | | | 10 | 634 | 698 | 1 105 | 43 | 133 | 143 |
| **United Kingdom** | 538 | 2 760 | 1 022 | 406 | 368 | 552 | 39 367 | 34 546 | 35 595 | 2 454 | 2 002 | 2 158 |

Source: Based on data collected FDI investment 2014 UNCTAD database

**Table 4-8: FDI inflows to India from selected EU countries for the period 2013–2015 (in US$ million)**

| Year | Belgium | Cyprus | France | Germany | Italy | Netherlands | Spain | United Kingdom |
|---|---|---|---|---|---|---|---|---|
| **2013** | 66 | 546 | 229 | 650 | 185 | 1,157 | 181 | 111 |
| **2014** | 47 | 737 | 347 | 942 | 167 | 2,154 | 401 | 1,891 |
| **2015** | 57 | 488 | 392 | 927 | 279 | 2,330 | 141 | 842 |

Source: Based on data collected fromhttps://rbi.org.in/Scripts/AnnualReportPublications

India, being one of the largest populated economies in the world, is emerging as one of the most sought after destination and source of FDI flows; the large market size (both for demand and supply) and the availability of cheap skilled labour (because of the larger population) serve as major factors for attracting investors to India. As per the EU-India Trade and Investment Report 2016, approximately six thousand EU corporates operate in India, serving as employers to a labour force of approximately 1.2 million directly and providing indirect employment to a further five million.

European companies such as GlaxoSmithKline, Heidelberg Cement, Unilever, Benetton, Adidas, Chicco, Garnier, BASF, Agfa, Piaggo, Mercedes-Benz India, Fiat, Marks & Spencer, Philips, Vodafone, and Volkswagen are popular and well-performing corporates in India.

Table 4-9 shows the FDI equity inflows to India from the EU on a yearly as well as a cumulative basis (2000–2016). The EU accounts for about 24.6% of the global FDI equity inflows to India, indicating that around a quarter of the FDI into India comes from EU investors. Moreover, Table 4-10 depicts that India has largely received FDI equity from EU economies in sectors such as services, chemicals (other than fertilizers), the automobile industry, drugs and pharmaceuticals, and construction development. The share of service sector investment by EU economies dominates the Indian market and accounts for around 14% of total FDI equity inflows received from the EU, implying that EU economies are largely investing equity capital in significant sectors such as banking, finance, research and development, and insurance. In addition, other sectors accounting for a large part of the EU's FDI to India include pharmaceuticals, petroleum, business services, electrical and engineering goods, vehicles, logistics, infrastructure, and others.

**Table 4-9: FDI equity inflows to India (from the EU and the world)**

| Year | FDI equity inflows from the EU | | FDI equity inflows from all Countries* | | EU proportion of global inflows |
|---|---|---|---|---|---|
| | Rs. in crore | in US$ million | Rs. in crore | in US$ million | |
| 2000 | 2,471.57 | 574.78 | 10,092 | 2,347 | 24.5% |
| 2001 | 4,526.42 | 1,005.87 | 15,842 | 3,520 | 28.6% |
| 2002 | 3,954.90 | 823.94 | 16,123 | 3,359 | 24.5% |
| 2003 | 3,026.15 | 657.86 | 9,564 | 2,079 | 31.6% |
| 2004 | 4,857.86 | 1,056.06 | 14,781 | 3,213 | 32.9% |
| 2005 | 2,925.76 | 664.58 | 19,271 | 4,355 | 15.3% |
| 2006 | 13,145.96 | 2,927.75 | 50,357 | 11,120 | 26.3% |
| 2007 | 10,093.08 | 2,444.55 | 65,495 | 15,921 | 15.4% |
| 2008 | 26,756.59 | 6,258.99 | 159,530 | 37,095 | 16.9% |
| 2009 | 21,999.56 | 4,562.87 | 130,980 | 27,044 | 16.9% |
| 2010 | 20,635.53 | 4,522.21 | 96,015 | 21,007 | 21.5% |
| 2011 | 70,179.29 | 15,260.09 | 159,935 | 34,621 | 44.1% |
| 2012 | 33,642.13 | 6,350.56 | 121,591 | 22,789 | 27.9% |
| 2013 | 51,785.25 | 8,610.33 | 129,483 | 22,038 | 39.1% |
| 2014 | 50,863.37 | 8,347.96 | 175,313 | 28,785 | 29.0% |
| 2015 | 47,948.37 | 7,483.39 | 252,561 | 39,328 | 19.0% |
| 2016 | 56,091.45 | 8,355.41 | 311,644 | 46,403 | 18.0% |
| Cumulative (2000–16) | 424,903.23 | 79,907.20 | 1,738,577 | 325,024 | 24.6% |

Source: data collected from DIPP (department of industrial policy and promotion)

**Table 4-10: Share of the top five sectors attracting FDI equity inflows from the EU (from January 2000 to December 2016)**

| Rank | SECTOR | Amount of FDI equity inflows | | % age of FDI equity inflows |
|------|--------|----------|----------|----------|
| | | Rs. in Crore | US$ in million | from EU |
| 1 | Services sector* | 56,077.85 | 10,833.54 | 13.56% |
| 2 | Chemical (other than fertilizers) | 42,483.75 | 8,603.93 | 10.77% |
| 3 | Automobile Industry | 29,652.16 | 5,652.51 | 7.07% |
| 4 | Drugs and Pharmaceuticals | 28,421.66 | 5,457.57 | 6.83% |
| 5 | Construction Development** | 26,648.57 | 5,430.47 | 6.8% |

Source: data collected from DIPP (department of industrial policy and promotion)
* The services sector includes financial, banking, insurance, non-financial/business, outsourcing, research and development, courier services, and technology testing and analysis.
** Construction development includes township, housing, built-up areas, and infrastructure construction development projects.

Large numbers of EU investors are entering into mergers or collaborations with Indian companies such as Hindustan Unilever Ltd., Reliance Industries Ltd., Abbott Healthcare Pvt Ltd., Cairn (I) Ltd., United Spirits Ltd., Siemens Ltd., and Daimler India Commercial Vehicles Pvt Ltd. (as per the DIPP database). These mergers and collaborations allow Indian manufacturers to upgrade to international standards of products and services while also contributing to job creation, infrastructure development, and foreign remittance. For EU investors, India is a huge captive market which is likely to see a rise in demand in the future owing to it being one of the fastest-growing economies of the world.

## Initiatives to Strengthen India-EU Trade and Investment

Although India and the EU are engaging as important partners for trade and investment, there is a lot of potential still to be exploited as discussed previously. For India, it is imperative to work towards the improvement of technology and access to raw materials and finished goods. The EU countries, on the other hand, need to allow for easier access and liberalized rules for India's imports and FDI. There have been a number of bilateral and unilateral initiatives working in this direction. The EU is facilitating

the Indian government by entering into various partnerships, MoUs, and Joint Declarations for various innovations and energy-saving initiatives. For instance, in 2016, both tried to draft a connection between the Digital India Initiative and the EU's digital single market and agreed to cooperate in areas such as the standardization of ICT, research and innovation, internet governance, and a start-up EU-India network.

Similarly, in 2015, a delegation from the EU came to India to demonstrate new techniques and methods required for the cleaning and treatment of sewage water, industrial waste, water quality monitoring, and micro-irrigation techniques. In the light of the same, in 2016 an Indo-EU partnership was initiated to support the sustainable management of water in India.

Moreover, a joint declaration on clean energy and climate partnership between India and the EU was approved in 2016 to ease regulations and create a healthy and clean environment for business initiatives among EU economies and India covering significant areas such as clean cities, climate change mitigation and water quality improvement and hence adding value to human health and economic development as a whole. Again, in 2017, a joint declaration on clean energy and climate change was negotiated where the EU and India committed to reduce greenhouse gas emissions and encourage sustainable development.

A joint declaration between the EU and India on a partnership for smart and sustainable urbanization was initiated in 2017. It was a move to cover the global responsibility for sustainability and discharge to bring changes (in industrial products, machines, and technology) for a clean climate. The programme will be developed on the basis of the 'Urban Agenda' for the EU and '100 smart cities,' 'swaachbharat' and the 'AMRUT' programmes introduced by the government of India. Such programmes will definitely make EU economies and the Indian economy better markets to serve foreign trade and investment.

In order to give strength and meaning to such programmes, the government of India has undertaken some flagship programmes to provide better infrastructure, reduce regulatory problems, ease regulatory mechanisms, provide better workplaces, and introduce sustainable techniques (of manufacturing, procurement, cleaning, recycling, etc.). A number of such flagship initiatives are given below:

1.  *E-Biz* is an integrated service project by the government of India in association with Infosys technologies Ltd. that was initiated under DIPP to enable fast access to business services to the government via an online portal. Such initiatives will reduce paperwork and simultaneously act as a 'one-stop-shop' for businesses to ensure that they comply with all business-related regulations.
2.  *Smart Cities* is a drive to improve the quality of life of people, to enhance the development of local areas and to explore the sustainable technologies available (to minimize exploitation of the limited resources available). Economies with such norms (in terms of quality of life, infrastructure and environment) will definitely invite more investment and supply and demand for sustainable goods and services.
3.  *Goods and Services Tax* (GST) has been a landmark reform in the field of indirect taxation to ease and unify the tax structure in India. Prior to the introduction of GST, there were numerous taxes charged by the central and state governments with different states having different tax rates for taxes falling under their jurisdiction. This created problems for foreign investors operating in more than one state. Tax reforms in India such as the GST have brought the Indian tax system nearer to international tax practices (Bhasin 2018). Such initiatives will definitely facilitate an investment environment in India.
4.  *Make-in-India* and foreign trade policy (2015–2020) are both compatible with one another and aim to achieve global recognition for Indian products and strive to focus on quality and standards.
5.  *Digital India* is a programme to ease payment without cash and promote e-commerce. Such initiatives provide ease of transfer and receipt of money both on national as well as international fronts.

These recent measures by India to facilitate trade and investment are likely to have an impact on India-EU engagement as well. They will not only support India to move towards sustainable growth but will help ease the process of doing business, create value additions, the building of brand names, and the development of innovative designs and quality and standards of products and services on par with international quality and standards. Indian resources are still under-utilized and untapped and investors can easily add to the economic growth if they can do business with ease in India.

# Challenges to India-EU Engagement

While the EU and India seem interested in furthering their trade and investment engagement, the lack of consensus on certain issues has kept this cooperation in abeyance. The negotiations for BITA (or the Indian-EU FTA) began in 2007 and covered trade in goods, services, and investment. Subsequently, the negotiations stalled in 2015 when the EU imposed a ban on about 700 drugs clinically tested by an Indian pharmaceutical company, GVK Biosciences. In addition, there are other areas that need to be addressed and are given below.

1. **Services liberalization:** India is looking forward to better market access in the services sector in the EU, particularly through Mode 1 (cross-border flow of services) and Mode 4 (movement of natural persons) of the GATS (General Agreements on Trade in Services). This is in view of the significance of the services sector for the Indian economy and the competitive advantage it enjoys in the case of BPO (business process outsourcing) and KPO (knowledge process outsourcing) services as well as the movement of professionals, particularly in the IT industry. Presently, there are many barriers to the movement of professionals in the EU, such as those related to wage parity conditions, work permit rules and non-recognition of professional qualifications. In addition, the rules vary across the countries in the EU and therefore the harmonization of rules is what is required. While such efforts have been made in the EU, they have met with limited success. More recently, with the uncertainty surrounding the withdrawal agreement of Brexit and increasing sentiments of populist nationalism, there is even less scope for policy manoeuvrability in terms of easing rules under Mode 4. Therefore, the EU has to look for ways to provide better and easier market access to services from India under other modes of GATS.

2. **Data secure nation status:** India is also seeking data secure nation status from the EU as presently India is on the list of nations not considered data secure by the EU. This demand is complementary to greater market access in the EU that India is seeking for the services sector. The existing status has increased compliance costs for Indian service providers to be in line with data protection laws. By granting a data secure nation status to India, Indian service providers will become more competitive and improve their business prospects significantly.

3. **IPR regime:** Another important area of contention is the scope of IPRs whereby the EU has been demanding higher standards of intellectual property protection than is required by the WTO. India, on its side, sees them as a deterrent for domestic manufacturers, particularly in the pharmaceutical sector. India is one of the largest manufacturers of generic medicines in the world, and any commitment over and above the WTO's Trade Related Aspects of Intellectual Property Rights (TRIPS) will undermine its capacity to produce generic formulations.

4. **Investment protection and BITs:** A key dimension of the India-EU partnership is the protection of investment. Typically, through BITs or TIPs, these agreements contain provisions regarding the promotion and protection of investments made by investors from respective countries in each other's territory. India has recently terminated many of its BITs and launched a new model BIT in December 2015 that replaced its existing BITs. The new model BIT has several limiting provisions such as allowing investors to initiate international arbitration only after domestic legal remedies have been exhausted under the narrower scope of national treatment. This has not gone down well with many EU countries who see this move as a step backward in the direction of investment protection.

5. **Agriculture:** Both India and the EU have strong defensive interests regarding agriculture and food items. The EU is one of the largest providers of agricultural subsidies in the world, which have been distorting world trade in agricultural products to the detriment of developing countries like India. Consequently, India has been vocal in its concerns at the WTO asking for a reduction in the agricultural subsidies by the EU and other developed countries.

## Conclusion

India and the EU have been strategic partners for trade, services and investment for mutual gains and benefits. While the progress of negotiation of the Bilateral Trade and Investment Agreement is still underway, a number of MoUs and agreements covering science and technology, energy, coal, financial services regulations, environment, and sustainability have been entered into. Indian and EU trade and investment engagement is significant in view of the complementarities of goods and services. While India imports heavy-duty finished goods and pharmacy products from the EU, it remains a significant supplier of traditional goods

such as textiles, apparel and leather goods to the EU market. With respect to trade in services, both India and the EU complement each other, especially in IT and IT-related services and there has been a consistent bilateral surge in the movement of professionals. Investments by India and EU countries across each other's borders reveal that India-EU investment engagement is dominated by areas such as pharmaceuticals, petroleum, business services, electrical and engineering goods, vehicles, logistics, infrastructure, and banking and insurance. Both have also undertaken various initiatives towards a green and sustainable environment in order to ease the business environment and promote international quality standards.

However, there are various challenges to be addressed in order to further strengthen India-EU relations. India and the EU have been unable to make substantial progress in their trade and investment engagement despite considerable complementarities and a vast potential due to some issues which have remained unresolved. This can be achieved by each being sensitive to the needs of the other. For areas like agriculture, it is imperative that EU countries understand that the subsidies offered by the EU are having a trade-distorting impact and are causing considerable loss to India in terms of its agricultural exports. Any expectation of trade facilitation or market access by the EU from the Indian market needs to be counterbalanced with a commitment to reduce subsidies in agriculture. In areas like IPRs, both sides need to work out an amicable arrangement which on one side provides adequate protection to large EU pharmaceutical companies while on the other side maintaining the incentives for Indian manufacturers of generic medicines as well. The fundamental differences between the nature and stage of development of both sides need to be acknowledged and issues thus have to be addressed accordingly. Such an approach could go a long way in ensuring a constructive engagement between India and the EU on trade and investment.

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# CHAPTER FIVE

# LEGAL RULES ON RESPONSIBLE BUSINESS: THE EXAMPLES OF INDIA AND FINLAND

## ANU LÄHTEENMÄKI-UUTELA, TUOMAS PAULIN AND MARTTI NIEMINEN

## Abstract

Legal rules create the framework for responsible business. The legal rules in India and Finland have similar structures, but there are differences in content. Contracts are binding and a breach of contract will lead to consequences. Product safety and the provision of the correct and necessary information are important parts of consumer law. Employees also have their rights, although in India these rights do not adequately protect all workers. The environment is protected by environmental law, where fighting climate change is the most visible target in both India and Finland. In tax law, it is important to consider which country should receive the tax revenue. A company conducting responsible international business will not only follow the laws but also consider what is right. This chapter further explores the regulatory aspects of responsible business from the experiences of the business contexts of India and Finland. Regulatory aspects create a strong foundational framework for responsible business practices. The authors deal with the similarities and differences in regulatory aspects encompassing the business of both countries, which is expected to help business professionals and managers to prepare for business responsibility.

## Introduction

This chapter concerns the legal rules as framework conditions for responsible business. India and Finland are considered as two interesting examples of different legal systems. Due to India's size and importance in

global value chains, the business laws of India have global significance. The Nordic countries are considered forerunners in business responsibility,[1] and their strict laws are connected to this development and status. Many Finnish laws are even accused of being too demanding for businesses.[2] The literature on responsible business often starts from the assumption that following the law is the minimum requirement for responsibility. The stakeholder theory on corporate social responsibility posits that businesses are responsible for their stakeholders. This chapter discusses the laws that govern the relationships of a company towards its five important stakeholder groups: contract partners, consumers, employees, the environment, and tax receivers (governments).

Company law (including accounting law) and financial law form the basis for responsibility towards investors and debtors. Competition law is to protect economic competition from harmful restrictive practices such as cartels or the abuse of dominant market positions. The rules on public procurement safeguard fair competition for public contracts. The purpose of intellectual property law is to encourage creativity and innovation by prohibiting the exploitation of designs, trademarks, and the inventions of others. Through regulating competition, competition law and intellectual property law also indirectly impact consumers. Due to limited space, these fields of law are not assigned specific chapters here.

Trade law is also relevant for international business in defining market access and the tariffs for imported products, but it is more about the political relationship between countries than about the responsibility of businesses. India and Finland have, for example, the following bilateral agreements in force: the Economic Cooperation Agreement, signed in March 2010; the India-Finland Joint Commission (1974); the Agreement on Avoidance of Double Taxation (1983), last amended in January 2010; the Memorandum of Understanding on Textiles (1993); the Memorandum of Understanding for cooperation on Information Security (2010); The Social Security Agreement (2012); the Memorandum of Understanding for cooperation in the field of Renewable Energy and Biotechnology (both

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[1] Robert Strand, R. Edward Freeman, and Kai Hockerts. "Corporate Social Responsibility and Sustainability in Scandinavia: An Overview," *Journal of Business Ethics* 127, 1 (2015), 1-15.
[2] Suomen Yrittäjät, the Federation of Finnish Enterprises. Position paper on regulation (in Finnish) at https://www.yrittajat.fi/suomen-yrittajat/yrittajien-edunval vonta/suomen-yrittajien-kannanotot/muut-kannanotot/saantelya

2014); and the Implementing Arrangement for cooperation in the field of Atmospheric Environment (2014). Important trade issues between India and Finland have changed: previously, the main trade items were garments from India and paper and machinery from Finland, but today the focus is more on ICT, energy and clean technology.[3] For example, India's rules on the public procurement of telecommunications and information technologies stipulate a thirty percent domestic content quota. These quotas are applicable to all government licensees, including foreign firms that are manufacturing products in India. Foreign firms have no option but to partner with a local supplier.[4]

The legal systems of India and Finland are different not only in substantive rules but also in regard to the system structure. Due to India's historical background, India's legal system is based on British common law, and in addition, it includes civil law and religious law. Common law (judge-made law) is a body of law derived from court cases. In common law systems, a verdict in a new case is based on the verdicts of previous cases. Civil law means a system of codified statutes, based on the structure and principles of Roman law. Finland's legal system is based on civil law similar to many of the European Union member states. European Union regulations are directly applicable in Finland, and European Directives must be implemented into Finnish law.

## Contract Law

Contracts are made by all companies: companies have contracts for example with their suppliers and subcontractors, customers (including business customers, consumers, and public buyers), and employees. These contract relationships form the basis of day-to-day business. Basic contract law principles, including the rights and duties of contract parties, are the same in India and Finland. India's contract law is based on common law. The most important law governing contracts is The Indian Contract Act, 1872, which was issued during the British era. Sale of goods is a specific form of contract, where one party is a seller and another party is the buyer. In India, the sale of goods is regulated under the Sale of Goods Act, 1930.

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[3] Ministry of External Affairs 2016, 2.
[4] Sangeeta Khorana & Anand N. Asthana. EU FTA negotiations with India: The question of liberalisation of public procurement, EU FTA negotiations with India: The question of liberalisation of public procurement," *Asia Europe Journal* 12, 3 (2014), 257.

In Finland, the basic legal rules on contracts are in the Contracts Act (228/1929) and in the Sale of Goods Act (355/1987). An agreement is composed of two elements: offer, and acceptance. An offer is a proposal by one party to another to enter into a contract. The contract is created through a non-conditional acceptance of the offer. Both in India and Finland, a contract may be in writing or oral. Even though an oral contract is binding, it is more difficult to prove its contents in cases of disagreement.

*Caveat emptor* is a fundamental principle of the law of sale of goods and applies both in India and in Finland. It means "caution buyer" or "let the buyer beware." The buyer must inspect the goods to find out their usefulness and defects. If the buyer has inspected the goods or neglected the right to do so, and the goods then later turn out to be defective or to not suit the purposes of the buyer, the seller cannot be held responsible. Outside legal rules, the seller may offer an important buyer the possibility of renegotiation if the buyer is not satisfied. It is different for distance sales for consumers—the consumer has a right to withdraw from the contract for no specific reason.

*Pacta sunt servanda* means "Agreements must be kept," which is a general contract law principle. A breach of contract occurs when a party to a contract breaches his contractual obligations. The breach can either be a delay in delivery or payment or be related to the content and quality of the goods or services delivered. According to Indian law, if a party commits a breach of the contract, the other party becomes entitled to any of the following reliefs: a) annulment of the contract, b) damages for the loss sustained or suffered, c) a decree for specific performance, d) an injunction or e) suit on *quantum meruit*.[5] An injunction is a court order that compels a party to do or refrain from specific acts. *Quantum meruit* is a doctrine that allows a party to recover losses in the absence of a binding contract. Indian law recognizes four kinds of damage: ordinary damage, special damage, vindictive/punitive/exemplary damage, and nominal damage.

In Finland, a buyer may demand repair of a defect, a new delivery, a reduction in price, or annulment of the sales contract. The annulment is the last option, which is used if none of the other means for remediation are

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[5] Niraj Kumar: *Business Legislations*, Himalaya Publishing House (2009). 1st edition, 493-495.

possible. In connection and in addition to the annulment of the sale, the buyer may claim damages. According to section 67 of the Sale of Goods Act, damages for breach of contract consist of compensation for expenses, price difference, lost profit, and other direct or indirect loss due to the breach. If the seller is delayed in delivering the goods, the buyer may demand fulfilment of an agreement or annulment of sale and claim damages. The buyer may also refrain from paying the purchase price. Likewise, if the buyer does not fulfil his contractual obligations, the seller may demand payment, the fulfilment of an agreement, annulment of the sale, and claim damages. There are no punitive or nominal damages in the Finnish legal system: all direct and indirect losses suffered must be substantiated through realistic calculations.

In international sales of goods, the CISG by the UN (the United Nations Convention on Contracts for the International Sale of Goods) is often used to govern the conclusion of the sale contract, obligations of both parties, and remedies. This is because the content of this model of the sales contract is easily accessible, available in several languages, and its terms can be presumed to be fair. India is not a contracting state of the UN CISG, whereas Finland is. It may follow that international business agreements contracted between Indian and Finnish companies are not automatically governed by the UN CISG. If companies want the applicable law to be UN CISG, it is advisable to agree that in the contract. Under Indian and Finnish laws, parties to a contract may freely choose the law by which the contract is to be governed. In addition, parties are free to choose the jurisdiction of courts. In cases where the law governing the contract has not been chosen, the choice of law rules guide which law is to be applied to the contract. Usually, it is the law of the state that has the closest connection to the case.[6]

One possibility for dispute resolution is arbitration. This is a process "in which a neutral third party (called the arbitrator) renders a decision after a hearing at which both parties have an opportunity to be heard. It is the means by which parties to a dispute get the issue settled through the intervention of a third person, but without having recourse to a court of law. The arbitration agreement may be in the form of an arbitration clause in a contract or in the form of a separate agreement."[7]

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[6] Bharat Vagadia: *Outsourcing to India — A Legal Handbook*, p. 39.
[7] Ibid., 48-49.

# Consumer Law

It is said that the consumer is king. If that expression held true, no consumer protection would be needed as the free market would take care of consumer rights. In reality, consumers need protection from fraudulent or misleading products and claims, unfair trading terms, and harmful marketing practices. Many products today are complex, and the average person is not able to examine them.[8] Unethical sellers may bring unsafe or even dangerous products to the market, harming consumer health. They may also use aggressive methods for binding consumers in contracts they do not want. In order to benefit from the protection, consumers need a legal system where they can get indemnification from violators of consumer protection.[9]

In India, the Monopolies and Restrictive Trade Practices Act was incorporated in 1969. An amendment was made to the Act in 1984, which concerned the regulation of unfair trade practices. By way of this amendment, consumer protection effectively began. The single most important act in consumer protection is the Consumer Protection Act, 1986. The *caveat emptor* ("let the buyer beware") principle mentioned above also used to apply to consumers in India, and the buyer was in a very weak position against a fraudulent seller.[10] Before the Consumer Protection Act, for example, a supplier of adulterated food could have been prosecuted and punished by criminal law, but the consumer would not have received any compensation or awards for the damage or loss.[11] The Consumer Protection Act seeks to provide for better protection of consumer interests through the speedy and inexpensive redress of consumer grievances by three-tier adjudicative machinery, consisting of consumer tribunals, set up at district and state level as well as at the national level. The National Commission, State Commissions, and District Forums decide on consumer complaints. The system seeks to provide specific

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[8] Seppo Villa et al.: *Yritysoikeus: kuluttajaoikeuden syntysyyt.* Alma Talent. 2014, continuously updated.
[9] See Niraj Kumar: Business Legislations, 347.
[10] Niraj Kumar: Business Legislations, p. 345.
[11] Niraj Kumar: Business Legislations, p. 348.

relief and to award suitable compensation, besides other appropriate relief, to the unsatisfied consumer.[12]

The Consumer Protection Act aims to protect consumers in the following areas:

- The right to be protected against the marketing of goods and services which are hazardous to life and property.
- The right to be informed about the quality, quantity, potency, purity, standard and price of goods to protect the consumer against unfair trade practices.
- The right to be assured whenever possible, with regard to access to a variety of goods at competitive prices.
- The right to be heard and to be assured that the consumer's interest will receive due consideration at the appropriate forums.
- The rights to redressal against unfair trade practices of unscrupulous exploitation of consumers.
- The right to consumer education.[13]

Consumer protection is an important societal issue in India, where many consumers are challenged by poverty and a lack of education, which means they may lack the necessary information to make rational purchases. Illiteracy is a problem. In such a situation, a marketer must pay special attention not to exploit consumer ignorance. Unethical trading practices existing in India include short weights and measures, deceptive packaging, misleading advertising, hoarding, profiteering, and countless frauds. According to Kumar, such practices clearly indicate the gross exploitation of consumers by the industry and trade.[14]

In addition to the Consumer Protection Act, 1986, other laws intended to protect consumers include, for example, the Food Adulteration Act, 1954 and The Standard of Weights and Measures Act, 1976. Under the Food Safety and Standards Act, 2006, there are at least fourteen different standards, such as the packaging and labelling rules (2011), the nutraceutical/health food/novel food regulations (2016) and the organic

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[12] D. P. S. Verma. *"Developments in Consumer Protection in India,"* *Journal of Consumer Policy* 25, 2002, 111.
[13] *The Consumer Protection Act*, 1986, Section 6.
[14] Niraj Kumar: Business Legislations, p. 346.

food regulations (2017).[15] The Consumer Protection Act also covers medical services.[16]

The Consumer Ombudsman is a way to strengthen consumer protection. The Consumer Ombudsman supervises all kinds of commercial marketing and undesirable conditions in printed sales agreements. The Consumer Ombudsman first tries to voluntarily resolve the matter brought to the Ombudsman, and if that does not work, the Ombudsman may refer the case to a special court dealing with unfair trade practices. The court's decision is final.[17] Today, there are also voluntary consumer organizations in India seeking to create consumer awareness and advocacy, including the Consumer Rights Organization and the Consumer Association of India.[18]

In Finland, the most important law regarding consumer protection is the Consumer Protection Act (38/1978). Other important laws include the Consumer Safety Act (920/2011), the purpose of which is to secure the safety of consumer products and services, and the Product Liability Act (694/1990), which regulates the possibility for remediation in cases of faulty products that cause personal injury or property damage. The Food Act (23/2006), the Cosmetics Act (492/2013), the Toy Safety Act (1154/2011) and the Medicines Act (395/1987) regulate the safety and marketing of the respective consumer products. All Finnish consumer laws are based on European Union regulation and directives.

The Consumer Protection Act applies to all kinds of goods, services and other commodities offered to consumers. It also applies to repair and maintenance services. Further, building contracts are covered by the Act. One of the objects of the Consumer Protection Act is to protect consumers from faulty and poor-quality goods. The seller's duty of loyalty means that the seller must take into account not only his own interests but the consumer's interests as well.[19] The stronger party has a duty of disclosure. A consumer's right to information is essential because the consumer needs to buy consumer goods regardless of the information he has. A consumer knows less about the goods than a professional seller. The seller must also

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[15] Food Safety and Standards Authority of India at https://fssai.gov.in/home/fss-legislation/fss-regulations.html.
[16] D. P. S. Verma. Developments in Consumer Protection in India, 116-117.
[17] Niraj Kumar: *Business Legislations*, 347-348.
[18] D. P. S. Verma: Developments in Consumer Protection in India, 120.
[19] Tuula Ämmälä. *Suomen kuluttajaoikeus*, Helsinki: Talentum (2006), 77-78.

give instructions for use to the buyer.[20] Of course, it must be borne in mind that the consumer has duties as well and the consumer cannot take advantage of these protective legislative provisions.

Nowadays, a large part of Finnish consumer law comes from the EU. The second chapter of the Finnish Consumer Protection Act, for example, is based on the EU Directive on Unfair Commercial Practices 2005/29/EC.[21] The EU Directive takes as a benchmark the average consumer, who is "reasonably well-informed and reasonably observant and circumspect,"[22] but also contains provisions aimed at preventing the exploitation of consumers whose characteristics make them particularly vulnerable to unfair commercial practices (such as children or the very old). The purpose of the Directive is to guarantee the functioning of the European single market while guaranteeing a high level of consumer protection. Misleading commercial practices are prohibited. "A commercial practice shall be regarded as misleading if it contains false information and is therefore untruthful or in any way, including overall presentation, deceives or is likely to deceive the average consumer, even if the information is factually correct."[23] Also, aggressive practices are prohibited. "A commercial practice shall be regarded as aggressive if. . . by harassment, coercion, including the use of physical force, or undue influence, it significantly impairs or is likely to significantly impair the average consumer's freedom of choice or conduct with regard to the product and thereby causes him or is likely to cause him to take a transactional decision that he would not have taken otherwise."[24]

The Finnish Consumer Protection Act grants consumers the right to a correction in case of a faulty or delayed product or service. A product is faulty if its amount, quality, and/or other properties are not as agreed. Goods must be fit for the purpose for which such goods are normally used, and for the specific use that the seller knew that the consumer intended to use the product for. Goods must correspond to the information given by the seller, and durability and other properties must correspond to what the

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[20] Ibid., 114-115.
[21] Anja Peltonen and Kalle Määttä. *Kuluttajansuojaoikeus*, (Helsinki: Talentum Pro, 2015), 71-72.
[22] Preamble 18 of the Directive.
[23] Article 6(1) of the Directive.
[24] Article 8 of the Directive.

consumer can reasonably expect from such goods.[25] For consumer goods, the product is presumed to have been faulty at the time of sale if the fault is discovered within six months.[26] This presumption rule does not apply in business-to-business sales contracts.

In Finland, the Finnish Competition and Consumer Authority supervises the compliance of companies with the Consumer Protection Act. The Consumer Ombudsman operates similarly as in India. He is responsible for supervising the realization of the rights of consumers. The Consumer Protection Act protects consumers from unbalanced and unfair terms of contracts. Many general terms of contracts are negotiated between the companies and the Consumer Ombudsman. Only the Consumer Ombudsman can file for a class action (a case where claims are brought on behalf of several plaintiffs).

