

# How Countries Differ: **Culture**

Chapter 4

January 17, 2019

# Agenda

- What is culture?
- The Determinants of Culture
- Culture and Business
- Cultural Change
- Managerial Implications

## Two Themes

- **Cross-cultural understanding** and **sensitivity** are essential for success in international business (in fact, in all business, anywhere)
- There's a possible **relationship** between **culture** and **the cost of doing business** in a nation or region
  - depending on the extent to which the culture of the nation/region is supportive of a firm's business approach and systems
  - MNEs can indeed be agents of cultural change

# What is Culture?

“Culture is that complex whole which includes knowledge, belief, art, morals, law, custom, and other capabilities acquired by man as a member of society.”

- Edward Tylor (1870s)

“A system of **values** and **norms** that are shared among a group of people and that when taken together constitute a design for living.”

- Based on Hofstede, Namemwirth, and Weber

# An Approach to Understanding Culture

## Culture

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graph TD; Culture[Culture] --> Live[The way we live]; Culture --> View[The way we view things]; Culture --> Comm[The way we communicate];
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*The way we  
live*

Customs, habits,  
traditions,  
food and its meaning,  
music, clothing,  
religious practices, health  
practice, child raising,  
family structures, and  
relationships

*The way we  
view things*

Beliefs, values,  
Spirituality,  
Perceptions,  
attitudes,  
expectations

*The way we  
communicate*

Meaning of language,  
interaction pattern,  
communications,  
verbal and non-verbal

# Components of Culture

## Values · Norms

A **society** is a group of people who share a common set of values and norms, i.e., who share the same culture

- **Values**: Provide the context for establishing a society's behavioral norms
  - How things ought to be
  - What are American values? Finnish values?
- **Norms**: Are the social rules that govern everyday life and actions of people toward each other
  - Folkways
  - Mores

# Norms: Folkways and Mores

**Folkways:** Routine conventions of everyday life

- Have little moral significance
- Examples: Social conventions such as dress codes, social manners, and neighborly behavior
- Violations are generally not serious

**Mores:** Norms that are central to the functioning of a society and its social life

- Have greater significance than folkways (e.g., norms against theft, adultery, and bribery)
- Societies typically institute laws against such behaviors
- Violation can lead to serious consequences

<http://www.youtube.com/watch?v=c0mZfpOfQYc>

<https://www.youtube.com/watch?v=D2RnaViWuuE>

# Culture, Society, and the Nation State

- A **society** is a group of people bound together by a common culture
- There is no **one-to-one correspondence** between a society and a nation state
- A **nation state** is a political creation, and may contain a single culture or several cultures, and a specific culture may span two or more countries
  - What about Finland? Scandinavia?
- One can view culture from a very narrow (specific) perspective or a very broad perspective

# Typical Cultural Values

## United States

1. Freedom
2. Independence
3. Self-reliance
4. Equality
5. Individualism
6. Competition
7. Efficiency
8. Time
9. Directness
10. Openness

## Japan

1. Belonging
2. Group harmony
3. Collectiveness
4. Age/seniority
5. Group consensus
6. Cooperation
7. Quality
8. Patience
9. Indirectness
10. Go-between

## Arab Countries

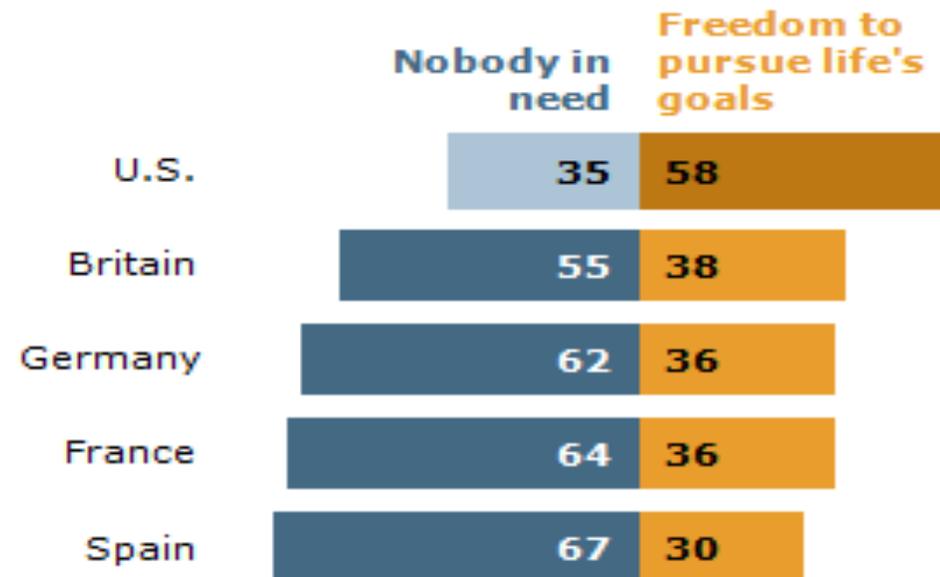
1. Family security
2. Family harmony
3. Parental guidance
4. Age
5. Authority
6. Compromise
7. Devotion
8. Patience
9. Indirectness
10. Hospitality

