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An Analysis of German Culture in the Management of an Enterprise and Implications for General Electric’s Future Acquisitions

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I. Abstract

Cross-cultural merger and acquisitions (M&As) have become one of the leading approaches for companies to gain access or expand their presence in global markets, yet these M&As have the unique challenges of dealing with both national and organisational culture differences that must be addressed if the acquired business is to be successfully retained and benefited from. This capstone explores the difficulties facing a company with a cross-cultural business investment using the real-world example of General Electric (GE) as it has announced its intentions to expand into the German economy in 2013. The following is a review of GE’s corporate culture, potential financial impacts of business acquisitions, and recent literature on cross-cultural differences and integration recommendations. This framework presents cultural integration as a crucial component to reduce integration expenses, investment risk, and project delays between an American and a German company and to successful complete a cultural integration of a business acquisition. In conclusion, expanding companies like GE should look toward the areas of cultural differences where minimal employee resistance exists and use them as opportunities to change management and improve the acquired business as necessary.

II. Introduction

In early 2013, CEO of GE Europe and GE Germany Ferdinando “Nani” Beccalli-Falco called Germany the "economic locomotive" of Europe and announced GE’s intentions to strengthen its position in the continent's largest economy (CNN Wire Staff, 2013). He described this expansion to come in the form of various acquisitions of mid-size, family-owned businesses throughout Germany in two key markets: healthcare and gas turbines. GE Germany focuses on green technology, medical technology, research and development and financial services. The
new investments come as GE expands its global footprint and looks to beef up decision-making capabilities in local markets to respond more quickly to business prospects (CNN Wire Staff, 2013).

However, unforeseen problems can arise if these newly acquired German companies are not treated with the cultural sensitivity in management practices that they require. With Europe’s current economic uncertainty, traditional German businesses are becoming even more firmly entrenched in their current management techniques which have rewarded them with success thus far. As a result, GE will have to make sensible decisions when integrating the new German business into the vast GE corporate culture and structure that already exists.

Through an analysis of GE’s corporate culture and expectations likely to be placed on acquisitions, common mistakes made by management, possible financial consequences, and an overview of the main differences in corporate culture between American and German businesses, it will be possible to outline opportunities for growth in the German business as well as GE as a whole.

III. Background

The following is background information on GE’s position on the global market, an analysis of its corporate values and expectations, and GE’s position in Europe and Germany.

a. General Electric

General Electric (GE) is an international conglomerate corporation that employees 305,000 people in over 160 countries around the world and operates through eight industry segments: Power & Water, Oil & Gas, Energy Management, Aviation, Healthcare,
Transportation, Home & Business Solutions and GE Capital. The company was founded by Thomas A. Edison in 1878, went public in 1892, and is headquartered in Fairfield, Connecticut (Forbes, 2012).

Today, GE exists as a diversified technology and financial services company servicing customers in more than 100 countries and offering products and services ranging from aircraft engines, power generation, water processing, and household appliances to medical imaging, business and consumer financing, and industrial products (Forbes, 2012). Each part of its eight industry segments is responsible for offering different services to the public.

The Power & Water segment serves power generation to industrial customers, governments, and others worldwide and offers products related to energy production. The Oil & Gas segment supplies critical equipment for the global oil and gas industry spanning the entire value chain from drilling and completion through production to pipeline compression and inspection and finally to downstream processing in refineries and petrochemical plants. The Energy Management segment provides integrated electrical products and systems used to distribute, protect and control energy and equipment (Wall Street Journal, 2013).

The Aviation segment manufactures, sells, and services jet engines and replacement parts for use in military and commercial aircraft. The Healthcare segment provides healthcare technologies that predict and detect disease earlier, monitor its progress and inform physicians, and help physicians tailor treatment for patients. The Transportation segment provides technology solutions for customers in various industries, which include railroad, transit, mining, oil and gas, power generation and marine. And the Home & Business Solutions invests in the development of energy efficient solutions for both consumers and businesses (Wall Street Journal, 2013).
Finally, the GE Capital segment's services include commercial loans and leases, fleet management, financial programs, home loans, credit cards, personal loans and other financial services. It provides its services for all sizes of businesses worldwide (Wall Street Journal, 2013).

In 2012, GE recorded sales of $147.38 billion, cash on hand valued at $125.87 billion, and debt valued at $337.48 (Forbes, 2012).

b. GE’s Expectations for Business Acquisitions

When evaluating the expectations that GE will place on its global businesses, it is important to understand the cause-and-effect relationship between GE’s outlined strategy and the expectations management has on the results of its business investments, including any global acquisitions. By analyzing the strategy set forth in GE’s 2012 annual report, it will be possible to understand the company’s reasoning behind making investments in foreign business acquisitions.