Issues that generally cause problems among Finnish consumers are vehicles, housing, electronics, and communication services. Usually, problems arise in the quality of the product, in warranties, in contracts and in invoicing.[27] The Consumer Disputes Board hears cases between consumers and entrepreneurs. However, the decisions of the Consumer Disputes Board are only recommendations. Responsible companies usually follow these recommendations—in over eighty percent of cases, the recommendations of the Board have been followed.[28]

In conclusion, there is a lot in common between Indian and Finnish consumer law. The most important legal principles are the same, and both countries have a Consumer Ombudsman that is nowadays a common concept in various legal systems around the globe. The things that commonly cause problems in consumer protection vary between these two countries. India is still largely a rural country and a significant amount of people lack education, which results in the need for a more basic level of protection from fraudulent sellers and knowledge of their rights as consumers. Finland, on the other hand, is a Nordic welfare state where

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[25] Consumer Protection Act, Chapter 5, Section 12.

[26] Consumer Protection Act, Chapter 5, Section 15.

[27] Anu Raijas ed.: *Kuluttajapoliittinen katsaus* 2015, (Kilpailu- ja kuluttajavirasto, 2015).

[28] Consumer Disputes Board website at
http://www.kuluttajariita.fi/en/index/kuluttajariitalautakunta.html

most people are aware of their consumer rights. The most blatant examples of the violation of consumer rights are rare in Finland.

Besides parliament acts, consumer organizations and business self-regulation also have their role in guaranteeing consumer rights both in India[29] and in Finland. For example, the International Chamber of Commerce has given its guidelines on marketing and advertising,[30] stating that the goal is to self-regulate marketing practices to correspond to the best international practice.

## Employment Law (Labour Law)

Employees are important stakeholders for any company. The rights and duties of employees and employers are different in Finland and India. India's employment law is based on British common law. India's codified employment law is complex; India has more than one hundred and fifty separate statutes governing the labour market and the workforce.[31] Case law (court verdicts) and statutes are both important sources of law. Formal employment law in India is firmly based on Western values and concepts; a large part of it based on the International Labour Organization (ILO) standards. Labour law has evolved from early penal provisions on the labour force to the extension of the rules on working conditions and workers' rights to security in a broader social sense.[32]

In India, employment laws do not protect those working within the informal sector, who make up an estimated ninety percent of the workforce.[33] Problems with Indian employment law include the lack of

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[29] See Niraj Kumar: Business Legislations, 347.

[30] International Chamber of Commerce: *ICC Advertising and Marketing Communications Code.* Available at https://iccwbo.org/publication/icc-advertising-and-marketing-communications-code/.

[31] Richard Mitchell, Petra Mahy, and Peter Gahan. *"The Evolution of Labour Law in India: An Overview and Commentary on Regulatory Objectives and Development,"* *Asian Journal of Law and Society*, 1 (2014), 425 and Sonja Fagernäs. "Labor Law, Judicial Efficiency, and Informal Employment in India," *Journal of Empirical Legal Studies.* 7, 2 (2010): 282.

[32] Mitchell, Mahy, and Gahan. "The Evolution of Labour Law in India: An Overview and Commentary on Regulatory Objectives and Development," 429.

[33] United States Department of State, Bureau of Democracy, Human Rights and Labor. Country Reports on Human Rights Practices. India. 2017. Available at https://www.state.gov/documents/organization/277525.pdf.

uniformity, inconsistency, ambiguousness, and poor coordination. The whole workforce is not covered by the laws nor has access to trade unions. The application of the laws is limited, for example, by the size of the establishment, the type of economic activity and the type of employment relationship. Enforcement of employment law is lacking to a large extent, and the trade unions are weak with corruption also being a problem. The system is said to be largely ineffective.[34] According to Badigannavar and Kelly, employers seem to pay little or no attention to the statutory provisions under central and federal labour laws aimed at protecting workers and unions against unfair labour practices.[35]

For several Indian employment law statutes, their applicability varies by the number of employees in a company.[36] Important Indian employment laws include the laws on working conditions, wages, employment security, and industrial disputes. The Factories Act 1948 regulates the health and safety of workers in factories. The Act, like many other Indian labour law acts, is detailed.[37] There are two important laws aiming to abolish child labour and bonded labour, the Child Labour (Prohibition and Regulation) Act 1986 and the Bonded Labour System (Abolition) Act 1976. In India, the minimum age for all work is fourteen years.[38] In 2017, India amended the Child Labour Act to prohibit children under the age of eighteen from working in hazardous occupations and processes.[39] Bonded labour means debt slavery where credit and employment agreements are interlinked to form a slave-like exploitation relationship with severe power imbalances between the lender-employer and the borrower-employee. The central law governing wages is the Minimum Wages Act 1948.

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[34] Mitchell, Mahy, and Gahan. The Evolution of Labour Law in India: An Overview and Commentary on Regulatory Objectives and Development India, 430, Simon Deaking, Priya Lele and Mathias Siems. The Evolution of Labour Law: Calibrating and Comparing Regulatory Regimes, *International Labour Review*, 146, 3-4 (2007),150 and Vidu Badigannavar and John Kelly: "Do Labour Laws Protect Labour in India?" *Industrial Law Journal*, 41, 4 (2012), 456.

[35] Badigannavar and Kelly: Do Labour Laws Protect Labour in India?, 462

[36] Fagernäs: *"*Labor Law, Judicial Efficiency, and Informal Employment in India," 282-283.

[37] Mitchell, Mahy, and Gahan: "The Evolution of Labour Law in India: An Overview and Commentary on Regulatory Objectives and Development," 433.

[38] Sections 21(A) and 24 of Indian Constitution 1949, last revised in 2012.

[39] United States Department of Labor. Bureau of International Labor Affairs. https://www.dol.gov/agencies/ilab/resources/reports/child-labor/india

Indian labour law has a strong component of protection against, and compensation for, various forms of dismissal, retrenchment, and layoffs, both individual and collective. However, the Industrial Employment (Standing Orders) Act 1946 and the Industrial Disputes Act (IDA) 1947 are confined to certain types of workers and to certain types of establishments.[40] For example, industrial firms with more than one hundred permanent workers are required to apply for state government permission concerning layoff or retrenchment of a permanent worker, and for the closure of the firm.[41] India's dismissal law can be seen as very protective of industrial employees.[42] For foreign companies and investors, it might be tempting to circumvent some of the strict rules in Indian industrial employment laws by hiring workers who fall outside the legal protections. It seems to be rather easy for companies not to thoroughly follow Indian employment law, for example by splitting a business into smaller units or simply trusting to the overall weakness of labour law enforcement. An unethical company might choose to use subcontractors without looking into whether they follow employment law. As subcontractors may further subdivide work, in the end, it might be that most of the work is not covered by law at all. Due to the lack of efficient employment law enforcement in India, companies must take the responsibility to monitor and respect human rights in their whole supply chain.

The Indian employment law system focuses on the relations between the employer and the individual worker rather than trade unions.[43] Trade unions do not play an important role in the Indian workforce, as the unionization rate is low, approximately nine percent in 2001.[44] Through an amendment to the Trade Union Act in 2001, trade unions were required to

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[40] Mitchell, Mahy, and Gahan: "The Evolution of Labour Law in India: An Overview and Commentary on Regulatory Objectives and Development," 436.

[41] Fagernäs: "Labor Law, Judicial Efficiency, and Informal Employment in India," 283.

[42] Deaking, Lele and Siems: "The Evolution of Labour Law: Calibrating and Comparing Regulatory Regimes," 150.

[43] Mitchell, Mahy, and Gahan: "The Evolution of Labour Law in India: An Overview and Commentary on Regulatory Objectives and Development," 422-423.

[44] Tonia Warnecke and Alex de Ruyter. The Enforcement of Decent Work in India and Indonesia, Warnecke, Tonia and de Ruyter, Alex. "The Enforcement of Decent Work in India and Indonesia: Developing Sustainable Institutions," *Journal of Economic Issues*, XLVI, 2 (2012): 393-401.396.

have at least one hundred members or to represent at least ten percent of the workforce, thereby making the formation and legalization of unions harder than previously. It is especially hard in special economic zones (SEZs), where labour laws, in general, are rarely enforced.[45]

Finnish employment law is partly based on the ILO's agreements, such as the eight-hour working day. Other judicial models for Finnish employment law have been the other Nordic countries and Central European countries. Nowadays, more and more employment legislation comes from the EU. [46] The unionization rate is approximately seventy percent in Finland. It is one of the highest in the world, and comparable to the level of unionization in the other Nordic countries. The total amount of the Finnish workforce covered by collective bargaining agreements is about ninety-five percent. This is because there are generally binding collective bargaining agreements that even protect workers that are not members of any union,[47] for example, minimum wages and working hours are regulated in collective bargaining agreements. With the help of these agreements, individual employees obtain better protection and benefits than if they were negotiating alone with the employer.[48]

Finnish employment laws apply to almost everyone[49] working in Finland, so that situation is different from that in India, where coverage of labour laws depends on many variables. The basic statute in Finland is the Employment Contracts Act (55/2001). Other important statutes include the

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[45] Mitchell, Mahy, and Gahan: "The Evolution of Labour Law in India: An Overview and Commentary on Regulatory Objectives and Development India," 422, 427-428 and Warnecke and de Ruyter *"The Enforcement of Decent Work in India and Indonesia,"* 396. For instance, under the IDA 1947, an employer can lock out even a single employee from its premises. There is no legal obligation on an employer that lockout should apply to more than one worker. Needless to say, such legislative provisions are likely to be abused by employers to demobilise union-organising campaigns or shift the balance of power during industrial disputes by quickly despatching the 'ring leaders'. Badigannavar and Kelly. "Do Labour Laws Protect Labour in India?," 463.

[46] Niklas Bruun, Anders von Koskull, and Pirkko K Koskinen. *Työoikeuden perusteet.* (Helsinki: Talentum, 2004), 2-3.

[47] Martti Kairinen et al.: Työoikeus: Työlakien ominaisuuksia, järjestäytymisvapaus. Alma Talent. 2004, continuously updated.

[48] Martti Kairinen et al. Työoikeus: Muita funktioita. Alma Talent. 2004, continuously updated.

[49] CEOs of companies do not have the same protection as workers.

Occupational Health and Safety Act (738/2002), the Working Hours Act (605/1996), and the Annual Holidays Act (162/2005). Civil servants and municipal officers have similar rights and protection to private sector workers. For hazardous jobs, the age limit is sixteen and for especially hazardous and dangerous jobs, the age limit is eighteen.

An important part of social responsibility is the equal treatment of different employees. Non-discrimination is an important theme in employment law. There are various laws—for example, the Employment Contracts Act, the Act in Equality between Women and Men (609/1986), and naturally the Constitution of Finland—governing non-discrimination. Non-compliance with these regulations may lead to fines or imprisonment under the Finnish Criminal Code (39/1889). Non-discrimination covers discrimination based on gender, race, age, etc. It also prohibits discrimination based on temporary or part-time employment when comparing to full-time employment.[50]

The dismissal of employees can be said to be rather strict in Finland as well. However, it is not as strict as it is in India. Dismissal in Finland is allowed either based on employee-related grounds (individual cause) or on financial and production-related grounds (collective cause). In both cases, dismissal is only allowed with proper and weighty reasons.[51] Currently (2018), Finland is considering changing the employment laws to make it somewhat easier for small companies to dismiss their employees. The goal is to lower the threshold to hire new employees, which might lead to higher employment levels. Similar considerations are relevant in India; too many human rights for employees can be regarded as a cost that hinders employment. It is difficult to argue that only such businesses should exist that cannot offer decent jobs, i.e. that there are fields of business where companies can only survive by exploiting workers.

## Environmental Law

It is also hard to argue that exploiting natural resources and ecosystem services is justifiable to make a profit and to offer jobs. Environmental issues should be considered important today: all companies, products, services, and business models carry their environmental footprints.

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[50] Niklas Bruun, Anders von Koskull, and Pirkko K. Koskinen. *Työoikeuden perusteet,* 192-197.
[51] *Ibid.,* 72-73.

Pollution, climate change, depletion of natural resources, deforestation, waste accumulation, eutrophication and acidification of waters, and loss of biodiversity are some of the most serious concerns. All problems are amplified by fast global population growth. Environmental law consists of the rules on land use and planning, the use of natural resources, environmental protection (restricting emissions), and nature conservation (protecting species and habitats). Understanding local environmental law is particularly relevant for a company that sets up a production unit in a foreign country. Finnish environmental law does not extend to regulating production or other operations in India, or vice versa. As the overall environmental burden in the whole value chain is decisive for environmental responsibility, companies are studying their environmental footprints under the Life Cycle Assessment approach.

India's response to climate change has included several plans and strategies: the Intended Nationally Determined Contributions (INDCs), the Low Carbon Strategy for the 12th Five Year Plan, the National Action Plan on Climate Change (NAPCC), the State Action Plan on Climate Change (SAPCC), the network-based scientific programme "Indian Network of Climate Change Assessment" (INCCA), and the strengthening of collaborations (national and regional, bilateral and multilateral). The INDC commitments include 175 GW of renewables by 2022, including 100 GW from solar PV and 60 GW from wind; a nuclear energy target of 63 GW of installed capacity by the year 2032; non-fossil fuel sources to make up forty percent of installed capacity by 2030; Green Energy Corridor projects, the National Smart Grid Mission; mandatory targets for improving energy efficiency for 144 old thermal stations; carbon tax increased fourfold to roughly 6 USD per tonne of $CO_2$; 98 of the 100 proposed Smart Cities chosen for grant support; and the Green India Mission to extend forest and tree cover to save 2.5–3 billion tonnes of $CO_2$ equivalent by 2030. On the specific impacts of climate change, there is considerable uncertainty in India. More hot days would have a highly negative impact in Rajasthan, but not in Kashmir. More rain would benefit Rajasthan but has negative impacts in Meghalaya. For many crops, increased heat has a negative impact, while increased $CO_2$ may have positive impacts.[52]

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[52] Tirthankar Nag. Climate change and India. Presentation at an Environmental Law summer school at Turku School of Economics, Pori unit. 30 August 2017.

An important part of environmental law in India is the Environment Protection Act, 1986. It provides the framework for the central government coordination of India's environmental protection policy. The Forest Act, 1927, the Wild-Life Act, 1972, the Water Act, 1974, the Air Act, 1981, and the Biological Diversity Act, 2002 form the legal framework for pollution control and environment protection. Some of the serious environmental problems affecting India in addition to climate change are water pollution, air pollution, groundwater depletion, plastic consumption, garbage disposal and sanitation, and loss of biodiversity. The Government of India launched the EcoMark ecolabel scheme in 1991 to allow consumers to choose an ecological alternative. The mark is issued by the Bureau of Indian standards.

The EU has a carbon emission reduction target of forty percent from 1990 levels by 2030. Finland and large Finnish emitters are part of the European Carbon Trading Scheme, where emitters of $CO_2$ need to have carbon credits to correspond with their emissions. The system is based on the EU Emissions Trading Directive (2003/87/EC) and the Finnish Emissions Trading Law (311/2011). The carbon credits are bought and sold on the markets. The amount of carbon credits is reduced every year by the EU, which makes them more expensive and pushes companies to reduce their emissions. The emissions trading system covers forty percent of the EU carbon emissions, applying to factories, power plants, and air traffic within the EU. Regulation 333/2014/EU aims to reduce $CO_2$ emissions from passenger cars. The EU Energy Efficiency Directive 2012/27/EU has targets to reduce energy use in all business sectors, the Directive 2018/844/EU concerns the energy performance of buildings, and household appliances must bear an energy label according to the Energy Labelling Framework Regulation 2017/1369/EU. The Finnish Climate Change Act (609/2015) defines the guidelines and the planning system for Finland's climate change policy.

The European (and Finnish) rules for evaluating the environmental impacts of large private projects are in the Environmental Impact Assessment Directive 2011/92/EU (EIA Directive). An EIA is conducted before any large individual project such as a dam, motorway, airport or factory begins. If the operations of a company may have environmental impacts, it must apply for an environmental permit. The conditions of the permit will define the maximum emissions to air, soil, and water, based on laws such as the Industrial Emissions Directive 2010/75/EU, the Air Quality Directive 2008/50/EC, the Water Framework Directive 2000/60/EC, and the Habitats Directive 92/43/EEC. The European rules

are implemented in Finland through national laws: the Environmental Protection Act 527/2014, the Water Act 587/2011, the Waste Act 646/2011, and the Nature Conservation Act 1096/1996.

Similar to India, the EU has an ecolabel system (the EU Ecolabel Regulation 66/2010/EU), the aim of which is to lower the environmental impacts of businesses through consumer choice.[53] Another part of the so-called integrated product policy is the Eco-Management and Audit Regulation 1221/2009/EC (EMAS Regulation). The EMAS system allows for voluntary participation by organizations in a European eco-management and audit scheme.

## Tax Law

Paying taxes is a significant part of the economic responsibility of a company. The basic structure of the corporate tax system in Finland is similar to India in the sense that in both countries there are two major sources for government revenue collected from companies: direct taxes, in particular, the corporate income tax; and indirect taxes, in particular, the value added tax in Finland and the goods and services tax in India.

In India, the authority to levy taxes is divided between the central government and the states. The central government levies direct taxes, such as the corporate income tax, capital gains tax and dividend distribution tax. The statutory corporate income tax rate varies between twenty-five and forty percent depending on the circumstances of the particular company. Domestic companies are taxed at a lower rate compared to foreign companies. The central government also levies indirect taxes. The most important of them is the central government's portion ("Central GST") of the goods and services tax. The goods and services tax is a comprehensive consumption tax levied on the supply of all goods and services. As from 1 July 2017, the goods and services tax replaced a variety of different indirect taxes, including the value added tax and the sales tax. The most important tax levied at the state level is the states' portion of the goods and services tax ("State GST"). States also collect direct taxes, such as a real estate tax.[54]

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[53] In Finland, also the Nordic ecolabel is popular.
[54] Deloitte. *Taxation and Investment in India 2018*. Available at

In Finland, the central government imposes all direct and indirect taxes. The most important direct tax paid by companies in Finland is the corporate income tax, which also covers the taxation of capital gains. Besides the corporate income tax, there are relatively few other direct taxes on businesses but, for example, a real estate tax is levied on the real property owned by companies. The general corporate income tax rate in Finland is twenty percent. The same rate is applied to resident and non-resident companies alike.[55] Similar to various other Organization for Economic Cooperation and Development (OECD) economies, the corporate income tax rate in Finland has been in steady decline in recent years[56]. The latest tax rate cut in Finland was in 2014 when the tax rate was reduced from 24.5 to 20 percent. Value added tax is the most important indirect tax in Finland. In addition, there are various excise duties. Most significant of them are taxes on energy. The standard value added tax rate in Finland is twenty four percent, which is the fifth highest standard rate in the European Union. Reduced rates are applied, for example, to food and restaurant services (fourteen percent) and to books, newspapers, medicines, sports services, passenger transport and accommodation services (ten percent).[57]

The tax rules that apply to cross-border businesses are in many ways similar in India and Finland, as both countries usually follow the worldwide standards of international taxation in their legislation.[58] Such standards are developed and codified primarily in the framework of the

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https://www2.deloitte.com/content/dam/Deloitte/global/Documents/Tax/dttl-tax-indiaguide-2018.pdf. PricewaterhouseCoopers website at
http://taxsummaries.pwc.com/ID/India-Corporate-Taxes-on-corporate-income.
Indian tax laws are explained by the Department of Revenue at https://dor.gov.in/.
[55] Income Tax Act, Business Income Tax Act, Real Estate Tax Act and
https://stats.oecd.org/Index.aspx?DataSetCode=REVFIN.
[56] OECD: Tax Policy Reforms 2018: OECD and Selected Partner Economies, 68.
Available at http://www.oecd.org/tax/tax-policy-reforms-26173433.htm
[57]Value Added Tax Act, Act on Excise Duties,
https://stats.oecd.org/Index.aspx?DataSetCode=REVFIN and
https://ec.europa.eu/taxation_customs/sites/taxation/files/resources/documents/taxation/vat/how_vat_works/rates/vat_rates_en.pdf. The Finnish tax laws are explained by the Finnish Tax Administration at: https://www.vero.fi/en/individuals/.
[58] See, for example, EY Worldwide Transfer Pricing Reference Guide 2017-2018.
www.ey.com/Publication/vwLUAssets/ey-2017-2018-tp-reference-guide/$FILE/ey-2017-2018-tp-reference-guide.pdf, 223 and 311.

OECD[59] but also, for example, in the United Nations.[60] While the currently applied rules in India and Finland are somewhat similar, there is a profound difference between the two countries' positions on how the taxation of multinational enterprises should be organized. Finland is a capital-rich developed economy with a high-level physical and legal infrastructure and educated population, while India is an emerging country with lesser resources in this respect. Accordingly, when taxing rights concerning the income of a multinational enterprise are allocated between different countries, the interests of Finland and similar Western countries are different from India and other emerging economies. Countries like Finland typically prefer the allocation of taxing rights mainly to the country of the "head office" where the valuable intangibles of the multinational enterprise (patents, trademarks, etc.) are developed. Instead, for developing economies the emphasis of taxation of multinationals would rather be where the manufacturing and consumers are located.[61] The division is perhaps more visible now than ever. The "fourth industrial revolution,"[62] meaning ground-breaking technological developments in communication, manufacturing, and logistics, is concentrating more and more taxable profits to the jurisdiction where multinational enterprises' intangibles are located. This is extremely problematic for emerging countries as it means that, under the currently applied worldwide standards of international business taxation, developing economies would be left with less tax revenue. For this reason, India has recently introduced a new type of tax, an "equalization levy," which targets the revenues made in India by highly digitalized global businesses such as Google, Apple, Facebook, and Amazon.[63] At the same time, Finland has been unwilling, even more so than OECD and European Union countries on average, to support unilateral propositions that would strengthen the tax position of the market country at the expense of the country of the head office.[64] The

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[59] See OECD at www.oecd.org/tax/.

[60] See United Nations Department of Economic and Social Affairs at www.un.org/esa/ffd/topics/tax-cooperation.html.

[61] See, with further references, Martin Hearson, "The challenges for developing countries in international tax justice". *Journal of Development Studies,* 54(10), 1932–1938.

[62] Klaus Schwab: The Fourth Industrial Revolution. (World Economic Forum: 2016).

[63] Ashok K. Lahiri, Gautam Ray, and D.P. Sengupta. "*Equalisation Levy*" Brookings Institution India, Working Paper 01. January 2017.

[64] See, for example,

OECD is currently working on a worldwide solution to tackle the challenges arising from the digitalization of the economy to the international business tax system. This work takes place in OECD's inclusive framework, which means that it involves OECD countries including Finland, as well as non-OECD economies including India.[65]

## Conclusions and Discussion

The legal principles governing the main stakeholder relationships of businesses are similar in India and Finland. Contracts are binding and consumers have rights. India's industrial employees are very well protected, whereas in Finland all employees have strong rights. Both countries have targets for climate change mitigation, and companies must innovate and employ cleaner solutions. Taxation is a responsibility issue both at the corporate level and at the global governance level.

Real-life compliance rates are another question from the existence of laws. Contracts are not always obeyed, but many contract disputes are settled out of court. Consumers get cheated in both India and Finland, and aggressive marketing practices do exist. In Finland, the Consumer Disputes Board deals with a wide range of topics and businesses comply with its decisions in over eighty percent of cases.[66] As regards employment law, forced child labour is the biggest problem to be dealt with in India.[67] In Finland, discrimination pertains to pregnant women (with an increase in cases in 2017), foreigners, people of diverse sexualities, and disabled persons.[68] As an example of environmental law compliance, we recently found that Finnish ship owners comply well with

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https://valtioneuvosto.fi/documents/10623/6305483/FI+SE+DK+Ministers+on+Digital+Taxation+1.6.2018.pdf/b5f82e44-82af-407a-94dd-bcadc51e6887/FI+SE+DK+Ministers+on+Digital+Taxation+1.6.2018.pdf.pdf.

[65] OECD at www.oecd.org/tax/tax-challenges-arising-from-digitalisation-more-than-110-countries-agree-to-work-towards-a-consensus-basedsolution.htm

[66] Consumer Disputes Board website at https://www.kuluttajariita.fi/en/index.html

[67] United States Department of Labor. Bureau of International Labor Affairs. https://www.dol.gov/agencies/ilab/resources/reports/child-labor/india

[68] Tasa-arvovaltuutetun vuosikertomus 2017. Report of the Ombudsman for Equality 2017. Yhdenvertaisuusvaltuutetun kertomus eduskunnalle 2018. Report of the Non-Discrimination Ombudsman for the Finnish parliament 2018. K 6/2018 vp.

the ship emission rules.[69] While tax evasion means the illegal misrepresentation of incomes, deductions, etc., tax avoidance means the legal but sometimes unethical use of tax laws to reduce one's tax burden. Shadow economies exist in both India and Finland. In profit-shifting between countries, India seems to lose an amount corresponding to two percent of its GDP.[70]

Understanding the legal requirements is necessary for international business. Laws comprise the minimum societal requirement for responsibility. An international company needs to learn the laws that govern their relationships with contract partners, employees, consumers, the environment, tax receivers, and other stakeholders. Good cooperation in the business network, the well-being of the employees, and product security and consumer protection are all important elements in the social responsibility of business.[71] In environmental responsibility, resource and energy efficiency are keys to lowering the environmental burden including the carbon footprint. Tax planning is a critical question in economic responsibility. An international company needs to adjust its processes (e.g. human resource management, financial planning, procurement, product development, marketing communications) to the varying legal demands.

Adjusting to foreign laws also takes cognitive effort. Alexander (1997) uses the terms 'regulatory distance' and 'discontinuity' in connection with the differences in the past and anticipated experiences of the marketer. The regulations of the destination markets will be reflected against home country regulations, company history, and the ethical stance of the company, all of which are interconnected. [72] Finnish companies will look at the Indian regulations from the Finnish and European perspectives, and Indian companies will see the Finnish and European regulations in the Indian context. Because each company has adjusted to its surrounding regulatory systems, the histories and the ethical values of the companies

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[69] Anu Lähteenmäki-Uutela, Johanna Yliskylä-Peuralahti, Sari Repka, and Johan Mellqvist. WMU Journal of Maritime Affairs 2019. DOI 10.1007/s13437-019-00163-1

[70] United Nations University World Institute for Development Economics Research. WIDER Working Paper 2017/55 Global distribution of revenue loss from tax avoidance. Re-estimation and country results. Available at https://www.wider.unu.edu/sites/default/files/wp2017-55.pdf.

[71] Seppo Koskinen. *The New Work and Labour Law – From the Finnish Perspective*. (Helsinki: Edita, 2001), 91.

[72] Nicholas Alexander. *International retailing*. (Oxford: Blackwell Business, 1997).

typically differ. It is therefore not straightforward for companies to readjust themselves and restructure their networks in order to comply with the differing regulatory requirements across the world.

As laws are dynamic, compliance is a continuous process. A company needs to engage in an ongoing dialogue with governments and societal interest groups. A proactive approach to law entails anticipating future law, and even taking the goal of impacting the content of future law. In a democracy, the law is based on the values and demands of majorities. Large and powerful interest groups still speak louder than others, and the voices of some interest groups are not heard at all. An ethical company will not base its responsibility on legal demands and stakeholder pressures only. The company must also have its own values for separating right from wrong. As laws lag behind societal movements and tend to have gaps, timely ethics will always be needed.

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# CHAPTER SIX

# RESPONSIBLE LEADERSHIP: FROM PRINCIPLES TO PRACTICE

## ARI LINDEMAN

## Abstract

In contrast to analyses of the CEO/macro-level relations of responsible leadership (RL), this study compares and contrasts RL outlooks of a Finnish manager (FM) and an Indian manager (IM) on three levels of analysis in an international family-owned enterprise. Research questions are: Q1: What does RL look like in the middle-to-upper management level of an international family-owned company? Q2: How are Finnish and Indian manager's RL outlooks similar to and different from each other? Q3: What management development challenges can be identified on the way to a more responsible leadership culture?

The theoretical framework is based on Voegtlin et al. (2012) which describes RL on micro-, meso-, and macro-levels. A qualitative methodological approach is used and supports the explorative study and cross-cultural comparison and contrasting analysis. Thematic in-depth interviews were used for data collection.

Results show that the focus of RL is more on the micro- and meso-levels. The human element is emphasized by both interviewees but on the micro-level, the FM focuses more on team atmosphere and the IM on the processes or standard operating procedures. On the meso-level, the FM considers the character of organization culture with a view to achieving a more results-orientated culture. The IM sees himself as the promoter of the headquarters and Finnish culture. On the macro-level, RL is based on keeping out of market segments prone to irresponsibility.

Managerial implications of the study relate to management development in particular. For instance, the FM's RL outlook seems instrumental whereas the IM's outlook is more integrative. Management development would benefit from furthering the dialogue between a company's global ethical culture and local ethical cultures. Attention should also be paid on how RL behaviours are developed in managers destined for the CEO-level.

# Introduction

International companies apply responsible leadership in a globalized yet culturally diverse world. It is interesting that very few cross-cultural studies have been conducted about responsible leadership (Frangieh and Yaacoub 2017). A lack of comparative or contrasting studies is particularly striking as managers in different societies hold different beliefs about their responsibility towards various stakeholders which has implications for their understanding and enactment of responsible leadership (Witt and Stahl 2016). Witt and Stahl studied seventy-three top executives from different types of business systems: US, German, Chinese, Korean, and Japanese. Their study focused mainly on what Voegtlin et al. (2012) called macro-level analysis, that is on top executives' responsibility orientation in relation to external stakeholders, and thus it excludes analysis at the organization as well as the employee level. Indeed, the CEO-level perspective is quite typical of studies on responsible leadership as in recent work by Maak et al. (2016). This preoccupation is understandable given the starting point of the literature in the classic debate on shareholder vs. stakeholder perspectives (Waldman and Galvin 2008). Choices about the nature and extent of responsibility are presumed to be made by the CEO and/or the values of the board of directors, and only subsequently leveraged throughout the organization. In contrast to the analysis of the CEO or macro-level relations, the present study deals with all of the three levels of analysis.

This study assumes that responsible leadership does not grow in a void, and thus it is not only a concern for top managers and large multinational corporations. Therefore, the study focuses on the responsible leadership outlook of managers below the top management in an international family-owned corporation with >1500 employees and a turnover of >250 million euros, headquartered in Finland, and which services mainly industrial and retail clients all over the world. (It was agreed with the company that it appears here anonymously as "the case company.") This mid-level context opens up a process view of the adoption of responsible leadership. The

approach allows one to consider how ideas about responsible leadership live and evolve in the process of becoming a larger corporation, and at the stage in which managers' global managerial outlook is still in formation.

The article explores and compares the responsible leadership outlook of a Finnish and an Indian manager. It seeks to answer three questions:

Q1: What does responsible leadership look like on the middle-to-upper management level of an international family-owned company?

Q2: How are a Finnish manager's and an Indian manager's responsible leadership outlooks similar to and different from each other's?

Q3: What management development challenges can be identified on the way to a more responsible leadership culture?

Firstly, the concept of responsible leadership is introduced in relation to other leadership theories. This is followed by the presentation of a theoretical framework consisting of the three-level analytical model of responsible leadership presented by Voegtlin et al. (2012). Next, the methodological approach and method of data collection and analysis are described. The article proceeds to the analysis of the data and to a summary of the results. Answers to the three research questions include managerial implications. The article ends with a discussion on its contribution, limitations, and ideas for further research.