# Typical Cultural Values: China

- **Face** plays a particularly important role in Chinese culture
- **Guanxi** The best English word for it probably is “connections” or “relationships”
- **Harmony**, Confucian philosophy emphasizes “middle way”, the social ideal for moderation
- **Yin Yang**, principle of Taoism thinking, emphasizes merging opposite elements into unified harmony

# American and Western European Values: Individual and the Role of the State

## Which Is More Important?



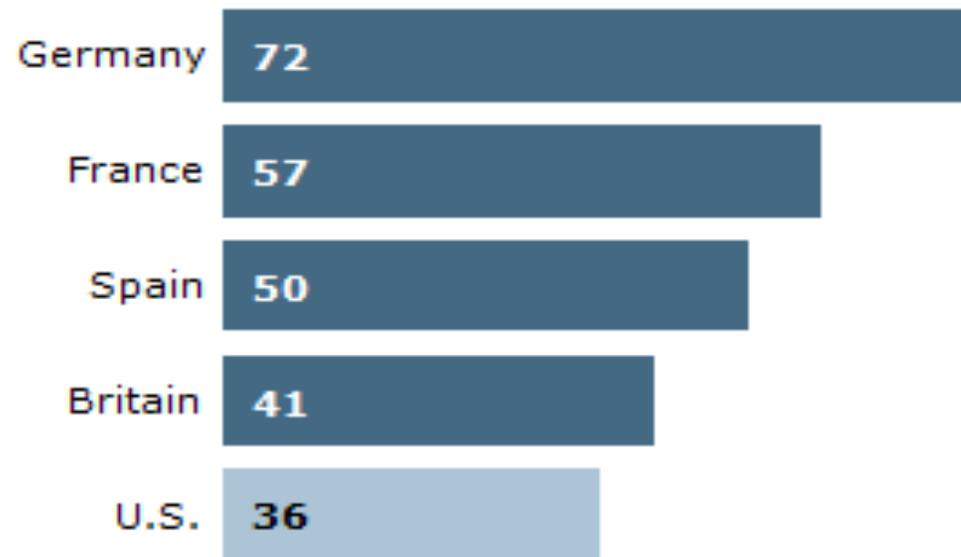
PEW RESEARCH CENTER Q61.

Source: <http://www.pewglobal.org/2011/11/17/the-american-western-european-values-gap/>

# American and Western European Values: Individual and the Role of the State

## Success in Life Is Determined by Forces Outside Our Control

*% Agree*



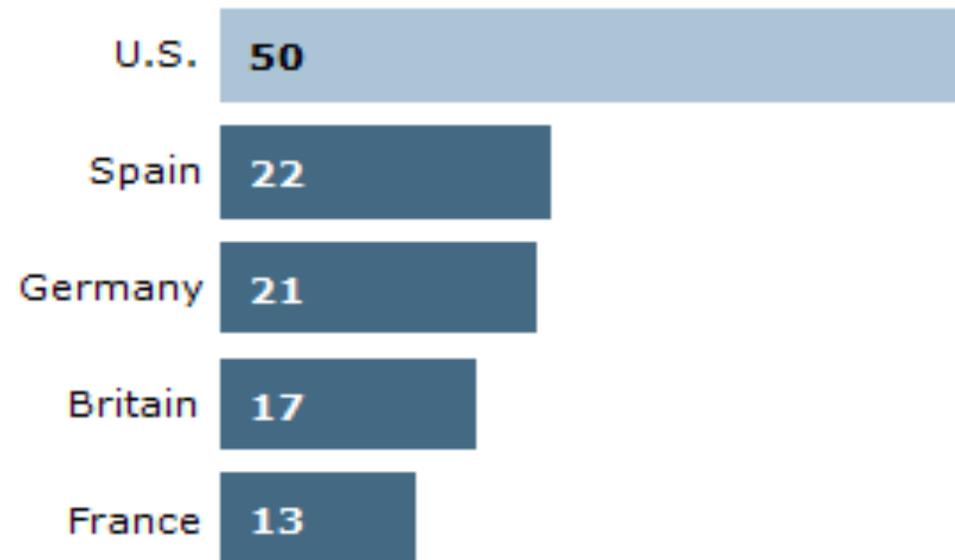
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# American and Western European Value: Importance of Religion

