

Chapter 3

Emphasizing Cultures, Ethics, & Norms

Learning Objectives

After studying this chapter, students will be able to accomplish the following objectives:

1. Explain where informal institutions come from.
2. Define culture and articulate its two main manifestations.
3. Articulate three ways to understand cultural differences.
4. Explain why understanding cultural differences is crucial for global business.
5. Explain why ethics is important.
6. Identify ways to combat corruption.
7. Identify norms associated with strategic responses when firms deal with ethical challenges.
8. Explain how you can acquire cross-cultural literacy.

Chapter Overview

Chapter 3, Emphasizing Cultures, Ethics, & Norms, focuses on the informal institutions that shape global business and the world around us. After a brief introduction to informal institutions, the chapter opens with a discussion about culture. The section begins by explaining the complexity of culture and offers the students an insight into culture by discussing two of its key facets: language and religion. Three approaches to classifying cultural differences are then discussed—the context approach, the cluster approach, and the dimension approach. Each of these provides a unique perspective on why cultures are different. Next, the chapter defines ethics and discusses how to manage ethics in other cultures. The chapter then introduces corruption and explains how bribery and other forms of corruption are controlled. Finally, the chapter defines norms and describes the four strategic responses that companies use to deal with potential ethical issues: the reactive strategy, the defensive strategy, the accommodative strategy, and the proactive strategy.

Opening Case Discussion Guide

Partying in Saudi Arabia and Xinjiang, China

Enjoying food together is part of the fun everywhere around the world. When venturing to locations far away from home, international businesspeople can often expect invitations to go to interesting parties. Two Swiss engineers, A and B, working for the French engineering giant

Alstom at a location in Saudi Arabia were told at midday that there would be a farewell dinner party after work. A tray the size of a wagon wheel containing a bed of rice with a huge piece of grilled lamb on top was set on the floor of the workshop. (Of course the floor had been cleaned earlier.) Since there were neither chairs nor utensils, colleagues just sat down on the floor around the tray and started eating—with their bare hands.

Swiss engineer A was a vegetarian. He nervously told his Swiss colleague B: “I won’t squat on the floor like that, and I won’t eat anything either.” By then everybody else already had a piece of lamb in hand. B encouraged A by saying: “Come on, let’s just sit down. You don’t have to eat lamb, but you can at least scoop up a handful of rice—it’s so yummy!” After A sat down and meat was passed around, the atmosphere became quite interesting and relaxing. The Saudi colleagues gained immense joy from entertaining A and B—an experience that A later told B that he also enjoyed.

On a trip to Xinjiang University in Xinjiang Uyghur Autonomous Region in northwest China, the author and his family were invited to a Kazakh dinner inside a Kazakh yurt (a traditional tent). On a huge tray, the main dish served was beshbarmak—meaning “five fingers” in Kazakh and a number of other Central Asian languages. By tradition, the dish was to be enjoyed with “five fingers” only. They enjoyed using their hands, but after they all had a bite and licked their fingers, the hosts graciously gave them utensils. They all had an amazing, unforgettable experience.

Lesson Plan for Lecture

Brief Outline and Suggested PowerPoint Slides

Learning Objectives	PowerPoint Slides
Learning Objectives Overview	2–3: Learning Objectives
LO1 Explain where informal institutions come from.	4: Informal Institutions
LO2 Define culture and articulate its two main manifestations.	5: Culture 6: Components of Culture
LO3 Articulate three ways to understand cultural differences.	7: Classifying Cultural Differences: Context Approach 8: Exhibit 3.1: High-Context versus Low-

