

PART TWO

COMPARATIVE ENVIRONMENTAL FRAMEWORKS

CHAPTER 2

THE CULTURAL ENVIRONMENTS FACING BUSINESS

OBJECTIVES

- 2-1 Explain why culture, especially national culture, is important in IB, but tricky to assess
- 2-2 Grasp the major causes of national cultural formation and change
- 2-3 Discuss major behavioral factors influencing countries' business practices
- 2-4 Recognize the complexities of cross-cultural communications
- 2-5 Analyze guidelines for cultural adjustment

CHAPTER OVERVIEW

When companies source, manufacture, and/or market products in foreign countries, they encounter fascinating and often challenging cultural environments. Chapter Two examines the dynamics of culture and its effect upon international business operations and strategy. Culture and business practices are ever changing and these shifting trends are incorporated in the cases and examples. While exploring the causes of cultural differences, rigidities, and changes, it focuses upon the impact of cultural traditions on business activities, as well as the mutually satisfactory reconciliation of cultural differences. The chapter concludes with a discussion of the ways in which firms can potentially maximize their effectiveness while operating in a world of complex and dynamic cultural diversities.

CHAPTER OUTLINE

OPENING CASE: SAUDI ARABIA'S DYNAMIC CULTURE: THE JAVA LOUNGE—ADJUSTING TO SAUDI ARABIAN CULTURE [see Map 2.1.]

This case provides a striking example of the challenges presented to foreign firms by a pervasive, theocratic, national culture. It shows why companies have had mixed success in Saudi Arabia, a modern yet ancient society grounded in Islamic law, religious convictions, and behavioral traditions. In particular, the case highlights the example of the Java Lounge, a new, up-scale Jeddah restaurant that serves an affluent niche of Saudi consumers. Further, it describes ways in which a variety of foreign firms have adjusted their products, facilities, and operating strategies in order to meet government requirements and yet satisfy the Saudi consumer. It points out numerous paradoxes one may encounter regarding Saudi legal sanctions, purchasing patterns, and attitudes toward work. A key point to make when discussing the case is that even in this very rigid culture, things are changing. For example, a 2008 royal decree allows men and

women to mix in the workplace. Although this has not had a dramatic impact in practices, it is the beginning of a potentially more open environment. The case concludes by noting some of the opportunities that exist in Saudi Arabia—either because of or in spite of the contrasts and contradictions found there.

Questions

- 2.1 *Assume you are a manager in a multinational company that needs to send a team of three to five people to Saudi Arabia for about two weeks to investigate the feasibility of selling your products there. What advice would you give them to help assure that cultural problems do not impede their success in this task?*

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- 2.2 *Assume your company is from North America or Europe and considering the establishment of an office in Saudi Arabia. What additional operating costs might it have to assume because of the Saudi culture?*

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TEACHING TIPS: Carefully review the PowerPoint slides for Chapter Two. An additional source of information on Saudi culture, as well as other cultures, can be found at www.executiveplanet.com.

I. CULTURE'S IMPORTANCE IN IB AND TRICKINESS TO ASSESS

Culture refers to the shared values, attitudes, and beliefs of a group of individuals. Often, people simultaneously belong to different groups representing different cultures and/or subcultures. Further, every business function is subject to cultural influences. **Cultural diversity** means bringing together people of different backgrounds, perspectives, and experience. Thus, major problems of **cultural collision** are likely to occur if a firm implements practices that are less effective than intended and/or employees are unable to accept or adjust to foreign customs. Thus, it is vital that firms determine which business practices vary in a foreign country and what adjustments, if any, are necessary. At the same time, cultural diversity can be a source of competitive advantage for global firms. [see Fig. 2.1.]

Culture is an elusive topic to study, partly because people belong to multiple cultures based on their nationality, ethnicity, religion, gender, work organization, profession, age, and

income level. Companies' need to understand and be sensitive to the culture where they operate.

A. National Cultures as a Point of Reference

The idea of a "nation" provides a workable definition of a "culture" because (1) similarity among people is a cause and an effect of national boundaries and (2) it is a reference people make to "we" versus "they". National identity is perpetuated through rites, symbols, and respect for national heroes, while the preservation of national sites, documents, monuments, and museums promotes a common perception of "we." Despite using the nation as a cultural reference point, not everyone therein shares the same values and attitudes. In addition, nations include various subcultures, and a nation must be flexible enough to accommodate and mediate its diversity. At the same time, some people have internalized more than one culture because of having dual or multiple citizenships, parents or spouses from another country, or lived abroad at an impressionable age.

