CHAPTER 4

The Role of Culture

AFTER STUDYING THIS CHAPTER, YOU SHOULD BE ABLE TO:

1. Discuss the primary characteristics of culture.
2. Describe the various elements of culture and provide examples of how they influence international business.
3. Identify the means by which members of a culture communicate with each other.
4. Discuss how religious and other values affect the domestic environments in which international businesses operate.
5. Describe the major cultural clusters and their usefulness for international managers.
6. Explain Hofstede's primary findings about differences in cultural values.
7. Explain how cultural conflicts may arise in international business.

BOLLYWOOD, HOLLYWOOD, AND NOLLYWOOD

What do Los Angeles, Mumbai (Bombay), and Lagos have in common? The surprising answer is that each can claim to be the world's largest producer of movies. Hollywood movies garner the most revenue—$34.7 billion in 2012. Indian movies sold the most tickets—3.6 billion, roughly a billion more than Hollywood. Nigeria churned out the most movies—an estimated 200 per month. Moreover, each of these three centers of movie production is careful to incorporate the needs of the international market into their product planning.

Filmmaking has long been an international business. Hollywood movies have been playing to foreign markets since the 1920s. The ultimate profitability of a Hollywood movie increasingly depends on its foreign revenues: In 2012, Hollywood's U.S. and Canadian box office sales reached $10.8 billion, while its ticket revenues elsewhere totaled $23.9 billion. Hollywood filmmakers have grown accustomed to tailoring their movies to foreign audiences even as they are being shot. Nudity is much more acceptable for general audiences in Europe than in the United States. Directors making films with nudity and strong sexual content often shoot two (or more) versions of some scenes. More extended and explicit scenes are edited into European versions, whereas shorter and less explicit scenes are used in the North American version. But even kids' movies may be altered to meet the unique needs of each market. The first Harry Potter book, for example, was titled *The Philosopher's Stone* in England but renamed *The Sorcerer's Stone* in the United States because the publisher thought the original title sounded a bit bland. When the movie was made, the titles were similarly customized for the two markets.

The $3.5 billion Indian movie industry—often called Bollywood, although strictly speaking the term should be applied only to films produced in Mumbai, the port city in western Indian formerly known as Bombay—began in 1913, with the release of the silent movie *Raja Harishchandra*. Through the decades, the industry has produced tens of thousands of movies, some good, some bad, some dealing with complex social issues, some merely providing light entertainment for cinema patrons. What distinguishes a stereotypical Bollywood film from Hollywood- or European-made movies is the reliance on elaborate song-and-dance production numbers, which some experts believe are based on the traditions of ancient Sanskrit drama. Production values are equivalent to those of Hollywood, and multimillion-dollar budgets are common.

Bollywood movies are distributed globally, particularly in countries benefiting from the Indian diaspora, such as the United Kingdom, Canada, and Australia. Bollywood movies are also popular in South Asia and in Africa, in part because the modest behavior (little kissing, no nudity) of women in Bollywood movies matches the cultural norms of those countries. The appeal of Indian movies is also strong in parts of the former Soviet Union. During the Cold War, the Soviet Union banned Hollywood movies. But because India was politically neutral but supportive of the Soviet Union, Soviet TV broadcasts featured Indian movies, and old Bollywood classics are fondly remembered there. This Cold War relationship has spawned at least one new YouTube superstar: Baimurat Allaberiyev, a sheepherder known as "Tajik Jimmy," whose specialty is singing Bollywood classics. He is busily pursuing a career in a Moscow nightclub as a result of his YouTube exposure. (If you wish to see his performances yourself, type in "Tajik Jimmy" on the YouTube home page.)

Many Hollywood studios have entered into production deals or ownership arrangements with Bollywood cinema companies and talent. For example, Disney acquired a 99 percent interest in UTV Software Communications, the parent corporation of the second largest Mumbai film studio. Prior to Disney's purchase,Twentieth Century Fox teamed up with UTV to co-produce several movies, including *The Namesake*, starring Kal Penn, and M. Night Shyamalan's *The Happening*. DreamWorks Animation enlisted two talented Bollywood veterans, A. R. Rahman (composer for *Slumdog Millionaire*) and Gurinder Chadha (director and writer of *Bride & Prejudice* and *Bend It Like Beckham*) to develop an animated feature based on the Ramayana, a classical Sanskrit story involving the abduction of Rama's wife Sita by a demon king. And, as perhaps the ultimate sign of recognition of the importance of Bollywood, many of its stars are now featured at Madame Tussauds' Wax Museum in London.

The third major source of motion pictures, Nollywood, is the youngest. *Nollywood* is the term commonly used to describe Nigeria's thriving movie industry, which is centered around the country's largest city, Lagos. The country's movie industry got its start in 1992, when a Nigerian trader, Kenneth Nnebue, ordered a large shipment of blank videocassettes from a Taiwanese supplier. As the story goes, he had trouble selling the cassettes, until he hired a director to put a movie on them. The result was *Living in Bondage*, a story of a farmer who is haunted by his wife's ghost, which sold more than a half million copies and spurred other Nigerian cinematic entrepreneurs to produce their own masterpieces.

The plots of most Nollywood movies are familiar and often moralistic—rural values triumph over the evils of the big city, the common man must stand up to corruption, stepmothers and mothers-in-law can cause trouble—and budgets are tiny by Hollywood and Bollywood standards. A big-budget film might reach $100,000. Most Nollywood films are filmed using digital cameras. Sets are often nonexistent: The streets, shops, and apartments of Lagos or the Nigerian countryside provide the backdrop for the films.

Nollywood, in terms of numbers of films made, has surpassed Hollywood and Bollywood. Nigerian filmmakers churn out 2,000

to 2,500 movies a year. An estimated half million people are employed in the industry, which garners sales of $200 to $300 million a year. DVDs, not movie theaters, serve as the primary channel of distribution, and are sold for a dollar or two by street vendors. Nollywood producers gain most of their revenues within a week or two of their movies' release. They must act fast because pirates quickly make their own copies of any new movie; most Nigerian producers use the cash flow from one movie to finance their next one.

Nigerian filmmakers are adapting their products to seek a broader, pan-African market. Most of the films are in English, rather than in one of Nigeria's 510 living languages, to broaden their appeal throughout the continent. Casting and marketing are often intertwined. Hiring a Ghanaian actor or a Kenyan actress will likely boost sales in those countries. Such strategies have paid off, as Nollywood movies are available and popular throughout Africa. Satellite TV providers like South Africa's MultiChoice have dedicated channels beaming Nollywood products to local audiences. The demand for Nollywood movies is transcending the continent as well: To serve the African expat community in the United Kingdom, British satellite TV provider BSkyB now features Nollywood movies on its Vox Africa channel.[1] ■

Firms and businesspeople venturing beyond their familiar domestic markets soon recognize that foreign business customs, values, and definitions of ethical behavior differ vastly from their own. Firms that rely on their familiar home culture to compete in a new market can jeopardize their international success. Indeed, virtually all facets of an international firm's business—including contract negotiations, production operations, marketing decisions, and human resource management policies—may be affected by cultural variations. Culture can even confer a competitive advantage—or disadvantage—on firms, as "E-World" suggests. This chapter highlights some of the cultural differences among countries and explains how understanding those differences is invaluable for international businesspeople.

Characteristics of Culture

Business, like all other human activities, is conducted within the context of society. **Culture** is the collection of values, beliefs, behaviors, customs, and attitudes that distinguish one society from another. A society's culture determines the rules that govern how firms operate in the society. Several characteristics of culture are worth noting for their relevance to international business:

- Culture reflects *learned behavior* that is transmitted from one member of a society to another. Some elements of culture are transmitted intergenerationally, as when parents teach their children table manners. Other elements are transmitted intragenerationally, as when seniors educate incoming freshmen about a school's traditions.