GE’s self-identified strengths in 2013 are a portfolio of world-class, technology-leading businesses; a strong position in fast-growth global markets; cutting-edge service technologies that heighten customer productivity; high visibility with a backlog of $210 billion in revenue; and a strong financial position. Regarding its mission statement, GE holds that the company “want(s) investors to see GE as a safe, long-term investment – one with a great dividend that is delivering long-term growth” (General Electric Company, 2012). This indicates is that GE is measuring its own success through the bottom line of its annual report, and will be paying particular attention to the contribution of its subsidiary businesses to revenue, expenses, and net income.
This focus is further confirmed in GE’s annual report when GE outlines the following areas of importance for its investors, which are therein also areas of importance for the company: 1) double-digit earnings growth for GE Industrial, 2) cash returned to parent from GE Capital, 3) significant margin expansion, 4) strong industrial segment revenue growth, and 5) cash returned to shareholders (General Electric Company, 2012). Through the delineation of these values, GE indicates its intention to evaluate its own operational success through the traditional financial ratios that determine a company’s reputation as a safe investment\(^1\) and will apply these success measures in evaluating the success of all business decisions, including investing in businesses abroad.

In additional to strategy, the values that a company sets forth are perhaps just as strong of an indicator as to the culture within the establishment. In its 2012 annual report, GE also outlined the following strategic imperatives: superior technology, enhancing customer services & analytics, leading in growth markets, and a simple and competitive cost structure (General Electric Company, 2012). These values indicate the measures by which GE is measuring its success as it continues to acquire businesses around the world – and in particular, Germany.

To connect actions to this strategy, the annual report outlines several strategic decisions that GE has made to restructure and refocus the company over the last several years. In the wake of the financial crisis of 2007, GE refocused its expansion to infrastructure investments and away from financial services, reducing its investment in GE Capital from $513 billion in 2009 to $419 billion as of December 2012 in order to reduce risk in its portfolio. Realigning with long-held company values, GE plans to have infrastructure earnings reach 70% of the company total over the next decade. And correcting a number of wayward investments in 2012, GE sold off its

\(^{1}\) Financial ratios such as Earnings Per Share, Dividends Per Share, Price over Earnings, Return on Equity, Return on Assets, Return on Investment, etc.
remaining 49% ownership of NBC Universal, ending its presence in the television industry, and discontinued its personal loan and mortgage businesses in several countries including the US, Japan, Ireland, Singapore, and Australia (General Electric Company, 2012).

Next, GE has increased its investment in organic growth, annually investing $10 billion for new products and to build global capacity. Over the past decade, GE has doubled its annual R&D investment, and has seen that the $2-3 billion increase has shown a 5%-6% increase in revenue. In 2012, GE had $40 billion of orders in growth regions, a 12% increase over the prior year and a threefold increase in the last decade (General Electric Company, 2012).

Beyond that, GE has worked to build deeper relationships with customers based on an outcomes-oriented model with an increased focus on services. Today, services represent about 75% of GE's industrial earnings, with $157 billion in service backlog that give GE the momentum to continue to grow in the future (General Electric Company, 2012).

Finally, GE takes a disciplined approach to global risk management considering the nature of their diversified organisation, and only accepts risk that they judge they are being adequately compensated for, which is relevant to acquisitions because of the unavoidable risk of failure concerning this type of investment as well. Risk assessment and management is the responsibility of company management and is evaluated at the individual transaction level, and aggregated risk is evaluated at the customer, industry, geographic, and collateral-type level where appropriate (General Electric Company, 2012). Specifically, The GE Board of Directors is responsible for the oversight of risk management with a focus on the most significant risks facing the company, including strategic, operational, financial and legal and compliance risks. At the end of each year, management and the GE Board of directors jointly develop a list of major risks that GE plans to prioritize in the next year (General Electric Company, 2012). In other
words, this is the portion of the company that must evaluate the potential costs and benefits of acquiring another business, determine whether one outweighs the other, and then assume responsibility for the success or failure of the investment once the decision is made and the business acquisition begins.

c. GE Europe & GE Germany

General Electric Europe employs 84,000 people across Europe and provides products for a number of different industries from aircraft engines to power generation, household appliances to consumer finance (CNN Wire Staff, 2013).

GE Germany is currently active in the areas of clean energy and healthcare technologies, focusing specifically on renewable energy, sustainable healthcare, aviation, and research & development. One of GE’s four global research centers, GE Global Research Europe, is located outside of Munich, and hosts approximately 150 scientists from more than twenty nations to work on innovative technologies in renewable energy and healthcare. Other significant sites of activity that GE has in Germany are the new offshore wind Technology Center in Hamburg, the European Headquarters for Renewables in Salzbergen, the GE Healthcare Customer Center in Munich, and GE Aviation’s new site for the development of advanced airfoil production processes (GE Corporate Citizenship, 2010).

GE furthermore has a reputation in Germany as an employer that promotes the advancement of women and minorities in the workplace, even going so far as to partner with Business and Professional Women of Germany (BPW Germany), one of the largest professional networks for employees and self-employed women in Germany. This partnership allowed employees working at GE Germany to have the opportunity to participate in all of the events of
the local BPW Germany as well as the mentoring program and the regional club (GE Germany, 2012).