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## Importance of Religion

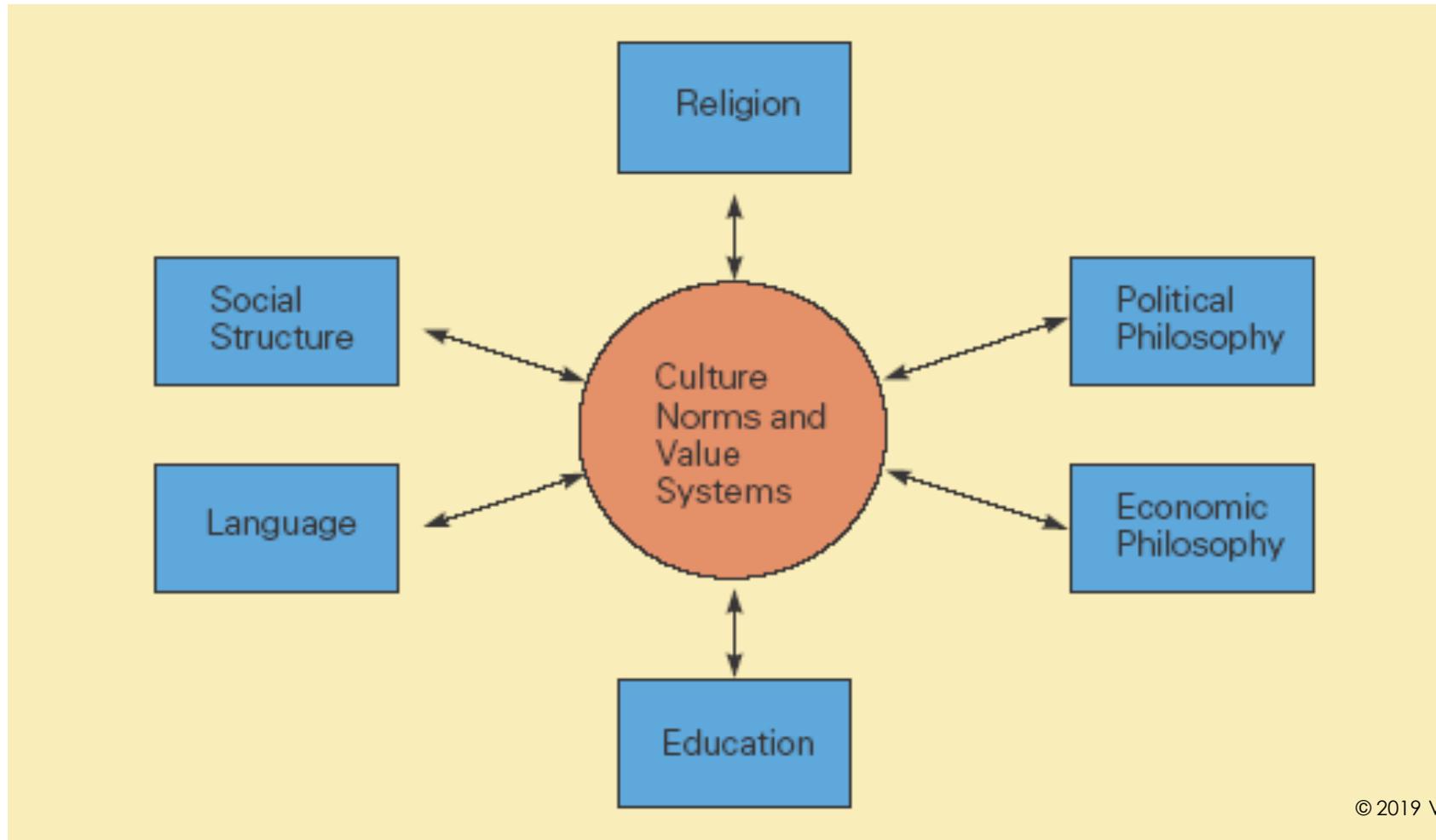
*% Very important*



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# The Determinants of Culture



# Social Structure

- **Social structure** refers to the basic social organization of a society
- **Two important dimensions:**
  - The extent to which society is **group** or **individual** oriented
    - A **group** is a collection of two or more individuals who have a **shared sense of identity** and who interact with each other in structured ways based on a common sense of expectations about each other's behavior
      - Any examples?
  - The degree of **stratification** into classes

# Individual vs. Group Orientation

## Individual Orientation

- Individual achievement or goals considered more important than group achievement or goals
- Emphasis on individual performance can be both beneficial and harmful
  - Encourages entrepreneurship and creativity
  - Can lead to a high degree of employee mobility

## Group Orientation

- Group-oriented societies see groups as the primary unit of social organization
- Group members may develop deep emotional attachment
- This can be both beneficial and harmful
  - Strong group identification creates pressure for mutual self-help and collective action
  - Discourages employees from moving from company to company
  - Discourages entrepreneurship

# Social Stratification

- Social stratification refers to the fact that all societies are stratified on a hierarchical basis to some extent
- **Social strata** are typically defined on the basis of characteristics such as family background, occupation, and income
- Two implications of social stratification
  - **Social Mobility**: It refers to the extent to which individuals can move out of the stratum into which they were born
  - **Significance**: Stratification in a society is significant to the extent to which it affects the operation of a business
    - Class consciousness