	<p>Context Cultures</p> <p>9: Classifying Cultural Differences: Cluster Approach</p> <p>10: Exhibit 3.2: Cultural Clusters</p> <p>11–12: Classifying Cultural Differences: Dimension Approach</p>
<p>LO4</p> <p>Explain why understanding cultural differences is crucial for global business.</p>	<p>13–15: Understanding Cultural Differences to do Global Business</p>
<p>LO5</p> <p>Explain why ethics is important.</p>	<p>16: Ethics</p> <p>17: Views on Ethical Motivation of Firms</p> <p>18: Schools of Thought for Managing Ethics Overseas</p> <p>19: Exhibit 3.4: Managing Ethics Overseas: Three Approaches</p>
<p>LO6</p> <p>Identify ways to combat corruption.</p>	<p>20: Corruption</p> <p>21: Fighting Corruption</p>
<p>LO7</p> <p>Identify norms associated with strategic responses when firms deal with ethical challenges.</p>	<p>22: Norms</p> <p>23: Exhibit 3.6: Strategic Responses to Ethical Challenges</p>
<p>LO8</p> <p>Explain how you can acquire cross-cultural literacy.</p>	<p>24: Implications for Savvy Managers</p> <p>25: Phases in Acquisition of Cultural Intelligence</p> <p>26: Exhibit 3.7: Implications for Action</p>
<p>Key Terms</p>	<p>27–28: Key Terms</p>
<p>Summary</p>	<p>29–30: Summary</p>

Chapter Outline

LO1: Explain where informal institutions come from.

1. Key Concepts

Where do informal institutions come from? They come from socially transmitted information and are a part of the heritage that is called cultures, ethics, and norms. Informal institutions are underpinned by the normative and cognitive pillars, while formal institutions are supported by the regulatory pillar. While the regulatory pillar clearly specifies the do's and don'ts, informal institutions, by definition, are more elusive. Yet, they are no less important. Thus it is imperative that we pay attention to three different informal institutions: culture, ethics, and norms.

2. Key Term

- **Ethnocentrism:** A self-centered mentality held by a group of people who perceive their own culture, ethics, and norms as natural, rational, and morally right

3. Discussion Exercise

The importance of cultures, ethics, and norms can be illustrated by pointing out certain behaviors that are accepted in some cultures but are considered major breaches of decorum in others. For example, in Japan, chopsticks should not be kept vertically in a bowl of rice since it is a funerary rite. If there are any international students in the course, the instructor may want to invite them (with cultural sensitivity, of course) to share their observations on the differences between the United States and their native country. The weight of cultural differences can also be examined through a discussion of the “Ugly American,” an appellation that is used in other countries to imply what is perceived to be the stereotypical, loud, ethnocentric, and arrogant behavior of Americans when abroad. How do cultural differences between the United States and other countries fuel such stereotypical images?

LO2: Define culture and articulate its two main manifestations.

1. Key Concepts

Although hundreds of definitions of culture have appeared, the text uses the definition proposed by the world's foremost cross-cultural expert, Geert Hofstede, a Dutch professor. He defines culture as “the collective programming of the mind which distinguishes the members of one group or category of people from another.” Before proceeding, it is important to make two points to minimize confusion. First, although it is customary to talk about the American culture, no strict one-to-one correspondence between cultures and nation-states exists. Second, culture has many layers, such as regional, ethnic, and religious. Culture is made up of numerous elements. The two major components of culture that impact

global business are language and religion.

2. Key Terms

- **Culture:** The collective programming of the mind that distinguishes the members of one group or category of people from another
- **Lingua franca:** A global business language

3. Discussion Exercise

This section identifies two major components of culture that are critical for successful global business—language and religion. Keeping in mind the definition of culture, first, ask the students to identify other components of culture such as cuisine, dress, or rituals. Then, have the entire class reflect on how these components affect a business's activities. How would a firm market a certain product to a culture that is deeply rooted in its traditions? For example, how would one's business take advantage of the differences in eating habits or fashion choices?

LO3: Articulate three ways to understand cultural differences.

1. Key Concepts

This section outlines three ways to understand cultural differences: (1) the context approach, (2) the cluster approach, and (3) the dimension approach. While both the context and cluster approaches are interesting, the dimension approach is more influential. The reasons for such influence are probably twofold. First, insightful as the context approach is, it represents only one dimension. Second, the cluster approach has relatively little to offer regarding differences of countries within one cluster. By focusing on multiple dimensions of cultural differences both within and across clusters, the dimension approach aims to overcome these limitations.