Much of Germany's nuclear-generation capacity will soon be replaced with natural-gas-fueled plants, as well as low-emission, renewable-power production, and both could provide a boost for GE, which has seen slow sales in its gas-turbine businesses after the recession (CNN Wire Staff, 2013). Furthermore, a recent report by research firm Frost & Sullivan predicts the sale of gas and steam turbines in Western Europe to more than quadruple to $2.1 billion in 2017 from $473 million in 2010, with Germany expected to be among the biggest markets in Western Europe (Linbaugh, 2011). The attraction of German markets for GE is apparent; the difficulty now lies in balancing the expected growth in revenue from acquired German businesses with the necessary cultural expenses incurred to retain the business.

IV. Strengths of GE’s Expansion

There are several key elements that give GE the advantage when expanding in the German economy. Through an understanding of why these elements strengthen GE’s position as an intended business acquirer, GE can reduce the resistance of German employees to change in their work environment, and may even in some cases motivate those employees to adapt.

The first of these elements is the reputation that GE already had as a highly desirable employer in Germany, in Europe as a whole, and the world in general. According to a 2012 ranking of employers around the world by Universum, a leading employer recruitment organisation, GE was ranked as the sixth most attractive employer for engineers around the world; and though a lower rank, GE was still highly ranked in all of Europe alone, coming in as the eighth most attractive employer for engineers (Universum, 2012). What this means is that
based on the preferences of over 144,000 career seekers with an engineering background from the world’s 12 greatest economies (Brazil, Canada, China, France, Germany, India, Italy, Japan, Russia, Spain, the UK, and the US), GE is recognized across the board as a company that excels at talent attraction and retention (Universum, 2012). As a result, it is highly likely that the German employees of these acquired businesses will embrace the acquisition, resulting in lowered resistance to any chances put in place by the new management.

However, GE is not only skilled at retaining engineering employees, but general businesspeople as well. The same report also ranked GE as the thirty-second most attractive business employer in the world overall (Universum, 2012), showing that the desirability of working for GE spans not just engineering employees but employees who work in other business functions as well. Considering that some of the changes will effect employees on a cultural level and ask them to step outside of their cultural comfort zone, GE’s reputation will have generated some trust from these employees even before the company begins to exert its influence over the acquisition.

Additionally, Forbes Magazine recognizes GE as the world’s eighth most powerful brand (Forbes, 2012), which indicates the high level of influence such a brand has on people whether they are consumers, suppliers, partners, or employees.

The position of the German economy in relation to the rest of Europe is another element that must be noted, because it reduces the risk inherent to investing in such a foreign market. The German economy to date has weathered the economic recession of 2008 and the euro zone financial crisis of 2011 (KPMG International, 2012), the resulting sovereign debt crisis and the bailout of several of its fellow European Union (EU) member countries such as Greece (Armitstead, 2012) and Cyprus (The Economist, 2013), and still remains afloat (KPMG
International, 2012). Despite the surrounding instability of neighboring countries, German businesses have been able to function in a bubble of stability and even continue to grow, albeit slowly (KPMG International, 2012). Therefore, the risk that an acquired German business would suddenly become insolvent upon becoming a part of GE is lower than it might have been were this a company in Cyprus, an EU member nation suffering economic turmoil (The Economist, 2013). And because of this resulting lowered risk, the required return on investment from an acquired German business is far less than it might have been otherwise, and more practical and realistic for the German business to deliver on. Furthermore, this stability of German businesses is another way to justify the injection of additional funds to integrate the acquired business culturally as well as organizationally, and to incur additional expense in human resource management.

The way that GE is perceived by Germans is another element which the company must be aware strengthens its position. Through GE’s investments of its own time and money into acquiring a German business, it is sending the message to other consumers and businesses that it has confidence in the acquired business and its continued growth and existence. As detailed in a 2012 report from KPMG on mergers and acquisitions in today’s consumer markets, there is a strong correlation between the amount of mergers and acquisitions that happen in a particular market and the consumer and business confidence that results (KPMG International, 2012). GE’s acquisitions work to further bolster the German economy it is investing in, because through its own confidence, it will inspire confidence from both clients, other consumers, and other businesses and improve market conditions and revenue and ultimately, increase its return on investment.
Through an understanding of the position that GE is in as it delves deeper into Germany’s economy, GE will be able to invest more confidently into acquiring German businesses and make the transition from individual business to the GE conglomerate a lot smoother.

V. Potential Problems for GE’s German Expansion

There are several areas in which GE might encounter some unexpected issues that would result from an inadequate planning for cultural differences. Since these issues typically result in additional expense, delays, and costly error, it is important to identify these potential problems so that sufficient management planning can overcome the cultural challenges GE might face. The following sections will discuss the common cultural mistakes made by management, the financial consequences for American companies, and then an overview of the differences inherent to the management practices of American versus German businesses.

VI. Common Management Mistakes

A 2009 study on cross-cultural competitive intelligence strategies determined that the four most common mistakes made by cross-cultural managers were 1) having a poor knowledge of the local business culture, 2) failing to thoroughly assess the elements of a project, 3) having a poor ability to manage cultural diversity, and 4) lacking enough patience and persistence (Adidam, Gajre, & Kejriwal, 2009).