E-WORLD

THE INTERNET, NATIONAL COMPETITIVENESS, AND CULTURE

What does it take to succeed in the Internet age? According to some experts, a country needs "superliquid and vast capital markets, venture-capital networks, world-class universities, risk-taking culture, restructuring ethos, and high-tech talent pools." The Internet, however, threatens to upset numerous culture norms. As you read this chapter, think about the requirements for success in the Internet age and the various elements of culture that are discussed. For example, you might consider the following questions:

- In some business cultures, pay is linked to seniority. Many small high-tech businesses, however, rely heavily on stock options to compensate their employees, and younger workers often have greater technical skills than older workers. How can such cultures reconcile these conflicting norms?
- Can group-oriented cultures that promote a slow, consensus-building style of decision making act quickly enough to compete in the fast-moving e-commerce environment?
- Some cultures dislike uncertainty and risk taking. How can they thrive in the Internet age, which to date has been characterized by high levels of uncertainty and risk?
- Some business cultures stress conducting business with those persons with whom you or your company have developed a long-term, trusting relationship. Is such an approach outmoded in the Internet age?

Source: Based on "Edging Towards the Information Age," *Businessweek*, January 31, 2000, p. 90.

- The elements of culture are *interrelated*. For example, Japan's group-oriented, hierarchical society stresses harmony and loyalty, which historically translated into lifetime employment and minimal job switching.
- Because culture is learned behavior, it is *adaptive*; that is, the culture changes in response to external forces that affect the society. For example, after World War II, Germany was divided into free-market-oriented West Germany and communist-controlled East Germany. Despite their having a common heritage developed over centuries, this division created large cultural differences between *Ossis* (East Germans) and *Wessis* (West Germans). The differences resulted from adaptations of the East German culture to the dictates of communist ideology regarding attitudes toward work, risk taking, and fairness of reward systems.
- Culture is *shared* by members of the society and indeed defines the membership in the society. Individuals who share a culture are members of a society; those who do not are outside the boundaries of the society.

In Practice

- Culture is not something we are born with. It is something we learn from other members of our society.
- Culture may affect business opportunities and business procedures. Firms should make sure that they understand the local culture before entering a new host country.

For further consideration: What types of cultures facilitate success in fast-moving industries like e-commerce?

Elements of Culture

A society's culture determines how its members communicate and interact with each other. The basic elements of culture (see Figure 4.1) are social structure, language, communication, religion, and values and attitudes. The interaction of these elements affects the local environment in which international businesses operate. They also affect the ability of countries to respond to changing circumstances, as "Bringing the World into Focus" suggests.

Social Structure

Basic to every society is its social structure, the overall framework that determines the roles of individuals within the society, the stratification of the society, and individuals' mobility within the society.

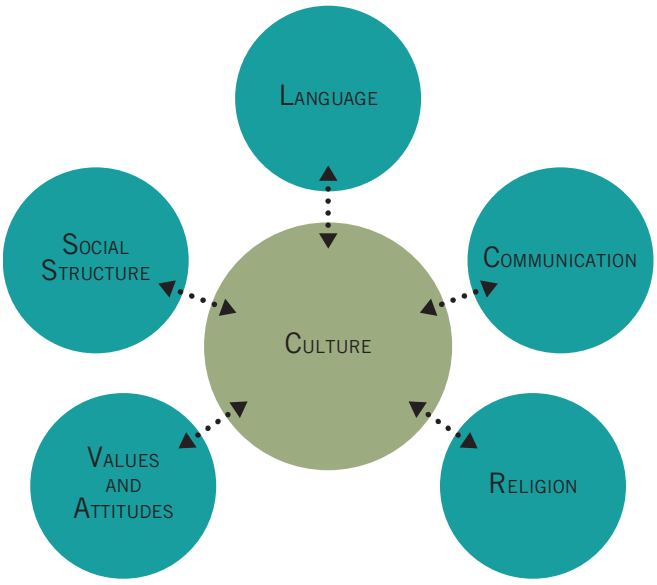

FIGURE 4.1
Elements of Culture

BRINGING THE WORLD INTO FOCUS

JAPAN'S DEMOGRAPHIC AND CULTURAL CHALLENGES

The first cultural element that plays a major role in Japanese business practices is the hierarchical structure of Japanese society. The social hierarchy strictly defines how people deal with each other in their day-to-day lives.

A second cultural element is "groupism." A person is identified as a member of a group rather than as an individual. This sense of belonging to one consensually integrated group is engrained in Japanese children. This strong group identity has been reinforced by Japan's ethnic homogeneity, and its relative isolation from the rest of the world until the 1850s.

The third element of the Japanese culture is *wa*, or social harmony. The goal of each group member is to promote harmony, or consensus, within the group. Decisions are not made within Japanese organizations by upper-management because that would upset the *wa*. The need to preserve *wa* is one reason many Japanese firms encourage Japanese salarymen to socialize after work.

A fourth cultural element is obligation, or duty. The individual, once hired, becomes indebted to the firm. The debt owed to the firm for agreeing to employ the person is so great that the person can never repay it. The person owes everything to the firm, and the firm's needs come first, even before personal and familial needs. The strong cultural disapproval of an employee moving to another firm stems from this facet of Japanese culture.

Sources: "Fujitsu to Institute Merit-Based Pay for All Employees," *Wall Street Journal*, March 26, 1998. p. B5; Richard G. Newman and K. Anthony Rhee, "Self-Styled Barriers Inhibit Transferring Management Methods," *Business Horizons*, May-June 1989, pp. 17–21.

The Image Works

Japanese culture stresses the importance of working together within groups and maintaining social harmony, or *wa*. An important task of this Japanese preschool is to teach its students the norms of the country's group-oriented, harmony-seeking culture, so that they can grow up to be productive members of Japanese society.

workplace cooperation. Until relatively recently, some British working-class youth dropped out of school, believing that their role in society was preordained and thus investment in education was a waste of time. In more socially mobile societies, such as those of the United States, Singapore, and Canada, individuals are more willing to seek higher education or to engage in entrepreneurial activities, knowing that if they are successful, they and their families are free to rise in society.

Language

Language is a primary delineator of cultural groups because it is an important means by which a society's members communicate with each other. Experts have identified some 3,000 different languages and as many as 10,000 distinct dialects worldwide (see Map 4.1).[5]

Language organizes the way members of a society think about the world. It filters observations and perceptions and thus affects unpredictably the messages that are sent when two individuals try to communicate. In one famous experiment in Hong Kong, 153 undergraduate students, bilingual in English and Chinese, were divided into two groups. One group was given a class assignment written in English; the other was given the same assignment written in Chinese. The professor in charge of the experiment took every precaution to ensure that the translations were perfect, yet the answers given by the two groups differed significantly, indicating that the language itself altered the nature of the information being conveyed.[6]

In addition to shaping one's perceptions of the world, language provides important clues about the cultural values of the society and aids acculturation. For example, many languages, including French, German, and Spanish, have informal and formal versions of the word *you*, the use of which depends on the relationship between the speaker and the person addressed.[7] Existence of these language forms provides a strong hint that one should take care in maintaining an appropriate level of formality when dealing with business people from countries in which those languages predominate.

The presence of more than one language group is an important signal about the diversity of a country's population and suggests that there may also be differences in income, cultural values, and educational achievement. For instance, India recognizes 16 official languages, and approximately 3,000 dialects are spoken within its boundaries, a reflection of the heterogeneity of its society. In several mountainous countries of South America, including Bolivia, Paraguay, and Peru, many poor rural residents speak local Indian dialects and have trouble communicating with the Spanish-speaking urban elites. Generally, countries dominated by one language group tend to have a homogeneous society, in which nationhood defines the society. Countries with multiple language groups tend to be heterogeneous, with language providing an important means of identifying cultural differences within the country.

Savvy businesspeople operating in heterogeneous societies adapt their marketing and business practices along linguistic lines to account for cultural differences among their prospective customers. For example, market researchers discovered that English Canadians favor soaps that promise cleanliness, whereas French Canadians prefer pleasant- or sweet-smelling soaps. Thus, Procter & Gamble's English-language Canadian ads for Irish Spring soap stress the soap's deodorant value, while its French-language ads focus on the soap's pleasant aroma.[8] Generally, advertisers should seek out the media—newspapers, radio, cable television, and magazines—that allow them to customize their marketing messages to individual linguistic groups. For instance, in the United States the development of Spanish-language television networks such as Univision and Telemundo has allowed advertisers to more easily customize their advertisements to reach the Hispanic market, without confusing their marketing messages to the larger, English-speaking audience.