2. Key Terms

- **Civilization:** The highest cultural grouping of people and the broadest level of cultural identity people have
- **Cluster:** A group of countries that have similar cultures
- **Collectivism:** The idea that an individual's identity is fundamentally tied to the identity of his or her collective group
- **Context:** The background against which interaction takes place
- **Femininity:** A relatively weak form of societal-level sex-role differentiation whereby

more women occupy positions that reward assertiveness and more men work in caring professions

- **High-context culture:** A culture in which communication relies heavily on the underlying unspoken conditions or assumptions, which are as important as the words used
- **Individualism:** The idea that the identity of an individual is fundamentally his or her own
- **Long-term orientation:** A perspective that emphasizes perseverance and savings for future betterment
- **Low-context culture:** A culture in which communication is usually taken at face value without much reliance on unspoken conditions or assumptions
- **Masculinity:** A relatively strong form of societal-level sex-role differentiation whereby men tend to have occupations that reward assertiveness and women tend to work in caring professions
- **Power distance:** The extent to which less powerful members within a culture expect and accept that power is distributed unequally
- **Uncertainty avoidance:** The extent to which members of a culture accept or avoid ambiguous situations and uncertainty

3. Discussion Exercise

The Hofstede Dimensions of Culture (Exhibit 3.3, page 40) depicts the cultural characteristics of a region or country corresponding to a number of criteria. Divide the class into groups, and assign each group a particular country as shown in the exhibit. Each group should then create a set of guidelines for a business's code of conduct that is appropriate for its assigned culture. Next, assign each group a second culture, and ask them to outline the changes in the business's policy or philosophy that would be necessary given the differences between the cultures.

LO4: Explain why understanding cultural differences is crucial for global business.

1. Key Concepts

A great deal of global business activity is consistent with the context, cluster, and dimension approaches to cultural differences. Overall, there is strong evidence for the importance of culture. Sensitivity to cultural differences does not guarantee success but can at least avoid blunders.

LO5: Explain why ethics is important.

1. Key Concepts

Ethics refers to the principles, standards, and norms of conduct that govern individual and firm behavior. Ethics is not only an important part of informal institutions, but is also deeply reflected in formal laws and regulations. To the extent that laws reflect a society's minimum standards of conduct, there is a substantial overlap between what is ethical and legal as well as between what is unethical and illegal. However, in some cases, what is legal may be unethical. Recent scandals have pushed ethics to the forefront of global business discussions. Numerous firms have introduced a code of conduct—a set of guidelines for making ethical decisions. But firms' ethical motivations are still subject to debate. Three views have emerged:

- A negative view suggests that firms may simply jump onto the ethics bandwagon under social pressure to appear more legitimate without necessarily becoming better.
- A positive view maintains that some (although not all) firms may be self-motivated to do it right regardless of social pressure.
- An instrumental view believes that good ethics may simply be a useful instrument to help make money.

Managing ethics overseas is challenging because what is ethical in one country may be unethical elsewhere. There are two schools of thought. First, ethical relativism follows the cliché, "When in Rome, do as the Romans do." Second, ethical imperialism refers to the absolute belief that "There is only one set of Ethics (with a capital E), and we have it."

2. Key Terms

- **Ethics:** The principles, standards, and norms of conduct that govern individual and firm behavior
- **Code of conduct:** A set of guidelines for making ethical decisions
- **Ethical imperialism:** The absolute belief that "There is only one set of Ethics (with a capital E), and we have it."
- **Ethical relativism:** A perspective that suggests that all ethical standards are relative

LO6: Identify ways to combat corruption.

1. Key Concepts

Ethics helps to combat corruption, often defined as the abuse of public power for private benefits usually in the form of bribery, in cash or in kind. Competition should be based on products and services, but corruption distorts that basis, causing misallocation of resources and slowing economic development. In the global fight against corruption, the Foreign

Corrupt Practices Act (FCPA) was enacted by the US Congress in 1977. It bans bribery of foreign officials. Many US firms complain that the act has unfairly restricted them. If every country criminalizes bribery and every firm resists corruption, their combined power will eradicate it. But this will not happen unless FCPA-type legislation is institutionalized and enforced in every country.

2. Key Term

- **Corruption:** The abuse of public power for private benefits, usually in the form of bribery

3. Discussion Exercise

As mentioned at the close of this section, corruption and bribery will not be eliminated until every country criminalizes such actions and enforces anti-corruption legislation strictly. Though there have been some broad-level agreements on anti-corruption laws, the reality is that corruption and bribery are still rampant in many countries because these countries lack articulate, effective legislation or enforcement of such legislation.