## Responsible Leadership Among Leadership Theories

Much of the history of leadership theories can be sketched as an evolution of perspectives from individual, uni-directional, and relational towards situational theories with increasing complexity and contextual sensitivity characterizing the leadership phenomenon. Later on, the development of leadership theories forged into two basic directions. At first, these theories focused on the individual, and, particularly, on how to learn to become a better leader. More recently, and from a critical point of view, this strand of leadership theories can be seen to merge with various self-help or self-authentication type guides or prescriptive theories that today form a prominent source of practical leadership wisdom.

Another strand of development embraces the social embeddedness of the leader and reaches out towards networks and stakeholders (Voegtlin et al. 2012). This latter strand is motivated by social, ethical and environmental consciousness but also by the transparency and connectivity requirements

brought about by digitalization. Interestingly, responsible leadership could be seen as an attempt to bring together the best parts of both of these two strands of development. However, let us next discuss the concept of responsibility before returning to the concept of responsible leadership.

Responsibility is a grand concept with many senses. Responsibility has its individual and social dimensions in addition to legal and moral dimensions. Responsibility means being aware of your obligations. It also has a sense close to accountability for achieving promised performance given that one has freedom of action and empowerment and/or authority. Being responsible also resonates with being virtuous, that is, being good and doing good. Cultivation of virtues is again close to the idea of being responsible for oneself or one's soul as Ketola (2012) argues managers, too, should care for. The sphere of responsibility can also extend beyond humans, towards care for other species, for the environment or the mother earth. For some, there operates a transcendental realm beyond the physical through which one is said to have infinite responsibility for the other. More practically, Hart (1968) distinguished legal and moral responsibilities, such as role responsibility, causal responsibility, capacity responsibility, and liability responsibility. Most of these senses of responsibility pertain to an individual. There has also been a strong philosophical interest in collective responsibility that affects what kind of entities we should hold accountable. In addition to individuals, groups and corporates as collective entities may have responsibility for their actions in some cases (Tuomela 2013).

The concept of responsible leadership can be justified by both sustainable development and leadership and management theory-based considerations. The world needs a new narrative which states that infinite growth is impossible on a finite earth, and more consumption does not make us (that) happy, as Drewell (2012) argues. Also, globalization produces governance gaps such that public interest is insufficiently served (Hansen 2010, Voegtlin et al. 2012). Further, we have testified numerous public business scandals such as Exxon in Alaska, Enron in the US, Bhopal in India, and Shell in Nigeria all of which alert both the regulators and the public. Within the domain of leadership and management theory, three problems can be observed. Effective leadership is not necessarily good leadership (Pless and Maak 2008). Micro-level perspectives of internal organizational behaviour dominate the theory formation (Voegtlin et al. 2012, Antunes and Franco 2016), and there are great challenges in implementing and measuring corporate-level corporate social responsibility

(CSR) policies at the lower levels of organization (Kujala et al. 2013, Székely and Knirsch 2005).

Responsible leadership has emerged as a new leadership concept suitable for today's volatile, uncertain, complex and ambiguous (VUCA) world and demands for more sustainable business (Drewell 2012, Sarkar 2016). Responsible leadership is seen as a contextually informed stakeholder-orientated leadership construct compared to its partly overlapping and recent rivals, such as transformational, servant, authentic, spiritual, and emotional leadership (Maak and Pless 2006, Pless 2007, Voegtlin et al. 2012, Antunes and Franco 2016).

Antunes and Franco (2016) have developed dimensions of responsible leadership on the basis of earlier research. The first dimension is an aggregate of virtues referring to universal patterns of correctness and goodness, recognizing between right and wrong in the leadership function, working towards justice and honesty, helping others to morally follow fair objectives as well as to interconnect with a higher purpose. The second dimension relates to the understanding of leadership as stakeholder interaction. The third dimension refers to the model of a leader's roles that is key in delivering responsible leadership. These roles include steward, citizen, visionary, servant, coach, architect, storyteller, interpreter of meanings, and agent of change. The fourth dimension is concerned with principles and ethical values, or business ethics of a company, which guide the company and with which a responsible leader steers the relationship between herself and interested parties.

In contrast to most of the earlier leadership theories, it is claimed that responsible leadership includes social aspects and the natural environment at a key level of analysis, connects leadership to the outcomes of sustainable value creation or social change, and defines a leader's followers not just within organizations but in a broad sense, including all stakeholders (Pless and Maak 2011). Responsible leadership takes the view that not just political but also business leaders are involved in the deliberative democratic process as Voegtlin et al. (2012) argue. They see this as a challenging task as international business leaders are confronted with heterogeneous cultural contexts, devoid of shared moral orientations or legal framework. But this is precisely the reason why responsible leadership is called for at all levels of leadership, not just in top management.

# Responsible Leadership: A Conceptual Framework

The following extended responsible leadership definition put forth by Voegtlin et al. (2012) is taken as the basis for this study:

> "Responsible leadership as an awareness and consideration of the consequences of one's actions for all stakeholders, as well as the exertion of influence by enabling the involvement of the affected stakeholders and by engaging in active stakeholder dialogue. Therein responsible leaders strive to weigh and balance the interests of the forwarded claims. Additionally, responsible leaders foster the public exchange of opinions and engage in public will formation."

This definition is extended in the sense that, like other earlier definitions such as Pless (2007), it calls for the balancing of the interests of all stakeholders and considers how actions affect them, but in addition, the above definition calls for the facilitation of exchange of opinions and even engagement in public will formation. This extension is quite remarkable. Particularly so, if it is demanded from not just the top management but from all levels of leadership. This definition reaches out to all employees to include them in a radically-shared leadership concept.

As a theoretical model for exploring Finnish and Indian manager's responsible leadership outlook a multi-layer analysis proposed by Voegtlin et al. 2012 is used. This model was chosen for its comprehensiveness. The model is also one of the most extreme with respect to challenging leaders to get involved with all stakeholders and the public. The latter aspect of the adopted definition and the subsequent three-level model is thought to fit well with the demands of the present open, connected, and transparent digital age. The model describes micro-, meso-, and macro-levels of analysis corresponding to personal interactions between leader and followers within the organization, the shaping of the organization culture and performance, and relations with external stakeholders.

On the micro-level responsible leadership is acted out in the form of role modelling which has positive effects on the followers. In particular, this can be seen to enhance organizational citizenship behaviour (OCB) that refers to behaviours that show engagement beyond what is requested from the organization, job description or employment contract. The other main way of showing responsible leadership on the micro-level is related to the use of participatory decision-making practices that help to involve all employees who are affected by the decisions.

On the meso-level important aspects of responsible leadership include how it influences the ethical culture of the organization and how important CSR is perceived throughout the organization. Ethical culture is dealing with the long-term consequences of decisions and active stakeholder dialogue through which responsible leaders "provide an ethical vision of discursive conflict resolution for others" as Voegtlin et al. (2012) put it. Responsible leadership also influences through "a corporate ethics virtues model" which prevents unethical actions and stimulates ethical actions. On this level, responsible leadership is further enhanced by corporate ventures that assume elements of social entrepreneurship. Responsible leaders foster social innovation and bring all stakeholders' knowledge to bear in decision making. Leaders in top management especially have the position to embark on social missions that aim at considerable social change alongside the business mission. Furthermore, responsible leadership is meant to have a positive influence on an organization's performance. A responsible leader does not forsake being an effective leader in a traditional sense of facilitating individual and collective attainment of shared objectives.

On the macro-level responsible leadership is concerned with fostering relations with external stakeholders. It does this by building and maintaining legitimacy in a given society. The long-term survival of the company depends on its ability to show that its actions are desirable, proper, and appropriate in a social system of norms and values. According to Voegtlin et al. (2012) pragmatic legitimacy (satisfying self-interested expectation of an organization's immediate or main stakeholders) will not suffice in the face of new concerns about cognitive and moral legitimacy. The challenge arises from the erosion of taken-for-granted assumptions due to increasing pluralization. Responsible leadership is set to combat the deterioration of legitimacy by participation in public discourses and justifying actions to relevant societal actors through active discourse. Trust is another aspect of responsible leadership on the macro-level. Trust needs to be built by frequent interaction, not just with followers but with stakeholders at large and by emphasizing transparency, openness, and inclusion in these interactions. Trustful relationships are also about recognizing the vulnerability of one's own organization by the actions of others and vice versa. Responsible leadership is further concerned with building social capital in and around its own organization, that is, its ability to mobilize stakeholders or networks in collective actions beyond market-based or hierarchical exchange relationships.

# Methodological Approach

A qualitative methodological approach was chosen for the study. This approach supports the explorative nature of the research. It suits the early phase of research into responsible leadership in the context of international companies based in Finland. The objective of the study—to compare Finnish and Indian managers' understanding of responsible leadership—was also considered to pose a major challenge in grasping the nuances of the responses due to major differences in the respective societal and cultural contexts. Furthermore, as the topic of responsible leadership was new to the case company granting access to the researcher, it was thought that probing the understanding of responsible leadership would be seen as a constructive first step in the series of research-based interventions related to management development that could be suggested to the case company. The explorative qualitative approach was also justified by the limited access gained to the case company's managers and the time that was allowed for data collection. The case company was selected as the context for the study due to one of its member's participation in an MBA programme. The MBA student showed an interest in CSR and responsible leadership. An exchange of ideas followed between the student and the teacher regarding studying responsible leadership in the case company. The conversation resulted in a proposal for the study and its acceptance by the case company managers.

Personal interviews were used for data collection. The number of interviews was planned to be one or two from each country. It was agreed with the case company that at this initial phase one interview per country was enough. The selection of interviewees was made by the case company. The company's contact person was given a summary of the background, objectives, and research design with which they approached candidates for the interview. The researcher gave the following criteria for the selection: there should be one Finnish and one Indian manager, and they should be based in Finland and India, respectively. Interviewees should be available for an hour-long interview within one month of the initial contact either in the company's headquarters or via Skype, and they should allow recording of the interviews for research purposes.

Interviews were themed according to the three levels of analysis of responsible leadership described in the theoretical framework. At the beginning of the interviews, basic background data about the interviewee's managerial position and career phase were asked for, together with an open question about their pre-understanding of responsible leadership.

Open follow-up questions were used to probe into the meanings of interviewees' responses if deemed fruitful and if time permitted. Interviews ended with an open question about the prospects of responsible leadership in the future.

Interviews were conducted in May 2018. The Finnish manager was interviewed first, and the Indian manager the following day. The first interview was carried out face-to-face at the company headquarters in Finland and it lasted for an hour and fourteen minutes. The Indian manager was interviewed via Skype for forty-seven minutes. Interviews were recorded. The researcher made written renderings of the questions and interviewees' responses afterwards. Both interviewees were male engineers and forty to fifty years of age. Both had fifteen to twenty years of experience in managerial positions. The Finnish manager was relatively new to the company whereas the Indian manager had been with the company for close to ten years. The Finnish manager had global responsibility in a matrix organization. The Indian manager was in charge of regional operations. Both of them were responsible for the work of seventy to one hundred persons directly or through matrix relations.

The analysis of open and thematic interview questions was based on the principles of thematic content analysis. This method allows interview data to be organized without losing the core of the meanings. Gläser and Laudel (2013) indicate that the basic idea of coding interview data is that the transcribed text material is marked according to codes, which can be, for example, keywords or sentences (the latter in this study) that indicate the occurrence of the information in separate segments of the text. The answers were categorized according to theme and content. The analysis and interpretation were carried out in phases as described in Figure 6-1.

Firstly, the interview data were classified according to themes, coding the whole interview data under the four core themes of the interviews. The second step was to analyse the meanings managers gave to different contents in their responses. Meanings of individual responses were interpreted in the context of each manager's conversation with the researcher as a whole as well as in relation to other manager's responses to the same theme. These meanings were presented under pre-established themes and under other themes suggested by the interview data. During the third phase, a thematic table was generated that contained meanings that can be considered to be the same or similar between the interviewees under each theme (levels of analysis of responsible leadership) and those meanings which show a clear difference from each other. On the basis of

this kind of tabling the relation between the themes and interview data was re-evaluated and interpretations of similarities and differences between managers' meanings were clarified.
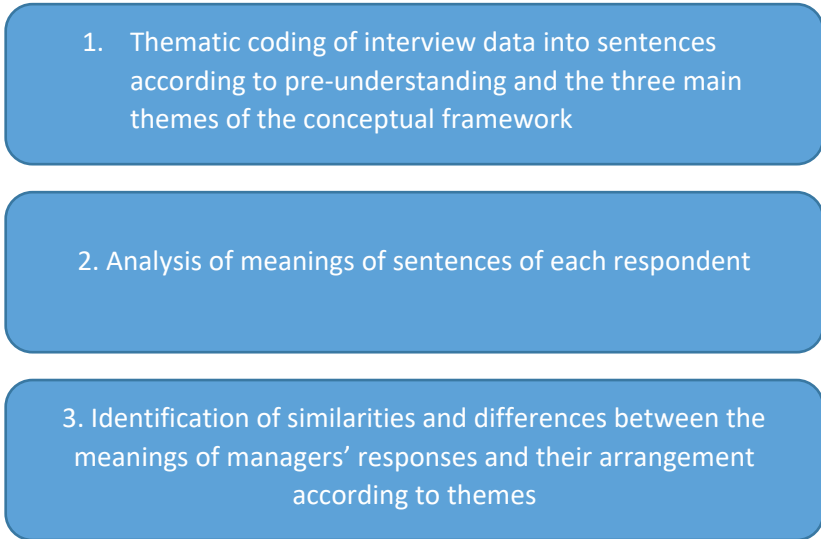
1. Thematic coding of interview data into sentences according to pre-understanding and the three main themes of the conceptual framework

2. Analysis of meanings of sentences of each respondent

3. Identification of similarities and differences between the meanings of managers' responses and their arrangement according to themes

Figure 6-1. Phases of analysis and interpretation

## Analysis and Interpretations

The analysis of the data is divided into three parts. The first part summarizes the Finnish manager (FM) and Indian manager's (IM) responses to interview questions related to four levels of analysis; on the three levels outlined in the theoretical framework plus interviewees' initial spontaneous understanding of responsible leadership. The second part identifies similarities between the Finnish and Indian managers' responses. The last part of the analysis distinguishes the main differences between the two managers' responses per level of analysis.

The Finnish manager's (FM) spontaneous thoughts about responsible leadership revolved around "the human element" as the most important aspect of the concept. A manager is first and foremost responsible for the wellbeing of subordinates so that people are treated fairly in order for them to function in a balanced way both as individuals and as a group. Responsibility for satisfying the company's interests and meeting its goals

come second. Societal and juridical responsibility was thought to come third. It is not so important as "you just have to fulfil them [juridical responsibilities]." The Finnish manager explained the main reason for putting people first as follows:

"Unless people experience that they are treated fairly there won't be results…I have worked in a similar job in many companies and with fifty to one hundred local country organizations, and thought about what brings about good results—a positive atmosphere is crucial, how well people get on together. I have not seen examples in which the atmosphere is bad and the results are good." (FM).

The Indian manager (IM) considered that responsible leadership "means sensitivity to your people, your team members." He also associated responsible leadership with non-hierarchical corporate culture, open door policy, and participatory decision-making, all of which are part of Finnish culture too, even though he is representing a more hierarchical Indian culture. He summarized his view in the following way:

> "Everybody should work with self-respect and be stress-free and without fear so that people can give their best." (IM).

The Indian manager also brought up more global perspectives into his spontaneous conception of responsible leadership. He saw its relevance in global business and said:

> "not just relevance, but it [responsible leadership] should, in fact, be the essence of business—business should be responsible to all stakeholders, also stakeholders you don't see." (IM).

He continued to include the leader's important role in bringing about more responsible behaviours and awareness of the consequences of individual actions:

> "People working in the business and leaders need to be responsible… organizations are run by leaders so leaders should be responsible…world is flat, one act of responsibility can affect someone else in an adverse way." (IM).

On the micro-level, the managers' responsible leadership outlook was concerned with personal interactions in an organization. The Finnish manager said that his main responsibility was to keep up a positive atmosphere. He thought also to be responsible for making sure that people know what is expected of them, and that people are (visibly) recognized

when these expectations are met. He did not see himself as responsible for finding motivation for subordinates:

> "[I am] not responsible for inventing a motivation for people—if no sign of motivation, [they] need to find other work in the firm or outside." (FM).

But the FM was conscious of his effect on motivation and did see a danger that a manager could, in fact, lower subordinates' motivation and that that should be avoided:

> "But the manager can lower subordinates' motivation, so the manager is responsible for getting rid of the barriers to getting everyone's job done." (FM).

In the FM's mind, motivation was manifested when he saw people getting into the flow of work:

> "Of course, some are more and some less visible when in flow state, but flow is about doing more than formal responsibility requires—I see expansion of one's role as positive, as an entrepreneurial working style. The task as such is not the point but what we want to accomplish." (FM).

Another responsibility that the FM took seriously was his role in following subordinates' wellbeing. He thought that optimally people are self-directive. Intervention was called for if really needed. In a sense, the FM pictured his role as a caretaker of wellbeing from the point of view of what not to do. For instance, country managers within FM's matrix organization sometimes had challenges in managing themselves and operations.

> "[Intervention is] difficult because country managers have independent responsibility for their budgets and it is challenging to intervene from the distance. I have tried in some cases to help with delegation, prioritization, planning better… I could easily burn out such people, just by few changes the guy would be in troubles [sic], so my responsibility is to lead by bringing realism to goals because I cannot follow how they run their daily activities. In this kind of global matrix organization, the main thing is that teams are independent, not necessarily every team member." (FM).

Putting people first and related participatory practices also appeared high in the FM's orientation to responsible leadership. He has experienced it as a good practice to get to know the people and form informal relationships within a new team well before talking about the results:

> "In the new team, I get to know people well before talking about results, etc. Small successes build trust. Sometimes it is difficult to find out what is

bothering [them]. There can be a spiral of improvement activities without real improvement. This is often due to the fact that somebody in the team would have liked to get into my position or that there is mistrust between my boss and my subordinate. My trustful relations with both is [sic] not enough." (FM).

Although the FM was focusing on people issues, he was ambivalent about acting as a role model in an organization:

"I don't know if I want to be a role model. This is my way to lead: to share ownership as much as I can to the next level in the organization. I would like to be a role model in giving realistic goals and in being open." (FM).

We move next to how the Indian manager talked about his responsibilities in his personal interaction on the micro-level of analysis. His main concerns were first about making sure that subordinates should know what to do, that is, to know "standard operating procedures (SOP), and if deviation occurred, that they know how to go for an approval" and second, that employees were motivated to follow SOPs.

Some problems are caused by the fact that "many activities are not yet in SOPs, or there is a need to change SOPs, for instance, when a new kind of customer complaint or request is made." The Indian manager saw many factors behind motivation. In his view:

"Every employee is different, come from different backgrounds, they have unequal starting points. [One needs] understanding of challenges in family (sickness, accidents, etc.) and when peak performance cannot be expected." (IM).

The Indian manager also saw it as his responsibility to sponsor the education of an uneducated office boy. He made sure that the boy had the possibility of leave for exams and that other employees in the office helped the boy with his studies. Furthermore, the Indian manager brought up wellbeing sessions (such as yoga) after hours, weather permitting (i.e. when it is not too hot). There was a sense of progressive responsibility as the company grew. The IM pointed out that the company:

"[Our company] is still small [in India] but we have plans for a gymnasium, restrooms, and other new facilities." (IM).

The meso-level deals with how leaders shape the organization's culture and performance. Let us start by looking at how the Finnish manager considered his role in this level of analysis. His main perspective was

about how the case company's corporate culture was evolving with the relatively new managing director:

> "The corporate culture is more results-orientated than before. This was brought about by the new MD's (managing director's) agenda. Compared to other companies I have worked with the link between one's own role and company results has not been so clear."

The changing corporate culture raised some issues which touch upon responsible leadership. More "results-orientated culture brings both positive and negative things to people" as the FM has noticed:

> "Goal-orientated people feel it rewarding, but some others may find adverse effects due to cost-cuttings, for instance. There is a need to be responsible for an open and well-justified process of making hard decisions of laying off etc." (FM).

The FM stated firmly the main goal of the firm but underscored the importance of procedural ethics:

> "the firm exists for making a profit but how profit is made—it has to be made within rules: make decisions which have to be made but do them in the right way." (FM).

The character of CSR differs from market area to market area since the "acceptable way of doing business is quite culturally determined," as seen by the FM. Having worked in a few Asian and African countries and elsewhere he maintained that:

> "for me, it is more important that people are treated right from the local perspective, not that treatment is seen as right from the Finnish perspective." (FM).

> "There are things which are unethical everywhere [but] if the choice is needed to be made between local and HQ perspective, local must be followed." (FM).

CSR also has a different character in a large multinational company compared to a smaller international company. The FM comments on this as follows:

> "The more international and larger the firm, the bigger the mismatch there is between corporate-level CSR and reality in the field. I believe in the kind of approach in which local actor which operates ethically is enough, it will be trusted." (FM).

According to the FM, the case company's social entrepreneurship type of activities may be associated with the type of corporatist markets in which it has been operating in many countries for years due to the distinct nature of buyers and main partners. The FM saw this changing as the markets open up among their customers, and as they faced more competition by international corporations. In the FM's opinion, there might be less room for social entrepreneurship, and not more, due to this development that also leads to a situation in which:

> "family-owned companies need to be kept in a more similar condition than listed companies for potential listing in the future." (FM).

For the Indian manager, his exposure of over ten years to the Finnish culture formed an important background to how he saw responsible leadership on the meso-level. He articulated this with respect to organization culture:

> "I have been exposed to Finnish culture in which people are free, trustful, honest, high integrity. It is my responsibility to inculcate these qualities [in my organization in India]" (IM).

The IM says that they were quite sensitive to fostering this kind of ethical culture:

> "[Inculcation] starts from the recruitment (whether a person has high ethical values), also we sensitize about these in our team meetings every two weeks (e.g. gift policy). We don't take any gifts from our suppliers. Mementos are fine but expensive gifts neither we give or take." (IM).

The careful recruiting and regular inculcation measures helped to maintain ethical culture inside the organization. It was more difficult with external stakeholders, with government and the like. Social entrepreneurship-type activities depended on the size of the company according to the IM. The Indian subsidiary that the IM was heading did hire some interns from polytechnics every year, and the IM considered this as responsible practice. Otherwise, he noted that "our scale is not so big, not really [a] possibility to do [social entrepreneurship]." The IM indicated that operations need to be profitable for some more years before these kinds of activities can be expanded. In the end, the IM also emphasized business performance. The focus was on it and the other responsibilities mentioned in this context "are around it" as he put it.

On the macro-level, the FM saw the responsible leader's role to position the company in the right market segment in which responsibility and

sustainability are valued. In this kind of market, it will make sense to act in a responsible way. In the case company, this was done by ensuring that:

> "our products are durable and safe to use; this is the best support we can offer. Best corporate responsibility is that we will not do compromises with products, no risks taking in product quality nor in customer support." (FM).

If the customers, as some did according to FM, preferred low-end products with short-term benefits in price or other factors then it was responsible to keep away from those markets. The FM saw his company's role and possibilities in influencing local communities as very limited. The FM seemed to count on the trends that support sales of high-end products kept on strengthening.

The Indian manager's perspective to key external stakeholders was clear. The most important of them were suppliers, customers, and the government. Dealings with suppliers revolved around supplier audits which were used to make sure suppliers follow ethical rules as stated in the case company's supplier manual. This had its challenges in the Indian context as he discusses:

> "It is challenging to follow the rules in India. We slightly modify some rules for the Indian context, for instance, payments down. It is a continuous process to work with suppliers." (IM).

The IM said that with customers, transparency is the key and not giving false commitments. The government has been a good partner during the past nine years, and the company has not had any violations of laws or government rules. However, compliance with government regulations comes with a cost as "there is a lot of paperwork."

The IM foresees more engagement with more external stakeholders as the business grows:

> "There is a [fairly] new law: at a particular turnover level company needs to contribute certain % of its profits to CSR activities. As we make more profit we will be contributing, too. Our company should reach this threshold in 3–4 years." (IM).

Table 6-1 summarizes the similarities and differences in the Finnish and Indian manager's outlook on different levels of analysis, including a spontaneous response to the responsible leadership concept.

Chapter Six

**Table 6-1. Summary of similarities and differences in Finnish and Indian manager's responses on three levels of analysis of responsible leadership and spontaneous responses to the concept of responsible leadership.**

| Level of analysis | Similarities | Differences |
|---|---|---|
| A spontaneous response to responsible leadership | Emphasis on the human element | FM: focus on responsibility within the organization<br>vs.<br>IM: indication of the wider concept of responsibility |
| Micro-level<br>- effects on followers' attitude and cognitions, e.g. organization citizenship behaviour, motivation, job satisfaction | People orientation<br><br>Being a role model although somewhat ambivalent<br><br>Promotion of participatory practices<br><br>Care for subordinates' wellbeing | FM: emphasis on atmosphere, flow, and internal entrepreneurship<br>vs.<br>IM: focus on functioning operative process and its improvement |
| Meso-level<br>- ethical culture<br>- CSR character<br>- social entrepreneurship<br>- performance | Emphasis on the ethical character of the local actor<br><br>Regular reminders of the company's CSR policies, within a team (especially with respect to suppliers and project sales) | FM: focus more on shaping the present and future organization culture compared to what was before (towards results orientation)<br>vs.<br>IM: focus more on shaping the organization culture towards the culture of HQ and its national culture |

| | | |
|---|---|---|
| | Organizational performance by ethical means and processes | FM: Social entrepreneurship as a minor factor from the global perspective<br>vs.<br>IM: a sense of local social responsibility growing gradually with company size, resources, and profitability |
| Macro-level<br>- legitimacy<br>- trustful stakeholder relations<br>- social capital | Quality of products as the basis of the case company's legitimacy<br><br>Handling relations with government diligently and proactively, both on the administrative and technical side<br><br>Importance of local environment for trustful relationships | FM: Responsibility within the limits of the company's philosophy<br>vs.<br>IM: Local influence according to the size of the company |

# Managerial Implications

The previous section presented interviewees' responses on three levels of analysis of responsible leadership. Their views and the resulting summary table of similarities and differences between Finnish and Indian managers allow us next to present the main results of the study. This will be carried out by answering the three research questions with reference to analysis and interpretations in the previous section, with a focus on managerial implications.

Q1: What does the responsible leadership look like on the middle-to-upper management level of an international family-owned company?

Data and analysis show that there is a strong but limited commitment to responsible leadership at the middle-to-upper management level of an international family-owned company. Commitment is strong in the sense that managers focus on and care for their people a lot. Managers feel strongly about their responsibility for organizational performance and that business results are to be attained by equal, transparent procedures and commitment to ethical culture even under difficult circumstances. Commitment to responsible leadership is limited in the sense that concern for team or organization members dominated in the interviews. There was no indication that these middle-to-upper management level managers participated in the public exchange of opinions or engaged with public will, although active stakeholder dialogue was practiced with key suppliers and clients as well as in industry's common standardization and development forums with governmental actors. For these managers, the scope of wider social responsibility was assumed to be given by the company position and relatively modest size and determined by its strategic choices of the responsible market segment they chose to serve. In the opinion of the interviewed managers, their company had chosen a responsible market segment in which durability, efficiency, and safety of their products and services manifested their commitment to responsible business. For them, the business of responsible leadership was to keep out of the not-so-ethical, low-end, segments of the total market. According to the Finnish manager, these lower-tier market segments were typically dominated by local or regional rather than international players as in the case of relevant Indian and South-Asian markets.

Q2: How are a Finnish and an Indian manager's responsible leadership outlook similar to and different from each other?

Both Finnish and Indian managers emphasized the human element in leadership. They cared for their team or organization members' wellbeing and functioning and encouraged participatory decision making. The Finnish manager's spontaneous understanding of RL was more limited to the organizational actors whereas the Indian manager made reference to the wider concept of responsibility including concern for "stakeholders you don't see." Both managers were hesitant of seeing themselves as role models but, were able to say what kind of role models they would like to be. For instance, the FM would like to be a model for setting realistic goals and being open. On the micro-level differences were minor, but interesting. The FM focused more on the atmosphere and the IM on the processes or standard operating procedures (SOPs). A positive atmosphere was needed to achieve results and therefore the Finnish manager wanted to see his people attaining flow states while working. He also appreciated initiative, or what can be called internal entrepreneurship; that is, that people are self-directed and willing to go beyond their assigned tasks to flourish and achieve the goals. The FM placed high importance on the cultivation of inner motivation. He believed that at best intervention is needed only if people sacrifice their own wellbeing by overworking. The Indian manager focused more on overseeing and teaching the SOPs and making sure people were motivated to follow them. The IM also wanted any improvement needed in SOPs to be brought openly to the team's attention. The IM's care for his team members showed a wider spectrum than the FM's including more direct involvement in individuals' educational and family concerns.

On the meso-level, both managers were committed to promoting an ethical culture based mostly on local actors. CSR policies and incidents were discussed between the FM and his colleagues worldwide in informal discussions—sales-related incidents in particular. The IM brought the ethical character of the company and its CSR policies regularly to team meetings. Typically, these discussions were related to supplier relations. The FM considered the character of the organization's culture in reference to what it was earlier. The company culture was steered, with the new managing director and strategy, towards a more results-orientated culture in which the FM saw himself as the facilitator of the targeted change. The IM, on the other hand, saw himself as the promoter of the company headquarters and home country Finland's culture with typical elements of Finnish working culture that the IM held in high esteem. From the

responsible leadership point of view, it seems that the IM thought he was successful based on the extent to which his Indian subsidiary organization's culture approaches Finnish working culture. The FM did not think that social entrepreneurship played an important role in the company as a whole. Interestingly, he even thought that the changes in many of their markets from corporatist towards more open international competition diminished possibilities for social entrepreneurship that this particular industry has been used to due to high margins. The IM had a more open view of the company's role in social entrepreneurship. He foresaw that with the projected growth of the company's turnover and profitability in India the company will soon reach the status of being obliged to contribute a certain percentage of its profits to CSR activities in India. Some of these proceeds may be used to finance social ventures. This future change in the status of the company will also influence activities on the macro-level.

On the macro-level, the case company's legitimacy was based mainly on the quality of its products as seen by both managers. From the sustainable development point of view, the case company positioned itself as the forerunner in the industry with modern technology. The company succeeded with this strategy as long as the relevant market segment valued sustainability and associated responsible practices. The business of responsible leadership is to keep out of market segments prone to unethical or irresponsible behaviour. However, the managers' responses indicated no particular ambition to influence the practices of other market segments and their players in any other way than what happens via the (possible) growth of their chosen high-end segment. The IM was more inclined to see the company's sphere of responsibility grow gradually as the company grows and prospers in India. The managers also emphasized handling of governmental relations, both in administrative and technical matters, diligently and proactively despite the high costs involved. Building rapport with the local environment was key to trustful stakeholder relationships for both managers.

Q3: What management development challenges can be identified on the way to a more responsible leadership culture?