The biggest mistake that managers working between cultures make is not having a sufficient understanding of the local business culture in which they are partially participating. For GE, this would include managers who would supervise the completion of projects at the acquired business, relay information to employees further up the chain of command, and then
impose their expectations on the acquired business. However, it is easy to forget in these situations where there is pressure to meet performance measures that a business manager should not assume that knowledge and understanding of business practices can be transplanted from one country to another. The consequences of doing so, is that access to the right business people becomes difficult and timelines have to be extended to accommodate the cultural differences and customs (Adidam, Gajre, & Kejriwal, 2009). Instead of applying the objectives from the American company to the German subsidiary in the hopes of raising performance levels, the actions of the American manager might have the opposite effect and delay the project even more.

The second biggest mistake that cross-cultural managers make is failing to thoroughly assess all of the elements of a project. Here is another situation in which it is easy to take the experience acquired from working with American subsidiary businesses and simply extrapolating that knowledge into a foreign environment without taking the time to consider differences in timing, language, collaboration, or a myriad of cultural factors that would change the timeline of a project. The cross-cultural intelligence study concluded that for this purpose, it is crucial to take into consideration the cultural factors that will impact the project timing, level of detail, and costs involved because it is necessary to have access to the people with appropriate skills, language, and data (Adidam, Gajre, & Kejriwal, 2009). Doing otherwise would again result in delays, added expenses, and lowered performance for the business as a whole.

The third biggest mistake that managers make is not requiring sufficient training or experience in managing cultural diversity. Though it is already difficult enough to train employees to understand the large cultural differences that exist between businesses operating in different countries, this is a simplistic understanding of how culture impacts employees’ behavior. The cross-cultural intelligence study notes that most countries are very different in
terms of business practices and data sources, with key differences in language within the same country (Adidam, Gajre, & Kejriwal, 2009). Overlooking such a crucial element like language when planning for a project can lead to undesired and unexpected obstacles in implementing a project that will once again cause delays, incur additional costs, and lower performance levels.

Finally, the fourth common mistake that cross-cultural managers make is simply not having enough patience and persistence in dealing with a foreign business environment that may appear deceptively similar to the more familiar, America work environment. The cross-cultural intelligence study pointed out that as with any international business project, the project manager must be sensitive towards the local cultural practices, business ethics, people, and infrastructure; only by demonstrating patience will he or she reap positive benefits in business dealings (Adidam, Gajre, & Kejriwal, 2009). Though it may be frustrating and difficult to understand why foreign business policies exist the way they do, the solution is not to simply impose the American standards and expectations on a foreign group of employees, since that has been shown to frequently result only in negative consequences.

Through an awareness of these four common mistakes made by managers of American companies attempting to coordinate international business projects, an American company will be more considerate of the negative effects that result should they overlook the cultural aspects of a foreign business. In GE’s case, taking steps to do just that will be crucial in planning for their future success with any acquired German business.

VII. Financial Consequences

There are several ways in which an acquisition of a foreign business acquisition would impact an American company’s both positively and negatively financial statements, as well as
several instances in which a problematic acquisition wouldn’t be noticed from a financial perspective until an annual financial assessment several business cycles later. The following is a discussion of the ways in which a foreign business acquisition can negatively impact the financials of an American company like GE.

Due to GE’s extensive size and wide reach around the world, discovering a problem with an acquired business takes a considerable amount of time and money. This inflexibility to alter a business decision once it has been made puts even more pressure on the post-acquisition planning process to make successful decisions and minimize acquisition errors. As GE explains in its 2012 annual report, the company’s post-purchase assessment of its acquired businesses often takes several quarters to accurately estimate the value of the business assets acquired. Furthermore, it has become common practice for GE to reevaluate their initial estimate of an acquisition and suffer substantial goodwill impairment losses across all industry segments (General Electric Company, 2012). However, goodwill is tied to the reputation of any business, and any loss suffered by an acquired business in Germany could lead to loss of sales, customers, and the financial benefit to GE from the acquisition.

Another area that may pose a problem for GE is the gap between the company’s financial expectations and the actual bottom line. It is important to clarify that though GE might have experience with acquiring other businesses in America and are fully aware of all the steps that need to be taken and the expenses incurred, this knowledge will not suffice when dealing with a foreign business acquisition. A 2011 study on cultural integration for international mergers and acquisitions found that the international scope posed additional challenges to the cultural integration process and that acquiring companies outside of one’s own country carries a “liability of foreignness”, a term for the costs incurred by a firm operating in a foreign market in addition
to what a local firm would incur (Daniel R. Denison, 2011). In other words, there are additional unavoidable expenses that must be incurred for the simple reason that this is a relationship between a foreign and a domestic business.

The study went on to outline another added challenge of cross-cultural acquisitions, which is the challenge of “double-layered acculturation” where national culture must also be integrated in addition to organizational culture (Daniel R. Denison, 2011). The return on investment that an American company like GE is used to seeing when dealing with business acquisitions in domestic markets will not be the same when dealing with these German acquisitions. Rather, the return will most likely be a lot less because of these additional costs incurred to integrate the acquired foreign business in more than one aspect. Expectations may have to be adjusted on behalf of the investors of the American company so that there is less surprise when the financial statements are actually reported.

