

Culture and Its Implications for International Business



Learning Objectives

- To understand the relevance of cultural differences for IB
- To conceptualize cultural differences
- To measure (cross-country) cultural differences
- To understand cultural guidelines for companies that operate internationally



Culture as an informal institution

Institutions are humanly devised constraints ...

Douglass C. North, winner of the Nobel Prize and father of the field of new institutional economics

These constraints can be formal and informal

- Regulatory (e.g. laws, regulations)
- Normative (e.g. industrial standards, ways of doing business)
- Socio-cognitive (e.g. cultural values, traditions, attitudes)

W. Richard Scott, sociologist from Stanford University, specialised in institutional theory and organisation science.

Why do we need these
constraints ?

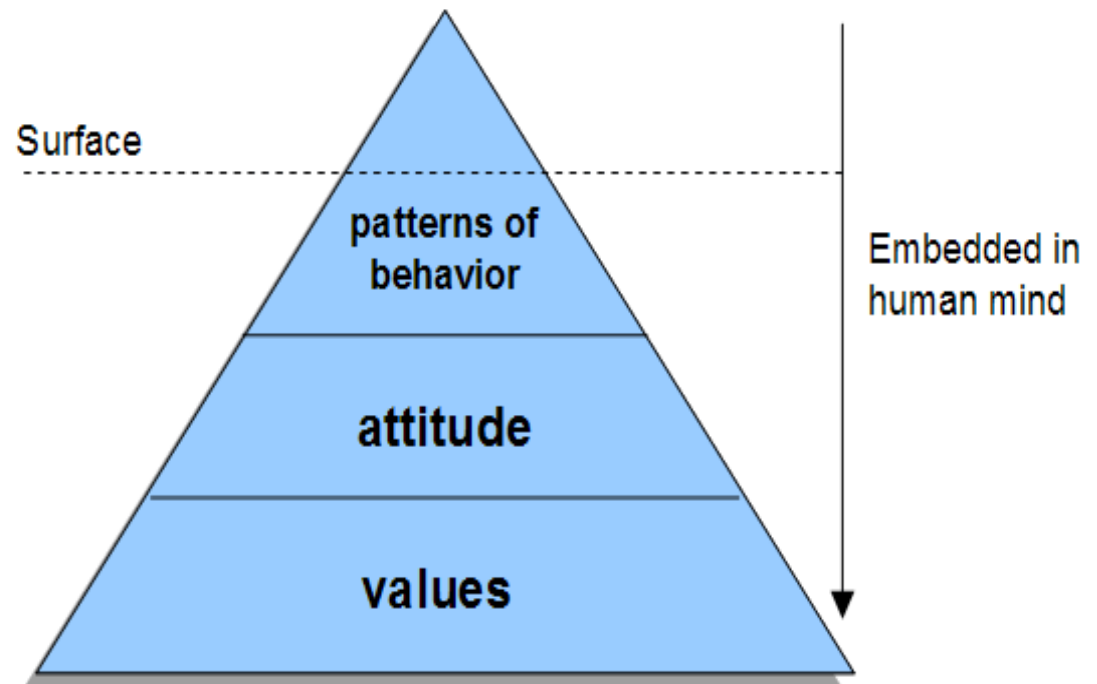
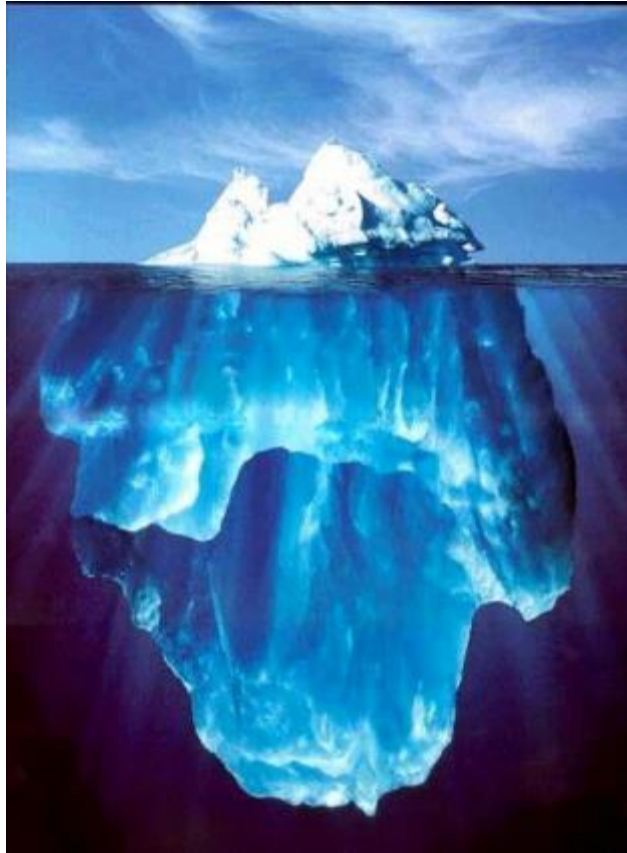