LANGUAGE AS A COMPETITIVE WEAPON Linguistic ties often create important competitive advantages because the ability to communicate is so important in conducting business transactions. Commerce among Australia, Canada, New Zealand, the United Kingdom, and the United States is facilitated by their common use of English. For example, when Giro Sport Design, a California-based manufacturer of bicycle helmets, decided to fabricate its products in Europe rather than export from the United States, the firm told its location consultants to find a plant site in an English-speaking country. Its president noted, "With all the problems you have in running a business abroad, we didn't want to be bothered by language."[9] The firm located its

translation of Pillsbury's Jolly Green Giant for the Saudi Arabian market was "intimidating green ogre"—a different image from what the firm intended (although it still might encourage children to eat their peas).

Firms can reduce the chances that they are sending the wrong message to their customers by using a technique known as backtranslation. With **backtranslation**, one person translates a document, then a second person translates the translated version back into the original language. This technique provides a check that the intended message is actually being sent, thus avoiding communication mistakes.

When communications to non-native speakers must be made in the home country's language, speakers and writers should use common words, use the most common meanings of those words, and try to avoid idiomatic phrases. Caterpillar is faced with the problem of communicating with the diverse international users of its products. It developed its own language instruction program called Caterpillar Fundamental English (CFE), which it uses in its overseas repair and service manuals. CFE is a simplified, condensed version of English that can be taught to non-English-speaking people in 30 lessons. It consists of 800 words that are necessary to repair Caterpillar's equipment: 450 nouns, 70 verbs, 100 prepositions, and 180 other words.[15] A similar approach developed by the European Association of Aerospace Industries, "Simplified English," is required to be used in aircraft maintenance manuals written for its members. It has subsequently been adopted as an international standard in the industry.[16]

SAYING NO Another cultural difficulty international businesspeople face is that words may have different meanings to persons with diverse cultural backgrounds. North Americans typically translate the Spanish word *mañana* literally to mean "tomorrow," but in parts of Latin America, the word is used to mean "some other day—not today."

Even the use of yes and no differs across cultures. In contract negotiations, Japanese businesspeople often use yes to mean "Yes, I understand what is being said." Foreign negotiators often assume that their Japanese counterparts are using yes to mean "Yes, I agree with you" and are disappointed when the Japanese later fail to accept contract terms that the foreigners had assumed were agreed to. Misunderstandings can be compounded because directly uttering "no" is considered impolite or inhospitable in Japan, as well as in China, India, and the Middle East. In such cultures, negotiators who find a proposal unacceptable will, to be polite, suggest that it "presents many difficulties" or requires "further study."[17] Foreigners waiting for a definitive "no" may have to wait a long time. Such behavior may be considered evasive in U.S. business culture, but it is the essence of politeness in these business cultures.

Communication

Communicating across cultural boundaries, whether verbally or nonverbally, is a particularly important skill for international managers. Although communication can often go awry between people who share a culture, the chances of miscommunication increase substantially when the people are from different cultures. In such cases, the senders encode messages using their cultural filters and the receivers decode the same messages using their filters. The result of using different cultural filters is often a misunderstanding that is expensive to resolve. For example, a contract between Boeing and a Japanese supplier called for the fuselage panels for Boeing's 767 aircraft to have a "mirror finish." Labor costs for the part were higher than expected because the Japanese supplier polished and polished the panels to achieve what it believed to be the desired finish, when all Boeing wanted was a shiny surface.[18]

NONVERBAL COMMUNICATION Members of a society communicate with each other using more than words. In fact, some researchers believe 80 to 90 percent of all information is transmitted among members of a culture by means other than language.[19] This nonverbal communication includes facial expressions, hand gestures, intonation, eye contact, body positioning, and body posture. In the United States, for example, businesspersons often greet colleagues, customers, or suppliers with a handshake. In Brazil, hugs, backclasps, and cheek-kisses, as well

However, business gifts are opened in private so as not to cause the giver to lose face should the gift be too expensive or too cheap relative to the gift offered in return. Because the rules for gift-giving can be quite complicated, even to native Japanese, etiquette books that detail the appropriate gift for each circumstance are available.

Arab businesspeople, like the Japanese, are concerned about their ability to work with their proposed business partners; the quality of the people one deals with is just as important as the quality of the project. Thus, the business culture of Arab countries also includes gift-giving and elaborate and gracious hospitality as a means of assessing these qualities. Unlike in Japan, however, business gifts are opened in public so that all may be aware of the giver's generosity.

Hospitality customs also differ. When wooing clients, power-lunching U.S. executives often seek the most conspicuous table in a fancy restaurant as a means of communicating their status and clout. Conversely, in China business banquets are an important mechanism for developing the personal relationships so important in that business culture. However, such events, which typically feature rounds of toasting interspersed with numerous courses of expensive delicacies, are normally located in a private dining room of an expensive restaurant. The U.S. executive's "see and be seen" desire is the antithesis of the Chinese executive's desire for privacy.[24]

Norms of hospitality even affect the way bad news is delivered in various cultures. In the United States bad news is typically delivered as soon as it is known. In Korea it is delivered at day's end so it will not ruin the recipient's whole day. Further, in order not to disrupt personal relationships, the bad news is often only hinted at. In Japan maintaining harmony among participants in a project is emphasized, so bad news often is communicated informally from a junior member of one negotiating team to a junior member of the other team. Even better, a third party may be used to deliver the message to preserve harmony within the group.

Religion

Religion is an important aspect of most societies. It affects the ways in which members of a society relate to each other and to outsiders. Approximately 84 percent of the world's 6.9 billion people claim some religious affiliation. As reflected in Map 4.3, 77 percent of the world's population adheres to one of four religions: Christianity (31.5 percent), including Roman Catholics, Protestants, and Eastern Orthodox; Islam (23.2 percent); Hinduism (15.0 percent); and Buddhism (7.1 percent).[25]

Religion shapes the attitudes its adherents have toward work, consumption, individual responsibility, and planning for the future. Sociologist Max Weber, for example, has associated the rise of capitalism in Western Europe with the **Protestant ethic**, which stresses individual hard work, frugality, and achievement as means of glorifying God. The Protestant ethic makes a virtue of high savings rates, constant striving for efficiency, and reinvestment of profits to improve future productivity, all of which are necessary for the smooth functioning of a capitalist economy.

In contrast, Hinduism emphasizes spiritual accomplishment rather than economic success. The goal of a Hindu is to achieve union with Brahma, the universal spirit, by leading progressively more ascetic and pure lives as one's reincarnated soul goes through cycles of death and rebirth. The quest for material possessions may delay one's spiritual journey. Thus, Hinduism provides little support for capitalistic activities such as investment, wealth accumulation, and the constant quest for higher productivity and efficiency.

Islam, although supportive of capitalism, places more emphasis on the individual's obligation to society. According to Islam, profits earned in fair business dealings are justified, but a firm's profits may not result from exploitation or deceit, for example, and all Muslims are expected to act charitably, justly, and humbly in their dealings with others. The Islamic prohibition against payment or receipt of interest, noted in Chapter 3, results from a belief that the practice represents exploitation of the less fortunate. Firms wishing to do business with Muslim customers must often adapt their policies and procedures even in non-Muslim countries, as "Bringing the World into Focus" demonstrates.

Religion affects the business environment in other important ways. Often religions impose constraints on the roles of individuals in society. For example, the caste system of Hinduism

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The Islamic faithful, which constitute 23 percent of the world's population, are called to prayer 5 times a day. These ritual prayers consist of verses from the Koran recited in Arabic. During the holy month of Ramadan, Muslim faithful abstain from food and drink from dawn to dusk. These practices are designed to bring the believers closer to Allah.

BRINGING THE WORLD INTO FOCUS

ISLAMIC FINANCE

Islam, one of the great religions of the world, was nurtured within the trading traditions of the Arabian peninsula. The Prophet Mohammed was a trader, as was his immediate successor, Abu Bakr. Islamic traders dominated the critical trade routes between the Mediterranean and Asia from the mid-seventh century until the end of the fifteenth century, when Vasco da Gama's voyages pioneered new sea routes that were soon controlled by European merchants and naval vessels.