By understanding that there are inevitable costs associated with successful cross-cultural integration of two businesses on an international level, the company doing the acquiring will be able to adjust their expectations accordingly and plan accordingly. Otherwise, without these additional cultural costs, the parent company – like GE – runs the risk of insufficiently integrating the acquired business and will experience a decline in business performance and potentially losing the entire acquired business through insolvency or sell-off, rendering all of the money invested in the acquired business a waste.

**VIII. Differences between American and German Corporate Culture**

While German corporations have been shown to be converging towards American management styles and models (Carr & Pudelko, 2006) and would be simpler to merge with existing operations, the focus of GE’s expansion into Germany is mid-sized, family businesses,
which generally operate on a more traditional German management philosophy. This can result in significant conflict for GE if unaddressed upon the acquisition of a German business.

An analysis of the basic components of business organisations in Germany over the past decade shows that there have been some substantially different practices in the areas of bottom line orientation, strategic planning techniques, leadership, customer relationships, overall company organisation, job rotation, human resource management, coaching and mentoring, feedback, employee recognition, socializing, communication, work environments, and work-life balance. The following sections detail these difference practices and address areas of opportunity for GE’s management to incite change and growth.

**a. Bottom Line Orientation**

One way that many American companies tend to measure the success of their businesses is through the financial valuations of their company, especially if they are a publically traded corporation. This means that the factors that influence such a financial valuation, such as dividends or gains in a common financial ratio tool, are watched closely by American companies. And though Germans care more than they used to about financial goals and making finance-backed decisions, German businesses are still not on the same level as their American equivalent. A study examining the convergence of management practices between American, Germany, and Japan found that in Germany, “financial calculations were sometimes explicitly ignored or over-ruled where they conflicted with valued customer relationships” (Carr & Pudelko, 2006). This is an indication that the priority for German businesses is the strength of their relationships with their customers, rather than making strategic decisions to generate the largest profit.
However, it should be noted that the real influence of financial calculations, as compared to other broad strategic considerations, has increased over the last decade, with the same study noting that German executives have increased the influence of finance on decision-making from 15% to 25% since 2002, as opposed to the steady 50% influence that American executives give to financial calculations (Carr & Pudelko, 2006). This indicates that there is still room for growth when it comes to the tools used for business planning and potential for an acquiring American company to evaluate the desire for German executives to alter their strategy.

b. Strategic Planning Techniques

Many American businesses like GE stress the importance of using self-analysis to identify possible directions that a business might take (General Electric Company, 2012). The management convergence study referenced previously found that 85% of all US companies used SWOT analysis, 69% used formal competitor appraisals, and 62% claimed to be pursuing some form of market leadership strategy (Carr & Pudelko, 2006). Broadly speaking, a majority of American businesses use some form of formal strategic review and integrate it into their investment decision-making processes. However, the use of formal strategic planning techniques isn’t as widespread in Germany, and the convergence management study found that German executives were often skeptical of bureaucratic planning methods and generalized strategy techniques, with one German CEO commenting, “the Americans have all these techniques and MBAs but, if they are so good, why is it that we are beating them in the market place?” (Carr & Pudelko, 2006). The prevailing negative attitude of German managers to this style of enterprise leadership is an indicator of the resistance that an American company like GE could encounter when attempting to make management changes to integrate an acquired business.
c. Leadership

While American businesses like GE define the role of executive leadership as establishing company strategy and goals with lower-level managers creating objectives to further these goals (General Electric Company, 2012), the German equivalent has additional responsibilities. In addition to supervising subordinates, German leaders encourage each other and subordinates to participate in national and regional professional bodies and trade associations, to take part in conferences, and network outside their own organisation (McCarthy, 2005). This allows these employees to serve as a representative of their company and strengthen outside relationships, whether they are with another business, a client, or the consumer public as a whole. However, it also means that their work time is divided between more than just the project tasks assigned to them. It becomes important to take these responsibilities into account when planning timelines for projects, since it is more difficult to assume that the German manager will remain as available as their American counterpart would be.

Another area in which German managers differ from American managers is the benefit that they are expected to provide to their subordinate employees. The German leadership practices study found that the ability to provide technical assistance to subordinates was seen as much more important in Germany – and managers were able to do so because they were technically qualified (McCarthy, 2005). This expertise in a given field is reflected in the way that some German managers actually exercise their management, with the same study concluding that German management is “inclined to intuit the development of their companies, based on their historically based appreciation of their individual circumstances” (McCarthy, 2005). In turn, this difference in management style shows that the responsibilities delegated to American and German managers should be reflected in the expectations assigned to each.
d. Customer Relationships

American companies generally promote their partnerships with other businesses or their customers as something that makes them unique because of the value they add (General Electric Company, 2012); however, it is common for these partnerships to change for an economic reason – such as a cheaper price found elsewhere, a more efficient supply chain addition, or a better location, taking into account that some partnerships form out of contracts as well.

