

CHAPTER 2

CULTURE AND MULTINATIONAL MANAGEMENT

Learning Objectives

- ◆ Define and understand the basic components of culture
- ◆ Identify instances of cultural stereotyping and ethnocentrism
- ◆ Understand how various levels of culture influence multinational operations
- ◆ Apply Hofstede, GLOBE and 7d models to diagnose and understand the impact of cultural differences on management processes
- ◆ Appreciate the complex differences among cultures and use these differences for building better organizations
- ◆ Recognize the complexity of understanding new cultures and the dangers of stereotyping and cultural paradoxes

Introduction

- ◆ This chapter considers two basic questions:
 - What is culture?
 - How does culture affect management and organizations?

What is Culture?

- ◆ Culture – the pervasive and shared beliefs, norms, and values that guide everyday life of a group
- ◆ Cultural norms – prescribed and proscribed behaviors, telling us what we can do and what we cannot do
- ◆ Cultural values – values that tell us such things as what is good, what is beautiful, what is holy, and what are legitimate goals in life
- ◆ Cultural beliefs – our understandings about what is true
- ◆ Cultural symbols – these may be physical, such as national flags or holy artifacts. In the workplace, office size and location can serve as cultural symbols
- ◆ Cultural stories – these include such things as nursery rhymes and traditional legends
- ◆ Cultural rituals – ceremonies such as baptism, graduation, the tricks played on a new worker, or the pledge to a sorority or fraternity
 - Pervasive – the idea that culture affects almost everything we do, everything we see, and everything we feel and believe
 - Shared cultural values, norms, and beliefs – the idea that people in different cultural groups have similar views of the world
- ◆ To succeed cross-culturally, multinational managers must learn as much as they can about important cultural norms, values and beliefs of the societies in which they work

Levels of Culture

- ◆ Levels of culture – the levels of cultural influence including national, business, and occupational and organizational cultures

Exhibit 2.1 Levels of Culture in Multinational Management

(Show the levels of culture that affect multinational management)

National Culture

- ◆ National culture – the dominant culture within the political boundaries of the nation-state

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- Most business takes place within the political boundaries of the nation-state
- Dominant culture influences the language of the business transactions, and the nature and types of laws that govern businesses.

Business Culture

- ◆ Business culture – the norms, values, and beliefs that pertain to all aspects of doing business in a culture
 - Each national culture produces its own business culture
 - Guides everyday business interactions and business etiquette

Occupational Culture and Organizational Culture

- ◆ Occupational cultures – distinct cultures of occupational groups such as physicians, lawyers, accountants, and craftspeople
 - The norms, values, beliefs, and expected ways of behaving for people in the same occupational group, regardless of the organizational employer
 - Occupational cultures are often stronger than national cultures, particularly for professional and technical occupations
- ◆ Organizational culture – the norms, values, and beliefs concerning the organization that are shared by members of the organization
 - Discovered and created when members learn to cope with problems
 - Organizations seldom have only one organizational culture
 - Organizational culture often has as important an influence as national culture

Cultural Differences and Basic Values: Three Diagnostic Models to Aid the Multinational Manager

- ◆ Hofstede model of national culture – a cultural model mainly based on differences in values and beliefs regarding work goals.
- ◆ Global Leadership an Organizational Behavior Effectiveness (GLOBE) project – recent large-scale project based on Hofstede’s model to determine nine cultural dimensions of 62 countries
- ◆ 7d culture model – seven-dimension cultural model based on beliefs regarding how people relate to each other, how people manage time, and how people deal with nature

Hofstede’s Model of National Culture

- ◆ To describe national cultures, Hofstede uses five dimensions of basic cultural values:
 1. *Power distance*: expectations regarding equality among people
 2. *Uncertainty avoidance*: typical reactions to situations considered different and dangerous
 3. *Individualism*: relationship between the individual and the group in society
 4. *Masculinity*: expectations regarding gender roles
 5. *Long-term orientation*: basic orientation toward time