The Prophet Mohammed emphasized that commerce must be conducted fairly and honestly. One important tenet of Islamic, or sharia law, forbids receipt or payment of interest, viewing such transactions as exploitation of the poor by the rich. Yet credit is an important component of modern commerce, and adherents of Islam are important contributors to the growth of world commerce. Islamic banking, *sukuk* (Islamic) bonds, and even hedge funds operating within Islamic tenets are growing leaps and bounds.

Sharia law may forbid interest payments, but it recognizes that it is appropriate that those who take risks be rewarded. Accordingly, sharia-compliant loans typically are structured as risk-sharing arrangements. Often the banker buys the property or item in question from the seller, takes title to the property, and then resells it to the borrower at a higher price. The mark-up charged by the banker is equivalent to the interest payments the banker would have received had the loan been drawn up by a Western bank. As in a traditional auto loan or home mortgage loan, the borrower makes periodic payments to the bank. The payments compensate for the use of the property (a rental payment) and purchase a portion of the lender's ownership interest in the property. The banker retains the title to the property in question until the borrower purchases all of its ownership interest in the property. Once this occurs, the banker transfers the property title to the borrower. The payments are equivalent to what the bank would have received under a more traditional loan. Such a loan is acceptable, because the bank is earning its profit through trading, not interest.

Another common approach is to structure the purchase and loan as a lease-buyback transaction. The borrower makes a series of fixed payments to the lender for the use of the property over the agreed-on period of time. At the end of the contract, the borrower buys the good in question for a previously agreed-on price. The rental payments and the final price allow the lender to recoup the initial cost of the good plus a profit.

Some sharia lenders have pioneered a different model for financing home purchases. Conceptually, the lender and the borrower form a partnership to purchase the home. They then establish a fair rental value for the home. The rental payments that the borrower makes are split between the borrower and lender, in proportion to their equity share. The borrower also agrees to make periodic payments to buy out the lender's equity ownership over time. This joint rental and equity payment, which sounds similar to the "principal and interest" payments made by millions of non-Muslim homeowners in Asia, Europe, and the Americas, is nonetheless compatible with the requirements of sharia law. (For more information on this technique, you might wish to visit the website of the largest sharia-compliant mortgage lender in the United States, American Finance House Lariba at www.lariba.com).

Sources: www.lariba.com; "Savings and souls," *The Economist*, September 6, 2008; "Faith-based finance," *The Economist*, September 6, 2008; "Turning towards Mecca," *The Economist*, May 10, 2008; William J. Bernstein, *A Splendid Exchange: How Trade Shaped the World* (New York: Atlantic Monthly Press, 2008); "When interest is forbidden by religion," *Wall Street Journal*, March 9, 2003, p. E5.

traditionally has restricted the jobs individuals may perform, thereby affecting the labor market and foreclosing business opportunities.[26] Countries dominated by strict adherents to Islam, such as Saudi Arabia, limit job opportunities for women, in the belief that their contact with adult males should be restricted to relatives. Religion may also affect the way products are sold. In Nigeria, advertisements in the predominantly Christian south might feature attractive women mouthing double entendres, following the old Madison Avenue precept that "sex sells"; in the predominantly Muslim north that approach would not be beneficial.[27]

Religion also affects the types of products consumers may purchase as well as seasonal patterns of consumption. In most Christian countries, for example, the Christmas season represents an important time for gift-giving, yet little business is done on Christmas Day itself. Although consumption booms during the Christmas holidays, production plummets as employees take time off to visit friends and family.

The impact of religion on international businesses varies from country to country, depending on the country's legal system, its homogeneity of religious beliefs, and its toleration of other religious viewpoints. Consider Saudi Arabia, home of the holy city of Mecca, to which all Muslims are supposed to make a pilgrimage sometime in their lives. The teachings of the *Koran* form the basis of the country's theocratic legal system, and 99 percent of the Saudi population is Muslim. Strong political pressure exists within the country to preserve its religious traditions. It is impossible to overstate the importance to foreign businesspeople of understanding the tenets of Islam as they apply to exporting, producing, marketing, or financing goods in the Saudi market. For example, work stops five times a day when the faithful are called to pray to Allah. A non-Muslim manager would be foolish to object to the practice even though it seemingly leads to lost production. Foreigners must also be considerate of their Saudi hosts during the holy month of Ramadan, when the Muslim faithful fast from sunrise to sunset. Female executives of Western firms face additional obstacles because of Saudi attitudes toward the appropriate roles for women, attitudes that stem from their religion. Even actions taken outside Saudi borders may affect commercial relations with the country. For example, McDonald's made a major faux pas when it printed the flags of the 24 soccer teams participating in the World Cup finals, including that of Saudi Arabia, on its paper takeout bags. The Saudi flag includes a sacred inscription that reads, "There is no God but Allah, and Mohammed is His Prophet." Muslims in Saudi Arabia and other countries were outraged, believing that Islam had been insulted by including the name of Allah on a container that would be thrown into garbage cans. McDonald's quickly apologized and pledged to stop using the bags, thereby diffusing a controversy that would have affected its business in Saudi Arabia and other Muslim countries. Nike made a similar gaffe when Muslim groups protested that the logo designed for a line of athletic shoes it was introducing resembled the Arabic word for God, Allah. Nike quickly pulled the footwear from production and redesigned the offending logo.[28]

In many other countries, however, religion, although important, does not permeate every facet of life. For example, in many South American countries most of the population is Roman Catholic. But other religions are also practiced, and tolerance of those religions is high. The Catholic Church is an important pillar of these societies, but only one of many institutions that affect and shape the daily lives of the citizens. Yet public holidays reflect Christian theology (Easter, Christmas), as does the workweek (Sunday is the day of rest). A firm operating in these countries thus needs to adjust its production and employee scheduling to meet the expectations of its workers and customers. Firms operating in Sweden, which is 97 percent Lutheran, must make similar adjustments.

Ironically, countries characterized by religious diversity may offer even greater challenges. Firms that operate in the cosmopolitan cities of London and New York, such as Barclays Bank, Hoffmann-LaRoche, and IBM, must accommodate the religious needs of their Jewish, Christian, Muslim, and Hindu employees and customers by taking into account differences in religious holidays, dietary restrictions or customs, and Sabbath days. Firms that fail to adjust to these needs may suffer from absenteeism, low morale, and lost sales.

Values and Attitudes

Culture also affects and reflects the secular values and attitudes of the members of a society. Values are the principles and standards accepted by the members; attitudes encompass the actions, feelings, and thoughts that result from those values. Cultural values often stem from deep-seated beliefs about the individual's position in relation to his or her deity, the family, and

in France—which virtually guarantee their graduates placement in the most important corporate and governmental jobs in their societies.[31]

STATUS The means by which status is achieved also vary across cultures. In some societies status is inherited as a result of the wealth or rank of one's ancestors. In others it is earned by the individual through personal accomplishments or professional achievements. In some European countries, for example, membership in the nobility ensures higher status than does mere personal achievement, and persons who inherited their wealth look down their noses at the nouveau riche. In the United States, however, hard-working entrepreneurs are honored, and their children are often disdained if they fail to match their parents' accomplishments.

In Japan a person's status depends on the status of the group to which he or she belongs. Thus, Japanese businesspeople often introduce themselves by announcing not only their names but also their corporate affiliation. Attendance at elite universities such as Tokyo University or employment in elite organizations such as Toyota Motor Corporation or the Ministry of Finance grants one high status in Japanese society.

In India status is affected by one's caste. The caste system divides society into various groups including *Brahmins* (priests and intellectuals), *Kshatriyas* (soldiers and political leaders), *Vaishyas* (businesspeople), *Sudras* (farmers and workers), and *Dalits* (untouchables), who perform the dirtiest and most unpleasant jobs. According to Hinduism, one's caste reflects the virtue (or lack of virtue) that one exhibited in a previous life. Particularly in rural areas, caste used to affect every facet of life, from the way a man shaped his mustache to the food the family ate to the job a person could hold.[32] However, the power of the caste system in rural areas is slowly eroding as a result of government affirmative action policies and the growing scarcity of high-skilled employees needed by India's high-tech industries. Infosys, for example, has been forced to broaden its recruiting efforts to 700 colleges, many of which are located in semirural areas where lower-caste individuals often live, in order to acquire the talented workers it requires. A decade ago, the high-tech firm could meet its hiring needs by recruiting at 50 Indian universities, most of which were located in urban areas.[33]

In Practice

- Communication is critical to avoiding business misunderstandings, so accordingly linguistic ties often facilitate commerce between countries.
- Religion often shapes attitudes toward hard work, investment, fairness, payment of interest, and treatment of others.