# Social Mobility

**Social mobility** - the extent to which individuals can move out of the strata into which they are born

- **caste system** - closed system of stratification in which social position is determined by the family into which a person is born
  - change is usually not possible during an individual's lifetime
- **class system** - form of open social stratification
  - position a person has by birth can be changed through achievement or luck

# Significance

The **significance** attached to social strata in business contacts

- **class consciousness** - a condition where people tend to perceive themselves in terms of their class background, and this shapes their relationships with others
- an antagonistic relationship between management and labor raises the cost of production in countries with significant class differences

# Religious and Ethical Systems

- **Religion**: A system of shared beliefs and rituals that are concerned with the realm of the sacred
- **Ethical System**: A set of moral principles or values that are used to guide and shape behavior
  - Most ethical systems are products of religion
- Among the thousands of religions in the world today, four dominate in terms of the numbers of followers (2018):
  - **Christianity** with 2.2 billion adherents
  - **Islam** with 1.8 billion adherents
  - **Hinduism** with 1.1 billion million adherents
  - **Buddhism** with 488 million adherents

# Christianity

- The most widely practiced religion in the world
- Christianity grew out of Judaism and believes in a single God
- Christianity can be subdivided into three separate organizations
  - The Orthodox church
  - The Roman Catholic church
  - Protestants which is an umbrella for several denominations

# Economic Implications of Christianity

- Sociologists have argued that protestants have made a significant economic impact in the world
- Max Weber (1904-1905):
  - Business leaders and owners of capital, as well as the higher grades of skilled labor, and technically and commercially trained personnel of modern enterprises, are overwhelmingly Protestant
  - Protestant ethic emphasizes the importance of **hard work** and **wealth creation** (*for the glory of God*) and **frugality** (*abstinence from worldly pleasures*)
  - The combination of hard work and the accumulation of capital, which can be used for investment and expansion, paved the way for the development of capitalism in Western Europe and the United States
- However...

# Islam

- The world's second largest religion, dating to AD610
- The central principle of Islam is that there is but one true omnipotent God
- Islam requires unconditional acceptance of the uniqueness, power, and authority of God and the understanding that the objective of life is to fulfill the dictates of his will in the hope of admission to paradise
- It's an all-embracing way of life that governs one's being
  - Fundamentalists have gained political power and blame the West for many social problems
- People do not own property, but only act as stewards for God
- Supportive of business, but the way business is practiced is prescribed
- People do not own property, but only act as stewards for God

# Islam

- Some other major principles of Islam:
  - Honoring and respecting parents
  - Respecting the rights of others
  - Being generous but not a squanderer
  - Avoiding killing except for justifiable causes
  - Not committing adultery
  - Dealing justly and equitably with others
  - Being of pure heart and mind
  - Safeguarding the possessions of orphans
  - Being humble and unpretentious

# Economic Implications of Islam

- The Koran establishes some explicit economic principles, many of which are pro-free enterprise
  - Approves free enterprise and earning a legitimate profit through trade and commerce
  - The protection of the right to private property, which must be used in a righteous and socially beneficial manner
  - Islam is critical of those who earn profit by exploiting others
  - Prohibits payment or receipt of interest
- Given Islam's proclivity to favor market-based systems, Muslim countries are likely to be receptive to international businesses as long as the businesses behave in a manner consistent with Islamic ethics

# Hinduism

- Began in the Indus Valley over 4,000 years ago – the world's oldest major religion
- Key principles:
  - **Dharma** – one's virtuous duty
  - **Reincarnation** and rebirth into a different body after death
  - **Karma** – the spiritual progression of a person's soul (“as you sow so shall you reap, in the next life”)
  - **Nirvana** – a state of complete spiritual perfection that renders reincarnation unnecessary – achieved by perfecting the soul in each new life
    - An ascetic life style

# Economic Implications of Hinduism

- Pursuit of material well-being makes achievement of *nirvana* difficult
- Weber (1904-1905): Hindus will be less entrepreneurial than Protestants
- However...

# Buddhism

- Founded in India in the 6<sup>th</sup> century BC by Siddhartha Gautam
  - Stresses afterlife and spiritual achievement rather than worldly involvement
  - Pursuit of an ascetic lifestyle and spiritual perfection
- No caste system
- Less emphasis on wealth creation; however, entrepreneurial activity is acceptable
- Now, mainly in Central and Southeast Asia, China, Korea, and Japan

# Language

- Language shapes the way we perceive the world, and helps define culture
  - Countries with many languages tend to have many cultures, e.g., English-speaking vs. French-speaking cultures in Canada
    - Importance of learning the language of the country which is important for your business
- Spoken language
  - Verbal cues
- Unspoken, nonverbal communication
  - Body language
  - Personal space

[https://www.youtube.com/watch?v=fa\\_GCK-Czqs](https://www.youtube.com/watch?v=fa_GCK-Czqs)