Hofstede’s Cultural Model Applied to Organizations and Management

1. *Human resources management*
 - a. Management selection – how people are chosen for jobs
 - b. Training – what the focus of job training is
 - c. Evaluation and promotion – what counts to get ahead
 - d. Remuneration – what accounts for differences in pay
2. *Leadership styles* – how leaders behave
3. *Motivational assumptions* – beliefs regarding how people respond to work
4. *Decision making and organizational design* – how managers structure their organizations and make decisions
5. *Strategy* – effects of culture on selecting and implementing strategies

Power Distance

- ◆ Power distance – expectations regarding equality among people.
- ◆ Power distance focuses on:
 - (1) the norms that tell superiors (bosses, leaders) how much they can determine the behavior of their subordinates
 - (2) the values and beliefs that superiors and subordinates are fundamentally different kinds of people
- ◆ High-power-distance countries have norms, values, and beliefs such as:
 - Inequality is fundamentally good
 - Everyone has a place; some are high, some are low
 - Most people should be dependent on a leader
 - The powerful are entitled to privileges
 - The powerful should not hide their power
- ◆ Characteristics of high-power distance countries
 - Strong concern with hierarchy
 - High respect for authority
 - Ideal managers come from high social class or elite university graduates
 - Large wage differences between management and workers
 - Theory X leadership style (authoritarian – people dislike work)
 - Centralized decision making in organizations

Exhibit 2.2 Management Implications of Power Distance

(Gives a summary of the managerial implications for power distance)

Uncertainty Avoidance

- ◆ Uncertainty avoidance – how people react to what is different and dangerous
- ◆ High uncertainty avoidance countries have norms, values, and beliefs such as:
 - Conflict should be avoided
 - Deviant people and ideas should not be tolerated
 - Laws are very important and should be followed
 - Experts and authorities are usually correct
 - Consensus is important
- ◆ Characteristics of high-uncertainty-avoidance cultures
 - Entry-level people are chosen for their potential fit with and loyalty to the organization
 - The belief that conflict and competition should be avoided
 - Task-directed leaders
 - Extensive rules and procedures
 - Conservative decision makers

Exhibit 2.3 Management Implications of Uncertainty Avoidance

(Summarizes the managerial implications of uncertainty avoidance)

Individualism/Collectivism

- ◆ Individualism – relationship between the individual and the group in society
 - Individualistic cultures view people as unique
 - People are valued in term of their own achievement, status, and other unique characteristics
- ◆ Collectivism – set of cultural values that views people largely through the groups to which they belong
 - Social groups such as family, social class, organization, and team all take precedence over the individual
- ◆ Countries high on individualism have norms, values, and beliefs such as:

- People are responsible for themselves
- Individual achievement is ideal
- People need not be emotionally dependent on organizations or groups
- ◆ Countries high on collectivism have norms, values, and beliefs such as:
 - One's identity is based on group membership
 - Group decision making is best
 - Group protect individuals in exchange for their loyalty

Exhibit 2.4 Management Implications of Individualism

(Summarizes the managerial implications of high individualism versus collectivist (low individualism) norms, values, and beliefs)

Masculinity

- ◆ Masculinity – tendency of a society to emphasize traditional gender roles
- ◆ Higher masculinity means the business culture of a society takes on more traditional masculine values, such as an emphasis on advancement and earnings
- ◆ High masculinity countries have norms, values, and beliefs such as:
 - Gender roles should be clearly distinguished
 - Men are assertive and dominant
 - Machismo or exaggerated maleness in men is good
 - People – and especially men – should be decisive
 - Work takes priority over other duties, such as family
 - Advancement, success, and money are important
- ◆ Characteristics of high masculinity culture
 - Jobs are clearly defined by gender
 - Work is very central and important to people
 - Managers act decisively

Exhibit 2.5 Management Implications of Masculinity

(Shows the major effects of high masculinity on work and organizations)

Long-Term Orientation

- ◆ Long-term (Confucian) orientation – an orientation toward time that values patience
 - Managers in cultures high on the long-term orientation are selected based more on the fit of their personal and educational characteristics to the company, than on skill
 - Employees value security and leaders work on developing social obligations
 - Eastern cultures, which rank highest on long-term orientation, value synthesis in organizational decisions
 - Countries with more long-term orientations do not ignore financial objectives, but they prioritize growth and long-term paybacks
 - The long time horizons allow managers to experiment and seek success by developing their “game plans” as they go along
- ◆ Short-term orientation
 - Must focus immediately on usable skills, and do not assume that employees will remain with the company for an extended time
 - Leaders focus on and pay and rapid promotion
 - Western cultures, which tend to have short-term orientations, value logical analysis in their approach to organizational decisions
 - Manage purposefully to respond to immediate pressures from the environment
 - Managers often use quick layoffs of “excess” employees to adjust to shrinking demand for products