The first identified management development challenge relates to the application of responsible leadership within the case company. Although the interviewed managers exhibited a strong sense of responsibility, responsible leadership seemed to be an unfamiliar leadership concept for them. If this is true of a larger sample of case company managers, then it is

worth investigating how the company's management development could be enhanced by responsible leadership. As discussed in the theoretical part of this paper, responsible leadership combines individual, organizational and wider societal responsibilities in a way that accommodates the development of responsible management culture and implementation of CSR policies across a variety of cultures. As a multi-level concept, responsible leadership would also apply to different levels of management, and, as such, it could facilitate a meaningful dialogue between management layers and progressive awareness of responsibilities as people advance in their managerial careers. The second challenge concerns the responsibility thresholds as the case company's subsidiaries grow in size and power. The Indian manager's responses showed an understanding of growing responsibilities as the subsidiary grows and becomes profitable in its market. If the case company has similar positions in other target markets then, from the management development point of view, it would be useful to share the responsible practices engaged in by different subsidiaries when certain thresholds (size, profitability, position, etc.) are met. In any case, this should be a good occasion to alert subsidiary managers to the stakeholder perspective and to inform them about corporate philosophy as it relates to responsibility. Through sharing of responsible practices between subsidiaries new regional or even global partnerships could be formed to advance social entrepreneurship, for instance. The third management development challenge arises from the juxtaposition of the Finnish and Indian managers' outlooks on responsible leadership. The Finnish manager's sense of responsibility for the people in the organization and for corporate performance seemed to be a strong asset but his RL outlook was quite instrumental, that is, justified by the business case based on the company's chosen market positioning. The results indicated that the role of a private company and its manager was more integrative with respect to responsibility in India, that is, it has a wider and more boundary spanning sense of responsibility. The Finnish manager's global (matrix) perspective—and personal experiences from several continents—mirrored a more detached view of responsibility according to which wider stakeholder responsibilities were determined by local cultural norms. The perspectives of the Finnish and Indian managers made an interesting juxtaposition because the Indian manager held the HQ culture and Finnish working culture and ethics in general in high regard, and he saw himself as responsible for cultivating that kind of ethical culture in their Indian organization. Management development needs to further the dialogue between the case company's global ethical culture vs. local ethical culture: Does the case company strive for one global ethical culture

on the meso-level of analysis with allowances for local variations on the macro-level dealings with stakeholders? What kind of responsible leadership outlook will future business and societal environments demand from the company's managers responsible for global (matrix) operations? And, if a more extended concept of responsible leadership is needed at the top management level in the future, how mid-level managers are developed towards a more integrative style of responsible leadership if their outlook has been instrumental for a long time in their careers?

## Discussion

One of the contributions of this article is to introduce responsible leadership in the context of a globally operating middle-sized family-owned company and among middle-to-upper management levels. Our results indicate that responsible leadership was not a very familiar concept in this context, although interviewed managers shared a strong sense of responsibility in general. The application of the three-level analysis of RL clearly showed that the focus of managers below top management was more on the micro- and meso-levels—in the interaction between managers and subordinates as well as fostering ethical culture and concern for organizational performance. Although this result was foreseeable, taking into account the interviewees' organizational positions, the inclusion of the macro-level of analysis prompted managers to explore their thinking and helped to identify future management development challenges for the case company. In a similar vein, the definition given by Voegtlin et al. (2012) of responsible leadership taken as the starting point proved to be too extensive for the responsibility horizon of the interviewed managers. However, this can be interpreted that either the definition better applies to the study of top management level behaviour, or that it is appropriate as an aspirational definition and as such it accommodates managers' developmental needs. The second contribution regards the exploration of multiple perspectives on responsible leadership outlook. The article set out to explore Finnish and Indian perspectives in particular. However, interviews also raised an interesting and important juxtaposition between global and local perspectives. Indeed, in discussing differences between responsible leadership outlooks one should remain careful when ascribing these differences to either one of these polarities. However, the main result was that there were differences between Finnish and Indian manager's responsible leadership outlooks which were highlighted by the fact that interviewed managers were very similar in age, educational background, and length of their managerial careers. The comparison of responsible

leadership outlooks also brought up interesting challenges for future management development in the case company. The Indian example clearly showed that as the subsidiary grows and gains in status there are important developmental thresholds with respect to a responsibility that responsible leadership could deal with. Both the Finnish and Indian managers showed a strong commitment to organizational goals and performance, but the data suggested that the Indian manager's outlook was not as instrumental as the Finnish manager's (see Maak et al. 2016). This may, of course, be partly due to the different roles of companies within respective societies. Also noticeable was the Finnish manager's temporal reference point regarding the development of (ethical) organizational culture whereas the Indian manager's reference point was always the headquarter (Finnish) culture.

This study has some limitations. There were only two interviewees, one from each country. This was the maximum access allowed by the case company at this point. The explorative investigation aim can be achieved with scarce data if the researcher is mindful of the limitations it sets for inferences and conclusions. The explorative approach implies that the comparison of managers' outlooks is more appropriately viewed as contrasting viewpoints for deciphering interesting similarities and differences. Contrasting is also less sensitive to differences in the contrasted parties' different (formal) organizational positions. The use of multi-level analysis presents a challenge for any study but even more so when there are a limited number of informants as in the present case. An option would have been to concentrate on either the micro-level or micro- and meso-levels of analysis. This would have allowed deeper insights into those areas of responsible leadership, and possibly produced a more grounded comparison of RL outlooks. This was not done because the idea was to introduce the whole three-level responsible leadership framework for the case company and in the Finnish vs. Indian and global vs. local context. Further, the complexity of the multiple levels of analysis was deemed manageable with the minimum number of respondents as any comparison requires a minimum of two units to compare and contrast with each other. There is also the possibility of bias based on the fact that the researcher is Finnish and thus less acquainted with the cultural context of India than Finland which affects the analysis and interpretations. To offset this, the methodological process has been presented as openly as possible, and original data and transcriptions are available for further investigation.

The present study suggests a few avenues for further research. Investigation of the responsible leadership outlook of middle-to-upper managers could

fruitfully continue with a developmental or process view to responsible leadership with a view to contributing to management development and managerial career guidance from the RL point of view. This kind of study would benefit from a larger sample of respondents from the case company or a few companies of similar size and nature. If conducted within one company this kind of research could take a more participatory methodological approach in order to achieve both scientific and practical goals at the same time. Another research avenue would be to investigate the developmental thresholds of subsidiaries and their managers from the responsible leadership point of view in several countries. This would enrich the three-level analytical responsible leadership framework with new knowledge on RL's role in the evolution of management contexts as a subsidiary grows in stature. From the company's point of view, this would allow the sharing of insights of responsible leadership between parts of the corporation and build a common (global) approach to social innovations and social entrepreneurship, for instance. Furthermore, a critical research avenue can be suggested. The study raised up a contrast between a more detached and limited responsible leadership outlook based on a global perspective of managing matrix operations from Finland and a more holistic responsibility perspective based on managing operations in one country, namely, India. It would be interesting to study how these instrumental and integrative responsible leadership styles are reconciled in growing international family-owned companies operating in Finland and in India.

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# CHAPTER SEVEN

## CROSS-CULTURE MANAGEMENT AND LEADERSHIP FOR MULTINATIONAL COMPANIES IN INDIA AND FINLAND

### OLENA DE ANDRES GONZALEZ

## Abstract

The active globalization of business processes contributes to the emergence of multinational enterprises and multinational teams. The multinational enterprise gains access to the skills of highly qualified foreign employees, manufacturing resources of the host country, and the possibility of fostering collaborative innovations and solutions for sustainable development. On the one hand, it gives an opportunity to obtain unexpected competitive advantages, and to reach new levels in both production and marketing. On the other hand, interethnic barriers and cultural differences could adversely affect activities, because they could occur at different levels—not only at the level of team and employees but also at the leader level. This could lead to misunderstanding and result in unforeseen expenses and significant problems in business.

In this chapter, discussed first are the most popular and successfully applied studies that form the basis for the ideas of intercultural differences in management and interactions within a company, such as Hofstede's cultural dimensions and the GLOBE studies. Second, cultural competence, cross-cultural competence, and cultural intelligence are reviewed. Third, the understanding of cross-cultural management and how competent managers should be able to maintain a balance between their own cultural values and the cultural values of foreign employees are considered. Fourth, the main strategic steps for the introduction of cross-cultural management in multinational enterprises are highlighted. Through the complex analysis of the key cultural differences, it is possible to determine their influence

on the company's activities, its organizational structure and, as a result, on the company's performance in various countries, and on the possibility of motivating the work team.

# Introduction

The active globalization of business processes contributes to the emergence of multinational enterprises and multinational teams. The multinational enterprise gains access to the skills of highly qualified foreign employees, manufacturing resources of the host country and the possibility of fostering collaborative innovations and solutions for sustainable development. On the one hand, it gives an opportunity to obtain unexpected competitive advantages and to reach new levels in both production and marketing. On the other hand, interethnic barriers and cultural differences could adversely affect activities, because they could occur at different levels, and not only at the level of team and employees, but also at the leader level. This could lead to misunderstanding and result in unforeseen expenses and significant problems in business.

In this chapter, we discuss first the most popular and successfully applied studies that form the basis for the formation of ideas of intercultural differences in management and interaction within a company, such as Hofstede's cultural dimensions and the Global Leadership and Organizational Behaviour Effectiveness (GLOBE) studies. Second, we review cultural competence, cross-cultural competence, and cultural intelligence. Third, we describe the understanding of cross-cultural management and how competent managers should be able to maintain a balance between their own cultural values and the cultural values of foreign employees. Fourth, we highlight the main strategic steps for the introduction of cross-cultural management in multinational enterprises. Through the complex analysis of the key cultural differences, it is possible to determine their influence on the company's activities, its organizational structure and, as a result, on the company's performance in various countries and on the possibility of motivating the work team.

The problem in assessing cultural differences is always the controversy of the criteria chosen for this evaluation. Studies of culture and its influence on management should not be viewed by managers as final recommendations,

but as material for reflection.[1] Nevertheless, there are key studies that are the basis for the formation of ideas about intercultural differences in management and interaction within the company. The most popular and successfully applied studies that form the basis for the formation of ideas of intercultural differences in management and interaction within the company are Hofstede's cultural dimensions and GLOBE studies, cultural competence and cultural intelligence.

Usually, people born and raised in the same country or region have the same cultural characteristics.[2] According to Schein (1992), culture is a set of assumptions that determines for us which things to pay attention to, which ones to ignore, how to express our reaction, what actions should be taken, and in what situations.[3] In general, culture can be described as common values, beliefs, norms, rules of behaviour, symbols, and traditions characteristic of a certain group of people that distinguish this group from the rest and make it special. At the same time, culture is dynamic and can be transmitted to other people.[4]

## Hofstede's Dimensions of Culture

The most popular and the most widely used framework from cultural studies is Hofstede's cultural dimensions. The main goal of early research in this area was to confirm the significant influence of culture on the work of the organization, management, and general business conduct.[5] In the 1970s, Hofstede was granted access to a database of IBM employees in more than fifty countries around the world, to whom he sent a survey on values and attitudes. The correlation was not revealed when analysing the questionnaires of individual employees but was clearly traced in the analysis at the country level. Later, the theory was supported by a survey

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[1] Rugman, A.M. & Collinson, S.C. (2009) International Business (5th Edition). Harlow, UK: FT Pearson/Prentice Hall.

[2] IBID

[3] Schein, E. H. (1992). Organizational Culture and Leadership (2nd ed.). San Francisco: Jossey-Bass

[4] Northouse, P. G. (2015). Leadership: theory and practice. Seventh edition. Los Angeles: SAGE Publications, Inc.

[5] Why is cross-cultural management scholarship blind to power relations? Investigating ethnicity, language, gender and religion in power-laden contexts. 2016. Henriett Primecz University of Budapest, Hungary, Jasmin Mahadevan, Laurence Romani

of four hundred people from thirty countries, who did not work for the the IBM company. The data obtained were significantly correlated with previous estimates by country. This confirmed the feasibility of using cultural typology to identify national characteristics in the value systems of employees of transnational companies. Initially, four cultural levels were identified, but in the 2000s, the Bulgarian scientist Michael Mink, based on data from the World Values Survey, identified two more levels, which successfully complemented Hofstede's cultural typology.[6]

The Hofstede theory has been criticized several times, stating that in some countries there may be several different cultures, that the Hofstede respondents worked in the same industry, that the data may not be accurate enough, and the parameters may overlap, but still, Hofstede's original work (Hofstede 1980) serves as a baseline for researchers in this area, as it has done for the past four decades.[7]

In its present form, the comparative analysis of Hofstede's dimensions is a six-dimensional model, with an in-depth overview of the cultural drivers, which is presented in Figure 7-1 for India and Finland relative to each other. Hofstede emphasizes that cultural dimensions describe the basis for the influence of a culture of society on the values of individuals and can be used in decision making by leaders and managers, but it does not neglect to take into account the personal characteristics of each individual employee. A dimension, according to Hofstede, is a certain aspect of culture that can be measured when compared with other cultures. Understanding these aspects in a business environment helps to interpret the behaviour of people of different cultures, that previously seemed mysterious and inexplicable.[8]

The six cultural dimensions include power distance, individualism, masculinity, uncertainty avoidance, long term orientation, and indulgence. The following is an assessment of all cultural measurements and a comparison of results between Finland and India.

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[6] Hofstede, G. (2011). Dimensionalizing Cultures: The Hofstede Model in *Context*. Online Readings in Psychology and Culture, 2(1). https://doi.org/10.9707/2307-0919.1014

[7] Smith, P. (2006). 'When elephants fight, the grass gets trampled: the GLOBE and Hofstede projects'. Journal of International Business Studies, 37(6): 915-21.

[8] Hofstede, G., Hofstede, G.J. & Minkov, M. (2010). Cultures and Organizations: Software of the mind. Third edition. USA: McGraw Hill Education.

Figure 7-1. Cultural dimensions for Finland and India. Resource: The Hofstede Centre[9]

*Power distance.* Power distance represents a perception of uneven distribution of power, for Finland with an indicator value of 33—this means that employees recognize independence, as far as possible in the organization, and equality. The leader is perceived as a teacher (coach) and due to the decentralized hierarchy present for convenience only, employees expect that the leader can easily be reached and that they can communicate with him directly. The leaders count on the experience and qualifications of the team members and the activity of the team, and the employees count on the leaders consulting with them. In India, in turn, there is a completely different perception of the power of a leader. In accordance with the Hofstede model, the indicator is 77, which means both in society and in organizations there is a deep respect for the hierarchical structure and the position of the leader in it. Employees accept unequal rights between hierarchical levels and the inaccessibility of the manager. In addition, the manager is, for employees, the one who gives meaning to their work and working life, encourages and condemns in exchange for the loyalty of the group. The centralization of power is designed for the complete obedience of the team members, and the employees accordingly expect specific instructions from the manager. Communication between the boss and the worker always adheres to a formal distance, and the feedback almost never goes beyond the limits of the hierarchical level.

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[9] Hofstede Insights:
https://www.hofstede-insights.com/country-comparison/finland,india/

*Individualism.* Individualism determines the degree of interdependence of members of society—if a society is more focused on individuality, a person is expected to have a commitment to family and personal values. If society supports collectivist direction, this means that the group expects to receive the loyalty of employees in gratitude for their care, support of the collective "we," commitment to common goals and standards. For Finland, this indicator is 63, which means a tendency towards individualism and care for one's interests and the interests of one's family. Relations between a leader and a subordinate are based on career advancement solely due to professional merit, cooperation is always mutually beneficial, and breach of contract or failure to fulfil an assignment causes guilt among employees and loss of personal dignity. For India, the indicator is at level 48, which means a commitment to both collective and individual goals. Collectivism supports orientation towards the common goals of the group, although the individual is influenced by personal and family values and other groups to which he belongs. If the group for some reason rejects the individual, he feels empty and depressed. In a team, this is manifested in an almost family-like relationship between the manager and the employee, where the manager supports and protects the employee as a member of a large family, and the employee listens to the manager as a parent. Decisions on recruitment and promotion are made on the basis of this relationship. The individualistic aspect is manifested due to the Hindu philosophy and belief in the cycle of rebirth—the success of the subsequent birth depends on how much a person follows his responsibilities in this life. This manifests itself as a personal interest in the commitment to the common goals of the working and social group.

*Masculinity.* Masculinity characterizes the development of a tendency to competition in society, a focus on achievement and success. If the score is low, it means that society is focused on caring for others, quality of life and the ability not to stand out from the crowd. For Finland, this estimate is at level 26, which means that status is not an indicator and is not demonstrated, but the motivation is to strive to love what you are doing. Company managers are focused on support, participation, facilitation of compromises, ensuring equality between employees and improving the quality of life (for example, flexibility and free time). For India, the masculinity level is 56. This means that success is clearly manifested in all possible ways, for example, by demonstrating expensive clothes or a car. Work, as the source of all this, is the centre of life. At the same time, in India the interesting characteristic feature, even when focusing on success and its demonstration, is that society is distinguished by a high level of spirituality, humility, and modesty, formed by virtue of philosophical and

historical aspects. The motivation for the employee is the desire to be the best, the result is the financial performance and the demonstration of success in the workplace.

*Uncertainty avoidance.* Uncertainty avoidance characterizes the attitude of society to the uncertainty of the future and the response to unforeseen situations. For Finland, this figure is quite high and equals 59. Finnish society strives to control the future; for this, strict laws and clear standards of behaviour are introduced. Emotionally, the Finns are prone to rules, such as punctuality and accuracy, saving time and money, and planning. This helps them to maintain a sense of control of the future. From the point of view of this attitude to the future, it is difficult to introduce innovations in such a society due to a high desire for security. Therefore, although Finland is one of the most innovative countries in the world, each new technology is preceded by a deep study of the consequences and drafting detailed instructions in case of unforeseen situations. Finns do not like to let things just take their random unpredictable course. For India, the uncertainty avoidance figure is 40. Society recognizes the imperfection of the world and of people, the situation can get out of control and not necessarily what was planned will happen. India has a high tolerance for unforeseen situations, and following the rules is perceived as a routine that society secretly encourages to be violated in order to find the best innovative solutions. This approach surprisingly allows the country to develop inventiveness with respect to complex tasks, although unfortunately, it may also be the cause of many economic and organizational problems.

*Long-term orientation.* Long-term orientation describes how society chooses a focus in building goals (focused on the past, present or future). For Finnish culture, the score is 38, which places it among the normative society category from the point of view of Hofstede's dimensions, and means respect for traditions, striving for truth, and focus on achieving quick results. For India, the indicator is 51, which cannot demonstrate a single-digit result. In Indian society, thanks to the philosophy of Judaism, time is not perceived as seriously as in Western countries. People have a greater tolerance for the concept of truth and calmly react to changing plans, to the beliefs of another person which are different from their own, and unpunctuality is usually forgiven.

*Indulgence.* Indulgence describes the degree to which society encourages control over its impulses and desires associated with enjoying life. For Finland, the indicator is 57, which indicates a desire to satisfy their desires, the importance of free personal time, spending money at their own

discretion and optimism regarding these things. For India, the estimate is 26 and means that society adheres to a culture of containment. By treating everything with some cynicism and pessimism, society does not encourage self-indulgence and neglect of social norms for their own sake.

# GLOBE Studies

The GLOBE (Global Leadership and Organizational Behaviour Effectiveness) study was conducted in the mid-1990s and involved 127 investigators in sixty-two countries and regions (17,300 middle managers in 951 companies from three different areas).[10] In the process of creating cultural clusters, GLOBE specialists used such cultural features as geographical, regional, religious, and historical aspects. Based on these factors, they grouped countries into ten different clusters: Anglo, Latin Europe, Nordic Europe, Sub-Saharan Africa, Germanic Europe, Eastern Europe, Confucian Asia, Middle East, South Asia, and Latin America.[11] GLOBE studied cultural practices (in terms of how the situation is now) and culture values (how it should be). Nine cultural clusters of the world were presented in this study, from which the common features typical for every group of countries were derived.[12]

In the course of the study, social culture assessments were developed based on several hundred items and analysed using item analysis, factor analysis, and generalizability analysis.

The nine cultural dimensions include:

1. Performance orientation: the degree to which team members are encouraged to improve performance.
2. Assertiveness: the degree of assertiveness and conflict of group members.
3. Future orientation: the degree of people's orientation towards the future (for example, planning and investment).

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[10] House, R. J., P. J. Hanges, M. Javidan, P. W. Dorfman, & G. Vipin. (2004). Culture, Leadership, and Organizations: The GLOBE Study of 62 Societies. Thousand Oaks: Sage.
[11] Northouse, P. G. (2015). Leadership: theory and practice. Seventh edition. Los Angeles: SAGE Publications, Inc.
[12] GLOBE https://globeproject.com/studies

4. Humane orientation: the degree to which the group encourages honesty and altruistic care for others.
5. Institutional collectivism: the extent to which society encourages collective resource allocation.
6. In-group collectivism: the degree of expression of loyalty and cohesion in belonging to a group and family.
7. Gender egalitarianism: the degree of minimization of gender inequality.
8. Power distance: the degree of acceptance of differences in position and status.
9. Uncertainty avoidance: the degree of desire to reduce the consequences of an unpredictable future through the establishment of norms and rules.

Finland belongs to the GLOBE Nordic Europe cluster together with Denmark and Sweden. According to the study (Figure 7-2), the Nordic countries have a very pronounced cultural character: society supports loyalty to groups and encourages collective action, including the distribution of remuneration. Evaluation of uncertainty for Finland indicates a tendency to comply with the rules and formal procedures in order to prevent unforeseen events in the future. Focusing on the future, Finland is higher than other countries outside the Nordic Europe cluster, which demonstrates good strategic planning and orientation to future changes. Gender egalitarianism is on average at a similar level among the Nordic countries, but lower than in the rest of the world. This tells us that society actively supports gender equality. Humane orientation and performance orientation are also at the middle level, and power distance, assertiveness, and in-group collectivism are low. Thus, in Finland, there is a low level of intra-group collectivism, but a high institutional one, which shows a somewhat detached attitude to family ties, the most equal distribution of power, and a tendency to avoid conflict in person. The Nordic Europe cluster would like to strive for maximum gender equality in society (despite one of the highest rates in the world), an even more equal distribution of power, a lower level of preventing uncertainty, that is to simplify some procedures (for example). Finnish society also strives for an even higher orientation towards the future, a decrease in the institutional and an increase in in-group collectivism, that is respondents would like to be closer to their families, to maintain greater loyalty and a sense of pride but would reluctantly agree to a collective allocation of resources. In the

workplace, they would like to receive more rewards, while respecting maximum equity and reducing gender and other inequalities.[13]
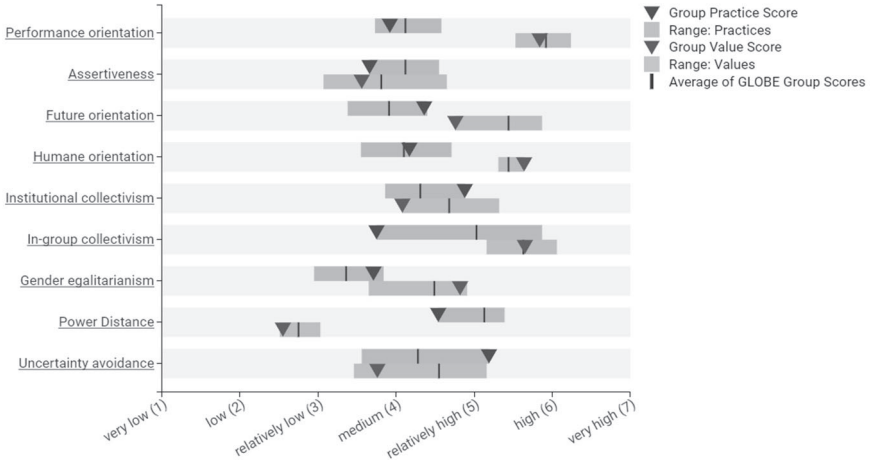


Figure 7-2. Cultural Practices and Values in the Nordic Europe Group. Resource: The GLOBE project[14]

The South Asia GLOBE cluster includes India, Indonesia, Iran, Malaysia, the Philippines, and Thailand (Figure 7-3). The cultural characteristics of this cluster are most pronounced in in-group collectivism, power distance, and humane orientation. According to GLOBE's analysis, Indian society is strongly focused on in-group collectivism, which is expressed in pride in its family, group and company. High performance at power distance implies a denial of equal distribution of power, maintenance of hierarchical structures, demonstration of status privileges, approval of authority, and support for social inequality.

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[13] GLOBE https://globeproject.com/results/clusters/nordic-europe?menu=cluster
[14] IBID
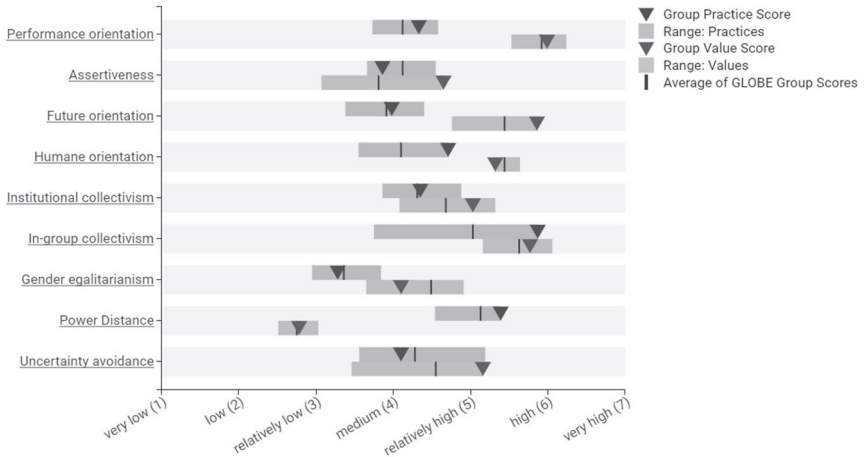
Figure 7-3. Cultural Practices and Values in the Southern Asia Group. Resource: The GLOBE project[15]

Humane Orientation is also at a high level, which means encouraging charity, generosity, honesty and caring for others. A low score in gender egalitarianism indicates male dominance in society. Performance orientation, future orientation, uncertainty avoidance, and institutional collectivism orientation estimates are in the middle range. The society in the South Asian cluster believes that, unlike current cultural traditions, it is necessary to focus more on productivity, assertiveness and the future, reduce power distance and make power distribution more even, reduce gender inequality, and increase the number of rules and procedures to increase uncertainty avoidance. In-group collectivism must remain at the same level, and to it must be added a higher level of collective allocation of resources.[16]

The traditional cultural studies in the most recent version and in accordance with the current interpretation of research conducted by the Hofstede and GLOBE research centres have been analysed. It is possible to trace the similarities and differences in the cultures of Finland and India and apply this data to a multicultural team. This will increase the level of corporate social responsibility, respect due, and take into account the

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[15] GLOBE https://globeproject.com/results/clusters/southern-asia?menu=cluster
[16] IBID

differences between the cultures of employees. Next, we look at what skills the leader will need to work in a multicultural environment.

## Cultural Competence, Cross-Culture Competence, and Cultural Intelligence

To understand the cultural characteristics of a business environment, a leader must have specialized skills that have been defined as cultural competence and cross-cultural competence. Cultural competence can be expressed as a special ability to successfully adapt to unfamiliar cultural conditions.[17] Cultural competence can also be described as the ability to deeply understand different cultures to shape their behaviour with minimal damage.[18] There are several definitions of cross-cultural competence, for example, Magala (2005) describes it as the ability to see and overcome differences at the level of values, their definition, implementation, and prioritization.[19] Gertsen considers cross-cultural competence as the ability to function effectively in different cultures.[20] In his studies, Nana Osei-Bonsu (2016) concluded that from the point of view of international business management, competence can be described as a combination of knowledge, skills, and abilities that a manager needs to form in his relationship with the team in order to function successfully in a global environment.[21]

There are many different examples of skill sets and cultural competencies, one of them made by Adler and Bartholomew[22] in 1992, which are

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[17] Moua, M. (2010). Culturally intelligent leadership. New York, NY: Business Expert.

[18] NARASHIMA BOOPATHI SIVASUBRAMANIAN Managing across cultures with Cultural Intelligence Quotient (CQ) Study of Finnish business leaders experience in India, Monograph, 2016. Vaasan yliopisto.

[19] Magala, S. (2005). Cross-cultural Competence. London: Routledge. https://publish.jblearning.com/index.php?mod=jbbrowse&act=book_details&id=5 66#

[20] Gertsen, M.C. (1990) 'Intercultural competence and expatriates', International Journal of Human Resources Management 11(3): 341–362.

[21] Nana Osei-Bonsu, "Discourse Analysis of Cross-Cultural Competencies in International Business Management" European Scientific Journal August 2016 edition vol.12, No.22 ISSN: 1857 – 7881 (Print) e - ISSN 1857- 7431

[22] Adler, N. J., & Bartholomew, S. (1992). Managing globally competent people. Academy of Management Executive, 6, 52–65.

becoming only more relevant with time from our point of view. The global leader needs to develop five basic cross-cultural competencies—an understanding of the current political, business and cultural state of the external environment; studying the preferences, trends and technologies of cultures with which he/she will work; the leader must be able to work simultaneously with people from different cultures; in addition, he/she needs the ability to quickly adapt to a long stay in another culture; in addition, the leader must strive for balance and equality of cultures as opposed to the prevalence of his own culture over the culture of the team. This example of a set of skills and cultural competencies for a leader could be used as a specific tool for working with intercultural competence and its step-by-step development.

Cultural intelligence (CQ) was described in October 2004 by Christopher Earley and Elaine Mosakowski in the Harvard Business Review.[23] According to their definition, it is a person's ability to be highly susceptible to unfamiliar cultural contexts, understand them and skilfully adapt to them. The authors separately pay attention to the fact that a successful leader in his or her own culture will not necessarily be as successful in a foreign culture, because the leader may not be sufficiently flexible to change his or her behaviour depending on the context and see the difference between the features of the behaviour of an individual and the behaviour caused by a particular culture. At the same time, a person who does not correlate so closely with his or her own culture (it is not only about regional characteristics, but also, for example, about professional culture) can quickly adapt to new cultural conditions and begin to function effectively in them. Earley and Mosakowski developed a system for assessing the level of cultural intelligence, as well as recommendations for its development. To develop your level of cultural intelligence, the authors advise: to explore your strengths and weaknesses in order to determine what needs to be worked on; select the appropriate programme for the development of weaknesses; use the programme; get support from your organization; at the first steps in a new culture, show your strengths; revaluation (360) to identify further steps in learning.

Building relationships with a multicultural team and creating a supportive internal environment is a delicate process and, with a competent approach, a leader is able to analyse his cultural competencies and cultural

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[23] Earley, P. C., & Mosakowski, E. (2004). Cultural intelligence. Harvard Business Review, October, 139–146. https://hbr.org/2004/10/cultural-intelligence

intelligence, as well as determine ways for their further development and improvement.

## Cross-Cultural Management and Leadership

Cross-cultural management, according to Nancy Adler (2008), explains a cultural aspect of people's behaviour in different countries, shows ways to organize the working process inside a multicultural company with employees, and how to manage relationships with the external environment of an organization.[24] Corporate culture is the company's common values, customs, traditions, philosophies, and policies regarding the formation of an internal environment for influencing the behaviour, feelings, and productivity of the company. Cross-cultural management is always based on the presence of context in resolving emerging conflicts. For example, depending on where the company is currently operating, local employees may require different management procedures or other organizational structures. A competent manager should be able to maintain a balance between one's own cultural values, an understanding of one's own qualifications and cultural values and the qualifications of foreign employees in order to obtain the advantages of management styles from different cultures. It is also worth paying attention to cultural differences when interacting with partner firms, with client firms (with respect to the product itself, or in the provision of services or advertising), with suppliers and with cross-border joint ventures or alliances. Cross-cultural management covers all elements of the organization, from decision-making structures and personnel collaboration to individual perceptions by the workers of their value and their attitudes to the leadership and mission of the company.[25]

Exploring the influence of cultural characteristics on leadership styles was one of the purposes of the GLOBE study. As a result, they derived six global dimensions of leadership:

1. *Charismatic/value-based leadership* reflects the ability based on traditional values to inspire and motivate people to give good results.

