

POWER DISTANCE INDEX AND ITS ROLE IN THE EFFICIENT FUNCTIONING OF MULTINATIONAL ORGANIZATIONS

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Abstract: *Enveloping a wide-range spectrum of political, cultural, and ethical aspects, the power distance index essentially summarizes the acceptance of hierarchical structures. The number of micro ecosystems in which hierarchy and power-centered forms of organization prevail is undoubtedly large, given the fact that authoritarian regimes have been mostly abolished and invalidated during relatively recent history, and many people are still unconsciously reminiscing on their unwritten rules of conduct. This paper intends to take a closer look into the impact that various power distance index values have on organizational culture, with multinationals being the niche thoroughly studied. By analyzing official performance reports in correlation with dr. Geert Hofstede’s premises, the author intends to give insight into how overall worker performance is affected by autocracy, inequality, and responsibility centralization, which are all consequences of high-power distance indexes.*

Keywords: *power distance, inequality, culture, study, organization.*

1. INTRODUCTION

Organizational culture represents the binder which brings together all the constituent pieces of the workplace atmosphere puzzle. The power distance index, or PDI as abbreviated, consequently acts as a valuable tool in measuring different behavioral patterns amidst employees. I believe that the importance of PDI analysis can’t be overstated due to the fact that, if taken into thoughtful consideration, the index can reveal valuable information about doctrine-related compatibilities in workers, assess merging performance between two or more departments, and even predict long-term consequences of cultural mix-up. This is the reason why I offer a new perspective of utility for the index by unifying it with MIT Prof. E. Schein’s cultural characteristics. Consequently, the newly stated binome between the two aspects previously mentioned is to give further insight into cultural aspects regarding organizations by creating a new parameter of analysis.

2. HOFSTEDE, GLOBE AND POWER DISTANCE INDEX

Generally accepted as a pioneer of psycho-sociological studies referring both to organizational culture and the way of which employees cope with authority and imbalance regarding workplace ethics, Professor Geert Hofstede managed to give insight to further researchers into the concept of cultural dimensions [1], whilst developing a whole range of tools for measuring the effects of cultural variables on organizational functionality.

The power distance index shows the degree to which inequality and power are tolerated in any micro-ecosystem (multinational organizations, government-related hierarchical structures, etc.). Regarding this dimension, inequality and power are viewed from the perspective of followers, which constitute “the lower level”. A high-power distance index suggests that a culture accepts inequality and power differences as being innate, encourages bureaucracy as a form of organization and shows a high degree of respect for hierarchy and authority, both to the concept and the particular individuals who impose those characteristics. A low power distance index reveals that the studied culture emphasizes a flat organizational structure, which is characterized by decentralized decision-making responsibilities, participatory management, and great respect to meritocracy as a factor for attributing power distribution. [2]

The second important cultural framework is represented by the Global Leadership and Organizational Behavior Effectiveness (GLOBE) [3] project that provided managers with an additional lens through which they can better their understanding on how to improve overall performance whilst coordinating international environments. The central theoretical proposition of the GLOBE project states that the attributes which make a culture distinguishable amongst other cultures give predictability and valuable insight into leadership characteristics most frequently enacted, adopted and efficient in that culture. While the Hofstede framework was developed in the 1960s, the GLOBE project took finality in the 1990s, thus being a more recent attempt in cultural dimension analysis.

Regarding the Power Distance Index, the thesis on which GLOBE analyzed the matter, although based on Prof. Hofstede’s initial findings, is supplemented by a new set of statements which expand PDI applications, such as “Leader acceptance influences leader effectiveness” [4], which, extrapolated, suggests that countries with a high PDI which tend to accept authority-imposing figures as being innate are likely to improve leader effectiveness by unquestionable adoption. Another difference between Hofstede and GLOBE is that the latter grouped countries into cultural clusters with common elements, and subsequently stated 21 leader characteristics related to a desirability scale of 1 to 7, with 7 being the most desirable. Generally, high PDI corresponded to least desirable features (autocratic, status conscious, autonomous) whilst low PDI cultures represented the framework for generally accepted qualities (collaborative, inspirational, visionary).