B. The People Factor

As nationalities come together through projects and teams, their diverse perspectives and experiences often enable businesses to gain a deeper knowledge of how to create and deliver products and services. **Cultural diversity** can be a competitive advantage, but successful cultivation of diversity is difficult because individuals may interact as they do within their own cultures.

When contact among divergent cultures creates problems, the situation is known as a **cultural collision**. Such collision may result in a company's implementation of practices that are less effective than intended and to its employees' distress because of difficulty in adjusting to behaviors abroad.

C. Building Cultural Awareness

Although people agree that cross-cultural differences do exist, they often disagree on their impact. Are they widespread or exceptional? Are they deep-seated or superficial? Are they easily discerned or difficult to perceive? It is vital that managers develop an acute awareness of all those cultures in which they operate. Cultural variables include daily routines and rules, codes of social relations, language, emotive expression, and concepts of luck. In addition, not only are there differences that distinguish various cultures, there is also a good deal of variation found within cultures. No foolproof method exists for building cultural awareness. Although research on another culture can be instructive, one must assess information carefully to determine if it perpetuates unwarranted stereotypes, covers only limited segments of a country's culture, or is obsolete. One should also observe the behavior of those people who have garnered the kind of respect and confidence they themselves will need.

Another caution should be sounded when relying on cultural studies. First, comparing countries based upon what people say may be risky. Second, a focus on differences in terms of averages may overlook specific variations within countries. Third, current cultural attitudes may change in the future.

II. INFLUENCES ON CULTURAL FORMATION AND CHANGE

A. Sources of Change

Culture is transmitted in a variety of ways, but psychologists believe that children have their basic value systems firmly in place. Nonetheless, individual and societal values and customs constantly evolve in response to changing economic and social realities. Cultural change can be brought about by choice or imposition; change that is brought about by imposition is known as **cultural imperialism**. The introduction of certain elements of an outside culture may be referred to as *creolization*, or *cultural diffusion*.

B. Language as Both a Diffuser and Stabilizer of Culture

While a common language within a country serves as a unifying force, language diversity may undermine a firm's ability to conduct business, to integrate workforces, and to market products on a national level. Isolation from other groups, especially because of language, tends to stabilize cultures. Because some countries see language as such an integral part of their cultures, they may regulate the inclusion of foreign words and/or mandate the use of the country's official language for business purposes. [see Map 2.2]

C. Religion as a Cultural Stabilizer

Religion can be a strong shaper of values and beliefs and is a major source of both cultural imperatives and taboos. Buddhism, Christianity, Hinduism, Islam, and Judaism represent just some of the religions whose specific beliefs may affect business practices. Still in all, not all nations that practice the same basic religion place identical constraints on business. In addition, violence among religious groups can damage property and disrupt business activities for both home and host country firms. [see Map 2.3.]

III. MAJOR BEHAVIORAL PRACTICES AFFECTING BUSINESS

Cultural attitudes and values affect business practices – everything from decisions about what products to sell to decisions about organizing, financing, managing, and controlling operations. Some of the more important aspects of culture are mentioned below.

A. Issues in Social Stratification

Every culture ranks people. Such social stratification creates hierarchies and influences a person's class, status, and financial rewards within that culture. Because societies value group affiliations differently, business practices differ among countries. There are many ways to classify people's group memberships:

1. Ascribed and Acquired Membership

Those usually determined by birth are ascribed group memberships, including gender, family, age, caste, and ethnic, racial, or national origin. Acquired group memberships include those based on religion, political affiliation, educational place and achievement, and profession.

2. Ethnic and Racial Groups

Country-by-country attitudes vary also toward race and ethnicity. Malaysia, for example, defines political parties and employment quotas explicitly by three ethnic groups—Malays, Chinese, and Indians. The employment quotas are primarily to upgrade the economic position of Malays because the Chinese and Indian minorities long dominated business ownership and the professions, respectively.