# Culture and Business

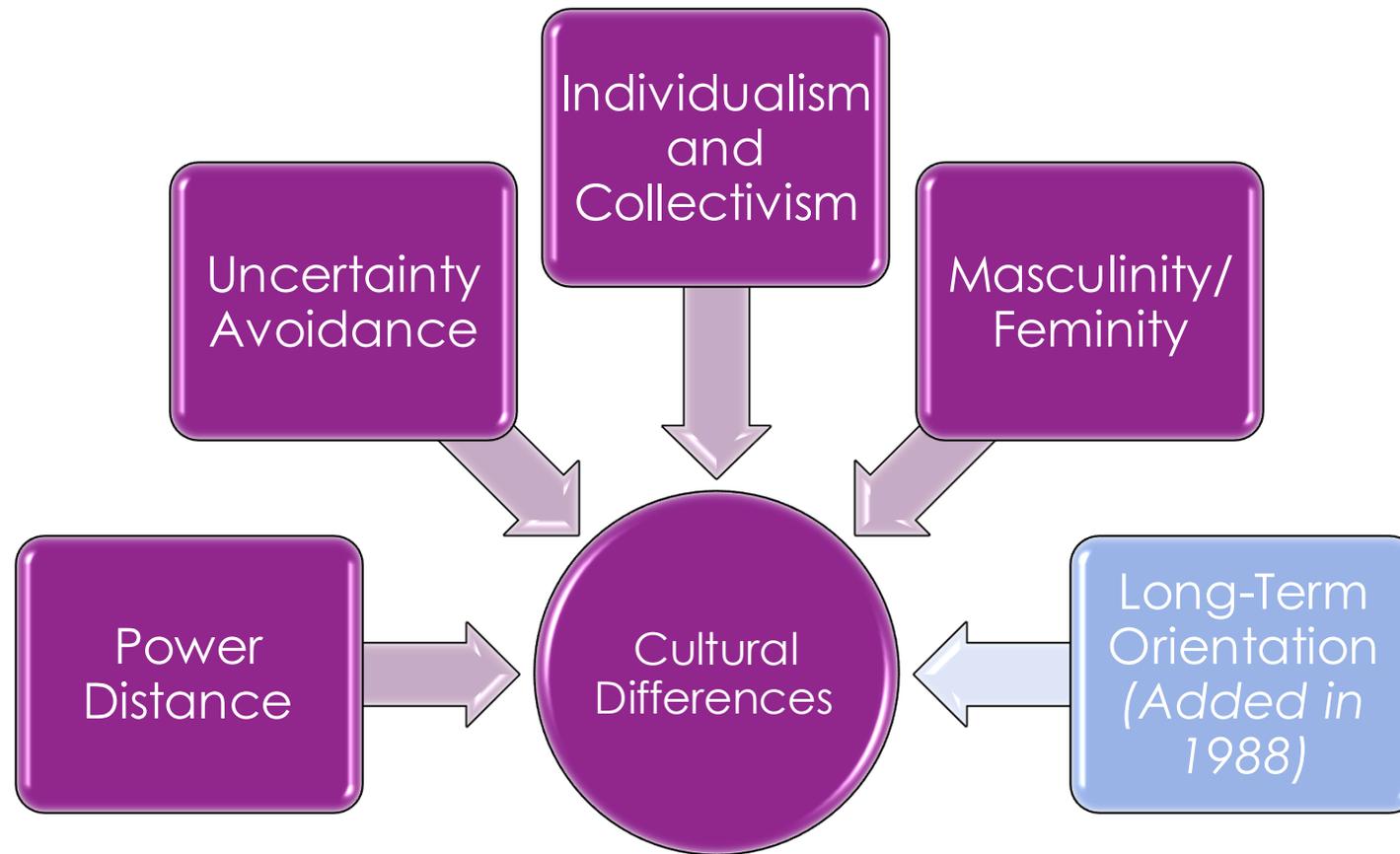
- Management processes and practices must be adapted to culturally determined work-related values
- Geert Hofstede studied 64 IBM subsidiaries in 40 countries; 116,000 employees (not just managers); three world regions (1967-1973)
  - Hofstede identified four dimensions that summarized different cultures

# Culture and Business

## Hofstede's four dimensions of culture

- **Power distance** - based on a society's ability to deal with inequalities
- **Individualism versus collectivism** - the relationship between the individual and his/her fellows within a culture
- **Uncertainty avoidance** - the extent to which a culture socializes its members into accepting ambiguous situations and tolerating uncertainty
- **Masculinity versus femininity** - the relationship between gender and work roles

# Culture and Business



# Hofstede's Dimensions

**Table A** Work-related Values for 20 Selected Countries

	<b>Power Distance</b>	<b>Uncertainty Avoidance</b>	<b>Individualism</b>	<b>Masculinity</b>
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