3. THE INFLUENCE OF POWER DISTANCE ON ORGANIZATIONAL MANAGEMENT AND SUBSEQUENT CULTURAL PATTERNS

Organizational management mainly refers to the adequate distribution of tasks, resources, and responsibilities to employees in accordance with their role, qualifications and area of competence within a well-defined structure. The basic principle of organizing resources in order to achieve before-stated accomplishments is to be applied within any kind of organization, whether we discuss NGO’s, government institutions or business-oriented entities. [5]

One of the most important branches of organizational management is represented by organizational culture which acts as the framework for achieving performance and unity within the before-mentioned structure. Organizational culture represents a set of shared beliefs which are clearly stated and widely adopted by employees in order to gain perspective on a singular perception, understanding and behavior system. The elements of organizational culture within a multinational company are the common ground for interoperability within employees.

Organizational culture is to be defined, according to MIT professor Edgar H. Schein, by the following characteristics [6]:

- Innovation and risk taking, which comprises employee encouragement to conduct work based on these principles;
- Attention to detail, which measures employees degree of situational analysis and precision amidst problem-solving.
- Outcome orientation, a characteristic which favors the final result of a certain process rather than the process itself;
- People orientation, which states the susceptibility of key-management figures to consider their decisions based on the effect that they have on employees;
- Team orientation, a variable in correlation to the preference of group work rather than individual approaches on specific matters;
- Aggressiveness, strongly related to competition;
- Stability, or the purpose of maintaining status quo;
- Agility, which promotes flexibility in decision-making and process-shaping within an organization.

According to Ph.D. Schein, the above-mentioned characteristics are to be measured on a scale from low to high, moderate being the intermediary reference. The correlations of two or more characteristics which resemble a specific scale result in specific organizational patterns. For example, a framework for an organization which develops high ethical standards is based on a high tolerance for risk, low-moderate level of aggressiveness and focus on means of action proportionally with reaching favorable outcomes.

Being a prevalent cultural dimension, the power distance index certainly contributes to organizational culture shaping by applying its principles on different scales. Whether the whole organization falls under a dominant culture, which expresses the core values shared by most of the employees, or is separated into multiple subcultures based on department specific or ethnical affiliation, different values of power distance index in correlation with the above-mentioned organizational culture characteristics shape a whole new set of organizational patterns, which are to be analyzed and stated in the following comparative analysis:

Based on G. Hofstede's findings, the comparison will encompass two multinational organizations which provide services in the gaming sector. Organization A is based in China, a country with a PDI of 80, and has employees mainly from China, including key-figures in the decision-making process, which resemble authority and strict etiquette. Organization B, which activates in the same economical sector, is based in Denmark, a country with a significantly smaller PDI of 18 [7]. Organization B integrates employees from neighboring countries such as Germany and The Netherlands, which also encompass reduced PDI findings, creating a multicultural environment where power is distributed equally and incentive is achieved by subjective analysis and meritocracy.

The correlation of Hofstede's PDI and Schein's cultural characteristics is illustrated in the following table:

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Table 1. The correlation of Hofstede's PDI and Schein's cultural characteristics