In contrast, German businesses stress their commitment and involvement with their customers, with some German organisations setting targets for minimum number of customer visits required by their leaders – and not just the sales and marketing directors, but also chief executive officers (McCarthy, 2005). Some German businesses even allow their leaders to be contacted by any customer at any time via a directors’ hotline (McCarthy, 2005). Because of these strong relationships that German businesses have with their customers, any economic hardships suffered by businesses do not substantially impact these relationships at all. The loyalty of the business-customer relationship allows instead a renegotiation of terms so that both sides benefit though perhaps not as much as they could have, as referenced in the section on bottom line orientation.

e. Overall Company Organization

Though there is a general hierarchical structure that American businesses like GE follow for public companies, with the chief executives at the top and employees below in descending levels of power (General Electric Company, 2012), there is enough flexibility in the structure for even the largest of companies, like GE, to customize its own corporate structure to suit their operations (Energy Business Review, 2012). In contract, the German company organisation has
been concluded by several studies to be very mechanical and at times bureaucratic (Müller, Spang, & Ozcan, 2009). The focus of this organisational structure is on efficiency, formality, and hierarchy (Müller, Spang, & Ozcan, 2009), and these aspects are then reflected in the way that employees communicate with one another, the level and type of responsibility that is delegated to each level of management, and the resulting operational productivity. Later sections will discuss these differences in detail.

f. Job Rotation

Job rotation is generally praised by American companies, with many businesses promoting the flexibility of their company structure and job demands when recruiting new talent. Moreover, most employment agreements in America are considered employment at will (National Conference of State Legislatures, 2013), which means that both employees are free to give notice and leave at any time and employers are able to dismiss whenever the need arises. In contrast, German employees do not rotate jobs as often, but instead become highly specialized in their field and indispensable to their company. Furthermore, the German public considers it the responsibility of a business to take care of its employees for the long term and large employers generally make every effort to retain employees during times of recession (Carr & Pudelko, 2006, Meyerson, 2011). To lay off German employees has a high chance of inciting public outcry and outrage and thereby damaging the firing business’ reputation irreparably (Matthew W. Seeger, 2012), further making it unprofitable to retain other employees and exacerbating the situation until the company becomes insolvent.

Furthermore, the quality of job mobility that makes American companies so desirable for recruitment purposes would not have the same effect on German employees as it does in
America. A study on the leadership practices in Germany and the UK found that German managers tend to stay with the same organisation for longer and if they do change organisations, it is very unusual for them to change industry. This can be tied to the fact that German managers have considerable depth of expertise and knowledge about one industry and do not consider themselves a manager with transferable skills (McCarthy, 2005).

American companies like GE who are accustomed to trimming their company’s workforce depending on the demand and the benefit of retaining the employees should reconsider using this tactic in Germany. Considering the cultural employment expectations, inciting layoffs in this country’s environment has a high likelihood of being misunderstood and only damaging the acquiring company’s reputation as a desirable employer.

g. Human Resource Management

There have been some signs that German companies have moved closer towards American-style company management, and human resource management is one of the areas in which this becomes more apparent. According to one study, the most striking features that German human resource managers perceive as most attractive about the American human resource management model are performance orientation, flexibility, individuality, and mobility (Carr & Pudelko, 2006). Many German respondents have strongly expressed their desire to adopt the portion of the American human resource management model dealing with performance orientation; specifically with regards to promotion and compensation (Carr & Pudelko, 2006). This means that the system that American companies like GE already have in place to motivate employees through promotion and remuneration can potentially be transferred to the acquired German businesses as well.
However, there is a stark difference between the American business practices and the German practices of recruitment and release of personnel. According to the management convergence study referenced before, these are two areas in which Germany shows significant distance from the US (Carr & Pudelko, 2006). As discussed in previous sections, German employees have different expectations regarding the duration of their employment and the mobility of their specific position within an organisation. The use of American human resource strategies in these two areas would be ill-advised and result in adverse consequences.

h. Coaching and Mentorship

A trend that has shown significant benefit to American companies like GE is mentorship and coaching programs, which allow employees to help one another along career paths, develop and meet aspirations, and increase job satisfaction and thereby employee retention (GE Capital Solutions, 2005). However, most German businesses do not use these programs to the same extent.

The German leadership practices study analyzed the use mentorship programs in German businesses and found that though coaching relationships do exist, mentoring relationships do not (McCarthy, 2005). Furthermore, despite 61% of German respondents describing mentoring and coaching as good practice, only 43% of respondents described mentoring as usual practice at their firm and another 43% described the same scenario for coaching programs (McCarthy, 2005). An explanation for this may be that coaching is seen as something leaders are qualified to do considering their large technical expertise, while mentoring is something inherent to specific employees (McCarthy, 2005) and not a skill that employees are regularly trained in. Another study suggested that this may be the result of having a formal hierarchical structure that also
translates into formal communication between superiors and their subordinates (Adams, 1991), leaving little room for employees to engage in casual, mentor-like relationships.