Exhibit 2.6 Management Implications of Long-Term Orientation*(Summarizes the managerial implications of long-term (Confucian) orientation)***Exhibit 2.7 Percentile Ranks for Hofstede's Cultural Dimensions for Selected Countries by Cultural Cluster***(Displays the percentile ranks of selected countries on five of Hofstede's dimensions of national culture)*

- ◆ Country clusters – groups of countries with similar cultural patterns
 - Although cultures differ within these broad classifications, such summaries are useful for condensing cultural information

GLOBE National Culture Frame Work

- ◆ The GLOBE project involves 170 researchers who collected data on 17,000 managers from 62 countries around the world
- ◆ GLOBE researchers developed nine dimensions - only two of these dimensions are independent of the Hofstede model
- ◆ Five dimensions similar to the Hofstede model are:
 1. Assertiveness orientation and gender egalitarianism (similar to masculinity-femininity)
 2. Institutional and family collectivism (similar to individualism-collectivism)
 3. Future orientation (similar to long-term orientation)
 4. Power distance
 5. Uncertainty avoidance
- ◆ Two dimensions unique to the GLOBE project:
 - Performance orientation
 - Humane orientation
- ◆ Performance orientation – the degree to which the society encourages societal members to innovate, to improve their performance, and to strive for excellence.
 - High performance orientation favors training and development, whereas lower performance orientation views family and background as more important

Exhibit 2.8 Management Implications of Performance Orientation*(Summarizes some of the management implications of performance orientation)*

- ◆ Humane orientation – and indication of the extent to which individuals are expected to be fair, altruistic, caring, and generous
 - In high human orientation, the need for belongingness and affiliation is emphasized more than material possessions, self-fulfillment, and pleasure
 - Less humane oriented societies are more likely to value self-interest and self-gratification

Exhibit 2.9 Management Implications of Humane Orientation*(Lists some of the management implications of humane orientation)***Exhibit 2.10 The Globe Model of Culture***(Shows the various clusters and the corresponding cultural scores)***7d Cultural Dimensions Model**

- ◆ Understands cultures by examining how humans deal with basic problems of survival
- ◆ Five of the 7 dimensions deal with the challenges of how people relate to each other
 - *Universalism vs. particularism* – choice of dealing with other people based on rules or based on personal relationships
 - *Collectivism vs. individualism* – the focus on group membership vs. individual characteristics

- *Neutral vs. affective* – the range of feelings outwardly expressed in the society
- *Diffuse vs. specific* – the types of involvement people have with each other, ranging from all aspects of life to specific components
- *Achievement vs. ascription* – the assignment of status in a society based on performance vs. assignment based on heritage
- ◆ Two final dimensions deal with how a culture manages time and how it deals with nature
 - *Past, present, future, or a mixture*
 - *“Control of” vs. “accommodation with” nature*

Exhibit 2.11 The 7d Model of Culture

(Gives a summary of the 7d model and the issues addressed by each dimension)

Universalism versus Particularism

- ◆ Universalism – dealing with other people based on rules (i.e. law, religion, cultural principles, etc.)
 - “Do unto others as you would have them do unto you”
 - Precise guidelines exist in all situations
- ◆ Particularism – dealing with other people based on personal relationships
 - Rules represent a rough guide to life
 - Exceptions are made based on the individual (i.e. family, friends) and the changing circumstances
- ◆ No culture is purely universalistic or particularistic, but tendency to lean in one direction or the other influences business practices

Exhibit 2.12 Universalism versus Particularism: Differences and Managerial Implications

(Gives a brief description of universalism and particularism as cultural dimensions and shows the managerial implications for doing business in each)

Individualism versus Collectivism

- ◆ Considers the same distinctions as Hofstede’s dimensions
- ◆ Country rankings do not match exactly to Hofstede’s – may be explained by the more recent data used by Trompenaars, which also captures more subtle aspects