What Is Culture?

- **Culture** - a system of values and norms that are shared among a group of people and that when taken together constitute a design for living where:
 - values are abstract ideas about what a group believes to be good, right, and desirable
 - norms are the social rules and guidelines that prescribe appropriate behavior in particular situations
- **Society** - a group of people who share a common set of values and norms



Culture is deeply rooted

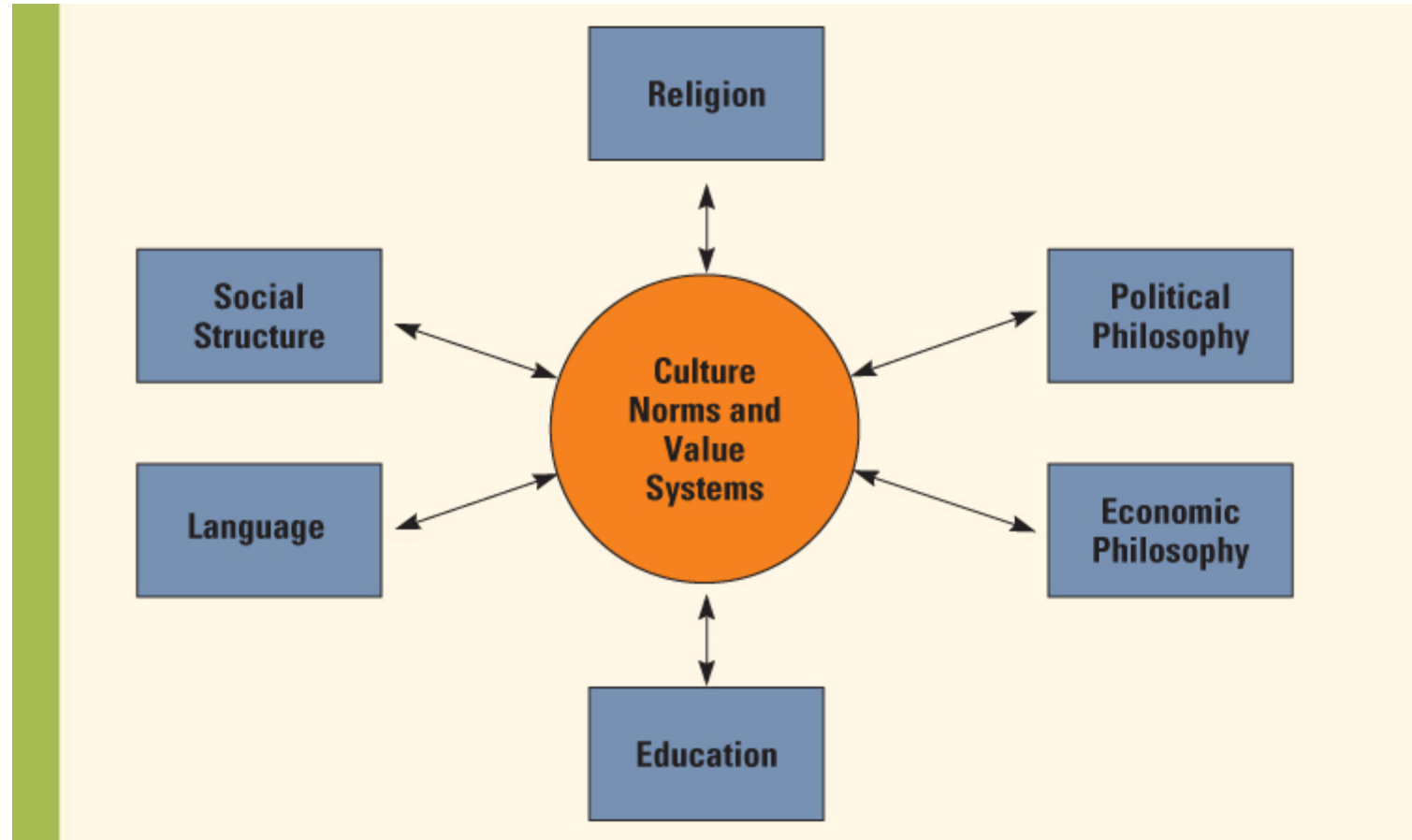


Values And Norms

- **Values** provide the context within which a society's norms are established and justified and form the bedrock of a culture
- **Norms** include
 - folkways - the routine conventions of everyday life
 - mores - norms that are seen as central to the functioning of a society and to its social life



Determinants of Culture ?



Source: Hill, C., 2013. *International Business: Competing in the Global Marketplace*, 9th edition, McGraw-Hill, Sydney.



National culture

WHO CAME FIRST – nations or cultures?



Social Structure

- **Social structure** - a society's basic social organisation
- Group vs. Individual focus
 - In Western societies, there is a focus on the individual
 - Individual achievement is common
 - High level of entrepreneurship
 - Drawback?
 - In many Asian societies, the group is the primary unit of social organisation
 - Discourages job switching between firms
 - Encourages lifetime employment systems
 - Leads to cooperation in solving business problems
 - Drawback?



Rivals without a cause?

<https://doi.org/10.1002/bdm.2162>

	Collective return	Individual return	Individual ranking
Collaborated	Higher	Higher	No variance
Not collaborated	Lower	Lower	Variance

Experimental manipulation: Two performance feedback mechanisms

information on individual performance relative to fellow group members led players to favour moving up the pecking order over not just their group's collective returns, but also over their material wellbeing. They were willing to forgo guaranteed financial gains; achieving "status" was more important.

"Ranking feedback, which is often used in organisational settings, prompts people to perceive even situations with co-operative outcome structures as competitive," they write. People may not be innately co-operative or competitive; they may simply respond to cues set by the organisation they work for.



Social Stratification

- All societies are stratified on a hierarchical basis into social categories, or **social strata**
 - individuals are born into a particular stratum
- Stratified societies differ in:
 1. **Mobility** between strata: individuals can move out of the strata into which they are born
 2. The **significance** placed on social strata in business contexts



Is stratification fair?

Is equality fair?



Not all hierarchies are social

THE CONVERSATION

Academic rigour, journalistic flair

Q Search analysis, research, academics...

Arts + Culture Business + Economy Cities Education Environment + Energy Health + Medicine Politics + Society **Science + Technology**



Psychologist Jordan Peterson says lobsters help to explain why human hierarchies exist – do they?