# Power Distance

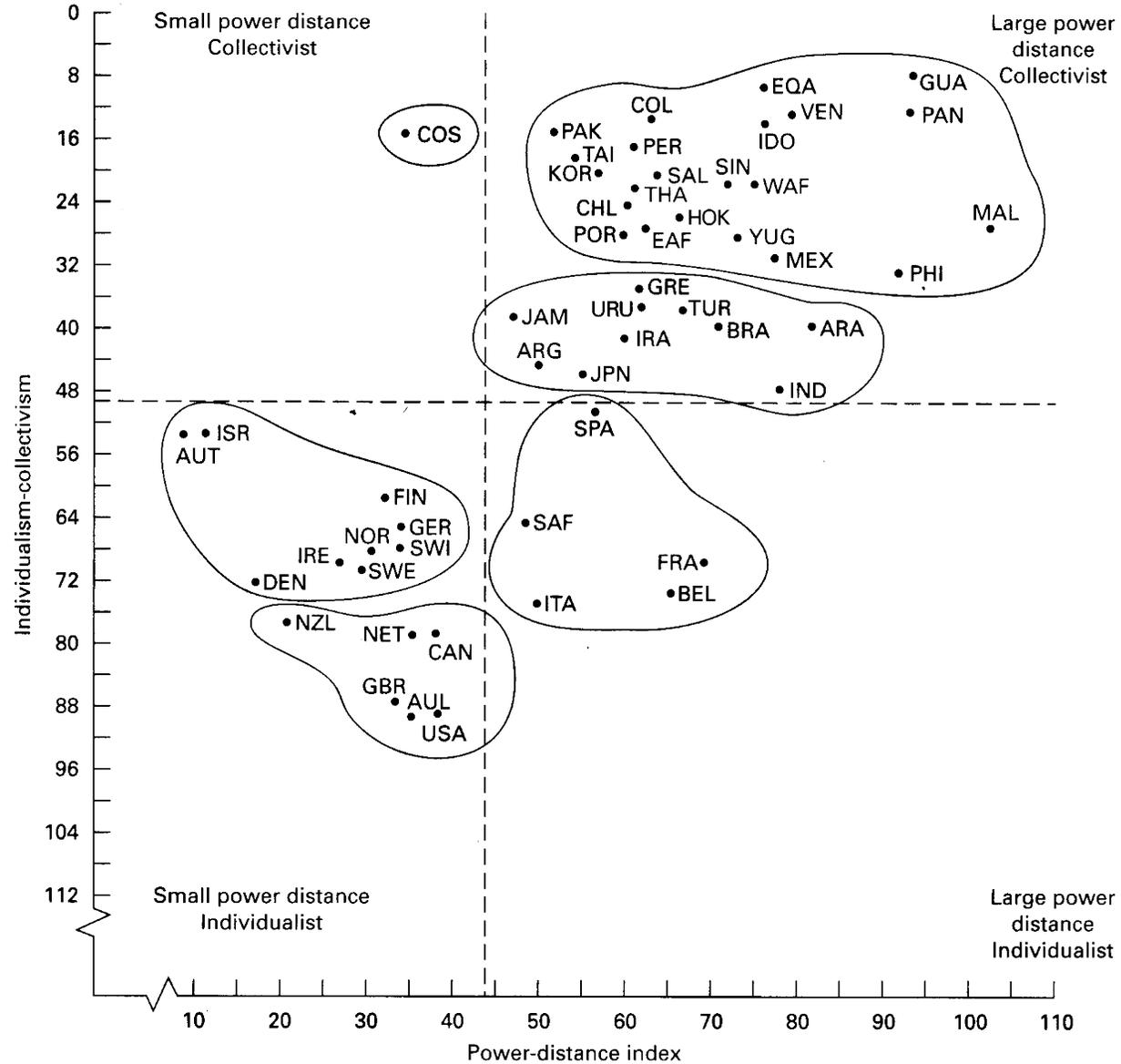
- The extent to which less powerful members of institutions and organizations accept an unequal distribution of power
  - **High power distance countries:** People may blindly obey the orders of their superiors and are less likely to question authority; companies tend to use centralized decision-making and tall organizational structures
  - **Low power distance countries:** Flatter and decentralized organizational structures, shorter supervisory spans of control; employees are more likely to question authority; participative management may be used

# Individualism and Collectivism

- **Individualism:** The tendency of people to look after themselves and their immediate families
  - **Countries high in individualism:** High individual initiative; promotions based on achievement; salaries based on market value; individual incentives
- **Collectivism:** The tendency of people to belong to groups or collectives and to look after each other in exchange for loyalty
  - **Countries high in collectivism:** Low individual initiative; salaries and promotions may be based on seniority; team work and team incentives