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[24] Adler, N. (2008). International dimensions of organizational behavior. (5thed.). Cincinnati, Ohio: South-Western.
[25] IBID

2. *Team-oriented leadership* demonstrates the ability to effectively create and manage a team, directing its activities towards the realization of common goals.
3. *Participative leadership* shows how leaders tend to involve employees in the decision making and implementation process.
4. *Humane-oriented leadership* shows the tendency of a leader to support and empathise with his subordinates.
5. *Autonomous leadership* demonstrates the degree to which a leader manifests individuality and independence.
6. *Self-protective leadership* shows the leader maintains the security of the group by improving status and maintaining an image. [26]

Regarding leadership, Finland (Figure 7-4), as a country of the Nordic Europe cluster, prefers charismatic/value-based, team-oriented, and participative leadership. The attributes of such a leader are realistic vision, integrity, determination and high performance. Charismatic/value-based and team-oriented leaders should be focused on teamwork, development, and consolidation of the working group using the professional and interpersonal qualities of team members. Finns are neutral on autonomous leadership, but extremely negative to the self-protective leadership dimension, i.e. self-centred, status, conflict behaviour and preservation of authority to the detriment of the cause or team are not recognized. In general, for the Finnish team, a leader must be active, decisive, honest, diplomatic, visionary, inspiring and focused on high performance and in no way self-centred, conflicting and protective of their status.[27]

For India, as well as for Finland, charismatic/value-based and team-oriented leadership are perceived as the most acceptable (Figure 7-5). Participative leadership is also viewed favourably, but in India, there is no common practice in engaging employees in decision making. Humane-oriented leadership is also viewed positively and can be successfully applied because in Indian culture leaders support participation in public events with the aim of maintaining the image and motivation of employees.[28] Self-protective leadership is not considered the most

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[26] GLOBE
https://globeproject.com/studies, https://globeproject.com/study_2004_2007#data
[27] GLOBE Culture and Leadership Study (2004):
https://globeproject.com/results/clusters/nordic-europe?menu=cluster
[28] A Detailed Comparison of Finland and India through Hofstede & Globe Study Sivasubramanian Narashima Boopathi, Global Review of Research in Tourism,

appropriate leadership style, but nevertheless, it is the most suitable style for India, according to the GLOBE study. Thus, the leader must be charismatic, team-oriented, administratively competent, self-protective, state-conscious, a face saver and procedural, but not engage employees in decision making.[29]
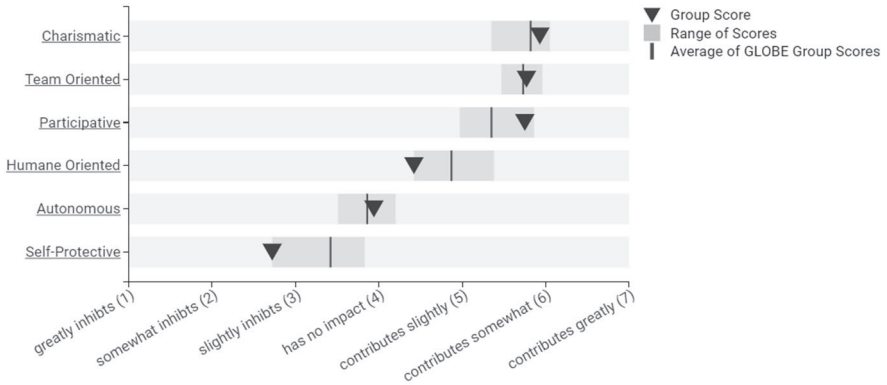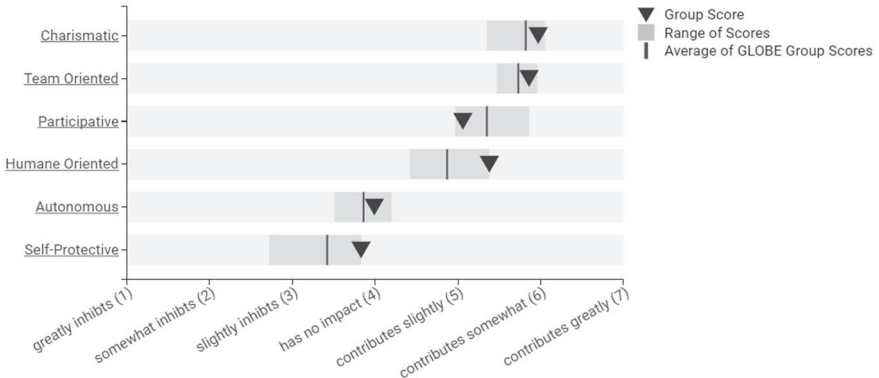


Figure 7-4. Leadership Scores for Outstanding Leadership in the Nordic Europe Group. Resource: The GLOBE project[30]

[29] https://globeproject.com/results/clusters/southern-asia?menu=cluster
[30] GLOBE https://globeproject.com/results/clusters/southern-asia?menu=cluster

Figure 7-5. Leadership Scores for Outstanding Leadership in the Southern Asia Group. Resource: The GLOBE project[31]

Ignoring the difference in cultural perception becomes the basis for conflict between international managers. There is a danger of conflict when managers are confident that their national leadership style is the only correct one and is imposed on its employees or partners in an unquestioning manner. The ability to see the advantages and disadvantages of different leadership styles and the ability to adapt this knowledge to cooperation in all spheres creates the necessary atmosphere for a successful business.[32] Differences in attitudes towards work, managerial interaction, hierarchy in labour relations, and division of responsibilities are important.

A strong influence is exerted by the associating of certain cultural groups with certain stereotypes of behaviour. Such communication barriers can be a significant obstacle for establishing mutually beneficial cooperation in any area of the company's activities, both inside and outside. Differences in leading styles, for example in Finland, where leaders try to be close to team-workers, an appeal to subordinates to evaluate the work of a manager is fundamental to the formation of trust and stable inter-level relationships. At the same time, in countries with a strict hierarchy and devotion to the leader, this action will be assessed as the uncertainty of the management or the owners of the company in the qualifications of the leader, which may entail a loss of managerial authority in the eyes of employees, frustration of subordinates in his activity and competence, and a decrease in motivation and productivity of labour.[33]

A competent leader should be able to maintain a balance between their own cultural values, an understanding of their own qualifications and cultural values, and the qualifications of foreign employees in order not to lose the advantages of all management methods.

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[31] GLOBE https://globeproject.com/results/clusters/southern-asia?menu=cluster
[32] Rugman, A.M. & Collinson, S.C. (2009) International Business (5th Edition). Harlow, UK: FT Pearson/Prentice Hall.
[33] IBID

## The Main Strategic Steps for the Introduction of Cross-Cultural Diversity in a Multinational Company

Competent cross-cultural management in the company is manifested in taking measures to encourage employees to adapt to cultural differences in the team or in interaction with the external environment of the company. Good examples are training programmes, joint events, new employee training, educational activities by the company through relevant magazines, flyers, internal social advertising spots, intranets, etc.[34] Also, constant work with middle and senior managers and strengthening their conscious and respectful attitude to cultural differences will contribute to the successful operation of the enterprise.

When choosing strategic steps for cross-cultural management, attention should be paid to the recommendations developed by Alan Rugman in 2004.[35] He created six strategies, that were used as a basis to show how to introduce and maintain cultural diversity in a multinational company. The six strategies are outlined below.

*Recognize diversity.* Determine what nationalities and cultures are present in your company, find out whether it is possible to create more comfortable conditions for them. A friendly atmosphere in the workplace contributes to increasing team unity, growth of productivity and creativity. Look at which of the procedures can be revised, what standards from other cultures would benefit the company and if they should be implemented throughout the company. Attention should also be paid to the clear statement of the mission and core values of the organization. Values must reflect the personal and general needs of all employees, as well as the norms of behaviour in accordance with company policies. If you introduce diversity without observing strict adherence to the mission and values, you can face conflicts based on division and rivalry. The same kind of conflicts can lead to benefits, the grounds for which violate the principles of equal treatment in the company for all employees.

*Start by recruiting.* Plan culturally diverse recruitment of personnel, think over strategic steps to form a multicultural team. Pay attention to hiring staff at the location of the company or branch. Perhaps it makes sense to create a partnership agreement or alliance with local companies or

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[34] IBID
[35] IBID

organizations to develop cultural awareness in the process of working together. In addition, all recruitment procedures should be objective and fair, and they should be periodically updated and replaced if there are more objective options.

*Competent distribution of powers.* Branches must have certain decision-making powers to determine at what level they would like to introduce aspects of cultural diversity that are important to them, of course, this depends on the location and nature of the branch's activities.

*Transboundary interaction.* To organize joint cross-cultural discussions and conduct specialized training aimed at enhancing the intercultural competence of managers and employees of the company. Employees should be familiar with the principles of cultural diversity, and when management personnel receives new knowledge, they should periodically share it with the team. Competent leaders must follow their team so that the staff develop and take advantage of all the training opportunities and feel valuable.

*Cultural balance.* In the process of making important strategic decisions focused on a foreign market, try to maintain intercultural balance among the team, knowledge of the national and cultural aspects of a foreign market for you, as well as the presence of local staff in the team, can play a very important positive role in the future for the entire company.

*Top management.* When working in a multicultural environment, it is necessary to have a multicultural team at the top management level, to consider the cultural diversity in the management of the company.

For the successful implementation of cultural diversity in an organization in front of responsible specialists and company leaders, the main difficulties are the various interests of stakeholders regarding the aims of diversity management, its implementation processes in the company and the expected results. Growing competition for better human resources requires the company to explore and apply diverse national experiences in managing cultural diversity to develop their own successful global strategies.

# Discussion

The chapter presents an analysis of Finnish and Indian cultures from the point of view of the most popular cultural typologies in Hofstede's cultural

dimensions and GLOBE studies. This analysis allows us to see the differences and similarities in cultural aspects between the two countries.

The most significant difference between India and Finland, according to both Hofstede's study and the GLOBE study, is the level of power distance between the leader and subordinates; in India, this level is much higher. There are significant differences in the indicators of masculinity by Hofstede—the Indian level is more than twice as high as the Finnish level. Uncertainty avoidance rates in both studies are higher for Finland than for India. At the level of indulgence, there is also a significant difference for Finland, which has this level twice as high as for Indian culture. The level of in-group collectivism in Finland is lower than in India but, at the same time, in India there is an equal commitment to both group and individual aims. The level of gender egalitarianism by GLOBE in Finland is higher, in contrast to India where society is more focused on men. Performance orientation in Finland is somewhat lower than in India. Institutional collectivism in Finland is slightly higher than in India. Assertiveness is on the same level in both countries and at the same time below average, which shows the avoidance of conflicts in both cultures.

Despite the significant difference between cultures, it could be possible to find options for cultural cooperation, for example in the form of correlating the Value Score according to GLOBE with the presence of the Practice Score in another culture in the form of learning from the experience of another culture or setting common goals focused on the same values. For example, in Indian culture, people like to focus more on future orientation, while in Finland people like to increase the level of in-group collectivism. In both cases, it would be useful to learn from the experience of colleagues who have already achieved the desired indicators. For setting goals based on the same values, the examples for both countries could be to raise the level of performance orientation and humane orientation, as well as to reduce the power distance.

The chapter also discusses the concepts of cultural competence, intercultural competence, and cultural intelligence. Recommendations on the development of cultural intelligence are given. The concept of cross-cultural management in the context of corporate culture is described, and the leadership styles revealed in the GLOBE studies are analysed. Based on the analysis, it can be concluded that the self-protective leadership dimension is unacceptable for Finland. For India, self-protective and autonomous leadership are the least preferred. In Finland participative leadership is actively supported, in India it could also be acceptable, but

due to the lack of practice of transferring responsibility for making decisions to lower levels of management, this is difficult to implement in reality. At the same time, both countries prefer charismatic/value-based and team-oriented leadership styles.

Finally, possible strategies for introducing cultural diversity in the company are described. Organizations, whose aim is to introduce diversity, should create a corporate culture that is consistent with managing diversity and complementing it competently. Leaders need to understand the importance of culture and how culture affects the working atmosphere in the team and for each individual employee. It is necessary to provide conditions under which all employees know what values the organization supports and what behaviour is expected from employees. It is necessary to create an atmosphere of openness and trust, to the maximum exclusion of prejudice and discrimination. Competent leadership can contribute not only to a tolerant attitude towards other cultures but also to the development on this basis of common values and a special corporate spirit.

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# Chapter Eight

## Exploring Intercultural Communications in Multicultural Settings for MNE Operations in India

### Kusha Tiwari

## Abstract

Developing country markets are characterized by a complex business environment, a plethora of cultural and institutional pressures, and transitional issues and challenges. Against the backdrop of the ever-increasing cross-border trade of MNEs, an important development has been the rise of multinational enterprises (MNEs) from emerging and developing economies across the globe. Thus, MNEs in developing countries engage an emerging breed of managers from diverse backgrounds working in a multicultural transnational environment, grappling with unknown issues in unfamiliar surroundings and contexts. This has given impetus to the importance of cross-cultural communication in shaping and developing a breed of responsible business professionals (RBPs/managers) while carrying out business in complex territories with uncertain issues and challenges. Thus, there is a large academic consensus concerning the need to focus on cross-cultural communication for enhancing the expertise of RBPs to the different business contexts co-existing in an integrated global economy. In this context, the present chapter discusses a futuristic managerial agenda based on the nuances of cross-cultural communication for helping RBPs and enterprises augment their expertise and cultural intelligence towards a more effective management in a cosmopolitan environment.

# Introduction

Communication practices vary across different cultures and spaces, defining and separating ethnic identities all over the world. Culture is a set of community-centric practices shared and performed by a group of people giving social continuity to their life together. It is these cultural beliefs, meanings, and practices that govern the tone and foundation of all human interactions, whether personal or professional, across the world. Globalization and the internationalization of economic markets have led to strong competition which has forced companies to engage in the exploration of growth in new areas and markets. As a result of such business expansion, MNEs (multinational enterprises) have set up bases in diverse cultural settings which creates scenarios of cross-cultural interfaces, in turn giving rise to cross-cultural communication conflicts and challenges. In an MNE setup, the cultural diversity of the workforce results in communicational diversity that impacts organizational growth and management. Cross-cultural communication plays an important role in negotiating cultural variations and national identities in multinational business organizations. In a multicultural MNE setting, the way in which employees communicate can set the tone and foundation for promoting a work environment that supports its operations and consumer requirements while infusing unity and high employee morale. It is pertinent to identify the way people understand, converse and make decisions across diverse cross-cultural backgrounds so as to recognize managerial insinuations of cross-cultural management. Although it may be difficult to interpret certain statements and behaviours in a multicultural setting of those MNEs with subsidiaries in other countries, there must be considerable stress placed on acceptance and open-mindedness towards communicational diversity. Language and cultural misapprehensions, in such settings, can be evaded by expanding our understanding of other people and their cultures. The study of cross-cultural communication in MNEs addresses this need by examining sites and processes of intercultural interactions and cultural adaptations among people belonging to different cultures and subcultures.

The fundamental principle of cross-cultural communication emphasizes the cultural dimension of communication in MNEs. Pertinent to this is the peculiar nature of the dynamics involved in cross-cultural communication in MNEs that sometimes results in intergroup anxiety, stereotyping, prejudices, and cognitive bias. These dynamics of organizational interactions arise out of the inter-influence of the organizational culture, the national culture of the parent company, and of the subsidiary unit in

the host country. The effectiveness of the organization's work and growth depends upon the smooth blending of all these intercultural influences. MNEs, inevitably, have to be acquainted with diverse working styles of their employees who are drawn from different cultural backgrounds. It is crucial for them to appreciate the cross-cultural differences in their operations and this understanding attains more significance when people hailing from diverse cultures communicate with one another. The study will also look into the importance of understanding and managing cross-cultural communication with particular emphasis on misinterpretations of nonverbal communication that affect not only the working experience and environment but at the same time are decisive in achieving the organization's goals. The misinterpretation of these responses and signs affects the performance and output of MNEs leading to loss of business opportunities in host countries. Hence, MNEs have to ensure that steps are taken to overcome the barriers to cross-cultural communication in order to attain organizational objectives effectively and efficiently.

Research in the field of cross-cultural studies is evolving over time. After the strong emergence of some developing countries in the global economy, there has to be a shift in the studies involving emerging economies like India. However, there is a huge gap in the literature between developed and developing countries in the case of cross-cultural communication. This chapter is expected to bridge this gap by benefitting researchers and students as research on this subject in the Indian context is very scant. In this context, this study aims to explore certain empirical issues and challenges relating to cross-cultural communication and find possibilities of exploring cultural misinterpretations in employee interactions in the cross-cultural settings of MNEs and subsidiaries based in different business centres in India. It is also imperative to examine how these MNEs formulate strategies to assimilate diverse cultural influences they encounter in diverse Indian cultural setups, simultaneously balancing the national cultural characteristics of both the host and the parent country for effective communication. With this in mind, the chapter aims to explore how MNEs cope with differences in values, strategies and practices between organization culture, the national culture (home country) and host country culture by constructing cultural profiles for their managers drawing from research, experiences of cultural adaptability, sensitivity and negotiation skills.

# Theoretical Foundations

As a result of globalization and internationalization of business, multinational enterprises are opening more and more subsidiaries and forming strategic alliances in different countries. As a result, cross-cultural management communication linked with organizational culture and the national cultures of the home and host countries is a crucial area of study in recent times. The interdependence of the present international market points out that MNEs are providing opportunities for their managers to move to subsidiaries in different settings to engage in cross-cultural communication so that they will acquire the vital knowledge, skills, and ways for handling the cultural disagreements. The international experience permits these managers to connect with people from other countries in an effort to take advantage of the openings available in culturally diverse markets (Nagar 2011). The diverse dimensions of culture, as researched by Hofstede (1991) and Trompenaar (1994), are used in this study. Hofstede (1991) identified four dimensions, and later a fifth dimension (time), of culture that help explain how and why people from various cultures behave as they do. The widely followed four dimensions of Hofstede's research are power distance, uncertainty avoidance, individualism, and masculinity. The time orientation was later added to focus on short- versus long-term orientation of culture. Trompenaar (1994) analysed five relationship orientations (universalism vs. particularism, individualism vs. communitarianism, neutral vs. emotional, specific vs. diffuse, achievement vs. ascription) of culture that address the way people deal with each other. Trompenaar also looked at the attitudes of managers towards both time and environment orientation. The dichotomies arising out of these cultural differences as described in the cultural dimensions are important guides for managers to understand how cultures differ and offer practical ways of cultural communication adaptations through which they can carry out business successfully in different countries.

According to Goby (2007, 427), much of the existing research in cross-cultural analysis was developed by Hall (1976) and Hofstede (2001). They have attempted to categorize the various culturally bound differences, inclinations, and expectations that have a direct bearing on people's communication behaviour in multicultural settings. Communication is an important aspect of cross-cultural management as culture and communication are so intricately intertwined that they are essentially synonymous (Hall and Hall, 1983). Communication is understood to be the practice of sharing meaning by conveying messages through language, behaviour or physical artefacts. Managers communicate to manage office work, to

circulate information, to inspire their juniors and to negotiate future plans of action. Managerial communication involving interpersonal interactions, motivation, leadership, group interactions, negotiations and decision making all have cultural imprints. Communication whether in the form of writing, talking, listening or using the internet, is an inherent part of a manager's role and takes up the majority of a manager's time on the job. In the context of verbal communication, Sims and Guice (1991) compared 214 letters of inquiry written by native and non-native speakers of English to test the assumption that cultural factors do affect communication. Further research on the subject revealed that even in English speaking countries, there are different approaches to writing letters (Scott and Green 1992). At the same time, nonverbal communication is also very important as far as cross-cultural communication is concerned. As it is said that 'a picture is worth a thousand words,' studies concerning nonverbal communication show that subtle messages account for between 65 and 93 percent of interpreted communication (Daft 1989). It is also said that minor variations in body language, gestures, rhythms and punctuality, and other interpersonal behavioural traits often cause mistrust and misperceptions of the situation among cross-cultural subjects. Hence, the ability of a manager to effectively communicate across cultural boundaries will largely determine the success of an international business or the output of a culturally diverse workforce. As has been stated by Samovar, Porter and Jain (1981): "Culture not only dictates who talks with whom, about what, and how the communication proceeds, it also helps to determine how people encode messages, the meanings they have for messages and the conditions and circumstances under which various messages may or may not be sent, noticed or interpreted." In fact, our entire repertoire of communicative behaviour is dependant largely on the culture in which we have been raised. Culture, consequently, is the foundation of communication, and when cultures vary, communication practices also vary. Culture can affect communication in a number of ways and one way is through the impact of cultural values. Cultural values indirectly, and in many cases directly, affect communication between people from different cultures. Culture, being the manifestation of shared values and beliefs, is adequately articulated through language and non-language codes. Cultural systems and practices govern the tone and basis of all human exchanges, whether private or professional, across the world. Thus, MNEs operating in the current globalized world scenario have to develop strategies and facilitate cross-cultural communication networks to address high levels of internal diversity giving rise to complex verbal and nonverbal communication conflicts. With globalization and market

expansion, target customer groups and stakeholders have also expanded which makes it all the more imperative for managers and business professionals to focus on transcultural dialogues and cross-cultural communication. Cross-cultural communication becomes important to comprehend the way people communicate, build consensus and reach agreements at different levels in an organization, which can lead to successful cross-cultural management. Although it sometimes becomes difficult to decipher certain culture specific expressions and behaviours in a multicultural setting of MNEs with joint ventures and divisions in other countries, it is desirable for the growth of the organization that managers are equipped with skills to deal with intercultural communication competencies and communicational misinterpretations.

Although the author could find scattered research literature on this subject, literature was found to be scarce in the Indian context. Thus, the relevance of research in this area becomes all the more pertinent. This paper explores the importance of barrier-free cross-cultural communications and interactions in the context of MNEs, based in India, that have not been adequately investigated. There are numerous challenges that MNEs have to deal with while managing intercultural interactions and their implications and some of them pertain to interpersonal and inter-office communication modalities. MNEs need to devise strategies to develop intercultural competencies to overcome communication barriers and assimilate diverse cultural influences. Those MNEs with expanding bases in foreign territories need to balance the interface between the organization culture and the national cultures of the host and the home countries. There is a need to look into the workings of the MNE settings with respect to organizational policy formulations. The organizational policy may construct cultural profiles developing through regular orientation and training programmes, assimilation exercises, team building exercises with a focus to familiarize the managers with the organization culture and other cultural influences at work in the MNE, thereby helping managers acquire appropriate communication skills so as to contribute to the smooth cultural blending. In short, this chapter explores the need to understand, examine and augment the research possibilities of intercultural communication in a multicultural set up as reflected in the workings of MNEs and their subsidiaries in the home country and host country settings.

Based on the theoretical review, the following propositions are introduced here for further explorations:

1.  *Dimensions of national culture of the home country are likely to impact corporate communication.*
2.  *Dimensions of national culture of the host country are likely to impact corporate communication.*
3.  *Organizational culture of MNE is likely to impact corporate communication.*

These propositions help raise further ideas about how MNEs cope with cultural differences in values, strategies and practices between organizational culture, the national culture and host country culture for effective communication. In the process, it is also to be noted that the subsidiary adapts to the influences of the national culture of the host country and thus resolves conflicts/differences caused by cross-cultural communication between headquarters and the subsidiary. This is achieved through a variety of cultural adaptation strategies and practices adopted by the headquarters and the subsidiary for effective communication. These initiatives create a harmonious balance between promoting uniform and distinctive organizational culture and accommodating diverse cultural structures for different cultural settings.

## Practices Across Cultures

There is some scattered international literature on cross-cultural communication and management issues but not much research has been carried out on the cross-cultural issues involving corporate communication in the MNEs with subsidiary units in the Indian context. Keeping this view in mind, the chapter examines the relationship between culture and corporate communication, possible cultural misinterpretations and resultant conflicts in the cross-cultural settings of MNEs and their subsidiaries operating in India. At the same time, it also becomes relevant to explore the organizational strategies and practices, if any, that these MNEs in multicultural work scenarios assimilate diverse cultural influences which balance the national cultural characteristics of both the host and the parent country for effective communication.

Globalization and integration of the world and the home economy have made it all the more pertinent to establish and maintain effective cross-cultural communication in organizations so as to ensure that opportunities are availed of and productivity is increased with high returns on public investments. With these developments, intercultural communication in MNEs must take cognizance of the cultural differences among diverse

groups of employees and at the same time also respond to challenges to develop a synthesis whereby unity is brought about amidst diversity. The general tendency to overemphasize the differences between varied cultures may result in stereotyping individuals which inevitably hinders organizational communication practices that must focus on unifying its culturally diverse workforce (Erez and Miriam 1992). The cultural differences reflected in the communication process in the MNE setup, in foreign territories, can be best understood in the context in which such interactions occur. Context plays a key role in classifying cultures as high context and low context. High context cultures are characterized by societies that are interdependent and are bound by a sense of community. In high context societies, messages have implied meanings; words have different connotations related to body language, facial expression, timing, tone, etc., leaving scope for numerous interpretations. East Asian cultures, especially, are interspersed with unexpressed communication messages to be understood in body language (Mary 1993). On the other hand, a low context communication culture encourages the direct expression of ideas where one can freely assess situations. People find it easy to come to grips with the expressions of low context cultures as the messages are direct, succinct and clear with minimum scope for misinterpretations. The global nature of business transactions these days and the need to save precious working time have shown that low context communication is preferable for MNEs in their operations. MNE setups in such cultures encourage their managers to be blunt and direct in their communication without any embedded meaning. However, managers carrying out business in high context cultures need to understand the context and reference group so as to make the right choice of words and comprehend the right/full meaning of underlying messages. There is a high possibility that the organization may come under the line of fire if communication is misunderstood or understood in a different light (Munter 1993).

Several researchers have contributed studies to the area of cross-cultural communication (Munter 1993; Bennett 1998; Yum, 1988; Ybema and Byun 2009). In her essay "Cross-cultural communication for managers" Munter (1993) applies manifold insights to managerial communications. In order to initiate effective communication, Munter (1993) recommends that managers think about seven issues before communicating. This study is designed only in a managerial context. Bennett (1998) in "Intercultural Communication: A Current Perspective" answers the question "How do people understand one another when they do not share a common cultural experience?" He responds to it from several aspects such as levels of culture, transcultural communication processes and cultural adaptation,

etc. However, the focus of this study is too wide and does not stand in a managerial context; rather it is relevant in a social context. In addition, Yum (1988) researches "the impact of Confucianism on interpersonal relationships and communication patterns in East Asia" (78). He argues that the deliberations of most communicational studies do not dig deep to explore the source of the problem. Thus, in his study, Yum (1988) goes "beyond these limitations and explores the philosophical roots of the communication patterns in East Asian countries" (78). But the focus of his study is on social contexts. Also, Yum (1988) only discusses the impact of Confucianism on civic communication processes. Confucianism can, in parts, be regarded as a culture, but not in its entirety. In addition, Ybema and Byun (2009) explore "issues of culture and identity in Japanese-Dutch relations in two different contexts: Japanese firms in the Netherlands and Dutch firms in Japan." Ybema and Byun talk about how three aspects, communication, the superior-subordinate relationship, and decision making in different cultures, influence identity formations across different organizational environments. At the same time, their study pays more attention to power and identity talks, leaving out other cultural dimensions such as individualism, masculinity, femininity and Confucianism or long-term orientation (Hofstede 1980). Thus, it is interesting to look at the influence of different cultural dimensions on organizational communication in multinational firms. By contrasting the differences in management styles, staff behaviour, and communication systems between different cultures, the barriers in cross-cultural communication in multinational firms will be brought out. Adler and Graham (1989) refer to Mishler (1965, 517) and argue that "The greater the cultural differences, the more likely barriers to communication and misunderstandings become." Further, it becomes evident that more and more managers have paid attention to the impact of cross-cultural conflict on communication within organizations and how these conflicts need to be addressed, keeping in mind the context, perceptions, gender, ethnicity, collective or individualistic approach, interpersonal equations, communication flows, nonverbal dimensions, etc. In addition to the survey of the literature, this chapter has taken first-hand experience from the interviews of top-level managers to validate the listed propositions.

## Impacts of Cross-cultural Communication

The objective of this paper is to reveal the complexities involving cross-cultural communication in MNEs, and thereby create a descriptive framework of managing cultural influences in MNEs communication.

Research on the field of cross-cultural studies is evolving over time. After the strong emergence of some developing countries in the global economy, there has to be a focus on studies involving emerging economies like India. However, there is a huge gap in the literature between developed and developing countries in the case of cross-cultural communication. Globalization has made intercultural communication inevitable. The impacts of cross-cultural communicational misinterpretations can be avoided by increasing our understanding of other people and their cultures. Communicating with other cultures characterizes today's business and how one should successfully conduct business, classrooms and the community. Cross-cultural interactions are mediated through linguistic barriers and cultural divergences permeating through and impacting organizational growth and management. The diversity of the workforce in MNE settings serves to highlight the importance of cross-cultural management communications that play a vital role in resolving dissonances, enriching the overall work productivity of the organization, and boosting collaborative teamwork leading to desired synergy outcomes. The all dimensional growth, profit generation and absolute work efficiency in a multicultural organization can be achieved by incorporating effective modes of organizational communication that would generate benefits of multiculturalism and minimize likely negative side effects.

It is imperative for enterprises to understand cross-cultural differences in their operations and this understanding acquires more importance when people hailing from diverse cultures communicate. Further, the advancements in technology, especially the internet, has increased the challenges and impacts of cross-cultural communication on society. It is all the more difficult to differentiate what is acceptable or what is not as everything is available and accessible. Thus, the managers need to develop cultural sensibility in filtering messages for public consumption, particularly in advertising. There have been documented cases of racial abuse, hurt of religious sentiments and so on in international management. Countries with a rich and ancient cultural heritage and huge diversity like India need to be studied and discussed through a different lens than the standardized Western literature, as the impacts or learning for managers could be disastrous and may result in unrest in some areas.

There are several subcultures within a given national culture which can be profiled to see the differences in the level of motivation, communication, ethics, loyalty, and individual and group productivity that may be encountered in a given country. In the case of India, one of the important cultural imperatives is to remember that Indians are very tolerant of

outsiders and understand that many foreigners are unfamiliar with local customs and traditions. In China, it is important to be a good listener and to understand the fact that they are a collective society in which people take pride in associating with each other. This is in sharp contrast to the USA and other Western countries, where individualism is highly practiced. Another cultural trait common to developing and emerging nations is building personal relationships to get the job done.

The following perspective is in the words of a very senior manager of the rank of vice–president of a software firm with over twenty years' experience in the IT industry in different developed and emerging markets including the USA, Ireland, Russia and India. He explains the phenomena in the Indian context.

> The national culture and traits of non-confrontation and seeking consensus are prevalent even among middle levels of management, which are often the levels interacting frequently in operations with global counterparts. At the lower levels in Indian enterprises, employees also carry a mind-set of needing to comply or agree. Both these traits can cause conflict in [the] case of interaction with globally diverse cultures, where the expectation may be to look for clear answers and honest feedback and expectations. This mismatch in cultural traits and expectations is [due] to the mismatch between national and imposed culture—in turn leading to pressures on expectations from managers.

> This is followed by the ability to anticipate and interpret the expectations, requests, demands of the global counterpart [that] are completely dependent on how knowledgeable, aware and sensitive Indian managers can make themselves about diverse cultural traits and behaviours. Understanding these differences and the basis and background behind them, helps Indian managers adapt themselves and their teams to modify their own responses and expectations in dealing with global counterparts.

Another senior manager working with a leading Swiss MNE in the legal department, with previous experience of working with a top American MNE, puts forth her experiences of host enterprise culture while working in India, which is quite different from enterprise to enterprise.

> "My first job with the American MNE had a very relaxed, informal work environment. The way of working and dealing with each other was very informal—they insisted on everyone being on a first name basis, irrespective of level. Oh yes, a very important thing—at lunch, you could be on days sitting with the Managing Director while on others you could be sitting with the clerical staff of sales or finance or the secretary of some department. This was a very un-Indian attitude, which has strict hierarchy

everywhere based on a variety of parameters including age, position in the organization, gender and very often caste and religion too.

"In my present job with the Swiss MNE there is hierarchy visible in everything—right from your working space, chair, telephone, etc.—is driven as per your designation. Which I believe is more of a host country value or tradition mind-set."