For further consideration: How would you characterize the values of your home country's culture?

Seeing the Forest, Not the Trees

The various elements of national culture affect the behavior and expectations of managers and employees in the workplace. International businesspeople, who face the challenge of managing and motivating employees with different cultural backgrounds, need to understand these cultural elements if they are to be effective managers. To a beginning student in international business, however, this discussion of the elements of culture can be confusing. Moreover, many students and businesspeople panic at the thought of memorizing a bunch of rules—"the French do this," "the Saudis do that," and so on. Fortunately, numerous scholars have tried to make sense of the various elements of culture. Their efforts make it easier for international managers to understand the big picture regarding a country's culture and how it affects their ability to manage their firms. In this section, we present the work of several of these scholars.

Hall's Low-Context–High-Context Approach

One useful way of characterizing differences in cultures is the low-context–high-context approach developed by Edward and Mildred Hall.[34] In a **low-context culture**, the words used by the speaker explicitly convey the speaker's message to the listener. Anglo-Saxon countries,

TABLE 4.2 Examples of Low and High Context Cultures

Low-Context Cultures	High-Context Cultures
German	Chinese
Swiss	Korean
Austrian	Japanese
Scandinavian	Vietnamese
U.S./Canadian	Arab
British	Greek
Australian	Spanish

such as Canada, the United Kingdom, and the United States, and Germanic countries are good examples of low-context cultures (see Table 4.2). In a **high-context culture**, the context in which a conversation occurs is just as important as the words that are actually spoken, and cultural clues are important in understanding what is being communicated. Examples are Arab countries and Japan.

Business behaviors in high-context cultures often differ from those in low-context cultures. For example, German advertising is typically fact oriented, whereas Japanese advertising is often more emotion oriented.[35] High-context cultures place higher value on interpersonal relations in deciding whether to enter into a business arrangement. In such cultures preliminary meetings are often held to determine whether the parties can trust each other and work together comfortably. Low-context cultures place more importance on the specific terms of a transaction.[36] In low-context cultures such as Canada, the United Kingdom, and the United States, lawyers are often present at negotiations to ensure that their clients' interests are protected. Conversely, in high-context cultures such as Saudi Arabia, Japan, and Egypt, the presence of a lawyer, particularly at the initial meeting of the participants, would be viewed as a sign of distrust. Because these cultures value long-term relationships, an assumption by a potential partner that one cannot be trusted may be sufficient grounds to end the negotiations. Table 4.3 provides additional information about differences in negotiating styles across cultures.

The Cultural Cluster Approach

The cultural cluster approach is another technique for classifying and making sense of national cultures. Similarities exist among many cultures, thereby reducing some of the need to customize business practices to meet the demands of local cultures. Anthropologists, sociologists, and international business scholars have analyzed such factors as job satisfaction, work roles, and interpersonal work relations in an attempt to identify clusters of countries that share similar cultural values that can affect business practices. Map 4.4 shows ten country clusters, synthesized from the work of several teams of researchers. A **cultural cluster** comprises countries that share many cultural similarities, although differences do remain. Many clusters are based on language similarities, as is apparent in the Anglo, Germanic, Latin American, and Middle East (excepting Turkey) clusters and, to a lesser extent, in the Nordic and Latin European clusters. Of course, one can disagree with some placements of countries within clusters. Spain and the countries of Latin America share many culture values, for example.

Many international businesses instinctively use the cultural cluster approach in formulating their internationalization strategies. U.S. firms' first exporting efforts often focus on Canada and the United Kingdom. Hong Kong and Taiwanese firms have been successful in exploiting China's markets. Similarly, many Spanish firms have chosen to focus their international expansion efforts on Spanish-speaking areas in the Americas.

Closeness of culture may affect the form that firms use to enter foreign markets. Researchers have found, for example, that Canadian firms are more likely to enter the British market by establishing joint ventures with British firms, whereas Japanese firms are more likely to enter the British market via a **greenfield investment**, that is, a brand-new investment. The likely reason for the difference? Because of the relative closeness of their national cultures, Canadian firms are more comfortable working with British partners than are Japanese firms.[37]

TABLE 4.3 Differences in Negotiating Styles across Cultures

Japanese	North American	Latin American
Emotional sensitivity highly valued.	Emotional sensitivity not highly valued.	Emotional sensitivity valued.
Hiding of emotions.	Dealing straightforwardly or impersonally.	Emotionally passionate.
Subtle power plays; conciliation.	Litigation not as much as conciliation.	Great power plays; use of weakness.
Loyalty to employer. Employer takes care of its employees.	Lack of commitment to employer. Breaking of ties by either if necessary.	Loyalty to employer (who is often family).
Group decision-making consensus.	Teamwork provides input to a decision maker.	Decisions come down from one individual.
Face-saving crucial. Decisions often made on basis of saving someone from embarrassment.	Decisions made on a cost-benefit basis. Face-saving does not always matter.	Face-saving crucial in decision making to preserve honor, dignity.
Decision makers openly influenced by special interests.	Decision makers influenced by special interests but often this is not considered ethical.	Execution of special interests of decision maker expected, condoned.
Not argumentative. Quiet when right.	Argumentative when right or wrong, but impersonal.	Argumentative when right or wrong; passionate.
What is down in writing must be accurate, valid.	Great importance given to documentation as evidential proof.	Impatient with documentation as obstacle to understanding general principles.
Step-by-step approach to decision making.	Methodically organized decision making.	Impulsive, spontaneous decision making.
Good of group is the ultimate aim.	Profit motive or good of individual ultimate aim.	What is good for the group is good for the individual.
Cultivate a good emotional social setting for decision making. Get to know decision makers.	Decision making impersonal. Avoid involvements, conflicts of interest.	Personalism necessary for good decision making.

Source: Pierre Casse, *Training for the Multicultural Manager: A Practical and Cross-Cultural Approach to the Management of People*. Sietar International © 1982. Reprinted with permission. All rights reserved.

Hofstede's Five Dimensions

The most influential studies analyzing cultural differences and synthesizing cultural similarities are those performed by Geert Hofstede, a Dutch researcher who studied 116,000 people working for IBM in dozens of different countries. Although Hofstede's work has been criticized for methodological weaknesses and his own cultural biases, it remains the largest and most comprehensive work of its kind. Hofstede's work identified five important dimensions along which people seem to differ across cultures. These dimensions are shown in Figure 4.2. Note that these dimensions reflect tendencies within cultures, not absolutes. Within any given culture, there are likely to be people at every point on each dimension. Moreover, cultures can change over time, albeit usually slowly.[38]

Social Orientation

The first dimension identified by Hofstede is social orientation.[39] **Social orientation** is a person's beliefs about the relative importance of the individual and the groups to which that person belongs. The two extremes of social orientation, summarized in Table 4.4, are individualism and collectivism. **Individualism** is the cultural belief that the person comes first. Key values of individualistic people include a high degree of self-respect and independence. These people often put their own career interests before the good of their organizations, and they

TABLE 4.4 Extremes of Social Orientation

Collectivism	Individualism
Children learn to think in terms of *we*; use of the word *I* is avoided	Children learn to think in terms of *I*; use of the word *I* is encouraged
Interdependent self	Independent self
Education focuses on learning how to do	Education focuses on learning how to learn
Employer–employee relationship essentially moral, like a family relationship	Employer–employee relationship is a contract in the labor market
Value standards differ for in-groups and out-groups: exclusionism	Same values apply to everyone: universalism
Harmony should be maintained; avoid confrontation	An honest person speaks one's mind
Relationship prevails over task	Task prevails over relationship
High-context communication prevails	Low-context communication prevails
Social network is primary source of information	Media is primary source of information

Source: Geert Hofstede, Gert Jan Hofstede, and Michael Minkov. *Cultures and Organizations: Software of the Mind*, Third Edition. New York: McGraw-Hill, 2010.