Because of the discrepancy between the number of German employees who desire coaching and mentoring relationships, and the significantly smaller number of employees that actually have them, this is perhaps another area of opportunity for an American company like GE to implement its own mentorship programs with little resistance from German employees.

i. Feedback

American businesses generally use a number of feedback techniques that are useful in improving operations, superior-subordinate relationships, and collaboration on projects (Vorhauser-Smith, 2012). However, the opposite is true of German businesses. A study on the leadership practices in Germany and the UK found that though 78% of German respondents regarded it as good practice to seek feedback on their leadership performance from their employees, only 39% considered it a usual practice at their company (McCarthy, 2005). Moreover, peer reviews and full 360 degree appraisals were never mentioned by German respondents as a practice in their workplace (McCarthy, 2005), perhaps reflecting the fact that each manager is considered a specialist and would not expect other managers to be able to help him or her improve.

The study further indicated that there may be a discrepancy between how German managers see themselves and how their employees evaluate their performance. One study noted that “in general, leaders in Germany had a high opinion of their own competence while surveys found for example 74% thought their boss was incapable of leading teams, 65% felt their bosses could not think critically about themselves, and 64% couldn't express criticism to their boss”
(McCarthy, 2005). These statistics indicate that though there may be inadequate and insufficient feedback systems currently in place in the German work environment, German employees have expressed a desire for more.

Therefore, there is opportunity for growth with the change in management as an American company acquires a German business because of the need already present in German businesses for more effective feedback techniques.

j. Employee Recognition

American businesses generally consider employee recognition as a means of improving employee performance, reinforcing productivity, and motivating employees for better performance in the future (Bersin, 2012). The questions generally determined by American managers relate to establishing fair and reasonable performance measures before a project and then recognizing employees generally on an individual basis for meeting or exceeding these measures.

German businesses however are a lot more bureaucratic in their establishment of measures by which to value employees. One study found that in Germany, rules for recognition were commonly formulated by works councils (Betriebsrat) and then agreed to by the executive team, in order for awards criteria to be defined and communicated as part of a consistent and transparent approach. The works councils allow private-sector companies in Germany with at least five employees over the age of 18 to ensure compliance with laws, ordinances, and accident prevention regulations by the employees as well as with collective wage agreements and operating agreements by the employer. In some cases, the works council has "co-determination rights", which mean that employer can only make decisions with the council's approval.
(Volbracht, 2001). Another study condemned this establishment of works councils as a “wedge between managers and employees, preventing them from interacting directly” (McCarthy, 2005). However, this is a legal national establishment in Germany and not something that a foreign company like GE would be able to influence in a short amount of time.

Perhaps the more important finding in the German and UK leadership practices study is that individual recognition was a rare occurrence for German employees, with team recognition a more common practice (McCarthy, 2005). According to the study, while 68% of German employees regarded individual recognition as a good practice, only 57% felt that this was a usual occurrence in their workplace. On the subject of team recognition, 71% of Germans felt it was good practice, yet only 46% described it as usual practice in their business. And finally, though 64% of Germans regarded public praise as good practice, only 54% felt it was usual to give praise in public at their company (McCarthy, 2005). What these statistics show is that there is a large discrepancy between the recognition that employees desire and deserve in their workplace and the reality of the amount of recognition they are receiving.

In other words, this serves to highlight an opportunity for an American company to adjust German management’s training in employee recognition and thereby change the culture around praise in the German workplace. Considering the already-present desire of German employees to receive more recognition for their performance, there would be less individual employee resistance to an American company like GE implementing policy changes, so long as these changes either confirm to the standards set by the works councils or circumvent them entirely.
k. Communication

The level of formality in communication is another aspect that differs widely between American and German employees. While American businesses generally maintain a level of professionalism throughout various mediums of communication (Jacquelyn Smith, 2012), German businesses go beyond that and apply a higher level of formality to all forms of communication. One study found the German culture even valued formal, explicit agreements as a means of regulating social interactions (Adams, 1991).

The differences in communication become more apparent when evaluating common business practices across countries. For example, practices generally seen as informal interactions in America, such as “open door” policies, have sometimes been translated in German businesses to precise times and days of the week when manager doors are open (McCarthy, 2005). Furthermore, as previously discussed, the measures established to evaluate employee performance and recognize employees when they meet or exceed these standards are much created through a much more formal process in Germany, using local and national works councils to establish an awards criteria to apply to all employees.

There is a substantial difference when it comes to transparency of information as well, with the German leadership practices study noting that only 82% of German employees believed it was good practice for leaders to share business information with employees and only 79% believing it was good practice for leaders to speak directly with employees (McCarthy, 2005). It can be seen that the methods of sharing information, evaluating employees, and addressing issues vary widely between countries based on the expectations that either German or American employees set on themselves and their superiors.
I. Socializing

In most American companies, employees are encouraged to maintain good relationships with their colleagues outside of work and usually experience this in the form of company-sponsored or planned happy hours, social outings, and holiday parties (Dooley, 2013). However, the German leadership practices study found that Germans typically do not socialize with other employees outside of work. And while 61% of the German respondents regarded spending time outside work with other employees a good practice, only 18% of them described it as something they usually did (McCarthy, 2005). These statistics indicate that there is a large gap between the amount of socializing that German employees want to do and the reality of how much social interaction actually happens.