Figure 5-5

**A Power Distance and Individualism-Collectivism Plot**

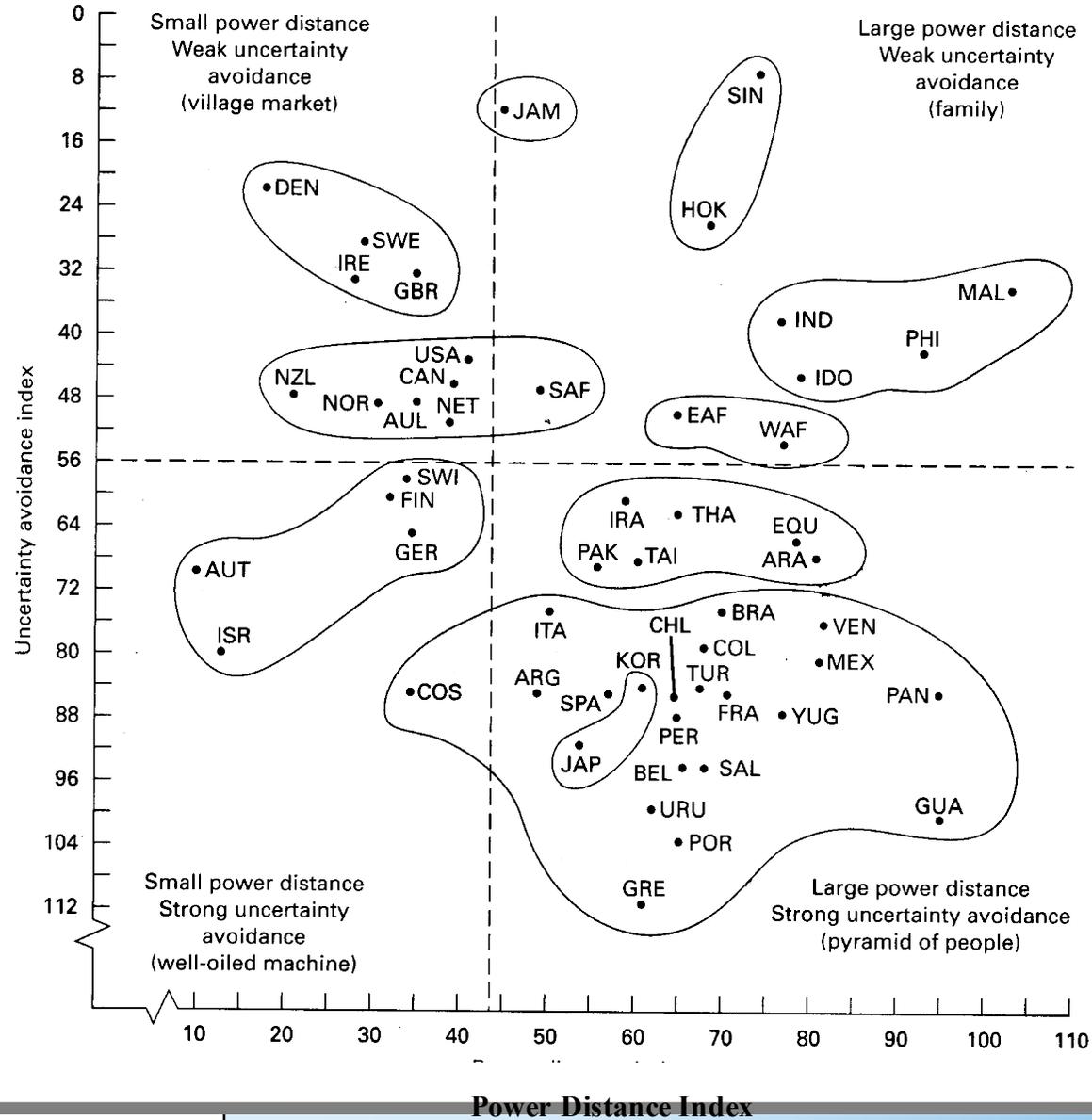


# Uncertainty Avoidance

- The extent to which people feel threatened by ambiguous situations and try to avoid such situations
  - **High uncertainty avoidance countries:** People have high need for security; strong belief in experts and their knowledge; more written rules and procedures; less risk taking by managers
  - **Low uncertainty avoidance countries:** People are more willing to accept risks associated with the unknown; fewer written rules and procedures; more risk taking by managers; higher employee turnover; more ambitious employees