Exhibit 2.13 Individualism versus Collectivism: Differences and Managerial Implications

(Gives a brief descriptions of the individualistic and collectivistic cultural dimensions and the managerial implications of doing business in each)

Neutral versus Affective

- ◆ Neutral versus affective – the acceptability of expressing emotions
- ◆ In more neutral cultures, people expect that interactions are objective and detached – the focus is more on the task
- ◆ In more affective orientations, all forms of emotions are appropriate in almost every situation

Exhibit 2.14 Neutral versus Affective: Differences and Managerial Implications

(Gives a brief description of neutral vs. affective cultural dimensions and the managerial implications of doing business within each)

Specific versus Diffuse

- ◆ Specific versus diffuse – the extent to which all aspects of an individual’s life are involved in his or her work relationships

- ◆ In specific oriented cultures, business is segregated from other parts of life
- ◆ In diffuse oriented cultures, business relationships are more encompassing and involving

Exhibit 2.15 Specific versus Diffuse: Differences and Managerial Implications

(Gives a brief description of the specific vs. diffuse cultural dimensions and the managerial implications of doing business in each)

Achievement versus Ascription

- ◆ Achievement versus ascription – how society grants or gives status
- ◆ In achievement-oriented societies, people earn status based on their performance and accomplishments
- ◆ In ascription-oriented societies, one's inherent characteristics or association define status

Exhibit 2.16 Achievement versus Ascription: Differences and Managerial Implications

(Gives a brief description of the achievement vs. ascription cultural dimensions and the managerial implications of doing business in each)

Time Orientation

- ◆ Time horizon – the way cultures deal with the past, present, future
- ◆ In future-oriented societies, organizational change is considered necessary and beneficial
- ◆ In past-oriented societies, people often assume that life follow a preordained course based on the traditions or will of God

Exhibit 2.17 Time Horizon: Differences and Managerial Implications

(Summarizes the cultural characteristics of different time horizons and gives managerial implications of differing time horizons)

Internal versus External Control

- ◆ Internal versus external control – beliefs regarding whether one controls one's own fate
 - Best reflected in how people interact with their natural environment
- ◆ Does nature dominate us or do we dominate nature?
- ◆ In cultures where it is believed that nature dominates people, managers are likely to be fatalistic
- ◆ In contrast, where cultural values support the notion that people dominate nature, managers tend to be proactive

Exhibit 2.18 Internal versus External Control: Differences and Managerial Implications

(Summarizes the internal vs. external cultural dimensions and their managerial implications)

Exhibit 2.19 Percentile Ranks for the 7d Model Cultural Dimensions in Selected Countries

(Gives percentile rankings for the 7 dimensions in selected countries)

Exhibit 2.20 Proverbs: Windows into National Cultures

(Shows that proverbs provide less formal insights into national cultures)

Caveats and Cautions

- ◆ Cultural paradoxes – when individual situations seem to contradict cultural prescriptions
- ◆ Stereotyping – when one assumes that all people within a culture behave, believe, feel, and act the same

- ◆ **Ethnocentrism** – when people from one culture believe that theirs are the only correct norms, values, and beliefs
- ◆ **Cultural relativism** - a philosophical position arguing that all cultures, no matter how different, are correct and moral for people of those cultures
- ◆ **Cultural intelligence** – the ability to interact effectively in multiple cultures

Summary and Conclusions

- ◆ After completing this chapter, you should know that culture has a variety of levels that affect multinational managers and organizations
- ◆ Models of cultural values proposed by the GLOBE researchers, Trompenaars and Hofstede provide basic concepts for analyzing cultural differences
- ◆ Most successful multinational manager will realize that understanding a different culture is a never-ending learning process

CHAPTER 2 Case Notes

Jextra Neighbourhood Stores in Malaysia

Synopsis

Tom Chong is the country manager in Malaysia for Jextra Stores (Jextra), a multinational retailer with supermarkets throughout Asia. The company is based in Hong Kong. Jextra operates ten Neighborhood Market supermarkets in Malaysia. Chong has two issues he must resolve. One involves a recent conversation with the mayor of a town in which Jextra would like to build a new store. The mayor suggested that Jextra's application for rezoning would be more likely to be approved if Jextra contributed to building a new primary school. The mayor also wants Jextra to help pay for a flyover at the road intersection for the proposed site. Chong's other issue involves one of his category managers. The manager may be accepting money and gifts from suppliers. Although Chong has no proof that the manager is acting inappropriately, there are many rumors floating around Jextra's office.