Corporate enterprises will inevitably need to be accommodative and adaptive to different working styles of their workers who are drawn from different cultural backgrounds. Success or failure in cross-cultural communication depends upon managing a diverse or multicultural workforce, testing the ability of managers at all levels to communicate effectively with people from different backgrounds and nationalities and showing respect for cultural differences. Success in global business operations may be affected by the inability of international managers to understand appropriate business etiquette, customs, and values needed to communicate effectively to conduct business among different nations of the world. Against this backdrop, there is a need to develop India-specific literature on the subject to understand the nuances attached to the evolving research and help the formulation of policy for business enterprises, industry associations and government. Even the documented literature is very old (fifteen years and more) and times are changing very fast due to the advancements in technology. Managers in multicultural MNE setups need to understand the differences in customs, values, beliefs, traditions, and etiquettes to adapt. This may further help in formulating organizational or industry association policy making so as to develop cultural sensibilities for effective communication. There have been media reports of worker's unrest resulting in violence in some industrial centres due to a lack of effective corporate communication. Thus, understanding the importance of communication in company setups may help the relevant industrial and labour departments in formulating appropriate policies for employer-employee interactions and effective cross-cultural communication.

# Conclusion

Exploring intercultural communications in multicultural settings becomes pertinent and relevant in the contemporary globalized scenario where the internationalization of domestic markets has led enterprises to expand their businesses in cross-cultural settings. Hence, effective intercultural communication is a vital skill for international managers and domestic

managers of multicultural workforces. Studying intercultural communication has implications for understanding cross-cultural communication barriers and the resultant conflicts in multicultural MNE settings in a culturally and linguistically diverse country like India. In addition, this paper serves to offer solutions to scenarios of communication barriers and differences in values and practices between the organization culture and national culture of the host country and the parent country.

There is a need to explore the possibility of developing cultural sensitivity encompassing awareness of cultural noise in the communication process. Further, cultural variables and the manner in which culture is communicated underlie the process of negotiation and decision making. Consequently, this is expected to unearth the type of negotiation strategies adopted by these enterprises in multicultural settings for their decision makings. Theoretical arguments and empirical findings may help several government bodies, such as the Ministry of Commerce and Industry and other sister ministries of transport, power, shipping, etc. in policy making for better coordination with and business climates for MNEs operating in India. As a result of large-scale restructuring, there are complex issues of people's integration. Research in this area may help policy makers to understand the role of effective communication which may address the issue of layoffs and develop cultural sensibilities for effective integration. There have been media reports of workers' unrest resulting in violence in some industrial centres due to a lack of effective corporate communication. Studies such as this are expected to serve as a guide and may help the relevant industrial and labour departments in formulating appropriate policies for employer-employee interactions and effective cross-cultural communication.

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# Chapter Nine

## Sustainability in Supply Chains: Assessment based on CSR Reports, Management Practices and Indicators in Leading Finnish Industrial Companies

### Victor Manuel Piedrafita Acin, Kaisa Sorsa and Keijo Varis

## Abstract

In the last decade, we have witnessed the emergence of sustainability issues as one of the most important business concerns in a firm's supply chain. An increasing number of firms have re-examined their relations with suppliers and moved forward in their efforts to build a more sustainable supply network. This research aims to understand how to develop sustainability in supply chains. In order to achieve this goal, the research focuses on the study of information disclosed in corporate social responsibility (CSR) reports of different companies, and especially the best practices for reporting, management, and assessment of sustainability in the supply chain.

The literature review focuses on the application of the sustainability concept in supply chains and its development. CSR reports and sustainability reporting standards give complementary information that will be used in the empirical part of the study.

As preparatory work for the empirical part of the study, some literature was researched to find out what methods were utilized in the past in reporting assessment, sustainability implementation, and indicators.

The empirical research was a comparative case study of CSR reports in five Finnish companies (Cargotec, Metso, Vaisala, Valmet, Wärtsilä). The companies have been selected based on past reporting practices, trying to get a comparable dataset in a limited context. Each company has been analysed separately as the preliminary step for the benchmarking about reporting, management practices and indicators. They all also have businesses in India.

Conclusions from the empirical research highlight the room for improvement in reporting practices and indicators. These results seem to indicate that companies will tackle sustainability in supply chains in the next few years once sustainability is fully implemented in their core activities, and sustainability leaders push their suppliers to follow sustainable practices.

# 1. Introduction

## 1.1. Background of the Topic

In the last decade, we have witnessed the emergence of sustainability issues as one of the most important business concerns in a firm's supply chain. An increasing number of firms have re-examined their relations with suppliers and moved forward in their efforts to build a more sustainable supply network, not only by monitoring their suppliers' compliance but also by fostering their capabilities to properly address various environmental and social challenges. The triple bottom line, indicating the combination of economic, social, and environmental criteria (Fig. 9-1) must be integrated into performance objectives for the management of the entire supply network. This is why the management of environmental and social issues in the supply chain, namely sustainable supply chain management, has increasingly been paid attention (Lee et al. 2016, 1).

FIBS, a Finnish organization that fosters sustainability, states as one of the key results of its Corporate Responsibility Survey 2017 Summary that sustainable and responsible supply chains have become strategic goals for Finnish companies, but implementation is the most challenging issue and there is a need for resources, systematic training and learning from the best practices developed by others (FIBS 2018).
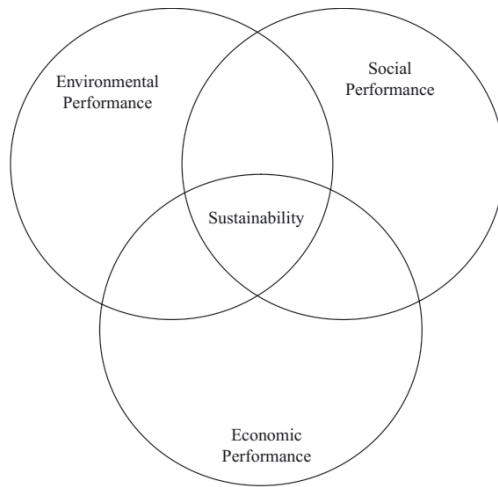
Figure 9-1. Sustainability: The triple bottom line (TBL) (Carter and Rogers 2008, 365).

## 1.2. Objectives and Research Questions

For these reasons, it is worth knowing more about the sustainability field, its challenging implementation in supply chains, and the latest management practices. As the FIBS report recommends (FIBS 2018), the best way might be through best practices and solutions developed by others. The research proposal was to conduct an empirical analysis of the disclosed information (secondary data) of sustainability reports of leading companies to answer the following research questions:

RQ1: How do companies report about sustainability in their supply chains?

RQ2: How do companies implement sustainability in their supply chains?

RQ3: What indicators do companies use to assess sustainability in their supply chains?

This research was aimed at understanding how to develop sustainability in supply chains. In order to achieve this aim, the research objectives were to gather general knowledge of sustainability in supply networks (via a literature review) and specifically about the best practices for reporting, management and assessment of sustainability in the supply chain (via a

review of sustainability reports of different companies and their
sustainable supply chain practices disclosed in their CSR reports)
(Piedrafita 2018).

# 2. Sustainability in Supply Chains

## 2.1. Sustainable Supply Chain Development

Supply chains consist of all parts involved, directly or indirectly, in
fulfilling a customer request and include not only the manufacturers and
suppliers, but also transporters, warehouses, retailers, and even the
customers themselves. Supply chain functions include, but are not limited
to, new product development, marketing, operations, distribution, finance
and customer service (Chopra and Meindl 2016, 13). Sustainability, at a
broader level, consists of three components: the natural environment,
society, and economic performance. This perspective corresponds to the
idea of the triple bottom line (TBL), a concept developed by Elkington
(1998), which simultaneously considers economic, environmental and
social goals from a microeconomic perspective (Carter and Rogers 2008,
364).

Supply chains have become so global and highly complex that maintaining
resilient supply chains is a key success factor for business in a fast-
changing world. Quality, cost, delivery, and reliability have been the focus
of supply chain professionals for a long time but, over the past few years,
sustainability has been added to the procurement criteria for many
companies (UNGC 2016, 4).

Workforce health and safety incidents, labour disputes, geopolitical
conflicts, environmental disasters and new legislation in areas such as
conflict minerals have contributed to the growing awareness of supply
chain risks among stakeholders. Moreover, by improving environmental,
social and governance (ESG) performance throughout their supply chains,
companies can enhance processes, save costs, increase labour productivity,
develop product innovation, achieve market differentiation, and have a
significant impact on society (UNGC 2016, 4).

In spite of growing stakeholder pressure and evident advantages, many
companies still do not have a comprehensive understanding of the
performance, risks and sustainability impacts of their supply chains.
Companies vary significantly in their approach to supply chain

sustainability. These approaches can be categorized into different levels or development phases:

1) With minimum guidelines, companies have a poor understanding of supplier risks and the basic development of sustainability.
2) An improving programme is characterized by a minimum level of expectations with a focus on risk and compliance, and basic auditing or assessment of high-risk suppliers.
3) As a programme becomes more established, companies set clear expectations for suppliers and develop processes to screen, select and manage suppliers against those expectations.
4) As companies move towards a more mature programme, they require suppliers to cascade the requirements further down the supply chain and identify opportunities to improve supplier performance. Mature companies address the integration of these practices and processes with product design and development to explore opportunities for enhancing sustainability.
5) Companies at the leadership level of maturity create shared values with their suppliers, treating their suppliers as an extension of their business and engaging in meaningful two-way dialogue (UNGC 2016, 4).

In regard to the current state and future development of sustainability in supply chains, supply chain sustainability is a current topic and companies are embracing responsibility in their supply chain management to improve their impacts on the workforce, local communities and the environment in the places where they procure their products and services (UNGC 2016, 6).

Operational, financial, regulatory and reputational risks continue to be the major drivers for supply chain sustainability. The proliferation of regulations and standards creates significant challenges to business, such as increased time and effort dedicated to compliance issues. Supply chain programmes are evolving beyond regulatory compliance to focus on creating shared values with stakeholders. As companies start to apply a sustainability approach to their processes, products, and services, the inputs to them and the social and environmental conditions will be under growing scrutiny (UNGC 2016, 6).

Most companies are applying a cross-functional approach to managing supply chain sustainability, where sustainability requirements, key performance indicators (KPIs) and assessment criteria are increasingly

integrated into the business processes, mainly managed by procurement and sourcing functions. The success of this approach depends on formalized channels of communication and reporting, and practices such as working groups that stimulate internal collaboration and knowledge exchange. Only a few companies have fully embedded sustainability into their business models, typically with strong support from executive leadership (UNGC 2016, 6).

Companies with mature relationships with their supply chains are expanding their relationships significantly beyond auditing and monitoring, and are investing in training, capacity building and incentives for the top performers. They work with suppliers towards shared commitments as they recognize that suppliers play an important role in achieving their sustainability goals (UNGC 2016, 7).

Companies still do not have a good understanding of the risks deeper in the supply chain, and therefore transparency and traceability, especially beyond direct suppliers, have been identified as major challenges. Sustainability leaders encourage suppliers to use sustainability practices with their own suppliers and thus reach further in the supply chain. In addition, the increased availability of advanced tracking technologies has led to the development of cloud-based software solutions focused on supply chain transparency. Technology can help companies to get a better understanding of the supplier's performance over time, make business decisions and ultimately improve processes while improving supplier relations. Technology solutions are also evolving to include inputs not only from audits but also from workers' information, government and nongovernmental organization (NGO) databases and the local press in order to create a comprehensive performance profile for suppliers. Technology will continue to play an increasing role in supply chain sustainability, offering modular, cloud-based, sector-specific solutions, with the potential of global cluster databases being created in the future (UNGC 2016, 7).

And finally, companies have recognized that multi-stakeholder collaborations in a specific sector, geography, issues, and commodities have fewer costs, increase leverage with suppliers, facilitate knowledge exchange and help enhance credibility (UNGC 2016, 7).

## 2.2. Sustainability Reporting and its Standardization. The GRI Guidelines

Sustainability reporting can be considered as synonymous with other terms for non-financial reporting; triple bottom line (TBL) reporting, CSR reporting, corporate responsibility (CR) reporting, and more (GRI 2018a).

According to the Global Reporting Initiative (GRI), a sustainability report is "a report published by a company or organization about the economic, environmental and social impacts caused by its everyday activities. A sustainability report also presents the organization's values and governance model and demonstrates the link between its strategy and its commitment to a sustainable global economy" (GRI 2018a).

Many companies began providing corporate sustainability reports to document their compliance with environmental regulations and have since broadened their reporting practices. The reporting level on sustainability can vary from companies that almost never report to companies that integrate financial and sustainability measures into their financial reporting. Regardless of its reporting practices and quality, a company will always be pressured for more transparency. Initiatives for sustainability reporting standardization will continue to evolve as more companies begin reporting and as companies already reporting broaden their scope. Companies considering sustainability reporting can use the GRI's latest set of standards as a starting point (English and Schooley 2014, 27).

The GRI guidelines have become the de facto international standard for reporting environmental, social, and economic performance and they are the most widely used around the world (GRI 2018b). The GRI is an international independent organization that helps businesses, governments, and other organizations understand and communicate the impact of business on critical sustainability issues such as climate change, human rights, corruption and many others (GRI 2018b).

With thousands of reporters in over ninety countries, the GRI provides the most widely used standards on sustainability reporting and disclosure, enabling businesses, governments, civil society and citizens to make better decisions based on information that matters. In fact, 93 percent of the largest 250 corporations report on their sustainability performance using the GRI guidelines (GRI 2018b).

In 2013, the GRI released the G4 Sustainability Reporting Guidelines. The G4 Guidelines include Supply Chain Standard Disclosures, among other

disclosures. In turn, the G4 Guidelines have been superseded by the GRI Standards, released on 19 October 2016. Use of the GRI Standards will be required for all reports or other materials published on or after 1 July 2018 (GRI 2018c).

# 3. Designing a Research Framework

## 3.1. Research Framework Adapted to Research Questions

The use of secondary data, data that has been gathered for another purpose, is growing in relevance and importance in purchasing and supply management research. Secondary data have many benefits:

- avoids survey fatigue
- costs less in resources because of data availability
- is more objective
- offers credibility if data information was audited and data collection was reliable
- offers clarity if the information is standardized
- allows trend analysis (Ellram and Tate 2016, 251)

Secondary data does have its limitations, ranging from biases in collection and reporting to difficulties in identifying and accessing appropriate sources of secondary data. Secondary data also requires finding a clear unit of analysis and a timeframe that suits the purpose of the research. Secondary data is effective in supply chain research in addressing several research topic areas such as sustainability or financial performance (Ellram and Tate 2016, 251).

For voluntarily reported data such as sustainability reports disclosed on company websites, there is no commitment to audit the data. While it is unlikely that companies would distort such data, self-reported data tend to be presented in a favourable light. In addition, because there is no requirement that companies disclose everything, reports will likely emphasize what is perceived as important, and areas where they excel, rather than disclose all relevant activities (Jose and Lee 2007, 318).

There is a lack of common language and measurement for many types of data such as sustainability reporting and supplier performance. The terminology may differ by industry and by country. Hence, there may be a differential in interpretations of what companies are truly doing (Fratocchi, et al. 2014).

Besides these limitations, data mining and refining can be an arduous task. Depending on the format of the data, there may be a huge amount of time required to transform the data into a useable form, then cleanse the data for errors and standardize the format of the data just to prepare it for analysis (Ellram and Tate 2016, 251).

## 3.2. RQ1: How do Companies Report about Sustainability in their Supply Chain?

The research was limited to sustainability reports publicly accessible on selected companies' websites and within them, to the content related to sustainable supply chains.

The number of sustainability reports to research was not more than five, focused on industrial corporations, and with the latest and common release date (2018), considering that all of them report annual activities (2017).

The companies were selected based on GRI aspects:

1) Location: Finland is ranked second in Robecosam's sustainability ranking, as of October 2017. This fact makes it easy to find top-quality sources of data in the sustainability reports of Finnish companies (Robecosam 2018).
2) Sector: Industrial (conglomerates, energy, equipment, technology hardware).
3) External assurance: In order to increase the credibility of the data companies such as PricewaterhouseCoopers, DNV, Ernst & Young or KPMG were involved. These companies independently assess the report against GRI principles for defining content and quality.

Sustainability reports are easily reachable from corporate websites with keywords such as "annual," "corporate responsibility," or "sustainability report," and "2017," as the latest reporting period.

As the nexus between the theory and empirical part, some literature research is needed in order to find methods utilized in the past that are applicable to the current research framework.

In the paper "Development of an Evaluation Methodology for Triple Bottom Line Reports Using International Standards on Reporting," Skoloudis et al. (2009) propose a benchmark tool that allows the examination of how well an organization's reporting practices stand

against the current 'de facto' standard GRI (information quality and
inclusiveness). The authors devised a scoring system (0–4 points) for each
one of the GRI topics and created an index of the GRI scoring criteria
(Skoloudis et al. 2009). Boston College describes in the document "How
to read a corporate social responsibility report" as a comprehensive way to
evaluate reporting practices in companies based on the question: how
thorough and credible is this report?

From CSR reports analysis, it is possible to get an overall reporting quality
evaluation through questions proposed by this document related to CSR
practices: Systematic data, comparable format, future goals and past
practices, bad or good news, challenges, etc.

But apart from reporting with quality, the quantity and structure of the
information are important to readers as well. As a minimum, a thorough
sustainability report on supply chains should reply affirmatively to adapted
questions related to top management commitment, framework, GRI
reporting, assurance or stakeholder feedback among others (Boston
College 2010).

It is worth reviewing the original research questions and adapting them to
a narrower context provided by the secondary data limitations and criteria
described in the previous section.

- RQ1: How do Finnish leaders in the industrial sector report about
  sustainability in their supply chain?

- RQ2: How do Finnish leaders in the industrial sector implement
  sustainability in their supply chains?

- RQ3: What indicators do Finnish leaders in the industrial sector use
  to assess sustainability in their supply chains?

and after reflecting, the above questions can become a sole topic:

"Learning from sustainability reporting by leaders of Finland about how to
assess sustainability in supply chains."

## 3.3. RQ2: How do Finnish Leaders in the Industrial Sector Implement Sustainability in their Supply Chains?

Sustainability reports also inform about companies' best practices to
assess, monitor and implement sustainability in their supply chain.

Therefore, research of report contents can be used for collecting information about assessment methods for suppliers such as self-assessment questionnaires (SAQ) or audits, monitoring tools such as ratings or sustainability building programmes.

In any case, the use of other studies with relevant information about sustainability development in supply chains, e.g. UNCTAD, or about collection practices, e.g. Leppelt et al. (2011), provide good guidance for compiling best practices and to create a research framework.

## 3.4. RQ3: What Indicators do Finnish Leaders in the Industrial Sector Use to Assess Sustainability in their Supply Chains?

In order to develop sustainable indicators in a specific supply chain, the 5-step process defined by Schöggl et al. (2016) includes a systematic literature review (peer reviewed articles, standard guidelines and non-peer reviewed studies) (1) along with interviews with industry experts (2). The results lead to a collection of indicators (3) that after adaptation and development (4) are validated by experts (5) to be used in the industry. Because of difficulties of accessing companies that are eager to develop these kinds of indicators, and offer this development to others, this part is focused on the systematic literature review (GRI reports) (1) that leads to a collection of indicators (3) used and disclosed by Finnish leading companies.

The diagram in Fig. 9-2 explains schematically how, through the reporting activity of companies, this research finds answers to questions related to reporting, management practices and indicators in the sustainable supply chains of leading Finnish companies, thanks to methodologies provided by previous research.
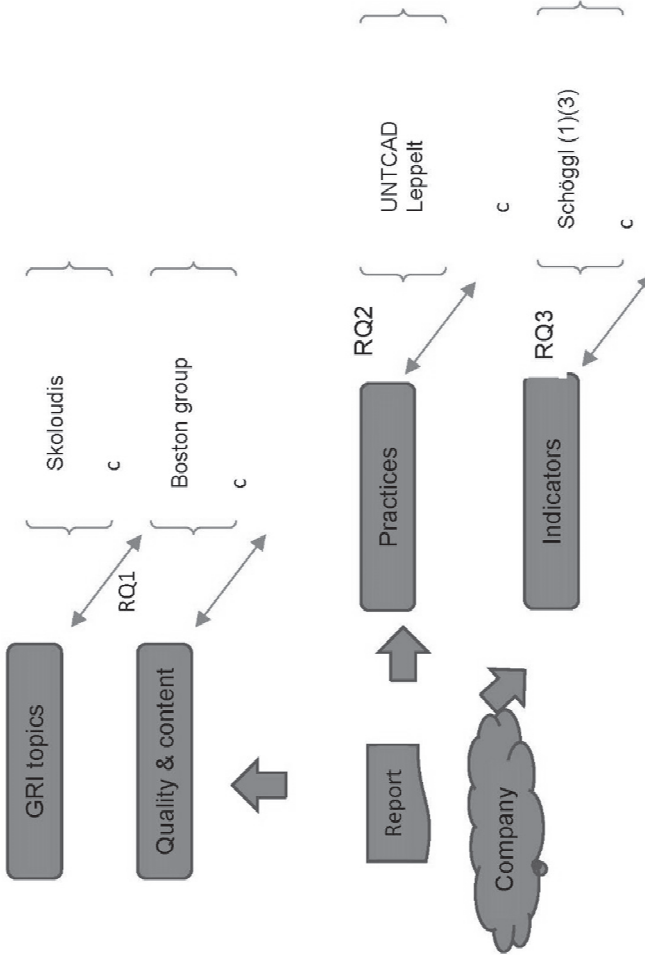
Figure 9-2. Research framework diagram.

# 4. Analysis of Reports

## 4.1. Companies Introduction

Cargotec is a provider of cargo and load handling solutions with the goal of becoming the leader in intelligent cargo handling. Its business areas, Kalmar, Hiab and MacGregor, offer products and services in cargo and

load handling solutions around the world. Kalmar provides cargo handling equipment and automated terminals, Hiab leads the global market in on-road load handling solutions and MacGregor provides engineering services for marine cargo and offshore load handling (Cargotec 2018a).

Metso is an industrial company serving the mining, aggregates, recycling, oil, gas, pulp, paper, and process industries. Metso helps customers improve their operational efficiency to build new and sustainable ways of growing (Metso 2018a).

Vaisala is a company that develops, manufactures, and markets products and services for environmental and industrial measurement. Vaisala has two business areas, weather and environment, which serve selected weather-dependent markets and industrial measurement needs, providing data for industrial customers in life sciences, power transmission, and targeted industrial applications (Vaisala 2018a).

Valmet is a global developer and supplier of technologies, automation, and services for the pulp, paper and energy industries (Valmet 2018a).

Wärtsilä is a developer of smart technologies and complete lifecycle solutions for the marine and energy markets. Wärtsilä consists of three businesses: marine solutions, energy solutions, and services (Wärtsilä 2018a).

## 4.2. Sustainability Reports

In order to reply to the first research question *"how do Finnish leaders in the industrial sector report about sustainability in their supply chain?"* individual evaluations of each company have been collected into Table 9-1.

**Table 9-1. Numeric evaluation of GRI disclosures according to the Skoloudis et al. (2009) method.**

| G4 Disclosure | GRI Standard Title | Disclosure Number | Disclosure Title | Cargotec G4 | Metso GRI | Vaisala G4 | Valmet GRI | Wärtsilä GRI | Avg if<>0 | Points | Score% (Max 20) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| G4-12 | General Disclosures | 102-9 | Supply chain | 2 | 4 | 3 | 4 | 2 | 3,0 | 15,0 | 75 % |
| G4-EC9 | Procurement Practices | 204-1 | Proportion of spending on local suppliers | 0 | 4 | 0 | 0 | 0 | 4,0 | 4,0 | 20 % |
| G4-EN32 | Supplier Environmental Assessment | 308-1 | New suppliers that were screened using environmental criteria | 4 | 0 | 2 | 0 | 0 | 3,0 | 6,0 | 30 % |
| G4-EN33 | Supplier Environmental Assessment | 308-2 | Negative environmental impacts in the supply chain and actions taken | 1 | 0 | 0 | 0 | 0 | 1,0 | 1,0 | 5 % |

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| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| G4-HR4 | **Freedom of Association and Collective Bargaining** | **407-1** | Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk | 4 | 0 | 3 | 0 | 0 | 3,5 | 7,0 | 35 % |
| G4-HR5 | **Child Labour** | **408-1** | Operations and suppliers at significant risk for incidents of child labour | 4 | 0 | 3 | 0 | 0 | 3,5 | 7,0 | 35 % |
| G4-HR6 | **Forced or Compulsory Labour** | **409-1** | Operations and suppliers at significant risk for incidents of forced or compulsory labour | 4 | 0 | 3 | 3 | 0 | 3,3 | 10,0 | 50 % |
| G4-LA14 | **Supplier Social Assessment** | **414-1** | New suppliers that were screened using social criteria | 3 | 0 | 0 | 4 | 0 | 3,5 | 7,0 | 35 % |
| G4-HR10 | **Supplier Social Assessment** | **414-1** | New suppliers that were screened using social criteria | 3 | 0 | 2 | 0 | 0 | 2,5 | 5,0 | 25 % |

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| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| G4-SO9 | **Supplier Social Assessment** | **414-1** | New suppliers that were screened using social criteria | 3 | 0 | 2 | 0 | 0 | 2,5 | 5,0 | 25 % |
| G4-LA15 | **Supplier Social Assessment** | **414-2** | Negative social impacts in the supply chain and actions taken | 0 | 0 | 0 | 0 | 0 | 0 | 0,0 | 0 % |
| G4-HR11 | **Supplier Social Assessment** | **414-2** | Negative social impacts in the supply chain and actions taken | 0 | 0 | 0 | 0 | 0 | 0 | 0,0 | 0 % |
| G4-SO10 | **Supplier Social Assessment** | **414-2** | Negative social impacts in the supply chain and actions taken | 0 | 0 | 0 | 0 | 0 | 0 | 0,0 | 0 % |
| | | | Avg if <>0 | 3,1 | 4,0 | 2,6 | 3,7 | 2,0 | | | |
| | | | Points | 28 | 8 | 18 | 11 | 2 | | | |
| | | | Score % (Max52) | 54% | 15 % | 35 % | 21 % | 4 % | | | |

Every topic can rank from 0 to 4 points, and according to the Skoloudis et al. (2009) criteria the topic evaluation is calculated by comparing the potential maximum value to the evaluated one (points). It is represented by a percentage in score (max) values and can give an outlook of reporting performance because it joins disclosed topics and content completeness.

As so many topics have been disclosed, it is worth evaluating the average quality of released information (Fig. 9-3). For that reason, a new evaluation result named average is added and represented in Table 9-1 as Avg if $<>0$.



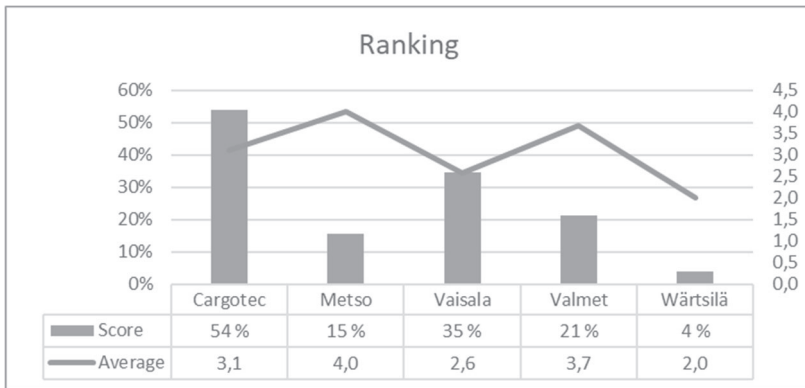| | Cargotec | Metso | Vaisala | Valmet | Wärtsilä |
|---|---|---|---|---|---|
| Score | 54 % | 15 % | 35 % | 21 % | 4 % |
| Average | 3,1 | 4,0 | 2,6 | 3,7 | 2,0 |

Figure 9-3. Ranking by suppliers according to Skolodius et al. (2009).

If results are ranked by supplier, Cargotec is the company with the best score (54%). It is also worth noting that Metso offered the most complete information (4,0) but as not many topics were disclosed, its overall score is poor (15%).

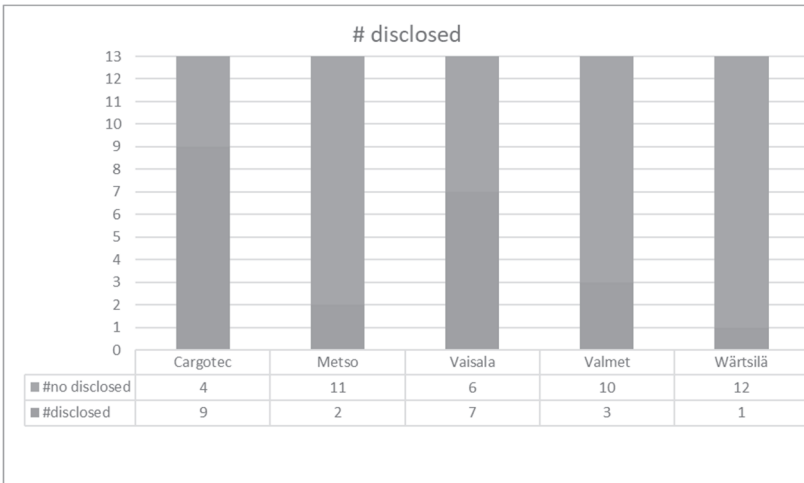| | Cargotec | Metso | Vaisala | Valmet | Wärtsilä |
|---|---|---|---|---|---|
| #no disclosed | 4 | 11 | 6 | 10 | 12 |
| #disclosed | 9 | 2 | 7 | 3 | 1 |

Figure 9-4. Disclosed topics by supplier.

In Fig. 9-4, Cargotec is also the company with more GRI topics disclosed. Wärtsilä only released the compulsory GRI G4-12 / GRI 102-9: Supply chain that belongs to General Disclosures.



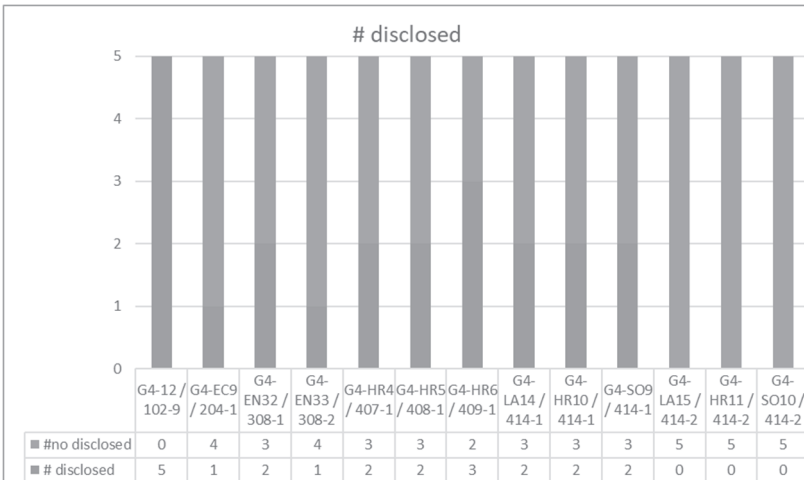| | G4-12 / 102-9 | G4-EC9 / 204-1 | G4-EN32 / 308-1 | G4-EN33 / 308-2 | G4-HR4 / 407-1 | G4-HR5 / 408-1 | G4-HR6 / 409-1 | G4-LA14 / 414-1 | G4-HR10 / 414-1 | G4-SO9 / 414-1 | G4-LA15 / 414-2 | G4-HR11 / 414-2 | G4-SO10 / 414-2 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| #no disclosed | 0 | 4 | 3 | 4 | 3 | 3 | 2 | 3 | 3 | 3 | 5 | 5 | 5 |
| # disclosed | 5 | 1 | 2 | 1 | 2 | 2 | 3 | 2 | 2 | 2 | 0 | 0 | 0 |

Figure 9-5. # disclosed information by GRI topics.

If the analysis of companies is extended to GRI disclosures (Fig. 9-5), all companies reported G4-12/GRI 102-9: Supply chain, because of its compulsion, as a Core GRI topic (General Disclosure).