Imagine that you are the CEO of a firm that is about to enter into a foreign country. While this country has passed anti-corruption laws, the lack of enforcement of this legislation is notorious. It is a well-known fact in the business community that bribery is both accepted and required to attain any measurable success. How would you guide your firm through this situation? Would you engage in an action that you consider unethical but others consider ethical? Would you impose your own ethical standards and avoid bribery at all costs? Would you press government officials to enforce anti-corruption laws that are already in the books?

LO7: Identify norms associated with strategic responses when firms deal with ethical challenges.

1. Key Concepts

As an important informal institution, norms are the prevailing practices of relevant players—the proverbial “everybody else”—that affect the focal individuals and firms. How firms strategically respond to ethical challenges is often driven, at least in part, by norms. Shown in Exhibit 3.6, four broad strategic responses are (1) reactive strategy, (2) defensive strategy, (3) accommodative strategy, and (4) proactive strategy.

2. Key Terms

- **Accommodative strategy:** A response to an ethical challenge that involves accepting responsibility
- **Defensive strategy:** A response to an ethical challenge that focuses on regulatory compliance
- **Norm:** The prevailing practices of relevant players that affect the focal individuals and firms
- **Proactive strategy:** A strategy that anticipates ethical challenges and addresses them before they happen
- **Reactive strategy:** A response to an ethical challenge that often involves denial and belated action to correct problems

3. Discussion Exercise

On September 16, 2008, insurance giant AIG (American International Group) received an \$85 billion bailout package from the United States Federal Reserve to meet its financial obligations and maintain liquidity. The support package was increased to an estimated \$182.5 billion by May of 2009. After the first bailout plan, it was discovered that AIG spent \$444,000 on a retreat for its employees and distributors, \$86,000 on an executive hunting trip, and \$343,000 on a corporate event in Arizona. In March 2009, AIG announced that it would pay \$165 million in bonuses, in spite of its historic losses and dependence on government intervention. All of this was legal of course, but was roundly criticized as unethical usage of taxpayers' dollars.

What was the ethical strategy that AIG took with respect to company expenditures and the payment of bonuses? In your opinion, what strategy should they have taken? Can you think of a way in which AIG could have paid the bonuses while also maintaining a positive ethical reputation? Would you have approved AIG's spending on these recreational events and bonuses? Give an explanation for your answer.

LO8: Explain how you can acquire cross-cultural literacy.

1. Key Concepts

The institution-based view argues that firm performance is determined, at least in part, by the informal cultures, ethics, and norms governing firm behavior. This emphasis on informal institutions suggests two broad implications for savvy managers around the globe. First, managers should enhance their cultural intelligence, defined as an individual's ability to understand and adjust to new cultures. Acquisition of cultural intelligence passes through three phases: (1) awareness, (2) knowledge, and (3) skills. While skills can be taught in a classroom, the most effective way to learn them is total immersion in a foreign culture.

Savvy managers should also be aware of the prevailing norms and their transitions globally. This is not to suggest that every local norm needs to be followed. Failing to understand the changing norms or adapting to them in an insensitive and unethical way may lead to unsatisfactory or disastrous results.

2. Key Term

- **Cultural intelligence:** An individual's ability to understand and adjust to new cultures

3. Discussion Exercise

The chapter's final section emphasizes two broad implications for savvy managers around the world. First, managers should enhance their cultural intelligence. Savvy managers should also be aware of the existing norms and their transitions globally. Divide the students into groups of 5–6 members each. Have each group choose a company that they think could do better if it were to be run by savvy managers. Ask them to discuss this in the group.

Debate: Ethical Dilemma/Emerging Markets

Criticizing Hofstede's Framework

1. Key Concepts

Despite the influence of Hofstede's framework, debate continues to rage. Criticisms include:

- Cultural boundaries are not the same as national boundaries.
- Being more familiar with Western cultures, Hofstede might inevitably be more familiar with dimensions relevant to Westerners. Thus, crucial dimensions relevant to Easterners (Asians) could be missed.
- Hofstede's research was based on surveys of more than 116,000 IBM employees working at 72 national subsidiaries from 1967 to 1973. However, because of such a single firm or single industry design, it was possible that Hofstede's findings captured what was unique to that industry or to IBM. Given anti-American sentiments in some countries, some individuals might refuse to work for an American employer. Thus, it was difficult to ascertain whether employees working for IBM were true representatives of their respective national cultures.
- Because the original data are now over 40 years old, critics contend that Hofstede's framework would simply fail to capture aspects of recent cultural change

Hofstede responded to all four criticisms. Most results were supportive of his findings.