Case Purpose and Objectives

1. This case allows students to put themselves in the position of a young, high-potential manager with his first country manager assignment.
2. The case provides two realistic ethical dilemmas which may appear on the surface to be straightforward because the Jextra Business Conduct Code is clear, prohibiting bribery, conflicts of interest and related party transactions.
3. This case demonstrates how challenging ethical dilemmas can be depending on the country involved, and also because not all pertinent information is known.
4. The case also shows the pressures of performance pitted against pressures to make ethical decisions, a classic dilemma in management.

Possible Discussion Questions

1. What cross-cultural differences may be at play in this situation?
2. Does Chong understand exactly what the Mayor has asked of him? Is he correct to assume that this may be a request for a bribe?
3. What are Chong's options as to how to proceed in the case? Should he ask the Mayor more directly what he meant? Should he confer with his supervisor for guidance? Should he try to determine whether such a contribution would be legal under Malaysian law?
4. Regarding Chong's suspicions regarding Alam, what should he do? Should he investigate in some way, and if so, how? Or should he, as the English expression goes, "let sleeping dogs lie?"
5. What guidance does Jextra's Business Code of Conduct provide for each of Chong's ethical dilemmas?
6. What are the pressures Chong faces to perform well, and what are the pressures he faces to perform ethically?

Analysis

1. What cross-cultural differences may be at play in this situation?

Cross-cultural management research assumes that countries differ based on culture. Although there are wide cultural differences between countries, significant differences exist even between those countries that share the same cultural values. It is possible that Malaysian culture treats this situation differently than does Hong Kong culture, where Chong is a native.

One recent study found that there were significant cultural differences between Hong Kong, Taiwanese and Chinese cultures. Malaysia scores high on Humane orientation, which means that people are expected to be fair, altruistic, caring and generous. Using the 7d Model of culture, as to the Neutral vs. Affective dimension, Hong Kong scores 92, while Malaysia scores 25. On the Specific vs. Diffuse dimension, Hong Kong scores 87, while Malaysia scores 43. These are significant differences in the ways of thinking about and doing things, and they may have affected this exchange.

2. Does Chong understand exactly what the Mayor has asked of him? Is he correct to assume that this may be a request for a bribe?

The exchange is subject to interpretation. The Mayor appealed to the value of culture when he said, "We have a unique community in Klang, and want to protect our cultural heritage." Of course, the appeal may more easily be viewed as a veiled request for a bribe if one recalls the next statement he made: "We scrutinize all proposed real estate developments very carefully. With your store, perhaps we can help each other." The phrase "perhaps we can help each other" is often used in such bribery requests. Chong wonders whether this is "normal practice" in Malaysia.

Even if it is a request for a bribe, Chong does not understand clearly what the Mayor has asked of him, as Chong is not even certain if the contribution requested would one that would fund the new school in its entirety, or only contribute to it. As to whether this may be a request for a bribe, there is no way to be certain, but it seems so.

3. What are Chong's options as to how to proceed in the case?

Chong has many options, though it may not seem like it to him. On the one hand, he could pay the money requested for both the school and the flyover, and hope for the best. On the other hand, he could refuse to make any payments, and again, hope for the best. These are the options at the extremes, and neither seems particularly appealing. Between those two extremes, Chong may:

- Confer with his supervisor for guidance; the Jextra Business Conduct Code expects that this is what Chong will do if he does not know how to proceed.
- Consult with a Malaysian lawyer officially, to determine whether the requested payments would constitute bribes under Malaysian law. The problem is that the payments, even if legal under Malaysian law, might still violate Jextra's Business Conduct Code.
- Tell the mayor about the Jextra Social Fund, and promise to make a case to Jextra officials for a contribution from the social fund, hoping that this will satisfy his request.
- Confer with other managers in his position at Jextra, to see whether they have experienced situations like this one.