3. Gender-Based Groups. Strong country-specific differences exist in attitudes toward the roles of males and females in society and the workplace, as well as the types of jobs regarded as “male” or “female.” However, in some parts of the

world, barriers to employment based on gender are easing. In addition, as the composition of jobs becomes less physical and more creative and/or technical, the relative demand for female employees is also increasing.

4. **Age-Based Groups.** Many cultures assume that age and wisdom are correlated; thus, they often have a seniority-based system of advancement. In others, there is an emphasis on youth, particularly in the realm of marketing. Often there is a mandatory retirement age in business, but not in politics. Clearly, firms must consider reference groups when deciding whom to hire and how best to promote their products.
5. **Family-Based Groups.** In some societies, family membership is more important than individual achievement. Where there is low trust outside the family, such as in China and southern Italy, small family-run companies are generally quite successful, but they often have difficulty expanding beyond the family. In addition, such allegiances may impede the economic development of a nation if large-scale operations are necessary to compete globally.

B. Work Motivation

Employees who are motivated to work long and hard are generally more productive than those who are not. On an aggregate basis, this will have a positive effect on economic development and national competitiveness.

1. **Materialism and Motivation.** Countries differ in their degree of materialism. In some societies, such as Japan and the United States, people desire less leisure time than others, such as much of Europe. Sociologist Max Weber claimed that predominantly Protestant Western economies were the most economically developed because of their emphasis on hard work and investment. This view of work as a path to salvation (an outgrowth of the Reformation) is known as the “Protestant ethic.” In rural India, however, where minimal material achievement is a desirable end in itself, any added productivity will likely be taken in the form of leisure, rather than income. In still other countries, leaders stress the need for a culture that combines material comforts with spirituality. An interesting OECD study of the trade-off between productivity and leisure points out the disparity even among high-income countries. Even with this disparity, most people in most countries see economic advancement as an important life goal.
2. **Productivity/Leisure Trade-Off.** Some cultures place less value on leisure time. This can impact many social and employment aspects, such as vacations, holidays, and the amount of money spent on leisure activities.
3. **Expectation of Success and Reward.** Although the same tasks performed in different countries will have different probabilities of success, different rewards for success, and different consequences for failure, people will usually work harder at any task when the reward for success is greater than the consequence of failure. The greatest enthusiasm for work exists when high uncertainty of success is combined with the likelihood of a very positive reward for success and little or none for failure.
4. **Performance and Achievement: The Masculinity-Femininity Index.** The masculinity–femininity index measures attitudes toward achievement. A high-masculinity score indicates a preference for “live to work,” whereas a high-

femininity score indicates a preference for “work to live.” This index may help explain national differences in behaviors.

5. **Hierarchies of Needs.** Maslow’s **hierarchy of needs** states that people will try to fulfill lower-order physiological needs before satisfying (in order) their security, affiliation, esteem, and self-actualization needs. This theory can be especially helpful for differentiating the reward preferences of employees in different countries, who may likely rank some of their higher-order needs differently. An example of these differences can be discussed using the ethnographic study comparing the U.S, the Dominican Republic, and Barbados.

C. Relationship Preferences

Within social stratification systems, not every member of a reference group is necessarily equal. In addition, there may be strong or weak pressures for group conformity. Such national differences in norms influence both effective management styles and marketing behavior.

1. **Power Distance.** **Power distance** is a measurement of employee preferences of interaction between superiors and subordinates. With high power distance, people prefer little consultation between bosses and subordinates. They also prefer management styles that are either autocratic (ruling with unlimited authority) or paternalistic (regulating subordinate conduct by supplying their needs). With low power distance, they prefer “consultative” styles.
2. **Individualism versus Collectivism.** High **individualism** describes a preference to fulfill leisure time, build friendships, and improve skills independently of the organization. People with high individualism also prefer to receive direct monetary compensation as opposed to fringe benefits, and they prefer to engage in personal decision-making and on-the-job challenges. High **collectivism**, in contrast, typifies an employee’s penchant for dependence on the organization through training, satisfactory workplace conditions, and good benefits. For example, the United States is a highly individualist country, and employees socialize less with close work colleagues outside of work than employees do in more collectivist societies. In countries with high individualism, a self-actualization opportunity is a prime motivator because employees want challenges. In those with high collectivism, fulfilling security needs is a prime motivator.

D. Risk-Taking Behavior

Nationalities differ in their attitudes toward *risk-taking*, i.e., how willingly people accept things the way they are and how great their need for control of their destinies.