These cultural differences help to explain the widely publicized differences in chief executive officer (CEO) pay between the United States and Japan. In group-oriented Japan the CEO's pay symbolically reflects the performance of the group. In the United States the CEO's pay is presumed to measure the CEO's contribution to the firm. Even the way the issue is framed reflects the cultural values of the United States: The question "How can President Smith of the XYZ Corporation be worth $10 million?" implicitly assumes that the CEO's pay should measure his or her individual contribution to the organization.

A similar pattern characterizes the career progression and job mobility of employees. In individualistic societies a person's career path often involves switching employers in search of higher-paying and more challenging jobs so that the person can prove his or her capabilities in new and changing circumstances. Indeed, in the United States a person's failure to accept a better-paying job at another firm raises suspicions about the person's ambition, motivation, and dedication to his or her career. However, in collectivistic cultures, such as Japan, changing jobs is often interpreted as reflecting disloyalty to the collective good (the firm) and may brand the person as unworthy of trust.[40] Because of this stigma, job switchers traditionally have had difficulties finding appropriate jobs in other Japanese companies. Although this norm is changing because of the economic stresses Japan has undergone in the past two decades, job mobility is much lower in Japan than in the United States.

Power Orientation

The second dimension Hofstede proposed is power orientation. **Power orientation** refers to the beliefs that people in a culture hold about the appropriateness of power and authority differences in hierarchies such as business organizations. The extremes of the dimension of power orientation are summarized in Table 4.5.

Some cultures are characterized by **power respect**. This means that people in a culture tend to accept the power and authority of their superiors simply on the basis of the superiors' positions in the hierarchy. These same people also tend to respect the superiors' right to that power. People at all levels in a firm accept the decisions and mandates of those above them because of the implicit belief that higher-level positions carry the right to make decisions and issue mandates. Hofstede found people in France, Spain, Mexico, Japan, Brazil, Indonesia, and Singapore to be relatively power respecting.

In contrast, people in cultures characterized by **power tolerance** attach much less significance to a person's position in the hierarchy. These people are more willing to question a decision or mandate from someone at a higher level or perhaps even refuse to accept it.

Uncertainty Orientation

The third basic dimension of cultural differences Hofstede studied is uncertainty orientation. **Uncertainty orientation** is the feeling people have regarding uncertain and ambiguous situations. The extremes of this dimension are summarized in Table 4.6.

People in cultures characterized by **uncertainty acceptance** are stimulated by change and thrive on new opportunities. Ambiguity is seen as a context within which an individual can grow, develop, and carve out new opportunities. In these cultures certainty carries with it a sense of monotony, routineness, and overbearing structure. Hofstede suggested that many people from the United States, Denmark, Sweden, Canada, Singapore, Hong Kong, and Australia are uncertainty accepting.

In contrast, people in cultures characterized by **uncertainty avoidance** dislike ambiguity and will avoid it whenever possible. Ambiguity and change are seen as undesirable. These people tend to prefer a structured and routine, even bureaucratic, way of doing things. Hofstede found that many people in Austria, Japan, Italy, Colombia, France, Peru, and Belgium tend to avoid uncertainty whenever possible.

Uncertainty orientation affects many aspects of managing international firms. Those operating in uncertainty-avoiding countries, for example, tend to adopt more rigid hierarchies and more elaborate rules and procedures for doing business. Conversely, uncertainty-accepting cultures are more tolerant of flexible hierarchies, rules, and procedures. Risk taking ("nothing ventured, nothing gained") is highly valued in uncertainty-accepting cultures such as that of the United States and Hong Kong, whereas preserving the status and prestige of the firm through conservative, low-risk strategies is more important in uncertainty-avoiding countries such as Spain, Belgium, and Argentina. Not surprisingly, uncertainty-accepting cultures may be more attuned with the needs of the new e-commerce economy than uncertainty-avoiding ones. And recent research suggests that firms operating in uncertainty-avoiding cultures, such as France or Germany, tend to rely on banks to raise capital, whereas firms in uncertainty-accepting cultures are more likely to rely on the stock market.[44]

The second-guessing that followed the 1998 crash of Swissair 111 off the coast of Nova Scotia provides a dramatic example of how uncertainty orientation influences business practices. Smoke suddenly filled the cabin of the plane as it was en route from New York to Geneva. The Swissair pilot swung the troubled aircraft out to sea to dump excess fuel before landing. Unfortunately, the plane plunged into the sea before it could reach safety. A controversy broke out over whether the pilot's decision to circle and dump fuel before landing was correct. Some U.S. airline pilots interviewed by the media suggested that the pilot should have landed the plane as soon as possible once smoke was detected. Swissair officials defended their pilot, noting that the captain followed Swissair's emergency procedures published in the carrier's operating manual.

TABLE 4.6 Extremes of Uncertainty Orientation

Uncertainty Acceptance	Uncertainty Avoidance
Comfortable with ambiguous situations and with unfamiliar risks	Fear of ambiguous situations and unfamiliar risks
Tolerance for ambiguity and chaos	Need for precision and formalization
Students prefer open-ended learning situations and are concerned with good discussions	Students prefer structured learning situations and are concerned with the right answers
Teachers may say, "I don't know"	Teachers are supposed to have all the answers
Teachers involve parents	Teachers inform parents
What is different is curious	What is different is dangerous
There should be no more rules than strictly necessary	There is an emotional need for rules
Top managers are concerned with strategy	Top managers are concerned with daily operations

Source: Geert Hofstede, Gert Jan Hofstede, and Michael Minkov, *Cultures and Organizations: Software of the Mind*, Third Edition. New York: McGraw-Hill, 2010.

The U.S. pilots retorted that in such emergencies pilots should exercise their independent judgment, regardless of what is contained in the company manual. Swissair officials countered that the procedures detailed in the manual reflected the state-of-the-art understanding of what to do in an emergency, and thus its pilots did the right thing in adhering to the manual. The "rules are there to be obeyed" viewpoint of Swissair's officials reflects their country's uncertainty-avoiding culture, whereas the "rules are made to be broken" attitude of U.S. pilots reflects the uncertainty-accepting norms of the United States.

It is interesting to consider uncertainty orientation along with the social orientation dimension. Job mobility is likely to be higher in uncertainty-accepting countries than in those characterized by uncertainty avoidance. Some Japanese firms have traditionally used lifetime employment practices partly in response to the uncertainty-avoiding and collectivistic tendencies of the Japanese culture. Because of the lifetime employment relationship, Japanese firms take considerable care in selecting employees and force job applicants to undergo rigorous testing and interviewing before being hired. Once hired, employees recognize that their jobs depend on the long-term survival of their employer and that their jobs are secure as long as the firm is secure.

However, lifetime employment—as well as the seniority-based pay and promotion policies traditionally used by Japanese firms—may not be an effective policy when transplanted to individualistic and uncertainty-accepting countries. For example, Japanese firms operating in uncertainty-accepting Canada and the United States have been forced to modify their pay and promotion policies because North American workers are more oriented toward an individualistic "pay me what I'm worth" attitude and are less worried about job security than are their counterparts in Japan.

Goal Orientation

Hofstede's fourth dimension, **goal orientation**, is the manner in which people are motivated to work toward different kinds of goals. One extreme on the goal orientation continuum is **aggressive goal behavior** (see Table 4.7). People who exhibit aggressive goal behavior tend to place a high premium on material possessions, money, and assertiveness. At the other extreme, people who adopt **passive goal behavior** place a higher value on social relationships, quality of life, and concern for others.