Three companies decided to report about operations and suppliers at significant risk for incidents of forced or compulsory labour (G4-HR6/GRI 409-1: Forced or compulsory labour). Two reports included references to screening practices using environmental or social criteria, the same as risks about child labour or the right to freedom of association. There was only one reference to spending on local suppliers or negative environmental impacts and actions taken.



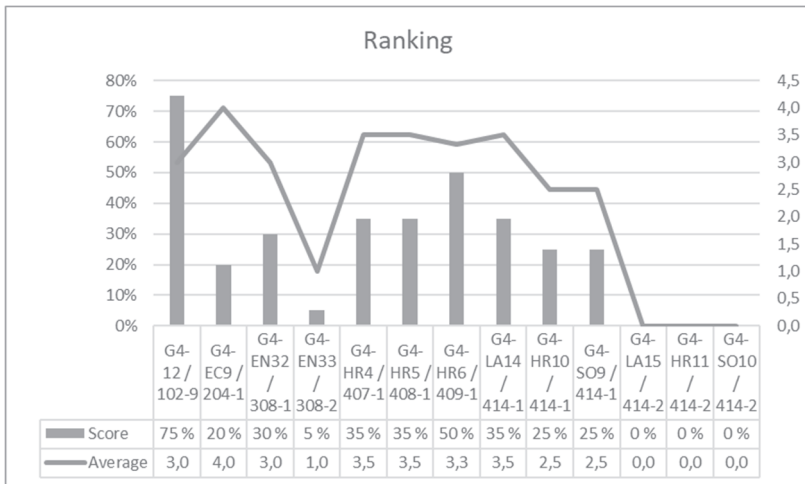| | G4-12 / 102-9 | G4-EC9 / 204-1 | G4-EN32 / 308-1 | G4-EN33 / 308-2 | G4-HR4 / 407-1 | G4-HR5 / 408-1 | G4-HR6 / 409-1 | G4-LA14 / 414-1 | G4-HR10 / 414-1 | G4-SO9 / 414-1 | G4-LA15 / 414-2 | G4-HR11 / 414-2 | G4-SO10 / 414-2 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Score | 75 % | 20 % | 30 % | 5 % | 35 % | 35 % | 50 % | 35 % | 25 % | 25 % | 0 % | 0 % | 0 % |
| Average | 3,0 | 4,0 | 3,0 | 1,0 | 3,5 | 3,5 | 3,3 | 3,5 | 2,5 | 2,5 | 0,0 | 0,0 | 0,0 |

Figure 9-6. Ranking by GRI topics according to Skoloudis et al. (2009).

As the content completeness (average) have similar values for most of the topics, the ranking chart (score) follows the shape of the previous figure (# disclosed information by GRI topics) (Fig. 9-6). It seems to indicate that when companies report a topic, they disclose transparently.

Regarding quality, content, and structure of reporting according to the Boston College methodology, we merely wish to emphasize how well Valmet reported and the need for improvement for the others.

It is interesting to realize that the Skoloudis et al. (2009) method focuses on assessing GRI aspects completeness in an empirical and numerical way and the Boston College method aims to assess quality reporting in a

subjective way, just keeping some questions as guidelines. Therefore, both methodologies reach different but complementary results to get an overall sustainability reporting assessment.

## 4.3. Sustainability Management Practices

The UNCTAD 2012 information has been taken as the base to find common points among suppliers that respond to the research question: How do Finnish leaders in the industrial sector implement sustainability in their supply chains? The use of secondary data (reports) where companies disclose with different grades of transparency and where they focus information on those practices more relevant to some stakeholders (not all), together with the lack of common language, makes it difficult to get a general picture, but the model proposed by UNCTAD is perfectly valid if we add the preliminary risk assessment phase (Fig. 9-7).
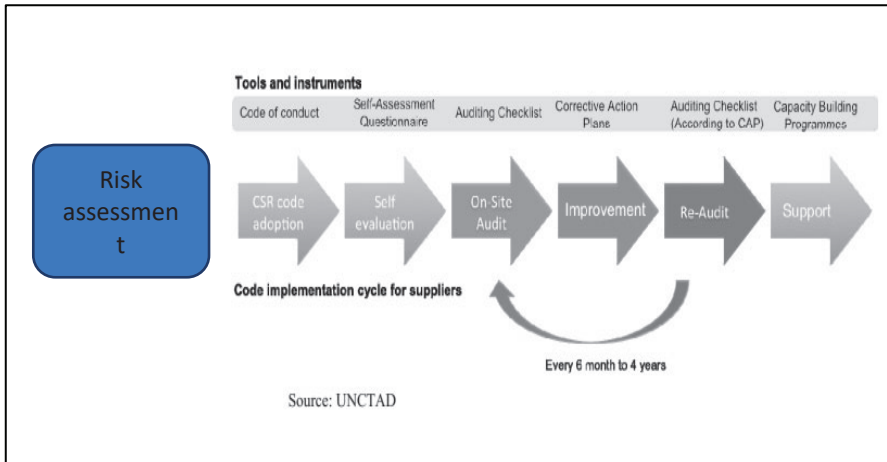


Figure 9-7. Adapted overview of a typical code implementation process.

Some suppliers just disclose their practices without liaison among activities, whether timeline (B after A) or condition (if A then B), which avoids a full understanding of its supply chain management processes. But those blanks can be guessed with enough stakeholder expertise or with access to primary data, for example, an interview with professionals involved in supply chain management.

The lack of common language can also make it tough to evaluate how to categorize or group some practices. For example, Cargotec's Supplier Assessment might include audits. Once again, standardization, better reporting practices, and transparency will avoid all these concerns. Table 9-2 provides a summary of sustainable supply chain management practices.

**Table 9-2. Sustainable supply chain management practices summary.**

|  | Core operational practices | Support operational practices | Support documents |
|---|---|---|---|
| **Cargotec** | Risk assessment Self-evaluation Sustainability assessment Supplier support and integration |  | Supplier Code of Conduct Supplier requirement Supplier Quality manual |
| **Metso** | Risk mapping Audits Corrective action plans | Process integration Sustainability training | Code of Conduct Supplier criteria Supplier Handbook Sustainability Handbook |
| **Vaisala** | Supplier classification Risk assessment (SAQ) Corrective Action Plan | Early Supplier Involvement Supplier Day Event Supplier Awards | Code of Conduct Supplier requirements |
| **Valmet** | Risk assessment Supplier Self-Assessment (SAQ) Audits Corrective Action Plan (CAP) | Open report channel Supplier Relationship Management (SRM) + sustainability engagement Sustainability Integration Training + best practices sharing. | Code of Conduct, Sustainable Supply Chain Policy |
| **Wärtsilä** | Supplier evaluation, Rating Risk assessment |  | Supplier Handbook |

## 4.4. Sustainability Indicators

The indicators that companies have disclosed in their reports are far from those that Schöggl et al. (2016) summarized in their research. Only Schöggl's "Compliance with social regulations" is close to Vaisala's G4-

HR4, G4-HR5, and G4-HR6—operations and suppliers with significant associations with child or compulsory labour. The reasons behind these differences might be that the model proposed by Schöggl was partially applied and interviews would have been needed to get more complete and transparent information to respond to the research question: What indicators do Finnish leaders in the industrial sector use to assess sustainability in their supply chains?

None of the GRI numeric indicators collected in the report analysis lead to a performance comparison among companies. It is interesting to note that even for the same topics, as they are not regulated by standards, companies can play with measurement units and offer the information most favourable to their interest. For example, supplier rating on ESG can be reported by suppliers or by a percentage based on purchasing spending.

## 4.5. Maturity Levels of Compared Companies

Once the research questions had obtained answers about different reporting performance, operational practices and indicators, the analysed companies can be classified according to the holistic approach to sustainable supply chain maturity level provided by UNGC 2016 (Table 9-3).

**Table 9-3. Maturity level according to the UNGC model.**

| Basic | Improving | Established | Mature | Leading |
|---|---|---|---|---|
| Wärtsilä | | Cargotec | Metso | Valmet |
| | | Vaisala | | |

According to this research, we venture to say that just Valmet is a leading company that is operationalizing sustainability in its supply chain by establishing a shared commitment with suppliers. Metso has reached maturity in its process, and Vaisala is evolving from established to mature operations. Wärtsilä has a basic or improving maturity level (but perhaps not enough information was disclosed to evaluate properly) and Cargotec has good established practices and better projection.

## 5. Conclusions and Next Steps

The purpose of this research was to understand how to develop sustainability in supply chains through the study of different sustainable supply chain practices disclosed in CSR reports.

Our findings were that sustainability development is a continuous process that needs commitment from the top management level. This commitment is needed to push development strategies and action plans based on the materiality of megatrends applied to the corporation's business environment. We also learnt that sustainable or responsible supply chain development and maturity can be low unless this topic is valued as relevant to stakeholder and business development. Those companies with a better maturity level in their sustainable supply chains are those that consider their suppliers as extended parts of the company and engage with them, acting as leaders and mentors in sustainability, with transparent reporting practices. An interesting finding is to observe that innovation in sustainability does not always go hand-in-hand with company size, and medium sized companies can have creative proposals while big corporations can apply only well-known approaches in supply chain management.

Regarding operational practices, the main findings show that risk assessment and the code of conduct are the very first stages of any sustainable supply chain. Clear supplier requirements, their communication to suppliers and their acceptance should always be carried out with every new supplier. Risk assessment based on different parameters and datasets should lead companies to extra activities such as audits. Self-assessment tools should help the supplier to know its weaknesses and become receptive to any improvement proposals. Corrective action plans and capacity building programmes, in other words, collaboration with suppliers, are the key to success. Internally, companies struggle to integrate sustainability ecosystems (targets, actions, and KPIs) in "old procurement" activities with training and knowledge sharing.

Sustainable supply chain indicators have not yet been fully developed in any of the selected companies. We thought that the analysis of the GRI reports of credible companies in sustainability could shed light on the matter, but the number of GRI topics that refer to supply chains is limited and most of them are in the general disclosures section. Therefore, companies can report about "core" activities, one of them being supply chain description, and just leave out the background to the environmental and social aspects applied to supply chains. For example, none of the companies in this research disclosed any negative social impacts in their supply chains, and only one reported the absence of environmental impacts.

In the five reports analysed, companies report about many different indicators—probably the most favourable in their public relations efforts, not in sustainability—and they lack a standardized sustainability context and indicators, or even units (percentage spending, number of suppliers).

Without the reporting principle known as sustainability context in the GRI (which involves discussing the performance of the organization in the context of the limits and demands placed on environmental or social resources at the sector, local, regional, or global level (The Guardian 2018)), there cannot be bona fide sustainability reporting at all. There simply cannot be any true, authentic, or empirical disclosure of sustainability performance unless such context is included, and although the selection of reports was limited by sector and geographical location, probably this context was wider than needed to find some specific and comparable results.

Another point to highlight is the report structure. Those companies that decided to place disclosures following the GRI structure helped to find and compare information for GRI literates. Those companies that used a more traditional reporting structure, based on process description, required extra work to find comparable information and moreover, they needed a supporting table to fulfil the GRI Standards. Therefore, the same information was in different locations, over long corporate annual reviews and even forcing the creation of new GRI supplements.

For all the above reasons, although we must recognize that the GRI guidelines are a basic framework, we join in with the criticism of the GRI guidelines.

The number of indicators and the typology has been completely different from that expected by other studies such as Schöggl et al. (2016). Our guess is that different research sources, questions and methods led to different results.

As further research, we will continue exploring the possibility of getting one or two interviews with the analysed companies that will let us gain real know-how and experience of a supplier manager tackling sustainable supply chain monitoring, assessment, and development. As we have said, the information contained in the sustainability report needs a context (at the sector, local, regional, or global level) as, due to it being public information, tends to highlight successes and strong points and reduce weaknesses, bad news and development needs.

Some poor results reported make us think that companies will tackle sustainability in supply chains in the next few years once sustainability is fully implemented in their core activities, and the sustainability leader will push their suppliers to follow sustainable practices.

The overall objective of the data analysis "Learning from sustainability leaders about how to develop, monitor and report sustainability in supply chains" has been fulfilled, but we will continue researching some points with clear development potential.

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# CHAPTER TEN

# CULTURALLY-BASED ORIENTATION TOWARDS GROUP PROCESSES: A COMPARATIVE STUDY BETWEEN INDIA AND FINLAND

## JAGAT KUNWAR

## Abstract

This chapter deals with culturally-based orientation towards group processes. Particularly, it focusses on comparing cultural orientations towards group processes between respondents from India and Finland. Considering the growth of trade, outsourcing projects and the potential for deepening trade relations between these two countries, the issue is worth researching.

The review of literature elaborates on the notion of 'culture' and discusses various differentiating cultural dimensions used in comparative cross-cultural research. Further, group processes influenced by culture are discussed and a series of propositions developed regarding their associations. To test these propositions, a questionnaire survey was designed and administered to 103 university students from both Finland and India. The questionnaire items focused on the preference of group members regarding consensual or top-down decision making, development of trust and relationships, the explicitness of feedback and documentation, cognition, interdependence in groups, emotional expression, individual initiatives and feedback, social loafing and scheduling.

The results showed that the respondent's preference for group work was not associated with their respective country of origin. There were also no clear differences between the respondents regarding their perceptions towards time and flexibility in scheduling. From the study, it was quite

apparent that the most significant difference between Indian and Finnish respondents was their attitude towards building relationships and trust. Indian respondents exhibited more relationship orientation and required a much more personal approach to developing trust in comparison to Finnish respondents. The conclusions section provides other relevant managerial recommendations and suggests some issues for further research.

# Introduction

Considering the proliferation of multinational companies and group-based management techniques, increasing globalization and cultural diversity in the workforce, the effect of multiculturalism in group processes is of significant practical concern (Thomas 1999). In addition to that, the development of communication technologies has further enabled the formation of collaborative groups across borders (Han and Beyerlein 2016). Considering this situation, it is crucial that culturally-based orientation towards group processes be studied, not only to understand diversity in work processes but also to manage conflicts in group-based projects resulting from cultural antecedents.

However, there is little research that explicitly deals with orientations that members of one cultural group have regarding different group related processes. Particularly regarding the differences of cultural orientations towards group processes between India and Finland, there is a serious dearth of existing research. Considering the growth of trade, outsourcing projects and future potential for deepening trade relations between these two countries (Mathur 1998; Bhide, Mukhopadhyay and Singh 2006), the subject is worth considering for research.

In this chapter, first, past theoretical concepts and research dealing with the area will be considered in the review of the literature section. This will elaborate on the notion of 'culture' as well as various group processes which might be affected by culture overall. Thereafter, the design of the questionnaire survey and data collection procedures will be discussed in the methods section. The data from the questionnaire survey will be analysed and interpreted in the results and discussion section. The conclusions section will summarize the main findings, provide some managerial recommendations and suggest some issues for further research.

# Review of the Literature

Culture is defined as "the collective programming of the mind that distinguishes the members of one category of people from those of another" (Hofstede and Bond 1988, 15). The basic characteristics of culture are that it is interrelated, shared and learned (Keegan and Green 2015, 126). Several scholars have identified different dimensions of culture. Among the most well-known dimensions of culture are Hofstede's five dimensions (Hofstede and Bond 1988). Other significant frameworks that have been used are Schwartz's seven value types (Schwartz 1992), Hall's classification of culture (Hall 1959), World Values Survey (WVS) (Inglehart et al. 2018) and GLOBE project (House et al. 2002). Each of these will be discussed briefly in this section.

# Hofstede's Cultural Dimensions:
# Comparing India and Finland

Culture can be understood using six different dimensions (Hofstede and Bond 1988). Among these, 'individualism' refers to the degree of interdependence a society maintains among its members (Hofstede, Hofstede Insights 2018). India is a relatively collectivist country in comparison to Finland (Figure 1). The second dimension is called power distance. This is defined as the degree to which power differences and inequality in society are accepted as normal (Hofstede, Hofstede Insights 2018). India is a highly hierarchical country in comparison to Finland (Figure 1). The third dimension of national culture is masculinity (Hofstede and Bond 1988). This dimension is defined as the degree to which individuals in a society want to be the best (masculine) or prefer to do what they like best (feminine) (Hofstede, Hofstede Insights 2018). India prioritizes masculine values in comparison to Finland (Figure 1). The fourth dimension is uncertainty avoidance (Hofstede and Bond 1988). The extent to which a society feels uncomfortable with unpredictable situations and tries to avoid those situations is defined as uncertainty avoidance (Hofstede, Hofstede Insights 2018). Finland is a much more uncertainty-avoiding culture in comparison to India (Figure 1). Another dimension is the time orientation (Hofstede and Bond 1988). This is the degree to which a culture maintains links with the past in dealing with the present and the future (Hofstede, Hofstede Insights 2018). India is a much more conservative country in comparison to Finland (Figure 10-1). The sixth dimension deals with the aspects of indulgence and restraint. Some societies give importance to curbing the need for the immediate fulfilment

of desires (restraint) whereas in other cultures immediate gratification of desires is thought to be natural (indulgence). Finland scores high on indulgence dimensions whereas India prioritizes restraint (Figure 10-1).
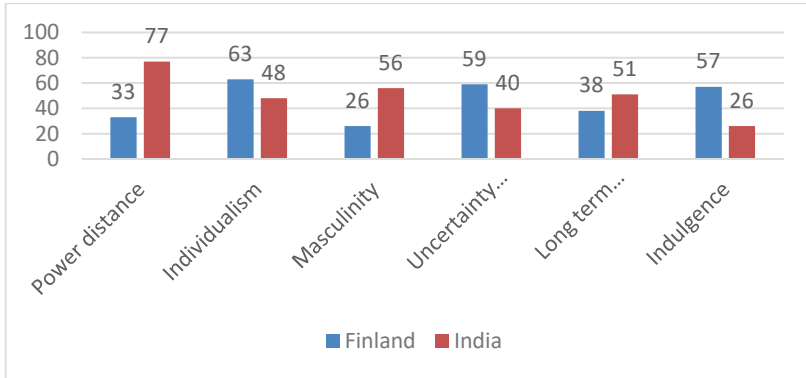


Figure 1: Comparison of Hofstede's cultural dimensions between India and Finland

## Schwartz's Seven Value Types

According to Schwartz's seven value types (Schwartz 1992), there are three major values through which culture can be classified. The first one refers to the relationship between individuals and the group, the second refers to how responsible behaviour is assured in the society and the third one is related to the relationship of human beings to nature (Schwartz 1999).

When considering the relationship between individuals and the group, there can be two different types: conservativism and autonomy (Schwartz 1999, 31). In a conservative society, the group is predominant over the individual, whereas in an autonomous society, individuals have the freedom to pursue their own interests. This autonomy can also be of two different types: intellectual autonomy and affective autonomy. In an autonomous society, some cultures are free to pursue their intellectual pursuits, whereas affective autonomy deals with the expression of emotions freely.

When considering how societal behaviours are enforced, in some situations they are enforced hierarchically through authoritarian figures, whereas in other societies they are enforced in an egalitarian manner. When a society is enforced in an authoritative manner it is a hierarchical

society (Schwartz 1999, 31). In many ways, this classification is similar to the power distance dimension described by Hofstede.

The last major dimension that Schwartz discusses is related to the relationship of human beings to nature. In some societies, the dominant view is that human beings can overpower nature by understanding it and make use of nature for their own benefit (mastery). In other societies, nature is to be respected and not to be tampered with (harmony) (Schwartz 1999, 31). Figure 10-2 illustrates how this idea can be used to compare India and Finland. The figure shows that India emphasizes conservatism, mastery and hierarchical values over Finland. In contrast, Finland prioritizes harmony, egalitarianism and both forms of autonomy over India.
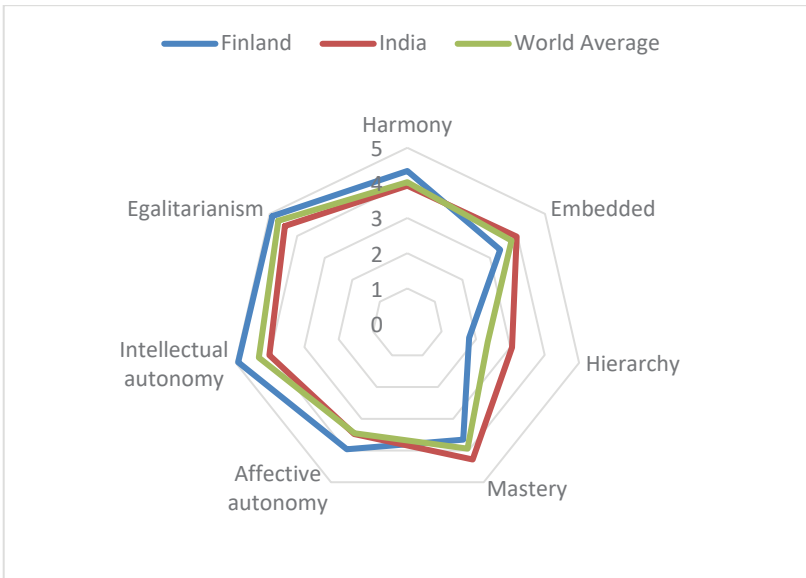


Figure 2: Comparison of Schwartz's values between India and Finland

## World Values Survey (WVS) Dimensions

According to the World Values Survey, the major cultures of the world can be understood in terms of two major dimensions: traditional versus secular rational values and survival versus self-expression values (Inglehart et al. 2018). Cultures emphasizing traditional cultural values

give importance to religious and family values, the close-knit relationships between parents and children, and deference to authority. Cultures emphasizing secular rational values give importance to progressive and egalitarian values. For example, divorce, euthanasia, and suicide might be comparatively more acceptable in cultures with secular rational values (Inglehart et al. 2018).

Another dimension used in the World Values Survey is survival versus self-expression values. The culture emphasizing survival values prioritizes physical and economic security instead of self-expression. These types of cultures are relatively ethnocentric and exhibit low levels of trust and tolerance. Based on these two dimensions, all cultures over the world can be categorized in a spectrum (Inglehart et al. 2018). Figure 10-3 shows one such classification, in a diagram which is often referred to as the Inglehart-Welzel cultural map. India emphasizes traditional and survival related values much more than Finland.
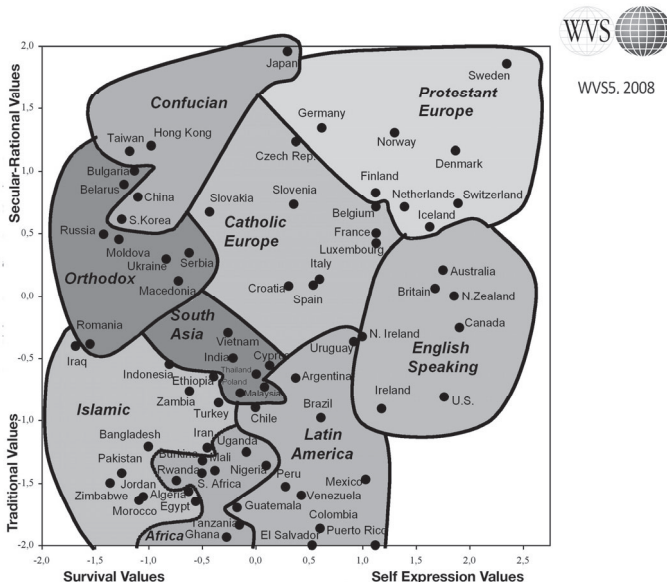


Figure 3: Comparison of cultural clusters according to the World Values Survey

# Project GLOBE Dimensions

Project GLOBE (House et al. 2002) aims to synthesize all existing cultural frameworks. In the large-scale study by project GLOBE, there are nine different dimensions used as follows: uncertainty avoidance, power distance, collectivism I, collectivism II, gender egalitarianism, assertiveness, future orientation, performance orientation and finally, humane orientation. The first six dimensions are already part of Hofstede's framework. The GLOBE project, however, differentiates the collectivism dimension into two separate parts: collectivism I (societal-institutional collectivism) and collectivism II (in-group collectivism). In the GLOBE project, there is a separate dimension called assertiveness which can in many ways be considered to be like the masculinity dimension of Hofstede (House et al. 2002).

The additional components used in the GLOBE project are humane orientation and performance orientation in society. Humane orientation has been defined as the extent to which society rewards individuals showing basic human characteristics such as being altruistic, caring and being sensitive to the needs of others. Performance orientation has been defined as the degree to which society rewards group members for helping improve the performance of the group (House et al. 2002). Figure 10-4 provides one example of a comparison of cultural dimensions between India and Finland. It shows that in terms of societal values, India scores higher on assertiveness, gender egalitarianism, institutional collectivism, power distance, future orientation, and uncertainty avoidance. However, in terms of societal practices, India scores higher on in-group collectivism, performance orientation, and humane orientation.
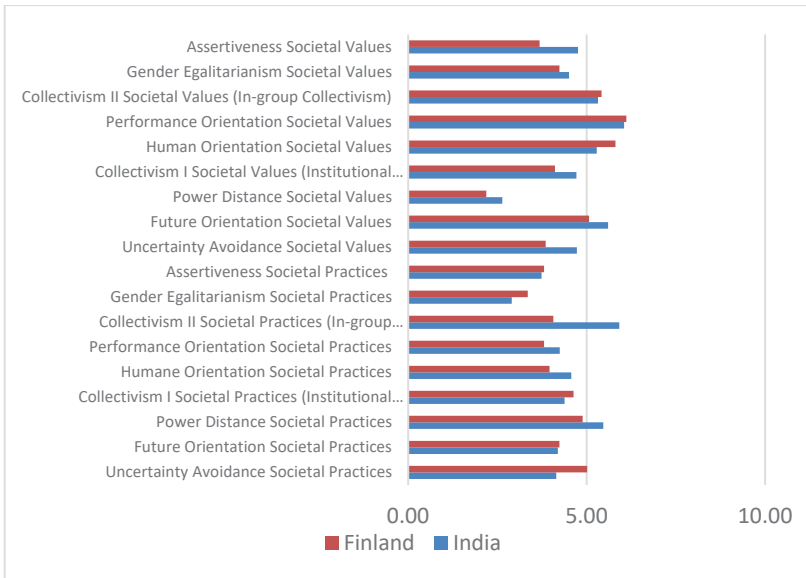
Figure 4: Comparison of project GLOBE dimensions between India and Finland

## Impact of Cultural Dimensions on Different Aspects of Group Processes

Many researchers (Stahl et al. 2010; Popov et al. 2012) have dealt with the impact of heterogenous groups on group dynamics overall. Few studies deal with aspects of group dynamics that exist in a multicultural group specifically. One such source discusses that there are basically eight group processes which are influenced by culture: communicating, evaluating, leading, persuading, deciding, trusting, disagreeing and scheduling in a group (Meyer 2014). This study will elaborate on the direct and indirect effects of cultural values on some specific group processes and propose relationships between cultural values and the group processes.

## Consensual Versus Top-Down Decision Making

Cultural orientation towards leadership and power can be categorised into egalitarian culture and hierarchical culture. In an egalitarian culture, it is considered acceptable to disagree with the leader even in front of others. Actions can be taken independently without explicit recognition of the

superior. When engaged in business dealings it may not be necessary to contact counterparts of similar hierarchical status. In a hierarchical culture, the case is the opposite (Meyer 2015, 131).

Some cultures emphasize consensual decision making and bringing everyone on board before deciding on a certain issue. The decision making is part of the group process and is often conducted after lengthy deliberation. Only when unanimity is achieved in certain issues will the decision be implemented. In other cultures, the decision making is implemented in a top-down manner by an individual of appropriate authority (Meyer 2015, 143–161).

Since a low Power Distance (PD) culture is more egalitarian with a preference for consensual decision making, it can be argued that group work members will be more prone to resolve work-related issues among themselves. This contrasts with high PD cultures where superiors would be expected to exert higher influence and subordinates themselves would expect more paternalistic behaviour from the superiors (Smith and Dugan 1998). Therefore, it can be proposed that there is an association between national cultures and the preference of team members in the extent to which initiatives are taken to resolve problems among themselves without involving the leader.

## Development of Trust and Relationships

The importance of maintaining relationships as well as approaches to building trust differ across cultures. These are important issues as trust between group members has direct impacts on group performance. There are basically two types of trust that are formed in any sort of relationship: cognitive trust and affective trust. Whereas cognitive trust is formed when one has confidence in the other member's technical skills; affective trust is defined by feelings for others (Meyer 2015, 168). Some cultures prioritize cognitive trust whereas others prioritize affective trust.

The direct impact of these two kinds of trust is that in a group setting, relationships are either task- or relationship-based. These are also the primary causes of conflicts in a group. In a task-based relationship culture, trust is built and dropped easily and is based on the reliability, professionalism and the skills that another person demonstrates. In a relationship-based culture, trust is formed rather slowly, and it is mostly based on personal feelings rather than the skills of other group members (Meyer 2015, 163–194).

In line with the PD dimension, Hofstede also suggested that individuals from high PD countries would be more likely to be task oriented than relationship oriented. This is because a manager in a high PD culture is expected to initiate structure rather than seek the opinions of subordinates (Bochner and Hesketh 1994). Individuals from more collectivist cultures value group cohesiveness and maintenance of relationships. Based on these discussions, it is proposed that there is an association between national culture and the tendency to select group partners based on their ability to complete a job or existing relationships (when there is a choice).

People with higher individualistic orientation tend to exhibit trusting behaviour as they are less influenced by membership in a group. In contrast, collectivist individuals value stability in relationships and in turn require more time and effort to develop relationships. One might argue that since collectivist individuals require a longer time to build relationships and develop trust with their group members at the initial stage, they would be less trusting towards individuals of another culture. It is proposed that collectivist individuals exhibit a higher degree of natural suspicion of people from unfamiliar cultures at the outset. Similarly, it is proposed that there is an association between national culture and the time needed getting to know other group members to develop trust and relationships.

In a group setting, disagreements on various issues are normal. However, how this disagreement is expressed in different cultures varies. Some cultures are confrontation oriented as the disagreements are expressed directly and bluntly. Disagreement is seen as productive as it leads to discussion and debate. Further, confrontation does not have direct consequences to personal relationships as they are considered to be separate. In other cultures, there is a tendency to avoid confrontation. Direct disagreements might be considered as "losing face" in front of others. Work-related confrontation can have adverse impacts on personal relationships and group dynamics (Meyer 2015, 195–218). Due to the emphasis on group harmony in collectivist cultures, some studies suggest that highly collectivist individuals prefer to avoid direct confrontation and adopt mediation approaches (Stahl et al. 2010) towards alternate views in the group. It is proposed that there is a difference in national culture orientations towards the tendency to challenge other's ideas to safeguard in-group harmony.

## The Explicitness of Feedback and Documentation

One of the most important group processes affected by culture is communication. These effects can consist of simple misunderstandings of different accents, differences in languages used, non-verbal communication, body gestures, gesticulations and so on (Hollensen 2017). The major cultural dimension that affects communication in multicultural groups is the high and low context nature of communication (Hall 1959). In a low context culture, people are trained to communicate literally and explicitly. What is said is meant and what is meant is said. If the message is not communicated straight, the person might be considered as untrustworthy (Meyer 2015, 31). In a high context culture, communication is more subtle and depends upon the unconscious assumptions about common reference points and shared knowledge (Hall 1959). It is necessary to "read the air" to gather the message. It is not only important to consider what is said but also how it is said in addition to what is not said (Meyer 2015, 48). All these discussions suggest that individualist cultures are direct in their communication and emphasize task-related information in their communication.

This is also reflected in the way people evaluate the work of others in a group setting. In some cultures, it can be customary to provide direct negative feedback in a blunt and direct manner. What is considered as constructive feedback might not be so in another culture (Meyer 2015, 62). The tendency of different cultures to exhibit different preferences for explicit and precise communication can lead one to suggest that there is an association between national cultures and the preference for direct and to the point feedback.