Overall, while Hofstede's work is not perfect, on balance, its values seem to outweigh its drawbacks.

Closing Case Discussion Guide

Monetizing the Maasai Tribal Name

Living in Kenya and Tanzania, the Maasai, with their recognizable red attire, represent one of the most iconic tribes in Africa. Known as fierce warriors, the Maasai have won the respect of rival tribes, colonial authorities, and modern governments of Kenya and Tanzania. Together with lions, giraffes, and zebras, a Maasai village is among the “must-see” places for a typical African safari trip.

Experts estimate that perhaps 10,000 firms around the world use the Maasai name, selling everything from hats to legal services. While these firms made millions, neither a single Maasai individual nor the tribe ever received a penny from the companies using their name. This has caused a huge ethical and legal debate to erupt. Legally, the Maasai case is weak. The tribe has never made any formal effort to enforce intellectual property rights (IPR) of its culture and identity.

Although steeped in tradition, the Maasai are also constantly in touch with the modern world. Their frequent interactions with tourists have made them aware of how much value there is in the Maasai name. But they are frustrated by their lack of knowledge about the rules of the game concerning IPR. Fortunately, they have the help of Ron Layton, a New Zealander and former diplomat who now runs nonprofit Light Years IP, which advises groups in the developing world such as the Maasai. Layton previously helped the Ethiopian government wage a legal battle with Starbucks, which marketed Harrar, Sidamo, and Yirgacheffe coffee lines from different regions of Ethiopia without compensation.

Emboldened by the success in fighting Starbucks, Layton worked with Maasai elders such as Issac ole Tialolo to establish a nonprofit registered in Tanzania called Maasai Intellectual Property Initiative (MIPI). Together, they crafted MIPI bylaws that reflected traditional Maasai cultural values while satisfying the requirements of Western courts—in preparation for an eventual legal showdown. Layton himself made no money from MIPI—his only income was the salary from his own nonprofit Light Years IP. A \$1.25 million grant from the US Patent and Trademark Office (USPTO) helped to defray some of the expenses. The challenge now is to have more tribal leaders and elders sign up with MIPI so that it comes to be viewed both externally and internally as the legitimate representative of the Maasai tribe. How the tribe can monetize its name remains to be seen.

Video Case

Watch “Communicating Across Cultures” by Sir David Bell of Pearson.

1. Bell gave an example in which a group of people were offended when they were told that what they did was “quite good.” Why were they offended and what was his point?

He contrasted “American English” and “British English” in the use of the word “quite.” He said, in the United States, “quite good” means “very good” but in the United Kingdom, “quite good” means “awful.” Even when two people share the same language, the use of the language can be different if it involves people from different countries and it is important to be alert to those differences.

2. What did Bell’s example of the pantomime illustrate? Can you think of forms of verbal or nonverbal communication in your country that could be misunderstood by people from other parts of the world?

The pantomime was intended to train new employees from the United States, but it involved an old custom followed in England that was much different from that followed in the United States. There were some comments that were not politically correct. As a result, the pantomime was less effective than it might otherwise have been. Students’ examples will vary.

3. One of Bell’s objectives is to have people from various countries feel that they are all part of the same company and to value the same things. To what extent would that help overcome communication barriers among different cultures?

Students’ opinions will vary. Some will agree but will point out the challenge of accomplishing that objective. The key thing is the thought put into the response.

4. Bell indicated that one approach to improving cross-cultural communication is to periodically shift people around so that they are exposed to different parts of an organization and the world. What are the limitations and opportunities? Do you think technology could help in shifting people as he suggests?

Students’ opinions will vary. Answers should reflect the thought that people in this work environment need to be encouraged to keep an open mind, to be sensitive to others, and to approach the global workplace with a focus on learning. The key thing is the thought put into the response.

Additional Discussion Material

(From Prep Cards)

Critical Discussion Questions

1. Suppose that you are on a plane and the passenger sitting next to you tries to have a conversation with you. You would like to be nice but don't want to disclose too much information about yourself (such as your name). He or she asks: "What do you do?" How would you answer this question?