According to Hofstede, cultures that value aggressive goal behavior also tend to define gender-based roles somewhat rigidly, whereas cultures that emphasize passive goal behavior do not. In cultures characterized by extremely aggressive goal behavior, men are expected to work and to focus their careers in traditionally male occupations; women are generally expected not to work outside the home and to focus on their families. If they do work outside the home, they are usually expected to pursue work in areas traditionally dominated by women. According to Hofstede's research, many people in Japan tend to exhibit relatively aggressive goal behavior,

TABLE 4.7 Extremes of Goal Orientation

Passive Goal Behavior	Aggressive Goal Behavior
Relationships and quality of life are important	Challenge, earnings, recognition, and advancement are important
Average student is the norm; praise for weak students	Best student is the norm; praise for excellent students
Failing in school is a minor incident	Failing in school is a disaster
Job choice is based on intrinsic interest	Job choice is based on career opportunities
Resolution of conflict through compromise and negotiation	Resolution of conflict by letting the strongest win
Rewards based on equality	Rewards based on equity
People work to live	People live to work
Leisure time is preferred over money	Money is preferred over leisure time

Source: Geert Hofstede, Gert Jan Hofstede, and Michael Minkov, *Cultures and Organizations: Software of the Mind*, Third Edition. New York: McGraw-Hill, 2010.

whereas many people in Germany, Mexico, Italy, and the United States exhibit moderately aggressive goal behavior. Men and women in passive goal behavior cultures are more likely both to pursue diverse careers and to be well represented within any given occupation. People from the Netherlands, Norway, Sweden, Denmark, and Finland tend to exhibit relatively passive goal behavior. Norway, for example, was the first country to mandate that at least 40 percent of corporate board directors be female.[45] A minimum of 60 days of the 480 days of paid parental leave provided by Swedish law is reserved for the father; an estimated 85 percent of Swedish fathers take advantage of the paid leave. The program is credited with boosting women's wages and reducing the country's divorce rate.[46]

These cultural attitudes affect international business practices in many ways. One study showed that decisions made by Danish managers (a passive goal behavior culture) incorporate societal concerns to a greater extent than decisions made by more profit-oriented U.S., British, and German executives (from more aggressive goal behavior cultures).[47] Similarly, studies of the Swedish workforce indicate that the country's egalitarian traditions, as well as workers' desires to maintain comfortable work schedules, often make promotions less desirable than in other countries. Many Swedish workers prefer more fringe benefits rather than higher salaries.[48] Or consider the impact of the role of women in business. In Sweden the high proportion of dual-career families makes it difficult for many workers to accept a promotion if it entails moving. Not surprisingly, Swedish firms are among the world's leaders in providing fringe benefits such as maternity and paternity leave and company-sponsored child care.

Time Orientation

Hofstede's fifth dimension, **time orientation**, is the extent to which members of a culture adopt a long-term versus a short-term outlook on work, life, and other aspects of society. Some cultures, such as those of Japan, Hong Kong, Taiwan, and South Korea, have a long-term, future orientation that values dedication, hard work, perseverance, and thrift. Other cultures, including those of Pakistan, Nigeria, and the Philippines, tend to focus on the past and present, emphasizing respect for traditions and fulfillment of social obligations. Hofstede's work suggests that the United States and Germany tend to have an intermediate time orientation.

In Practice

- In low-context cultures, addressing the task at hand is more important than building a relationship; in high-context cultures, the reverse is true.
- Hofstede's framework identifies five important dimensions that distinguish one national culture from another.

For further consideration: How would you evaluate yourself on each of Hofstede's dimensions?

International Management and Cultural Differences

Some experts believe the world's cultures are growing more similar as a result of improvements in communication and transportation. Thanks to MTV and CNN, teenagers worldwide have been able to enjoy the wit and wisdom of JWoww, Snooki, and Pauly D, and their parents can learn about politics, scandals, disasters, and culture in other countries. Lower airfares generated by increased airline competition mean that more tourists can learn about other cultures firsthand. MNCs facilitate this process of **cultural convergence**, for better or worse, through their advertisements that define appropriate lifestyles, attitudes, and goals and by bringing new management techniques, technologies, and cultural values to the countries in which they operate.

Understanding New Cultures

Nonetheless, cultural differences do exist. When dealing with a new culture, many international businesspeople make the mistake of relying on the **self-reference criterion**, the unconscious use of one's own culture to help assess new surroundings. A U.S. salesperson

who calls on a German customer in Frankfurt and asks about the customer's family is acting politely according to U.S. culture—the salesperson's reference point—but rudely according to German culture, thereby generating ill will and the potential loss of a customer.[49] In behaving as is usual in the United States, the salesperson forgot the answer to a critical question: "Who is the foreigner?"

To be successful, international businesspeople traveling abroad must remember that they are the foreigners and must attempt to behave according to the rules of the culture at hand. There are numerous ways to obtain knowledge about other cultures to achieve **cross-cultural literacy**. The best and most common way, not surprisingly, is through personal experience that results from conducting business abroad—as part of either a business trip or a long-term assignment—or from nonbusiness travel. Many firms offer cross-cultural training programs to their employees headed for foreign assignments. Information about specific cultures can also be obtained from various published sources. For example, ProQuest provides a series of highly regarded *Culturegrams* on more than 200 countries, and the U.S. government publishes detailed descriptions and analyses of the economies, political systems, natural resources, and cultures of the world's countries in a series of volumes called *Country Studies*.

Cross-cultural literacy is the first step in **acculturation**, the process by which people not only understand a foreign culture but also modify and adapt their behavior to make it compatible with that culture. Acculturation is of particular importance to home country managers who frequently interact with host country nationals—for example, a plant manager from the home country or a marketing director working overseas at a foreign subsidiary. "Venturing Abroad" discusses how McDonald's obtains the local knowledge it needs to compete in each of the countries in which it operates.

To complicate matters further, many countries have more than one culture, although the level of such cultural diversity varies by country. Japan, with a population consisting of 99.4 percent ethnic Japanese, is extremely homogeneous. Conversely, the United States is culturally heterogeneous, with significant Caribbean, Latin American, Middle Eastern, Hispanic, African, and Asian communities complementing the dominant Anglo-Saxon culture. Successful international businesspeople must recognize the attributes of the primary national culture as well as any important subcultures in culturally heterogeneous societies.

VENTURING ABROAD

MCDONALD'S FITS IN

McDonald's is one of the world's most successful purveyors of fast food, with more than 34,000 restaurants in 119 countries. A key element of McDonalds' global success rests on its use of franchising. Originally McDonald's relied on franchising to help its rapid domestic expansion—franchisers supplied much of the capital needed to roll out new stores. But franchisers also supplied a key ingredient to McDonald's success—local knowledge. Corporate executives back in Oak Brook, Illinois, would find it difficult to learn whether local families would flock to McDonald's before—or maybe after—the local Christmas parade or high-school football game. But the franchisee would know such details and could add staff and lay in additional supplies whenever an influx of customers was expected.

Franchising has also been critical to McDonalds' international success. Although McDonald's has standardized its logos, branding, and commitment to quality, it encourages its franchisees to customize their product offerings to meet the local culture. In Japan, customers can purchase shrimp burgers and wash them down with Green Tea milkshakes. Instead of a sesame-seed bun, in Greece your burger can be wrapped in pita bread, whereas in Hong Kong it is available enveloped in two rice cake patties, and in Northern Africa the McArabia is served on flatbread. Although you cannot get a Big Mac in India, you can get a Maharaja Mac (made of chicken) or a veggie burger. In Moslem countries, McDonald's has taken pork off its menu to comply with the precepts of Islam. The company is also planning to open vegetarian-only outlets in India. No Big Macs will be sold, but plenty of McAloo Tikki burgers will be. These spicy potato-patty treats account for a quarter of McDonald's sales in India. These simple adjustments are part of McDonalds' strategy of responding to the needs of the local culture.

Sources: McDonald's 2012 Annual Report; "In India, McDonald's Plans Vegetarian Outlets," *Wall Street Journal*, September 5, 2012, p. B7.

In Practice

- A common mistake international business practitioners often make is to approach a new culture by assuming it is the same as their home culture.
- Fortunately, numerous sources can provide the information and training practitioners need to acculturate themselves to a new culture.

For further consideration: Have you ever relied on the self-reference criterion when dealing with a classmate or work colleague from another country? If so, did it create any problems?

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CHAPTER REVIEW

Summary

Understanding cultural differences is critical to the success of firms engaging in international business. A society's culture affects the political, economic, social, and ethical rules a firm must follow in its business dealings within that society.