This is yet another area in which an American company acquiring the German business can institute its own social changes, with minimal resistance from German employees.

m. Work Environments

American businesses today place more emphasis on their employees’ ability to collaborate with one another to accomplish assigned projects (Murray, 2012), whether as a result of an increase in team-based projects or because of the need for employees to cooperate with both their supervisors and their subordinates to meet project deadlines and requirements.

However, the study on leadership practices in Germany found that most German workers, supervisors, and managers are selected on the basis of technical competence, and are usually left alone to do their assigned work, with considerable planning but little managerial direction or guidance after the plan has been made (McCarthy, 2005). The role of the manager then is not to create a collaborative work environment but to reconcile conflicting demands and reduce
disorder in the system (imposing Ordnung) to reduce uncertainty and postponement and move the system toward uncertainty and schedule (Littrell, 2005).

However, it is important to note that both American and German cultures have a low tolerance for uncertainty (Littrell, 2005), which indicates that businesses in both environments prefer to plan ahead for all possibilities and won’t encounter any conflict about the appropriate level of ambiguity in business.

It is important to understand the expectations that German employees place on their own domestic manager and on the foreign American manager, because any issues relating to uncertainty, delay, scheduling, and conflicts will most likely be brought to the attention of both managers as their responsibility to correct.

n. Work-Life Balance

There has been a trend in American companies promoting themselves as employers who understand the need for a health work-life balance in order to attract and retain more talented employees (CNN Money, 2012). The shift in American organisational behavior theory over time has been that a healthy balance between the amount of time devoted to work and the time devoted to life is crucial in order to have more productive and satisfied employees (Stein, 2013).

In Germany however, the emphasis has been placed instead on the negative differences in project teams found that in comparison to Swedish employees, Germans are more worried about the consequences arising from their behavior, for example, of not finishing a task by a deadline, including impact on the individual’s position, the project, and the wider organisation. This, in turn, leads German members to possess a stronger focus on delivering the project outcome exactly as planned (Müller, Spang, & Ozcan, 2009).
This is an efficiency that a foreign company like GE should take care not to take advantage of despite the apparent increase in the ability of German businesses to accomplish more in less time. Despite the ability of German employees to outperform certain other companies due to this consequence-based work ethic, people are still susceptible to being overworked, experiencing job dissatisfaction, and decreasing their own performance as a result.

IX. Opportunities for Growth

The following is a compilation of relevant recommendations on effective ways to integrate an acquired business culturally into the parent company and to maximize the likelihood of retaining that business and benefiting from it in the long run.

As recommended by the study on German leadership practices, any acquiring company that is expanding into a foreign country should 1) raise awareness of differences in teams or other environments where leaders and team members are from different countries, whether or not they are physically co-located, 2) highlight the value inherent in each approach, rather than try to force either group to adopt practices that may be alien to it, and 3) decide which practices out to be common to a merged organisation and where variation can be accepted (McCarthy, 2005).

Another study on the relationship between cultural distance, social ties, and tacit knowledge sharing in a multinational corporation concluded that companies with globally dispersed operations and a substantial portion of the workforce as engineers could improve operational yields through three recommendations: 1) encouraging support activities that promote the development of close personal relationships among engineers, 2) providing opportunities for face-to-face meetings in settings that will support the development of close personal relationships among engineers, and 3) encouraging the maintenance of these
relationships through the use of electronic mail and other electronic media as a way to reduce costs while maintaining the connections (Buzan, 2006).

A third previously referenced study on cross-cultural competitive intelligence also had two recommendations for management of employees in European companies: 1) use a skilled native speaker to talk to correspondents in another country as “even in countries like Germany, where most business respondents have a good command over English, a great deal of subtle information can be lost” (Adidam, Gajre, & Kejriwal, 2009), 2) avoid running projects in vacation periods, as 2-3 weeks before and after vacation periods are times when employees are either preparing for holidays or dealing with the backlog of assignments, and 3) avoid assuming that definitions of words across Europe are the same, as it is wrong assumption to make and definitional differences can cause confusion (Adidam, Gajre, & Kejriwal, 2009).

X. Conclusion

Through an overview of the biggest differences between corporate culture in American and German businesses, it is possible to see the areas where any change made by new management would be either welcomed or met with minimal resistance from German employees. As previously described, attempting to meet significant employee resistance to changes in their culture head on would result in unexpected and unnecessary expenses for the acquiring company as well as a general malaise between businesses, rendering the acquired company unreliable and a virtual waste of financial resources. Acquiring companies like GE should instead look toward the areas of cultural differences where minimal employee resistance exists and use them as opportunities to change management and improve the business as needed.
In conclusion, the use of these outlined recommendations, sensitivity to cross-cultural differences, and an adjusting of expectations for cross-cultural business operations will allow an American company like GE to successfully expand into the German economy. Furthermore, the GE Board of Directors, those in charge of global risk management at GE, will be provided with sufficient compensation for the risks they take in investing in traditional German businesses. Thus, the management of cross-cultural and global risk will allow GE to not only retain a German business, but profit from the wealth of unique resources acquired.
XII. Bibliography


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