1. **Uncertainty Avoidance.** Uncertainty avoidance describes a trait of being uncomfortable with ambiguity. Where this trait is strong, most employees prefer to follow set rules even if they believe that breaking them may be in the company’s best interests. They also tend to stay with current employers for a long time, preferring the certainty of present positions over the uncertainty of their future elsewhere.
2. **Trust.** Trust represents one’s belief in the reliability and honesty of another. Where trust is high, there tends to be a lower cost of doing business because managers devote less time to investigation and oversight and more to innovation and investment. (While Norwegians tend to exhibit a high degree of trust, Brazilians tend to be skeptical.)
3. **Future Orientation.** Individuals who tend to live for the present as opposed to for the future see risks in delaying gratification and investing for the future. Where

future orientation is higher, workers will more likely be motivated by types of delayed compensation, such as retirement programs. (While a future orientation tends to be higher in Canada, the Netherlands, and Switzerland, it tends to be lower in Italy, Poland, and Russia.)

4. **Fatalism.** Fatalism represents the belief that life is predestined, that every event is inevitable, that occurrences represent “the will of God.” Unlike those who believe strongly in self-determination and basic cause-and-effect relationships, fatalists are not likely to plan for contingencies or take responsibility for performance. Thus they are less swayed by persuasive logic than by personal relationships.

E. Information and Task Processing

People from different cultures obtain, perceive, and process information in different ways; thus, they may also reach different conclusions.

1. **Perception of Cues.** People perceive cues selectively. They identify things by means of their senses (sight, smell, touch, taste, and sound) and in various ways within each sense. The particular cues used will vary both for physiological and cultural reasons (e.g., differences in eye pigmentation enable some to distinguish colors better than others; the richer and more precise a language, the better one’s ability to express subtleties).
2. **Obtaining Information: Low-Context versus High-Context Cultures.** Language represents a culture’s primary means of communication. In a **low-context culture**, people rely on explicit, first-hand information that bears directly on a decision or situation; people say what they mean and mean what they say. In a **high-context culture**, people rely on implicit, peripheral information and infer meaning from things communicated indirectly; relationships are very important; (e.g., while the United States and most of northern Europe are considered to be low-context cultures, most countries in southern Europe are considered to be high-context cultures).
3. **Information Processing.** All cultures categorize, plan, and quantify, but the ordering and classification systems used often vary. To perform efficiently and work amicably in a foreign environment, you need to understand such differences in processing systems. Further, different processing systems create challenges in sharing global data.
4. **Monochronic Versus Polychronic Cultures.** In **monochronic** cultures (e.g., northern Europeans) people prefer to work sequentially, but in **polychronic** cultures (e.g., southern Europeans) people are more comfortable working on multiple tasks at one time.
5. **Idealism Versus Pragmatism.** In some cultures people focus first on the whole and then on the parts; similarly, some cultures will determine principles before they try to resolve small issues (**idealism**), whereas other cultures will focus more on details rather than principles (**pragmatism**).

IV. PROBLEMS IN COMMUNICATING ACROSS CULTURES

Communication problems may arise when moving from one country to another, even though both countries share the same official language. Of course, problems also arise when moving from one language to another.

- A. **Translation of Spoken and Written Language.** Translating one language into another can be very difficult because (a) some words do not have a precise translation, (b) the common meaning of words is constantly evolving, (c) words may mean different things in different contexts, and (d) a slight misuse of vocabulary or word placement may change meanings substantially. Further, while jokes and laughter have universal appeal, much humor does not. Therefore, words must be chosen very carefully, because poor translations may have tragic consequences. [see Table 2.1.]
- B. **Silent Language.** **Silent language** incorporates the wide variety of nonverbal cues through which messages are sent—intentionally or unintentionally. Color associations, the **distance** between people during conversations, the perception of **time and punctuality**, a person’s perceived **prestige**, and kinesics or **body language** are all very significant. Misunderstandings in any of these areas can be serious.

V. GUIDELINES FOR CULTURAL ADJUSTMENT

Once a company identifies cultural differences in the foreign countries in which it operates, must it alter its customary practices? Can individuals overcome adjustment problems when working abroad?