Similarly, people from individualist cultures are generally more task-focused. Empirical research (House et al. 2002) suggests that there is a significant correlation between both types of collectivism (in-group and institutional) and uncertainty avoidance practices. This suggests that task-focused individualistic people show a higher degree of uncertainty avoidance practices such as explicit documentation of group processes and outcomes. Therefore, it is proposed that individualistic cultures prefer written documentation of group procedures, such as meeting minutes, to prevent misunderstanding or confusion.

# Analytic and Holistic Cognition

It takes different approaches to persuade people from different cultures. The arguments that are deemed to be deeply persuasive are often rooted in culture (Meyer 2015, 90). In some cultures, deductive reasoning is prioritized, and principles are discussed before applications. In others, inductive reasoning is prioritized, and applications are discussed before principles. While working in a multicultural group, it is necessary to understand how people are convinced across different cultures to push through an agenda or explain certain issues (Meyer 2015, 89–95).

Similarly, Nisbett et al. (2001) suggest that there is a relationship between cultural background and cognition. They suggest that while "Western" individuals favour analytic cognition, people from Asian cultures engage in holistic cognition. It suggests that while people from individualist cultures focus more on the task at hand, collectivist people prefer to see the interconnection of the tasks along with the relational context that these tasks are embedded in. Based on these discussions, one might propose that there is an association between national culture and the need to see the big picture and how all the group tasks are interrelated before starting a group task.

# Attitude and Preference Towards Interdependence

It is quite apparent that individuals from collectivist cultures are more used to contexts where the outcome is dependent upon collective effort. Culturally, identification with the "self" in individualist cultures presides over identification with the group goals in collectivist cultures. However, some scholars (Kirkman and Shapiro 1997) go as far as to claim that individualists are prone to resist team work and the notion of interdependency in achieving task objectives. While the collectivists are involved in group work due to in-group loyalty and interdependence, the rationale for individualists to engage in group work is largely calculative (Hofstede and Bond 1984). Individualists prefer to work independently and if it is not possible (such as in assigned group work), they attempt to compromise by seeking to divide and allocate tasks. It would then be not farfetched to propose that there is an association between cultures' individualist-collectivist orientations and the preference for group-based tasks over individual work and the perception of interdependence in group work.

# Emotional Expression

One major source of group conflicts is the extent to which people from different cultures are emotionally expressive when they voice disagreements. While it seems that confrontational cultures are emotionally expressive it is not necessarily the case (Meyer 2014). In some cultures, it is normal to disagree in a confrontational manner while being emotionally expressive, such as in Greece or Italy. In other countries, while people desire to avoid direct confrontation, they might still be emotionally expressive of their discontent, such as in India and Saudi Arabia. Taken together, some cultures are confrontational and emotionally inexpressive, such as the Netherlands and Denmark, while in others, such as Sweden and China, people avoid confrontation but are emotionally inexpressive. This is very important to realise because in some cases disagreement might be visually expressed but without any sort of direct confrontation (Meyer 2015, 195–218). Therefore, it is proposed that there is an association between national culture and the tendency to be demonstrative in body language when presenting disagreements.

# Individual Initiatives and Feedback

In a collectivist culture, as social belonging is prioritized over autonomy, individual initiatives may be socially ostracized (Hofstede and Bond 1984). Consensual decision making is perceived to be more important than individual initiative. For individualist people, it is natural to express their individual viewpoints, even forcefully. The preoccupation of collectivist cultures in preserving the group harmony suggests that individuals from these cultures are less prone to jump into the discussion even when they have something to contribute. Individuals belonging to collectivist cultures would much prefer to receive feedback, especially negative feedback, individually so that they might not have to "lose face" in front of their colleagues (Hall 1959). Considering these arguments, it is proposed that there is an association between national culture and the tendency of individuals to take initiative in contributing to group discussions and the preference for receiving feedback individually or in front of the group.

# Perception of Social Loafing

In group work, it is common that some members of the group do not work to their full capacity or actively undermine the progress of the group. This has often been referred to as "social loafing" (Latane et al. 1979) and

defined as "the decrease in individual effort due to the social presence of other persons." Since the achievement of common goals through collective effort is important for collectivist societies, it is socially desirable for everyone to put maximum effort into the achievement of common goals—in which case social loafing is undesirable and ostracized. However, people from individualist countries show tendencies of social loafing when there are no appropriate individual reward systems, or their efforts remain unnoticed, as the achievement and recognition of individual goals are important for these individuals. In a multicultural group, social loafing is more likely when an individualist person's effort goes unnoticed and unrewarded. It is therefore proposed that there is an association between cultural background and the perception and incidence of social loafing among group members.

## Sense of Time

Different cultures have different senses of time (Hall 1959). Linear active people focus on one thing at a time within a scheduled timescale. They are oriented to tasks at hand and are in many cases highly organized planners. Multi-active people get more done their way (Lewis 1999, 37). For linear active people, multi-active people look very disorganized. For multi-active people, linear active people will look stiff and time-dominated. This can be the source of conflicts in multicultural teams.

For cultures with the perception of linear time, time is precious. Therefore, there is a focus on getting things done efficiently. In such a monochronic perception of time, time is money and to be idle is to waste resources. Anglo-Saxon, Germanic and Scandinavian people can be classified as such a type. People with a polychronic conception of time feel fulfilled and happier by getting several things done simultaneously. For such people, the concept of schedule and punctuality is not directly compatible with the existing cultural norms (Lewis 1999, 55). Hall (1959) referred to these two different orientations to time as monochronic (M-time) cultures and polychronic (P-time) cultures. In a P-time culture, time is seen to be flexible and often appointments are not taken seriously and are broken without any serious consequences (Hall 1959).

Those cultures who have a linear time approach to scheduling take the view that tasks are to be done sequentially and the next task starts after the completion of the first task. There is always a focus on completing a certain task at once without interruptions. Sticking to the scheduling and completing the tasks within the deadline are important scheduling

principles. It is better to stick to the schedule and do things promptly. In a flexible time scheduling approach, tasks are not necessarily disorganized but done in a fluid manner. Many activities may be undertaken at once. Interruptions are a normal way of life and one has to learn to adapt to constant changes rather than being a stickler for details (Meyer 2015, 219–251). With such completely different orientations in scheduling, it would be surprising if there were no conflicts resulting from scheduling issues in a multicultural group. Therefore, it is proposed that there is an association between national cultures and the way strictness of schedules is perceived by individuals.

## Methods

Based on the literature, there were several group processes that are affected by different cultural orientations of the group members. In each of the sections, there were propositions developed regarding these. To test these assumptions, a questionnaire survey was designed comprising of these themes and administered to 103 university students both in Finland and India. The questionnaire was divided into several sections. The first section consisted of general demographic information about the respondents, including country of origin, mother tongue, gender, age and the number of years they have already been in their home university. To test whether there is an association between national culture and the preference of team members in the extent to which initiatives are taken to resolve problems among themselves without involving the leader, the question included in the survey was "Team members should take initiative to resolve problems among themselves without involving the leader." To gauge the perception of respondents regarding relationships and trust building, the following four questions were included in the questionnaire: "I invite people to the team who can do the best job rather than the people I most like to work with"; "I cannot really trust a group member until I spend some time getting to know them personally"; "When team members challenge one another's ideas and opinions, it is likely to engender bad feelings and ruin relationships"; and "I am a little bit suspicious of people from cultures that I am not familiar with."

Regarding the cultural orientations towards explicitness of feedback and documentation, the following two items were included in the questionnaire: "I prefer my group members to be direct and to the point in their communication"; and "After a meeting it is important to recap in writing exactly what was said, to prevent misunderstanding or confusion."

To understand the tendency of cultural groups to be familiar with analytical or holistic cognition, the item included in the questionnaire was "Before I decide to do my tasks, I need to see the big picture and how all of the pieces of the tasks fit together." Regarding the attitudes and preference of people of different countries of origin towards interdependence in group work, the following two questions were included in the survey: "Group assignments are not a common way of working in my home country"; and "I do not like group work because I have to depend upon others too much." To understand whether there are differences in people from different cultures towards the tendency to be demonstrative in body language while presenting disagreements, the following item was included in the questionnaire. "When presenting disagreements, I am far more demonstrative in my facial expressions and body language."

Similarly, to understand the tendency of individuals to take initiatives in contributing to group discussions and the preference for receiving feedback individually or in front of the group, the following two items were included: "I only speak when I am invited to speak and do not jump into discussions even if I have something to contribute"; and "I feel embarrassed when I am singled out for positive feedback in front of others." To test whether people from different cultures have different perceptions of social loafing in a multicultural group, the following question was included in the questionnaire survey. "There is more free riding in a multicultural group." In the end, in order to understand whether there are differences in attitudes towards flexibility in scheduling, the question included in the survey was "Schedules should not change once decided." All the statements were given Likert item scales with five different choices (totally disagree, slightly disagree, neither agree nor disagree, slightly agree, and totally agree). However, during the analysis, the items were recoded into only three choices (disagree, neither agree nor disagree, and agree). The items included in the questionnaire survey according to the themes are summarized in Table 10-1.

The questionnaire was set up in the Webropol system and the public link was sent to students from various universities in Finland and India. The data were collected from students from India and Finland from January to March 2018. A chi square test of independence was performed to examine the relationship between country of origin (either Finland or India) because the nature of the variables was ordinal and non-normally distributed (Huberty and Morris 1989).

**Table 1: Questionnaire items**

| Consensual vs. top-down decision making | • Team members should take initiatives to resolve problems among themselves without involving the leader |
|---|---|
| Approaches towards relationship and trust building | • I invite people to the team who can do the best job rather than the people I most like to work with<br><br>• I cannot really trust a group member until I spend some time getting to know them personally<br><br>• When team members challenge one another's ideas and opinions, it is likely to engender bad feelings and ruin relationships<br><br>• I am a little bit suspicious of people from cultures that I am not familiar with |
| Tacitness and explicitness of communication and documentation | • I prefer my group members to be direct and 'to the point' in their communication<br><br>• After a meeting it is important to recap in writing exactly what was said, to prevent misunderstanding or confusion |
| Analytic vs. holistic cognition | • Before I decide to do my tasks, I need to see the big picture and how all the pieces of the tasks fit together |
| General preference for group work and interdependence | • Group assignments are not a common way of working in my home country<br><br>• I do not like group works because I have to depend upon others too much |

| Emotional expressiveness | • When presenting disagreements, I am far more demonstrative in my facial expressions and body language |
|---|---|
| Tendency to take personal initiatives and individual vs. group feedback | • I only speak when I am invited to speak and do not jump into discussions even If I have something to contribute<br><br>• I feel embarrassed when I am singled out for positive feedback in front of others |
| Perception towards social loafing | • There is more free riding in a multicultural group |
| Perception towards flexibility of scheduling | • Schedules should not change once decided |

## Results and Analysis

As a whole, there were 103 (N=103) respondents from both India and Finland. Of the respondents, 46.6 percent were from India and the rest from Finland. The number of respondents was equally distributed in terms of gender (55.3 percent male and 44.7 percent female). The majority of the respondents (59 percent) were between 21 and 25 years of age. Most of the respondents (41 percent) were in the second year of studies and 39 percent in their first year. The rest of the participants were either in their third year of studies or had spent more than three years in their studies. Table 10-2 shows the general characteristics of the respondents.

The results of the chi square tests of independence are presented in Table 3. The relation between the country of origin and the preference of team members in the extent to which initiatives are taken to resolve problems among themselves without involving the leader was significant, $x^2$(2, N= 103) = 10.33, p=0.006, p<.01. Indian respondents were less likely to show an interest in resolving the group-based problems among themselves and preferred a more top-down, hierarchical approach to decision making.

**Table 2: Characteristics of respondents**

|  |  | Respondents | |
| --- | --- | --- | --- |
| Demographics |  | n | % |
| Country of origin |  |  |  |
|  | India | 48 | 46.6 |
|  | Finland | 55 | 53.4 |
|  | All | 103 | 100 |
| Gender |  |  |  |
|  | Male | 57 | 55.3 |
|  | Female | 46 | 44.7 |
|  | All | 103 |  |
| Age |  |  |  |
|  | <20 | 11 | 10.7 |
|  | 21-25 | 59 | 57.3 |
|  | 26-30 | 17 | 16.5 |
|  | 31-40 | 12 | 11.7 |
|  | 41-50 | 4 | 3.9 |
|  | All | 103 | 100 |
| Years spent in university |  |  |  |
|  | 1 | 39 | 37.9 |
|  | 2 | 41 | 39.8 |
|  | 3 | 16 | 15.5 |
|  | >3 | 7 | 6.8 |
|  | All | 103 | 100 |

The relation between the country of origin and the tendency to select group partners based on the ability to complete a job or earlier relationships (when there is a choice), was significant, $x^2$ (2, N=103) = 9.80, p=0.007, p<.01. Indian respondents were less likely to invite participants based on their skills than their Finnish counterparts. Finnish respondents preferred to invite group members based on their proven skills than earlier established relationships.

The relation between the country of origin and the need to spend time getting to know other group members to develop trust and relationships was significant, $x^2$ (2, N=103) = 7.97, p=0.019, p<.05. Indian respondents were more likely to require time to develop trust and relationships with group members than their Finnish counterparts. Regarding the country of origin and the tendency to not challenge one another's ideas and opinions in order not to engender bad feelings and ruin relationships, the relation between these variables was significant, $x^2$ (2, N=103) = 16.09, p=0.000,

p<.01. Indian respondents were less likely to challenge ideas from other group members in order not to engender bad feelings and ruin existing relationships.

The relation between the country of origin and the tendency to exhibit suspicion towards individuals from unfamiliar cultures was significant, $x^2$ (2, N=103) = 10.79, p=0.005, p<.01. Indian respondents were more likely to be suspicious of people from cultures that they were not familiar with. The relation between the country of origin and the preference for direct and to the point feedback with team members was not significant, $x^2$ (2, N=103) = 0.70, p=0.704. At least in the sample analysed here, there was no significant association between the country of origin (whether Finnish or Indian) and the preference for direct feedback with team members. However, when the relation between the country of origin and the preference for written documentation of group procedures such as meeting minutes to prevent misunderstanding or confusion was examined, the relation between these variables was significant, $x^2$ (2, N=103) = 9.21, p=0.010, p<0.05. There was a significant association between the country of origin (whether Finnish or Indian) and the preference for written documentation of group procedures such as meeting minutes to prevent misunderstanding or confusion. Interestingly, Indian respondents seemed to show a preference for written documentation after the group meetings are over.

The relation between the country of origin and the need to see the big picture and how all of the group tasks are interrelated before starting a group task was significant, $x^2$ (2, N=103) = 7.90, p=0.019, p<.05. Indian respondents were more likely to need to see the big picture and how all of the group tasks are interrelated before starting a group task. When examining the relation between a person's cultural orientation and the preference for group-based tasks over individual work, the trust between these variables was significant, $x^2$ (2, N=103) = 44.002, p=0.000, p<.01. However, the association is in the opposite direction, that is Indian respondents were more likely to prefer individual work over group-based tasks. In many cases, the respondents believed group assignments are a less common mode of working in their home country. Similarly, the association between a person's individualist-collectivist orientation and the perception of interdependence in group work was significant, $x^2$ (2, N=103) = 6.424, p=0.040, p<.05. Finnish respondents were more likely to dislike group work because of too much dependence upon others to complete the tasks.

While examining the association between a person's cultural orientation and the tendency to be demonstrative in body language when presenting disagreements, it was found to be significant, $x^2$ (2, N=103) = 6.093, p=0.048, p<.05. Indian respondents were more likely to be demonstrative in their facial expressions and body language while presenting disagreements. While examining the association between national culture and the tendency of individuals to take the initiative in contributing to the group discussion the relation between these variables was significant, $x^2$ (2, N=103) = 7.836, p=0.020, p<.05. Indian respondents were more likely to speak only when they were invited to speak and not jump into discussions even if they had something to contribute. When tests were performed to examine the association between national culture and the preference for receiving feedback individually or in front of the group the relation between these variables was found to be significant, $x^2$ (2, N=103) = 9.057, p=0.011, p<.05. However, interestingly it was the Finnish respondents who agreed more than their Indian counterparts that they were embarrassed when they are singled out for positive feedback in front of the group.

Similarly, the association between national culture and the perception and incidence of social loafing among group members was significant, $x^2$ (2, N=103) = 15.534, p=0.000, p<.01. Indian respondents were more likely to agree that there are more incidents of social loafing in a multicultural group. The association between national culture and the way strictness of schedules is perceived by individuals was not significant, $x^2$ (2, N= 103) = 1.922, p=0.383. There was no clear association between national cultures and the way strictness of schedules is perceived by individuals. Table 10-3 summarizes the findings.

**Table 3: Cross tabulation of country of origin and attitudes towards group processes**

| Question | Country of origin (N=103) | Disagree | Neutral | Agree | Chi square tests of independence |
|---|---|---|---|---|---|
| Resolve problems among themselves | India | 85.7 | 33.3 | 41.9 | $X^2(2) = 10.33$** |
| | Finland | 14.3 | 66.7 | 58.1 | P=0.006 |
| The best job | India | 21.4 | 55.0 | 56.4 | $X^2(2) = 9.80$** |
| | Finland | 78.6 | 45.0 | 43.6 | P=0.007 |
| Getting to know them personally | India | 30.2 | 57.1 | 59.0 | $X^2(2) = 7.97$* |
| | Finland | 69.8 | 42.9 | 41.0 | P=0.019 |
| Engender bad feelings | India | 32.3 | 57.7 | 86.7 | $X^2(2)$ |
| | Finland | 67.7 | 42.3 | 13.3 | $=16.09$*** P=0.000 |
| Suspicious of other culture | India | 34.8 | 61.1 | 73.7 | $X^2(2) = 10.79$** |
| | Finland | 65.2 | 38.9 | 26.3 | P=0.005 |
| Direct and to the point communication | India | 50.0 | 33.3 | 47.8 | $X^2(2) = 0.70$ |
| | Finland | 50.0 | 66.7 | 52.2 | P=0.70 |
| Recap | India | 18.8 | 31.2 | 56.3 | $X^2(2) = 9.21$** |
| | Finland | 81.2 | 68.8 | 43.7 | P=0.010 |
| Big picture | India | 26.7 | 28.6 | 56.7 | $X^2(2) = 7.90$* |
| | Finland | 73.3 | 71.4 | 43.3 | P=0.019 |
| Work group | India | 26.1 | 46.7 | 53.8 | $X^2(2) = 5.26$ |
| | Finland | 73.9 | 53.3 | 46.2 | P=0.072 |
| Depend upon others | India | 55.8 | 52.6 | 28.1 | $X^2(2) = 6.42$* |
| | Finland | 44.2 | 47.4 | 71.9 | P=040 |
| Facial expression demonstrative | India | 42.9 | 34.1 | 60.0 | $X^2(2) = 6.10$* |
| | Finland | 57.1 | 65.9 | 40.0 | P=0.048 |
| Jump into discussion | India | 34.5 | 62.1 | 62.5 | $X^2(2) = 7.84$* |
| | Finland | 65.5 | 37.9 | 37.5 | P=0.02 |
| Singled out | India | 35.6 | 67.6 | 37.5 | $X^2(2) = 9.06$* |
| | Finland | 64.4 | 32.4 | 62.5 | P=0.011 |
| Free riding | India | 22.2 | 51.4 | 70.0 | $X^2(2)$ |
| | Finland | 77.8 | 48.6 | 30.0 | $=15.53$*** P=0.000 |
| Schedules should not change | India | 33.3 | 51.9 | 49.1 | $X^2(2) = 1.92$ |
| | Finland | 66.7 | 48.1 | 50.9 | P=0.383 |

# Conclusions

Due to the proliferation of group-based management techniques in an organizational context and group-based pedagogical techniques in

educational institutions it has become important to understand the perceptions of different cultural groups regarding group-based processes. Various existing theoretical frameworks used to compare differences in cultural dimensions suggest some ways to understand and manage them. Hofstede's cultural dimensions suggest that India is a more collective, hierarchical and risk open country, prioritizing masculine values, longer term orientation, and restraint values.

Schwartz's seven value types framework suggests that Finland is a more egalitarian society with a higher degree of intellectual and affective autonomy in comparison to India. Additionally, living in harmony with nature is much more prioritized in Finland compared to India. India, in turn, is a much more conservative (embedded) and hierarchical society with values that prioritize mastery over a harmonious relationship with nature. The World Values Survey classifies India in the South Asia cultural cluster and Finland in Protestant Europe. The major differences between these two cultures are that in Finland, more priority is given to self-expression and secular rational values. In contrast, India emphasizes traditional values and focuses on survival values.

Another key framework, the project GLOBE dimensions, differentiates Indian and Finnish culture in several different dimensions. In terms of societal values, according to project GLOBE dimensions, India scores higher in assertiveness, gender egalitarianism, institutional collectivism, power distance, future orientation, and uncertainty avoidance dimensions in comparison to Finland. However, in practice, India scores higher than Finland in in-group collectivism, performance orientation, humane orientation, and power distance. On all other values, Finland scores higher in comparison to India.

Regarding the impact of culture on group processes, research has highlighted several key processes. However, this study was focused on some specific processes. Several different propositions were made regarding the orientation of different cultural groups regarding these key processes. The study focused on the tendency of group members to prefer consensual or top-down decision making, the preference for ways to develop trust and relationships, the explicitness of feedback and documentation preferred, cognitive preferences, the attitudes towards interdependence in groups, the tendency to be emotionally expressive, the tendency to take individual initiatives and feedback, social loafing and sense of time and scheduling.

These propositions were tested in a sample of Indian and Finnish respondents (N=103). The results showed significant associations between all these processes except directness and to the point communication desired by group members according to the country of origin. The responses from the sample also showed that the respondent's country of origin and preference for group work over individual work were not significantly associated. Unexpectedly, there were also no clear differences between the respondents from Finland and India regarding the perceptions towards time and flexibility of scheduling. From this study, it was quite apparent that the most significant issue that was different between Indian and Finnish respondents was the attitude towards relationship building and trust. Clearly, Indian respondents exhibited more relationship orientation, requiring a much more personal approach than task-based orientation in developing trust with other group members.

Like any other study, there were several limitations. In order to make the findings generalizable, a wider sample would have been better. The respondents could also have been more diverse rather than those currently studying at various universities in Finland and India. This study was limited to the comparative study between India and Finland and a few selected key group processes. It is also to be noted that student groups in a university function according to their own intrinsic nature and special conditions, and do not necessarily reflect professional environments (Popov et al. 2012). This study could still have practical applications as these students are ready to embark in the professional world and their attitudes can still have significant bearings professionally. To some extent, most of these students are already encultured to other societal norms through exchange programmes, media consumption and so on. In that respect, they might not be representative of the average cultural values in each of these countries. There is also the issue of whether students would have a clear idea about group work norms in different business organizations. Future researches could consider these issues while designing the study.

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# CONTRIBUTORS

**Rabi Narayan Kar** holds a Ph.D. from Department of Business Economics, University of Delhi. Prof. Kar is also a Senior Fellow of the Institute of Company Secretaries of India (ICSI) and a recipient of many academic scholarships including University Grants Commission Junior Research Fellowship. He has five books, several book chapters and research papers to his credit in journals and publications including Edward Elgar, Taylor & Francis, Sage, Bloomsbury, Revue Organisation Responsible (ROR), Springer and Macmillan Advance Research Series. Dr. Kar has completed three Post-Doctoral Projects from Indian Council of Social Sciences Research (ICSSR), University of Delhi and CIMO Finland. Some of his research papers were also invited for presentation at IIM, IGIDR (RBI), World Finance Conference, Academy of International Business Conference (AIB), UNCTAD and UNESCAP. Prof. Kar has widely travelled and learnt from international experiences of Turkey, France, Germany, Brazil, Japan, China, Republic of South Korea, United Kingdom & Finland. His research interests are Corporate Strategy and M&A, Sustainable Development, Innovation in Enterprises and International Management. Prof. Kar currently is serving as the Principal (Head) of Shyam Lal College (SLC), University of Delhi. In his role as the Head of the institution he has taken several pioneer academic initiatives and brought about innovations for the welfare of his institution and the surrounding neighbourhood.

**Kaisa Sorsa** holds Doctor of Laws (LL.D.) from Turku University and Doctor of Economics (D. Sc.(Bus&Adm.)) from University of Vaasa. She is Principal Lecturer at the Turku University of Applied Sciences (TUAS) and Adjunct Professor in the University of Eastern Finland, Department of Law and Adjunct Professor of regulatory research in the University of Turku, Finland. She has published several study books in Finland, several book chapters and research papers to her credit in journals and publications including Edward Elgar Publishing, Policy Press, Routledge (Taylor & Francis), Springer, Tirant lo Blanch, Djof Publishing, Edita. Now she leads the TUAS sub-project 'proactive regulation' in FINIX (Sustainable textile systems: Co-creating resource-wise business for Finland in global textile networks) project consortium, Aalto university as

leader, funded by Academy of Finland. Her research interests are proactive governance including proactive law and management, regulatory innovations, sustainable business and proactive contracting.

**Kusha Tiwari** holds a Ph.D from Jamia Millia Islamia on 'A Study of Nadine Gordimer's Post-apartheid Fiction'. She is currently working as Assistant Professor, Department of English in Shyam Lal College, University of Delhi, Delhi, India. She has published research papers in journals and books including Taylor & Francis, SAGE, IUP, Cambridge Scholars Publishing, The Book Review and Pencraft International. She has published books with Pencraft International on *Critical Perspectives on Toni Morrison* (2018), *Narrative of Liberation: Reading Nadine Gordimer's Post-apartheid Fiction* (2015) with Research India Press and *Gender and Popular Culture: Identity Constructions and Representations* (2018) with Cambridge Scholars Publishing. She has been invited to lecture in South-Eastern Finland University of Applied Sciences, Finland, Utkal University, Odisha, India and I.P University, Delhi and presented papers in many International and National Conferences in Delhi University and University of Lisbon, Portugal. She has been the visiting faculty at South-Eastern Finland University of Applied Sciences and Turku University of Applied Sciences, Finland and has given invited lectures at both the universities. She is also the Co-investigator in a major International Project funded by CIMO, Finland on "Responsible Business Professionals for Finland and India Trade". Her specialization is in the fields of Postcolonial Studies, South African Literature, Transgender Studies and Cross-cultural Communication. Her research interests are Postcolonial Studies, South African Literature, Gender Studies, Transgender Studies and Cross-cultural Communication.

**Anu Lähteenmäki-Uutela** (LL.D., adjunct professor) is a senior research scientist at the Finnish Environment Institute. Previously she has worked as a senior lecturer of business law at the University of Turku, Finland. She teaches business law, responsible business and consumer behaviour. She is a co-leader of the SusBerg research group. Her current research projects involve environmental regulation, blue growth and insect food. She is particularly interested in the impacts of regulation and multidisciplinary approaches to sustainability.

**Tarja Salmi-Tolonen** has been awarded the degrees of the Doctor of Laws, the Licentiate of Philosophy and she is currently working as a Research Fellow at the Faculty of Law, University of Turku; previously, Professor at the Faculty of Law, University of Lapland and Visiting

Scholar at Cambridge University, UK. She has conducted research on legal linguistics, proactive law and contracting and lectured on law and language at several universities in Finland. She is a collaborating member in a worldwide study on International commercial arbitration discourse and published widely on arbitration, law and language. She has been invited to speak at NY, US and Asian and European universities.

**Tuomas Paulin** has completed the Master of Laws degree. He works as an Assistant Judge at the Administrative Court of Turku. Previously he has worked as a project researcher at the University of Turku, Finland. His master's thesis discussed trusts and their recognition in Finland and in Switzerland. His research interests are comparative business law and private international law. He currently works at the Turku School of Economics at an e-learning project dealing with business law.

**Keijo Varis** is Doctor of Business Administration and Master of Administrative Sciences. Principal lecturer/professor of practice in MBA programs at Turku University of Applied Sciences in Finland since 2015. Prior to that he was the head of strategic planning and risk management at Vapo Group (multi-business company in Scandinavia) from 2001 to 2012 and CFO from 1992 to 2001 at Vapo Timber Oy, which exported about 80 % of its production all over the world.

**Martti Nieminen** is a post-doctoral researcher at the University of Tampere, Finland. His research focuses on international and domestic income tax law.

**Ari Lindeman**, MSc MA, is a Research Manager at South-Eastern Finland University of Applied Sciences (XAMK), Creative Industries Research Unit, Finland. Previously, he has hold positions as a Senior Lecturer, Programme Head and Department Head in the Business Department. He was a Fulbright Grantee at the University of South Florida, USA, 2000-2003. In the 90's, he worked as a Management Consultant after studies at Turku School of Economics, UMIST/Manchester School of Management, WHU Koblenz, and University of Helsinki. His current research interests focus on responsible leadership, interdisciplinarity, and entrepreneurial ecosystems.

**Jagat Kunwar**, M.Sc. (Econ.) is currently a lecturer at South-Eastern University of Applied Sciences, Kouvola, Finland. He is also a PhD. Candidate at Hanken School of Economics, Helsinki. As a lecturer in South-Eastern University of Applied Sciences, he has taught wide range of

subjects including leadership, supply chain management, brand building and communications and global marketing. He is also involved in supervising student's research and development work. As a doctoral researcher, his primary interests lies in the nexus of institutional theory and corporate governance. He has previous work experience in private business and non-governmental organizations.

**Olena de Andres Gonzalez** holds a PhD degree in Economics and Management of Enterprises from Institute of Economics of National Mining University in Ukraine since 2015. Based on the results of the research, 13 scientific papers have been published. Since 2007, she has engaged in teaching activities. Olena held a position of Assistant Professor and Deputy of Dean for Educational Affairs of the Faculty of Management at the Institute of Economics of National Mining University in Ukraine. Now she has internship at Turku School of Economics, Pori unit.

**Niti Bhasin** is an Associate Professor with the Department of Commerce, Delhi School of Economics, University of Delhi, has a teaching and research experience of about 19 years. A gold medalist in the M. Com. Examination (2000) of University of Delhi, she has authored books in the areas of foreign direct investment; Indian financial system; and Ease of Doing Business. Dr. Bhasin has also contributed research papers in national and international journals including *Multinational Business Review* (Emerald), *Journal of International Trade and Economic Development* (Taylor and Francis), *Foreign Trade Review* (Sage), *Global Business Review* (Sage) and *Vikalpa* (Sage). She has been invited to deliver keynote address/talks and share her views at various forums, including Mahidol University (Bangkok), National Defence College under Ministry of Defence, New Delhi, PHD Chamber of Commerce and Industry, Department of Economic Affairs, Ministry of Finance and Indian Academy of Management. Dr. Bhasin has chaired sessions and presented papers at various international and national conferences including World Finance Conference (Brazil) and AIB- Reading IB Conference (UK). She is also the recipient of the *Best Business Academic of the Year Award* (2011) conferred by Indian Commerce Association. She has completed two research projects awarded by the University of Delhi under Doctoral Research Program.

**Rinku Manocha** is working as senior assistant professor in the Department of Commerce, Hindu College, University of Delhi for a period of more than 18 years. She completed her Ph.D. in the area of International Business from the Department of Commerce, Delhi School of Economics,

University of Delhi. She has presented papers in various reputed conferences and has also published papers in national and international journals including Vikalpa: The Journal of Decision Makers (Journal of IIM Ahmedabad). Her areas of interest are international business, finance, e-commerce and computerized accounting.

**Victor Piedrafita** is an engineer who has worked in production and quality fields for more than 25 years. Last 10 years Victor has been supplier quality developer in Spanish and Finnish companies, where he helped to improve supply chain processes. In 2002 he participated in a labour exchange in Finland where he was fascinated by the Finnish nature and culture. In 2014 he finally moved to Finland where he got an MBA degree at Turku University of Applied Sciences (TUAS), where he researched sustainability in supply chains, its reporting, development, and assessment. Victor is passionate about the use of quality tools, data analytics techniques and knowledge sharing between manufacturing sectors in order to get better processes performance by innovative ways.