January 25, 2018 1:33am AEDT



Religious Systems

- **Religion** - a system of shared beliefs and rituals that are concerned with the realm of the sacred
- Four religions dominate society:
 1. Christianity
 2. Islam
 3. Hinduism
 4. Buddhism
 5. Confucianism is also important in influencing behavior and culture in many parts of Asia



Languages

- One of the defining characteristics of culture:
 - Chinese is the mother tongue of the largest number of people
 - English is the most widely spoken language in the world
 - English is also becoming the language of international business
 - Knowledge of the local language is still beneficial, and in some cases, critical for business success
 - Failing to understand the nonverbal cues of another culture can lead to communication failure



United States
It's fine



Germany
You lunatic



Greece
An obscene
symbol for a
body orifice



France
Zero or
worthless



Japan
Money,
especially
change



Body language

- 93% of inter-personal communication is non-verbal



High & Low Context Cultures

High Context

Japanese
Chinese
Italians, Spanish, Portuguese, French, Mediterranean
Latin Americans
Arabs, Africans
Indians and other Indian sub continent
Koreans, South East Asians
Central Europeans
Slavs
Other American cultures
Benelux countries
British, Australians
Scandinavians, Finns
North Americans
New Zealanders (white), South Africans
Germans, Swiss, Austrians



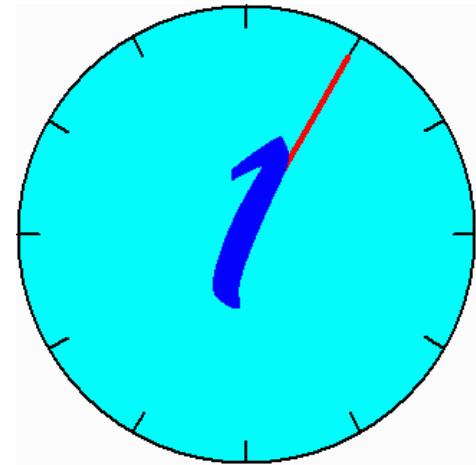
Low Context

Monochronic-Polychronic Scale

Monochronic

Germans, Swiss, Austrians
Americans (WASP)
Scandinavians, Finns
British, Canadians, New Zealanders
Australians, white South Africans
Japanese
Dutch, Flemish Belgian
Other American cultures
French, Walloon Belgian
Koreans, Taiwanese, Singaporeans
Czechs, Slovaks, Slovenians, Croats, Hungarians
Chinese
Northern Italians
Chile
Other Slavs
Portuguese
Spanish, Southern Italians, Mediterranean peoples
Indians and other Indian sub continent
Polynesians
Latin Americans, Arabs, Africans

Polychronic



Geert Hofstede's Cultural Dimensions

- **Power distance**: acceptance of unequal power distribution
- **Uncertainty avoidance**: perceived threat from ambiguous situations, and ways to avoid this
- **Individualism vs collectivism**: integration of individuals into primary groups
- **Masculinity vs femininity**: division of emotional roles between men and women
- Long-term vs short-term orientation
- Indulgence vs constraint