Students' answers will vary. The students may suggest being vague or ambiguous about their profession, or they may deflect the conversation by pleasantly saying that they would rather not talk about it.

2. **On Ethics:** Assume that you work for a New Zealand company exporting a container of kiwis to Azerbaijan or Haiti. The customs official informs you that there is a delay in clearing your container through customs, and it may take a month. However, if you are willing to pay an "expediting fee" of US \$200, he will try to make it happen in one day. What would you do?

Students' answers will vary. It should be noted that there was an amendment to the Foreign Corrupt Practices Act (FCPA), which deals with so-called "grease payments." In essence, in such a case, it would be legal to pay the official to do his or her job, but it would not be legal to pay the official to let something into the country that is prohibited or has a lower valuation than the standards set by the country. However, in some cases, what is legal may be unethical, and thus, students may have different opinions.

3. **On Ethics:** Most developed economies have some illegal immigrants. The United States has the largest number with between 10 and 11 million. Without legal US identification (ID) documents, they cannot open bank accounts or buy houses. Many US firms have targeted this population, accepting the ID issued by their native countries and selling them products and services. Some Americans are furious with these business practices. Other Americans suggest that illegal immigrants represent a growth engine in an economy with relatively little growth elsewhere. How would you participate in this debate?

Students' answers will vary. The students who favor illegal immigrants will probably argue that America has always welcomed foreigners and that these immigrants are often willing to do jobs, which are typically low-paying and labor-intensive, that many Americans are unwilling to perform. The students who disapprove of illegal immigrants will probably argue that these immigrants are taking away job opportunities from tax-paying citizens and

using their government-sponsored resources (such as police protection, fire protection, and emergency healthcare) for which they have not contributed via payment of taxes.

Review Questions

1. Where do informal institutions come from?

Informal institutions come from socially transmitted information and are part of the heritage that is called cultures, ethics, and norms.

2. What is the difference between a low-context culture and a high-context culture?

In high-context cultures, communication relies heavily on unspoken conditions or assumptions, which are as important as the words used. In low-context cultures, communication is usually taken at face value without much reliance on unspoken conditions or assumptions, which are features of context.

3. Describe the three systems for classifying cultures by clusters.

The first is the Ronen and Shenkar clusters, proposed by management professors Simcha Ronen and Oded Shenkar. Brazil, India, Israel, and Japan are classified as independents. The second set of clusters is called the GLOBE cluster, named after the Global Leadership and Organizational Behavior Effectiveness project led by management professor Robert House. The GLOBE project identifies 10 clusters and covers 62 countries. The third set of clusters is the Huntington civilizations, popularized by political scientist Samuel Huntington. Huntington divides the world into eight civilizations.

4. Describe the differences among the five dimensions of Hofstede's framework.

The differences among the five dimensions of Hofstede's framework are as given below.

- Power distance is the extent to which less powerful members within a culture expect and accept that power is distributed unequally.
- Individualism refers to the idea that an individual's identity is fundamentally his or her own, whereas collectivism refers to the idea that an individual's identity is fundamentally tied to the identity of his or her collective group, be it a family, a village, or a company.
- Masculinity is a relatively strong form of societal-level sex-role differentiation, whereby men tend to have occupations that reward assertiveness and women tend to work in caring professions. Femininity is a relatively weak form of societal-level sex-role differentiation, whereby more women occupy positions that reward assertiveness

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and more men work in caring professions.

- Uncertainty avoidance refers to the extent to which members of a culture accept or avoid ambiguous situations and uncertainty. Members of high uncertainty avoidance cultures (led by Greece) place a premium on job security and retirement benefits. They also tend to resist change, which often creates uncertainty. Low uncertainty avoidance cultures (led by Singapore) are characterized by a greater willingness to take risks and less resistance to change.
- Long-term orientation emphasizes perseverance and savings for future betterment. On the other hand, members of short-term orientation societies (led by Pakistan) prefer quick results and instant gratification.

5. What is the difference between ethical relativism and ethical imperialism?

Ethical relativism follows the cliché, “When in Rome, do as the Romans do.”

Ethical imperialism refers to the absolute belief that “There is only one set of Ethics (with a capital E), and we have it.”

6. How would you define corruption in a business setting?

Corruption is often defined as the abuse of public power for private benefits usually in the form of bribery, in cash, or in kind.