Chong may wish to take all of these steps, and gather as much information as he can before making a decision on how to proceed. Whatever he decides now will be with him for the remainder of his career – and his life.

4. Regarding Chong's suspicions regarding Alam, what should he do? Should he investigate in some way, and if so, how? Or should he, as the English expression goes, "let sleeping dogs lie?" Consider both taking action and not taking action, and make a case for each.

Chong is in a situation re Alam where does not have all of the information. His best chance to learn more before making a decision regarding whether or not to proceed with an investigation is to learn as much as he can through other channels, informally. He could, for example, congratulate Alam on his successes, and propose that he accompany Alam on his visits to his suppliers, in order to "thank them for their efforts, and to see if there is anything they need." Such a proposal should raise little or no suspicion in Alam, and would give Chong the opportunity to assess the suppliers for himself in a non-adversarial setting. It would also give him the opportunity to assess Alam, particularly in the company of his suppliers. Chong may think of other ways to learn what he needs to know before proceeding.

5. Make a case for Chong going forward with a contribution to the school. Make a case for Chong refusing to contribute.

Among the arguments for Chong's going forward with a contribution to the school are:

- Chong interprets Jextra's Business Code to prohibit payments to individuals, but this payment would be to a primary school which would benefit the community, not individuals.
- Chong learned from a Malaysian lawyer friend that Malaysian law was unclear in the area of business payments for social purposes made specifically for regulatory approval.
- Also, although not widespread in Malaysia, the practice of businesses contributing to city projects is common in Klang and other areas around Kuala Lumpur.
- Chong's Malaysian lawyer friend said that some local lawyers would probably advise him to make the payments, but to keep the school and the flyover payments independent, which would blur the line as to whether the behavior was indeed illegal.
- If the school payment speeded up the development process, it could be legal.

Among the arguments against Chong's contributing to the school are:

- The payment to individuals prohibited by the Jextra Business Code may be a difference without a distinction. Payments of the kind contemplated may well be forbidden by the Jextra Business Code.
- Local Malaysian lawyers likely would advise that if the payment was necessary solely as a prerequisite to obtaining the permit, it could be considered a bribe, and thus illegal under Malaysian law. The difficulty would be in proving the purpose of the payment, and if Jextra were charged with misconduct, even though not convicted, the damage would be done
- The fact that local business practice may include such payments does not mean they are legal, ethical or correct. Such an excuse would not absolve the company or Chong from liability.
- Also, the fact that Chong's Malaysian lawyer friend told him to keep the payments independent so as to avoid suspicion is a red flag, indicating probable illegal conduct.
- Several scandals involving alleged bribes and corporate contributions had contributed to recent "retirements" of various elected officials in Malaysia, which makes it make sense to be wary. Both state and federal politicians are using "clean government" as part of their political platforms.
- Neither the loss of Chong's reputation, nor Jextra's, is reason enough to engage in the payments.

6. What are the pressures Chong faces to perform well, and what are the pressures he faces to perform ethically?

The pressures Chong faces to perform well include:

- Jextra wishes to expand in Malaysia, first at Klang.
- Jextra also wants to enter the convenience store market in Malaysia.
- The number of new stores opened is an important element in Chong's overall valuation, and a factor in determining his future career prospects.
- Failure to open new stores (including Klang) would be viewed negatively at corporate headquarters.
- The number of new stores opened will also be a factor in determining his discretionary bonus.
- If Chong is unable to get zoning to open the new store in Klang, one of his competitors might take that opportunity.

The pressures Chong faces to perform ethically include:

- This is the first time Chong has been responsible for real operational issues and profit and loss responsibilities. It seems he has not confronted such a situation before, but he is clearly troubled by it, and wants to make the right decision.
- Jextra's Business Conduct Code prohibits offering benefits to third parties to obtain or retain business; the Code contains several other prohibitions.

- Several of the issues raised above should give Chong pause; the risk is far greater than the “reward” to be received if the payments are given.
- Once either Chong or Jextra is charged with bribery, the damage would be irreversible.

Lessons

- Understanding that even countries with similar cultural values may nevertheless have significant cultural differences
- Learning from the experience of a young, first-time Multinational manager
- Understanding the need to address both business productivity and ethical conduct.
- Learning whether to confront a subordinate suspected of unethical conduct