Hofstede's Dimensions in 20 Countries

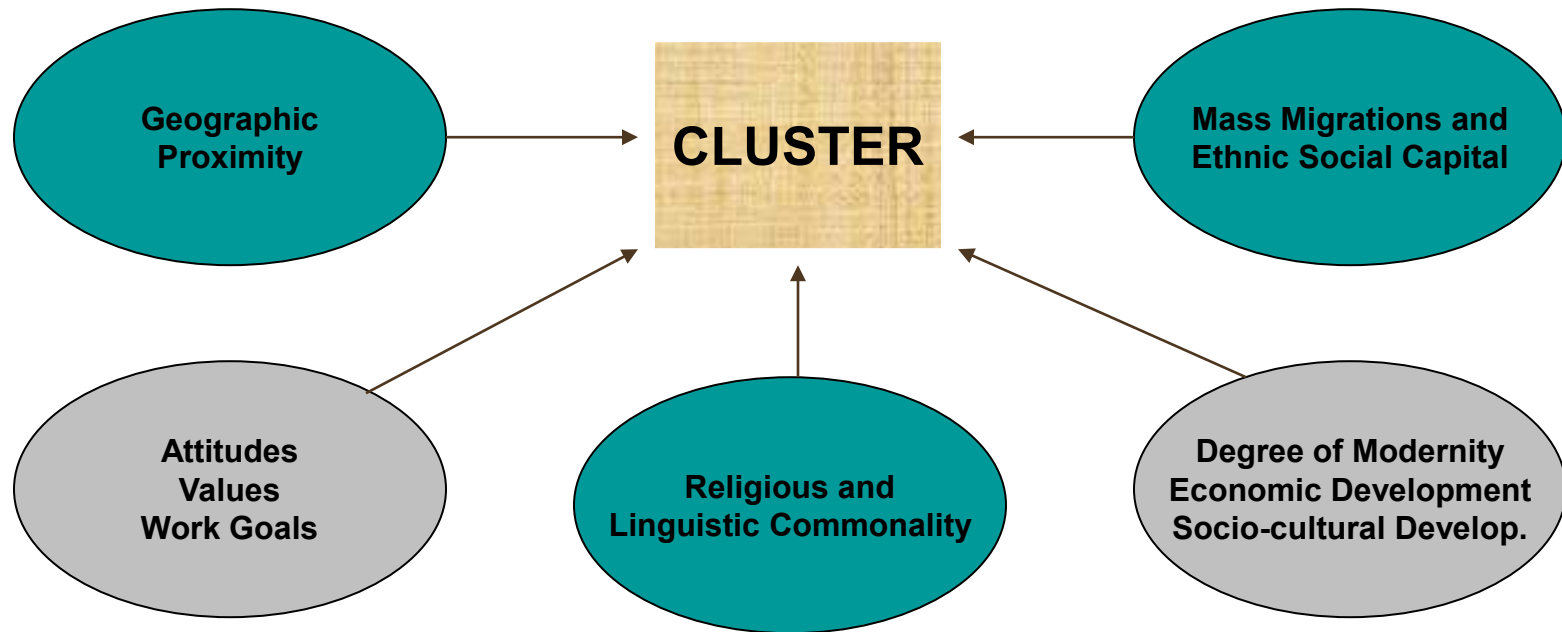
	Power Distance	Uncertainty Avoidance	Individualism	Masculinity
Argentina	49	86	46	56
Australia	36	51	90	61
Brazil	69	76	38	49
Canada	39	48	80	52
Denmark	18	23	74	16
France	68	86	71	43
Germany (F.R.)	35	65	67	66
Great Britain	35	35	89	66
Indonesia	78	48	14	46
India	77	40	48	56
Israel	13	81	54	47
Japan	54	92	46	95
Mexico	81	82	30	69
Netherlands	38	53	80	14
Panama	95	86	11	44
Spain	57	86	51	42
Sweden	31	29	71	5
Thailand	64	64	20	34
Turkey	66	85	37	45
United States	40	46	91	62

Source: Hill, C., 2013. *International Business: Competing in the Global Marketplace*, 9th edition, McGraw-Hill



Clustering of Societies

Major forces used to group countries into similar clusters:



Source: Vipin Gupta, Paul Hanges and Peter Dorfman, *Cultural clusters: methodology and findings*, Journal of World Business 37 (2002)



Company and Management Orientations

- **Polycentrism**
 - belief that business units in different countries should act like local companies
- **Ethnocentrism**
 - conviction that one's own culture is superior to that of other countries
- **Geocentrism**
 - requires companies to balance knowledge of their own organizational cultures with both home and host country needs, capabilities, and constraints



Re-cap of Key points

1. Culture – a system of **values** and **norms** that are shared among a group of people
2. Culture **coevolves** with a lot of other factors
3. There are (imperfect) ways of **measuring** culture traits
4. IB **managers** adopt different cultural orientations