Figure 5-6

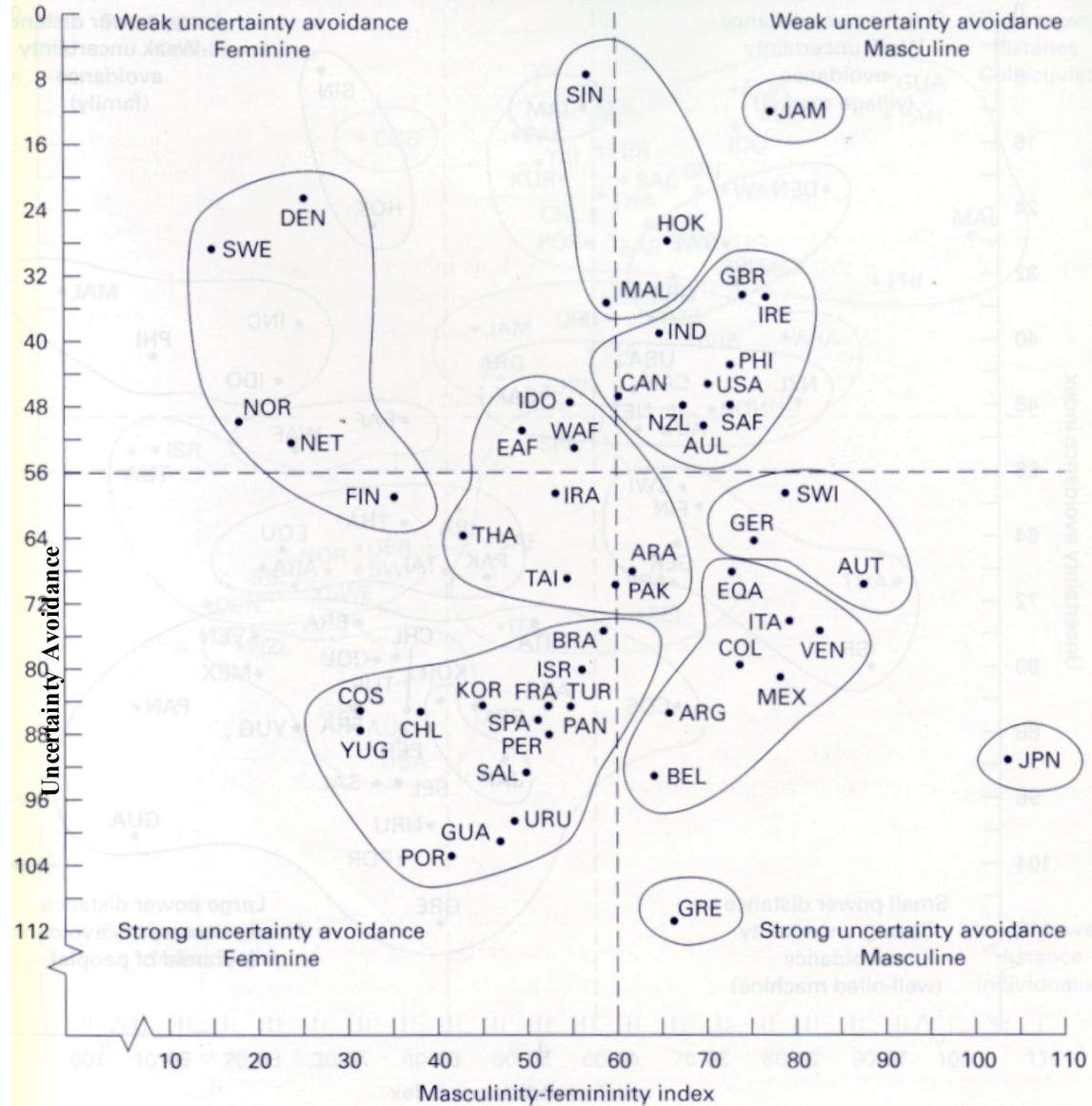
**A Power Distance and Uncertainty Avoidance Plot**



# Masculinity and Femininity

- **Masculinity:** The dominant social values are success, money, and possessions
  - **Countries high in masculinity:** People place great importance on earnings, recognition, advancement, challenge, and wealth; high level of job stress
- **Femininity:** The dominant social values are caring for others and the quality of life
  - **Countries high in femininity:** Place great importance on cooperation, friendly atmosphere, employment security, and the natural environment; low job stress
  - work roles not sharply differentiated by gender

**A Masculinity-Femininity and Uncertainty Avoidance Plot**



# Long-term Orientation

- **Long-Term Orientation** focuses on the degree a society embraces, or does not embrace, long-term devotion to traditional, forward thinking values
- A **high Long-Term Orientation ranking** indicates the country subscribes to the values of long-term commitments and respect for tradition; this is thought to support a strong work ethic where long-term rewards are expected as a result of today's hard work
- A **low Long-Term Orientation ranking** indicates the country does not reinforce the concept of long-term, traditional orientation; in such a culture, change can occur more rapidly as long-term traditions and commitments do not become impediments to change

## Some Issues with Hofstede's Findings

- Hofstede's Methodology: A single-company (IBM) study; study conducted in 1967-1973
- IBM corporate values may overwhelm national values
- Yet, if IBM culture is so overwhelming, differences across countries may be attributable to “national” cultures
- IBM employees were a privileged group
- Researcher bias? Western stereotypes and culturally biased conclusions?
- No one-to-one correspondence between nation and culture
- However, many studies have validated Hofstede's dimensions and findings

# Culture Change

- Culture doesn't stay constant; it evolves over time
  - Since 1960s American values toward the role of women and minorities have changed
  - Japan has moved toward greater individualism in the workplace
- Globalization will continue to have impacts on cultures around the world

# Managerial Implications

- Cross-cultural literacy and sensitivity
  - Dangers of “ethnocentric behavior”
  - Some examples: Samsung; Microsoft in China
- Culture and competitive advantage
  - Implications for the choice of country where to do business
- Culture and business ethics