A society's culture reflects its values, beliefs, behaviors, customs, and attitudes. Culture is learned behavior that is transmitted from one member of a society to another. The elements of culture are interrelated and reinforce each other. These elements are adaptive, changing as outside forces influence the society. Culture not only is shared by the society's members but also defines the society's membership.

A society's culture comprises numerous elements. The social structure reflects the culture's beliefs about the individual's role in society and the importance of mobility within that society. Language is another important cultural element because it allows members of the society to communicate with each other. Approximately 84 percent of the world's population claims some religious affiliation. Religion influences attitudes toward work, investment, consumption, and responsibility for one's behavior. Religion may also influence the formulation of a country's laws.

A society's culture reflects and shapes its values and attitudes, including those toward time, age, status, and education. These affect business operations in numerous ways, such as in hiring practices, job turnover, and the design of compensation programs.

Researchers have grouped countries according to common cultural characteristics. Hall and Hall developed the low-context–high-context classification scheme, which focuses on the importance of context within a culture. To some extent, the existence of cultural clusters eases the difficulties of doing business internationally. Researchers have discovered that many countries share similar attitudes toward work roles, job satisfaction, and other work-related aspects of life. Often countries within a cultural cluster share a common language.

The pioneering research of Geert Hofstede has identified five basic cultural dimensions along which people may differ: social orientation, power orientation, uncertainty orientation, goal orientation, and time orientation. These differences affect business behavior in numerous ways and often lead to cross-cultural misunderstandings.

Review Questions

4-1. Briefly describe culture and its main elements.
4-2. What are the primary characteristics of culture?
4-3. List the major approaches to the study of culture, and use examples to illustrate their relevance in international marketing.
4-4. What are cultural clusters?
4-5. What are individualism and collectivism? How do they differ?
4-6. Discuss the differences in pay systems between U.S. and Japanese firms. To what extent are these differences culturally determined?
4-7. What is power orientation?
4-8. What is uncertainty orientation?
4-9. What are aggressive and passive goal behaviors? How do they differ?
4-10. What is the self-reference criterion?

Questions for Discussion

4-11. How can international businesspeople avoid relying on the self-reference criterion when dealing with people from other cultures?

4-12. U.S. law protects women from job discrimination, but many countries do not offer women such protection. Suppose several important job opportunities arise at overseas factories owned by your firm. These factories, however, are located in countries that severely restrict the working rights of women, and you fear that female managers will be ineffective there. Should you adopt gender-blind selection policies for these positions? Does it make a difference if you have good reason to fear for the physical safety of your female managers? Does it make a difference if the restrictions are cultural rather than legal in nature?

4-13. Under what circumstances should international businesspeople impose the values of their culture on foreigners with whom they do business? Does it make a difference if the activity is conducted in the home or the host country?

4-14. As International Business (IB) Manager of ABC Inc., your team is considering investing in a foreign country. List the attractiveness of top 25 countries in terms of FDI and your strategy. *(Hint: Refer to the FDI Confidence Index to generate this report.)*

Building Global Skills

This exercise will help give you insights into how cultural and social factors affect international business decisions. Your instructor will divide the class into groups of four or five people. Each group then picks any three products from the first column of the following list and any three countries from the second column. (Your instructor may instead assign each group three products and three countries.)

Products	Countries
swimsuits	France
CD players	Singapore
desks and bookcases	Poland
men's neckties	Saudi Arabia
women's purses	Taiwan
throat lozenges	Italy
digital cameras	South Africa
shoes	Russia

Assume that your firm already markets its three products in your home country. It has a well-known trademark and slogan for each product, and each product is among the market leaders. Assume further that your firm has decided to begin exporting each product to each of the three countries. Research the cultures of those three countries to determine how, if at all, you may need to adjust packaging, promotion, advertising, and so forth to maximize your firm's potential for success. Do not worry too much about whether a market truly exists (assume that market research has already determined that one does). Focus instead on how your product will be received in each country given that country's culture.

4-15. What were your primary sources of information about the three countries? How easy or difficult was it to find information?

4-16. Why are the following products popular in the global market? Do they relate to the culture of the countries they represent?

(1) Japanese Cars, (2) Malaysian Rubber, (3) Indian Cinema, (4) Kenyan Tea

4-17. Create a group on cultural dimension in class based on nationality, age, education and occupation. Discuss the effects of culture on businesses.

CLOSING CASE Quacking Up a Storm of Business

Fifteen years ago, most Americans had never heard of AFLAC, a $26-billion insurance company based in Columbus, Georgia. Thanks to AFLAC's mascot, this is no longer the case. The company's attention-grabbing advertising campaign, which began in 2000, features a helpful but frustrated duck that fails to get people to acknowledge his presence or the company's name. Nonetheless, the duck's efforts appear to be paying off. According to advertising surveys, 94 percent of Americans are now aware of the AFLAC brand; more importantly, policies in force have risen more than 50 percent and annual premiums have more than doubled since the duck commercials began in the United States. And the AFLAC duck has done more than simply increase the company's American sales. AFLAC now sells the duck on its website and donates the proceeds to a children's cancer center in Atlanta. During the Christmas season, AFLAC teams up with a major department store chain to sell special-edition AFLAC holiday ducks. To date, $3 million has been donated to 40 children's hospitals around the country from their sale.

Case Questions

4-18. AFLAC introduced the AFLAC duck in the U.S. market to build brand awareness there. However, AFLAC's brand awareness is high in Japan. Should AFLAC use the same advertising campaign in Japan as it does in the United States? Is there any value to having identical advertising in both markets? Having introduced the maneki neko duck in Japan, should it now introduce it in the U.S. market as well?

4-19. How important is it for AFLAC to adapt its business practices to the Japanese way of doing things? Should AFLAC act more Japanese or more American in doing business in Japan?

4-20. AFLAC built its dominant position in the Japanese supplemental insurance market because Japanese regulators actively discouraged new entrants into this market. The Financial Big Bang policy now encourages new entrants into the supplemental insurance market. What has AFLAC done to protect its market position? What else can AFLAC do?

4-21. AFLAC is a rarity among U.S. companies inasmuch as the Japanese market accounts for more than 75 percent of its business. Does this reliance on the Japanese market create any special challenges for AFLAC? Does it present any unique opportunities for the company?

Sources: Based on *AFLAC Incorporated Annual Report for 2012*; *AFLAC 2012 10-K filing*; "AFLAC: Its Ducks Are Not in a Row," *Businessweek,* February 2, 2004, p. 52; "AFLAC Duck Loses Some Quacking on Way to Japan," *USA Today*, May 7, 2003 (online); *AFLAC Incorporated Annual Report for 2002*; Charles D. Lake II, "Developing new opportunities in a weak Japanese economy: AFLAC adapts to change," *Japan Economic Currents*, May 2002, No. 20, pp. 4ff.; "Bullish on AFLAC's duck," *Businessweek Online*, April 30, 2002; "AFLAC reaches new milestone," *Columbus Ledger-Enquirer*, March 19, 2002 (online); "Duck and coverage," *Fortune*, August 13, 2001 (online); "Duck ads have 'em flocking to AFLAC," *USA Today*, September 18, 2000 (online).

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4-22. Explain the high context-low context approach developed by Edward and Mildred Hall. What are the primary differences observed in business settings between high context and low context cultures?

4-23. One of the most influential schemes for analyzing cultural differences among countries was developed by the Dutch researcher Geert Hofstede. Discuss the various dimensions of culture that Hofstede developed. What are the anchor points of these dimensions? Where appropriate, give examples of how Hofstede's analysis provides insights into differences in basic business behaviors like leadership, reward systems, job stability, decision-making, etc.

4-24. Mymanagementlab Only—comprehensive writing assignment for this chapter.

Endnotes

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5. Vern Terpstra and Kenneth David, *The Cultural Environment of International Business* (Cincinnati: South-Western College Publishing, 1985), 20.
6. John R. Schermerhorn, Jr., "Language effects in cross-cultural management research: An empirical study and a word of caution," *Proceedings of the Academy of Management*, 1987, p. 103.
7. John C. Condon and Fathi Yousef, *An Introduction to Intercultural Communication* (New York: Bobbs-Merrill, 1975), 174; Jon P. Alston, *The American Samurai:*