Chapter 21

A Social Capital Approach to Inter-Cultural Differences:

Empirical Evidence from a Global Tour Operator

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ABSTRACT

This work examines to what extent cultural differences at a level both of intra-organizational multinational network and inter-organizational multinational network are associated with liability of foreignness. The authors propose a conceptual framework where the different dimensions of social capital improve the exchange and combination of resources and knowledge in different subsidiaries localized in dissimilar cultural contexts, by mitigating the inter and intra organizational cultural differences. This in turn reduces the liability of foreignness. The chapter empirically applies this conceptual framework to one of the world's largest tour operators. It focuses on different moments of foreign growth of selected tour operator, performing an exploratory longitudinal case study. The findings presented have important implications for research in multinational literature because the chapter proposes to originally study the liability of foreignness and cultural differences topics according to a social network perspective of analysis.

1. INTRODUCTION

The cross-border transfer of firm-specific advantages is considered a significant element of success in Multinational Enterprises (MNEs) (Vernon, 1966; Hymer, 1976). In literature regarding multinational firms, these advantages are usually geographically dispersed in countries where the different unities of an MNE are able to perform specific value creating activities (Tsai, 2001). At the same time, the liability of foreignness, conceptualized as the costs of doing business abroad that result in a competitive disadvantage for a MNE subunit, has been the fundamental

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assumption driving theories of multinational firms. Independent of its source, the liability of foreignness implies foreign firms will have lower profitability than local firms, all else being equal and perhaps even a lower probability of survival (Zaheer, 1995).

Despite much research indicating the potential determinants of liability of foreignness – such as unfamiliarity with the local business conditions or local authorities' discrimination against foreign companies (Petersen, Pedersen, 2000) – to the best of our knowledge no study has systematically examined the impact of cultural diversity on the MNE's liability of foreignness. It is quite surprising since the effectiveness of cross-border transfer of firm specific advantage has a great deal of complexity because it usually involves dissimilar cultural contexts (Bhagat et al., 2002). In fact, cross-border knowledge transfer among MNEs involves two or more units in at least two countries and thus cultural differences play a significant role in determining the efficacy of such global transactions (Rugman, Verbeke, 2001; Clark, 1990).

In this chapter, the authors examine to what extent cultural differences of intra-organizational multinational networks (inside dispersed subsidiaries of a same multinational firm) and inter-organizational multinational networks (among a subsidiary and its external local network) are associated with the liability of foreignness. Given that cultural differences are embedded inside dispersed internal and external networks of a multinational firm, this study builds upon a social network approach focusing on social capital concept (Lin & Dumin, 1986; Nahapiet & Ghoshal, 1998). We propose a conceptual framework where the different dimensions of social capital– social interaction, trust and shared vision (Yli-Renko, Autio, & Sapienza, 2001) – improve the exchange and combination of resources and knowledge in different subsidiaries of a multinational firm localized in dissimilar cultural contexts, by mitigating the inter and intra organizational cultural differences (Ellis, 2010; Zahra, 2010; Kianto & Waajakoski, 2010; Vallejos, Macke, Olea, & Toss, 2008). This, in turn, reduces the liability of foreignness.

We empirically apply this conceptual framework to Globus Family of Brands (GFB), which is one of the world's largest tour operators with more than 30 tourism and aviation businesses around the world, covering more than 70 countries on six continents. We propose Globus as an important case of study and, through the three dimensions of social capital, we analysis how inter- and intra-cultural differences are associated with the liability of foreignness. The empirical analysed case allows us to make more efficient our conceptual framework, suggesting that different informal and formal solutions in the global management of MNE'S social network are able to mitigate or solve the problem of inter and intra organizational cultural differences and so to reduce the liability of foreignness.

The structure of the chapter is organized as follows: Section 2 gives a review of studies on social capital, liability of foreignness and cultural differences concepts. On the basis of the literature review, we present a conceptual framework explaining the interaction among different dimensions of social capital, inter-cultural differences and liability of foreignness. Sections 3 accounts for the methodology approach and analyses the case of Globus. In Section 4, we improve the conceptual framework according to empirical evidence from the analysed case. Finally, in Section 5 we conclude, proposing the main managerial implications of the study.

2. THEORETICAL AND CONCEPTUAL FRAMEWORK

The primary purpose of our research is to integrate, from a social capital point of view, the accumulated knowledge in the frameworks concerning liability of foreignness to develop

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