

## Cross-Cultural Business

# 2

### Learning Objectives

- Describe *culture*, and explain the significance of both national culture and *subcultures*.
- Identify the *components of culture*, and describe their impact on business activities around the world.
- Describe *cultural change*, and explain how companies and culture affect one another.
- Explain how the *physical environment* and *technology* influence culture.
- Describe the two main *frameworks* used to classify cultures and explain their practical use.

This chapter explains the significance of culture to international business. Culture is one of the most challenging elements that managers face in international business. Managers must have cultural literacy, or detailed knowledge about a culture that enables people to live and work within it. The main components of culture are aesthetics, values and attitudes, manners and customs, social structure, religion, personal communication, education, and physical and material environments. A culture's aesthetics is important to formulating strategies, as are people's values because they influence attitudes toward time, work, achievement, and cultural change. Knowledge of manners and customs is necessary for avoiding offensive behavior. Knowing the basics of other religions helps managers understand people's behavior. The ability to speak the local language and understand unspoken language allows managers to understand a people. A culture's educational aspects are important to a company, as is its material culture. Two tools to analyze and classify cultures include the Hofstede framework and the Kluckhohn-Strodtbeck framework.

## Lecture Outline

### 1. INTRODUCTION

This chapter describes culture in the context of international business. Social institutions, religion, language, and other elements of culture affect international business. Each nation's culture can affect business practices and international competitiveness.

### 2. WHAT IS CULTURE? (PPT 1-5)

*Culture* is the set of values, beliefs, rules, and institutions held by a specific group of people. The main components of culture include: *aesthetics*, *values* and *attitudes*, *manners* and *customs*, *social structure*, *religion*, *personal communication*, *education*, and *physical* and *material environments*.

- Accommodating Culture: Avoiding Ethnocentricity
  1. *Ethnocentricity* is the belief that one's own ethnic group or culture is superior to that of others. It causes people to *view other cultures in terms of their own* and overlook human and environmental differences.
  2. Ethnocentricity can undermine business projects when a firm's employees are insensitive to cultural nuances.
- Understanding Culture: Developing Cultural Literacy
  1. Managers working directly in international business should develop *cultural literacy*—detailed knowledge about a culture that enables a person to function effectively within it.
  2. Cultural literacy brings a company closer to customer needs and desires and improves competitiveness.

### A. National Culture and Subcultures

We refer to British and Indonesian cultures as if all Britons and all Indonesians were culturally identical. *National culture* generalizes—British culture includes English, Scottish, and Welsh.

1. National Culture
  - a. Nation states support and promote the concept of a national culture by building museums and monuments to preserve the legacies of important events and people.
  - b. Nation-states intervene in business to help *preserve* their national cultures (e.g., French government tries to stem English).
  - c. Companies get involved in supporting culture, in part, for the public relations benefit.
2. Subcultures
  - a. A *subculture* is a group of people who share a unique way of life within a larger, dominant culture. Subcultures can differ from the dominant culture in language, race, lifestyle, values, attitudes, or other characteristics.
  - b. Companies must be mindful of subcultures when formulating business strategies (e.g., China has 50 ethnic groups).
  - c. Decisions regarding product design, packaging, and advertising must consider distinct cultures.
  - d. Subcultures also can extend beyond national borders.

3. COMPONENTS OF CULTURE

A people's culture includes what they consider beautiful and tasteful, their underlying beliefs, their traditional habits, and the ways in which they relate to one another and their surroundings. The main components of culture include: *aesthetics*, *values* and *attitudes*, *manners* and *customs*, *social structure*, *religion*, *personal communication*, *education*, and *physical* and *material environments*.

A. Aesthetics (PPT 6)

1. **Aesthetics** is what a culture considers to be in “good taste” in the arts, the imagery evoked by certain expressions, and the symbolism of colors.
2. Aesthetics are important for doing business in another culture. Appropriate colors for advertising, product packaging, and even work uniforms can enhance success (e.g., Green in Islamic countries).
3. Music is also deeply embedded in culture and should be considered when developing promotions.
4. Blunders can result from selecting inappropriate colors and symbols for advertising, product packaging, and architecture (e.g., Nike “Air”).

B. Values and Attitudes (PPT 7)

- **Values** are ideas, beliefs, and customs to which people are emotionally attached—such as honesty, marital faithfulness, freedom, and responsibility. Important as they affect the work ethic and desire for material possessions. Some cultures value leisure; others hard work. Values can also be why a culture resists certain products.
  - **Attitudes** are positive or negative evaluations, feelings, and tendencies that individuals harbor toward objects or concepts. Learned from role models, including parents, teachers, and religious leaders, thus formed within a cultural context. More flexible than values.
1. Attitudes Toward Time
    - a. Latin American and Mediterranean cultures are casual about time; in Japan and the United States people arrive promptly for meetings, and keep tight schedules.
    - b. Americans strive toward workplace efficiency but may leave work early if their work is done because they value individual results. Meanwhile, the Japanese look busy even when business is slow to demonstrate dedication—an attitude grounded in cohesion, loyalty, and harmony.
  2. Attitudes Toward Work
    - a. Whereas some cultures display a strong work ethic, others stress a more balanced pace in work and leisure (e.g., “Work to live versus live to work”).
    - b. Many European nations are trying to foster an entrepreneurial spirit to achieve the job growth realized in the United States.

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3. Attitudes Toward Cultural Change

A **cultural trait** is anything that represents a culture's way of life including gestures, material objects, traditions, and concepts.