A. Host Society Acceptance

If products and operations do not run counter to deep-seated attitudes, or if the host country is willing to accept foreign customs as a trade-off for other advantages, significant adjustments may not be required.

B. Degree of Cultural Differences

Cultural distance represents the degree of similarity between two societies. Countries may be relatively similar to one another because they share the same language, religion, geographical location, ethnicity, and/or level of economic development. Generally, a firm should have to make fewer adjustments when moving within a culturally similar cluster than when it moves from one distinct cultural cluster to another. Nonetheless, a manager must not assume that seemingly similar countries are more alike than they really are and be lulled into a complacency that overlooks critical subtleties. [see Map 2.4.] This caution against assumptions can be seen in specific business interactions. Cultural friction can be explained using the Disney example.

C. Ability to Adjust: Culture Shock

Culture shock represents the trauma one experiences in a new and different culture because of having to learn to cope with a vast array of new cues and expectations.

Reverse culture shock occurs when people return home, having accepted the culture encountered abroad and discovering that things at home have changed during their absence.

D. Company and Management Orientations

Whether and to what extent a firm and its managers adapt to foreign cultures depends not only on the conditions within those cultures but also on the policies of the company and the attitudes of its managers.

1. **Polycentrism.** Polycentrism represents a managerial approach in which foreign operations are granted a significant degree of autonomy, in order to be responsive to the uniqueness of local cultures and other conditions.

2. **Ethnocentrism.** Ethnocentrism represents a belief that one's own culture is superior to others, and that what works at home should work abroad. Excessive *ethnocentrism* may lead to costly business failures.
3. **Geocentrism.** Geocentrism represents a managerial approach in which foreign operations are based on an informed knowledge of both home and host country needs, capabilities, and constraints.

POINT—COUNTERPOINT:
Does International Business Lead to Cultural Imperialism?

POINT: Modern *cultural imperialism* has come about because of the technical, political, military, and economic supremacy of the developed countries in relation to the less developed countries of the world. Exposure to news and entertainment media, extensive advertising, mass distribution, and Western tourists leads periphery peoples to believe that Western lifestyles are glamorous, exciting, and desirable. As international firms take advantage of this newly created demand, they uncaringly employ practices and attitudes that further upset the local culture and self-identity that helps stabilize a nation. While rich countries may be able to prohibit investment in culturally sensitive industries, restrict the use of foreign languages, limit the screening of foreign films, etc., periphery countries lack the resources to do so.

COUNTERPOINT: Although people in many countries have adopted everything from jeans to Coca-Cola, they pick and choose products based on personal interpretations of their needs in relation to the realities of the cultures in which they live. While trade-offs are often involved, globalization provides options that otherwise would not exist. Further, evidence does not indicate that the adoption of foreign products necessarily causes a change in a country's culture. With contact, cultural diffusion spreads in two directions. Cultures have always evolved, and what is occurring is the development of hybrid cultures, not cultural imperialism. Finally, foreign firms must adhere sufficiently to local culture lest they fail—and local competition may not be local at all.

E. Strategies for Instituting Change

Companies may need to transfer new products and/or operating methods from one country to another in order to gain a competitive advantage. To maximize the potential benefits of their foreign presence, they need to treat learning as a two-way process and transfer knowledge from home countries abroad and from host countries back home.

1. **Value systems.** The more that change upsets important values, the more resistance it will encounter. Accommodation is much more likely when changes do not interfere with deep-seated customs.
2. **Resistance to Too Much Change.** Resistance to change may be reduced if only a few demands are made at one time; others may be phased in incrementally.
3. **Participation.** A proposed change should be discussed with stakeholders in advance in order to ease their fears of adverse consequences—and perhaps gain their support.
4. **Reward Sharing.** A company may choose to provide benefits for all the stakeholders affected by a proposed change in order to gain support for it.

5. **Opinion Leadership.** Characteristics of opinion leaders often vary by country. By discovering the local channels of influence, an international firm may seek the support of opinion leaders to help speed the acceptance of change.
6. **Biculturals as Mediators.** Companies may rely on bicultural or multicultural individuals, especially those within their own ranks, to present and explain changes to stakeholders.
7. **Timing.** Many good business changes fail because they are ill-timed. Attitudes and needs change slowly, but a crisis may stimulate the acceptance of change.
8. **Learning Abroad.** The essence for undertaking transnational practices is to capitalize on diverse capabilities by transferring learning among all the countries in which a firm operates.