Cultural characteristics	Organization A (High PDI)	Organization B (Low PDI)
Innovation and risk taking	Low (Considering the authority involved in the management branch, innovation is not encouraged whereas strict protocol-following and compliance is preferred).	High (Innovation is encouraged, as well as risk taking in order to create a sustainable framework which values ingenuity and free thinking)
Attention to detail	High (due to class inequality amongst company members, details must be thoroughly respected in order to make ends meet)	Moderate (Product quality is encouraged, while complying certain standards is relative in order to preserve originality).
Outcome orientation	Moderate (The process is less important than the final product, but not insignificant)	High (Ethics are part of the process)
People orientation	Low (Company interests are above individual well-being, whilst power-applying purposes are irrelevant)	High (Decentralization is certainly popular, while each employee is well taken care of in terms of general well-being).
Team orientation	Moderate (Certain activities are to be made in accordance with group participation principles, but individualism is widespread in order to receive merits).	Moderate (Employees enjoy group brainstorming sessions but also value quiet and privacy)
Aggressiveness	High (Competition is chased after in order to gain credit in front of the hierarchical key-figures)	Moderate (Aggressiveness and competition is also found, but justified under the curtain of proactive behavior which facilitates innovation)
Agility	Low (Protocols are strict and are to be complied with within any circumstances, and the flexibility related to the decision-making process is rather inexistent due to unequally distributed responsibility and power privileges).	High (With innovation valued and free-thinking being an actual requirement, low-PDI Organization B is able to re-configure anything from product development to marketing schemes when necessary).

Following the detailed correlations stated above, as mentioned before, emerging patterns are to be observed with respect to the cultural dimension-cultural characteristic binomial.

The number of patterns which could emerge from combining the presented characteristics can be calculated with respect to the combinations [8] formula, which can be easily adapted based on the number of binomials taken into account in the pattern-forming process. For example, resulting from the table shown, there is a sum of 77 possible binomial organizational patterns.

$${}^n C_k = \frac{n!}{k!(n-k)!}$$

$${}^2 C_{14} = \frac{14!}{2!(14-2)!} = \frac{12! \times 13 \times 14}{2! \times 12!} = \frac{182}{2} = 91.$$

$$91 - (7 \times 2) = 77.$$

For example, a possible binomial pattern which can define an organizational culture's niche based on the previously stated cultural characteristic – PDI correlation is a high PDI department with low people orientation which has recently merged with a low PDI department with high outcome orientation. Apart from all the other cultural misfits that a merging can impose, a pattern like this can result in a newly created department with conflicts regarding sustainable respect to ethics versus irrelevant power-applying purposes, which would certainly alter the general work performance until the uniformization takes place.

The applicability of PDI characteristics in the understanding of multinational organizations is also relevant to military structures. Particularly taking Romania into consideration, there is a visible difference between units which had not been regularly exposed to joint exercises and units which are frequently integrated into multicultural environments [9]. To be more specific, an isolated, non-operative unit which is not amalgamated with foreign military forces in joint training will tend to preserve the national PDI value, subconsciously engulfed by the majority of individuals in that specific unit, which may not reciprocate modern management principles. On the other side of the matter, there is the other category of military environments, which are mod adherent to low PDI characteristics due to prolonged exposure to western cultures in NATO operations. My unit, 256th Helicopter Group, represents a decade-long provider of air-naval security in the NATO alliance, with a rich history of multinational cooperation. As a consequence, due to being constantly exposed to low-PDI military cultures like Germany or Britain, their management tends to be inclusive and decentralized, with commanders generally portraying capable, modest team players rather than fearful, power-applying autocrats.

4. CONCLUSIONS

To conclude, we can state that a high number of patterns can be brought upon using various mathematical formulae which can predict behavioral changes in organizational culture after specific environment-altering events (f.e, merging). The power-distance index can be replaced with every other cultural dimension, depending on the results which are looked for. Foreseeing emerging patterns in a multinational organization's overall culture dynamics is highly important due to changes in general well-being, team cohesion and work performance that can occur.

A viable option for prediction can certainly be an in-depth study of PDI – cultural characteristics correlation, which can give insight in whether planned changes in terms of team/department mass augmentation are to increase or decrease productivity amongst other performance-related factors [10].

The most important fact of PDI analysis is the enormous potential of adoption. As previously stated, even NATO organizations adhere to PDI values behind the well-known rigurocity curtain. With commanders being more and more exposed to intercultural cooperation, high PDI nations are engulfed in modern management principles, steadily creating the framework for a truly homogenous alliance, in which collaboration, integrity and performance are encouraged thoroughly through respect, equity and good conduct.

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