LOOKING TO THE FUTURE: Scenarios on the Evolvement of National Cultures

Although some tangibles have become more universal, the ways in which people cooperate, solve problems, and are motivated continue to differ. Many expect that as contact across cultures becomes more widespread and as people become more flexible citizens, hybrid cultures will develop. Others believe that national cultures will be more homogenized with respect to visible expressions of culture, but that basic values will not change. A third view is that national cultures will become stronger because of feelings of nationalism. Finally, some people feel that national borders as we know them today will change to accommodate ethnic groups and other subcultures.

CLOSING CASE: TESCO PLC: Leveraging Global Knowledge

Tesco PLC, the United Kingdom-based retailing giant had been in Asia for a little over a decade and sales and profits were already comfortably outstripping those in the UK and other Tesco areas. Yet it was clear that every Asian market was unique. Thailand, Malaysia, and South Korea had been great successes, yet Tesco had failed completely in Taiwan and operations in Japan were not going well at all.

Tesco's international expansion strategy has responded to the need to be sensitive to local expectations in other countries by entering into joint ventures with local partners, such as Samsung group in South Korea, also making sure to appoint significant portion of local personnel to management positions as part of their internationalization strategy, referred to as the TESCO Project.

Questions

- 2.3 *The United States and France are more culturally similar to the UK than are Thailand and Malaysia, yet TESCO failed in the former two and has been highly successful in the latter two. How might you explain this difference?*

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- 2.4 *What is the role of global teams in sharing best practices across a firm's global operations? What advice would you give to make the teams more effective?*

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- 2.5 *Look at the Tesco PLC website (www.tescopl.com). What exactly are its businesses and what do you think this tells us about its international strategy today?*

Initially a UK-based grocery retailer, TESCO has increasingly diversified into areas such as book retailing, clothing, electronics, furniture, software, financial services, and Internet services. They view retail as local because cultures, tastes, climates, and regulations are all different, but they do feel that the core skills that they have learned in one place can be applied in others. (LO: 2, Learning Outcome: Grasp the major causes of national cultural formation and change, AACSB: Reflective Thinking.)

- 2.6 *How would Tesco's business model translate into policies of recruitment, training and development, and career management across the Group?*

Tesco can build on its global internal cultural resources and learn from its success and failures overseas and its vast working knowledge to build a benchmark for recruitment, training and development, and career management. The Tesco Project has proven that international knowledge and best practices overseas has rejuvenated Tesco's operations in the UK. Another key element is the adoption of localization geocentric staffing frameworks. (LO: 5, Learning Outcome: Analyze guidelines for cultural adjustment, AACSB: Reflective Thinking.)

ADDITIONAL EXERCISES: Cultural Challenges

Exercise 2.1. Ask students to outline the reasons why the various elements of culture (social structures and control systems, language and aesthetics, religion and other belief systems, educational systems, etc.) might increase the cost of doing business in a country. Be sure that the students illustrate their ideas with concrete examples of both cultural elements and specific countries. (LO: 3, Learning Outcome: To discuss behavioral factors influencing countries' business practices, AACSB: Analytical Skills.)

Exercise 2.2. Choose two to five countries that are culturally diverse. Ask students to compare the cultures of those countries and to discuss the ways in which cultural differences

will affect the cost of doing business in each. Conclude the discussion by examining the ways in which business practices and ethics vary across the cultures. (LO: 1, Learning Outcome: To understand methods for learning about cultural environments, AACSB: Analytical Skills.)

Exercise 2.3 In many countries religion has a dramatic effect on people's attitudes, customs, and behavior. Lead students in a comparative discussion of the potential effects of the basic beliefs of the world's major religions upon international business opportunities and operations. (LO: 2, Learning Outcome: To analyze behavioral factors influencing countries' business practices, AACSB: Dynamics of Global Economy.)

Exercise 2.4. Pop culture can influence the development of global preferences in a number of ways. Lead students in a discussion of the ways in which movies can affect the cultural dimensions of a society. (Select particular movies, examine various values embedded in them, and discuss the nature of their impact upon the lifestyles of people around the world.) (LO: 4, Learning Outcome: To understand cultural guidelines for cultural adjustment, AACSB: Multicultural and Diversity Understanding.)