- a. **Cultural diffusion** is the process whereby cultural traits spread from one culture to another. As new traits are absorbed into a culture, *cultural change* occurs; globalization and technological advances are increasing the pace of diffusion and change.
- b. **Cultural imperialism** is the replacement of one culture's traditions, folk heroes, and artifacts with substitutes from another. Companies must consider how their activities affect traditional ways.
- c. Culture can force companies to adjust business policies and practices. Managers can use *situational management*, walking an employee through an assignment and monitoring the results. Other changes need to suit local culture.
- d. Rapid cultural diffusion and increased human interaction across borders cause cultures to converge. Convergence is taking place in some market segments for some products (e.g., pop music) values and attitudes under pressure from globalization.

C. Manners and Customs (PPT 8)

When doing business abroad, it is important to understand manners and customs to avoid mistakes. In-depth knowledge improves the ability to negotiate, market products effectively, and manage international operations.

1. **Manners** are appropriate ways of behaving, speaking, and dressing in a culture (e.g., Conducting business during meals in US).
2. **Customs** are habits or ways of behaving in specific circumstances that are passed down through generations in a culture. Customs define appropriate habits or behaviors in specific situations.
  - a. **Folk customs** are behaviors, dating back several generations, practiced within a homogeneous group of people (e.g., Turbans).
  - b. A **popular custom** is behavior, often dating back several generations, that is practiced by a homogeneous group of people. (e.g., "burgers 'n' fries" and "fish 'n' chips").
  - c. Although giving token gifts to business and government associates is customary, the proper type of gift varies.
  - d. Large gifts to business associates raise suspicion. Cultures differ in their legal and ethical rules against giving or accepting bribes. The U.S. Foreign Corrupt Practices Act, which prohibits companies from giving large gifts to win business favors, applies to U.S. firms operating at home *and* abroad. In many cultures, bribery is woven into the social fabric.

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D. Social Structure (PPT 9)

**Social structure** embodies fundamental organization, including groups and institutions, social positions and relationships, and resource distribution. It affects decisions, production site-selection, advertising methods, and the costs of doing business. Three important elements of social structure that differ across cultures are *social group associations*, *social status*, and *social mobility*.

1. Social Group Associations

A **social group** is a collection of two or more people who identify and interact with one another. Social groups contribute to identity and self-image. Two groups that affect business activity are family and gender.

    - a. Family
      - i. A *nuclear family* consists of immediate relatives, including parents, brothers, and sisters. It prevails in Australia, Canada, USA, and in Europe.
      - ii. An *extended family* includes grandparents, aunts and uncles, cousins, and relatives through marriage. It is a more important social group in Asia, the Middle East, North Africa, and Latin America. Extended families can present interesting situations for businesspeople unfamiliar with the concept.
    - b. Gender
      - i. *Gender* refers to socially learned traits associated with, and expected of, men or women. Sociologists regard gender as a category—people who share some status.
      - ii. Although many countries have gender equality in the workplace, others have not (e.g., Islamic law).
      - iii. In Japan, men traditionally hold nearly all positions responsibility, but the role of women in business community is expanding.
  2. Social Status
    - a. **Social Stratification** is the process of ranking people into social layers according to family heritage, income, and occupation.
    - b. Royalty, government officials, and top business leaders occupy the highest social layer. Scientists, medical doctors, and others with a university education occupy the middle rung. Below are those with vocational training or a secondary-school education, who dominate the manual and clerical occupations.
    - c. Rankings can change over time.
  3. Social Mobility
    - a. **Social Mobility** is the ease with which individuals can move up or down a culture's "social ladder." For much of the world's population today, one of two systems regulates social mobility: a *caste system* or a *class system*.
    - b. A *caste system* is a system of social stratification in which people are born into a social ranking, with no opportunity for social mobility. The caste system forces Western companies to decide whether to adapt to local human resource policies or import their own.
    - c. A *class system* is a system of social stratification in which personal ability and actions decide social status and mobility. Highly class-conscious cultures offer less mobility and can experience more class conflict. Lower levels of class-consciousness encourage mobility and lessen conflict.
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E. Religion (PPT 10)

Human values often derive from religious beliefs. Different religions take different views of work, savings, and material goods. Cultural views influence the competitiveness of companies, the pace of economic development, and the need to adapt strategies and methods. Knowing how religion affects business practices is especially important in countries with religious governments.

1. Christianity

- a. Palestine 2,000 years ago among Jews who believed that Jesus of Nazareth was the messiah. Nearly 2 billion followers today and is the world's single largest religion.
- b. More than 300 denominations within Christianity, but most are Roman Catholic, Protestant, and Eastern Orthodox.
- c. The Roman Catholic faith asks its followers to refrain from placing material possessions above God and others. Protestants believe that salvation comes from faith in God and that hard work gives glory to God.
- d. Christian organizations sometimes get involved in social causes that affect business policy (e.g., Volkswagen-France billboard; Ryanair's low fares).

2. Islam

- a. Muhammad around 600 A.D. in Mecca, the holy city of Islam, in Saudi Arabia. Islam is the world's second largest religion with 1.3 billion adherents. The word *Islam* means "submission to Allah" and Muslim means "one who submits to Allah."
- b. Religion strongly affects the kinds of goods and services acceptable to Muslim consumers (e.g., Prohibits alcohol, pork, charging interest for money lent).

3. Hinduism

- a. Around 4,000 years ago in present-day India, where over 90 percent of its nearly 900 million adherents live.
- b. Some consider it to be a way of life rather than a religion. Integral to the Hindu faith is the caste system. Hindus believe in reincarnation—the rebirth of the human soul at the time of death. Hindus do not eat or willfully harm any living creature because it may be a reincarnated human soul.
- c. Because Hindus consider cows sacred animals they do not eat beef (e.g., McDonald's replaces beef with lamb).

4. Buddhism

- a. About 2,600 years ago in India by a Hindu prince named Siddhartha Gautama. Buddhism has approximately 360 million followers, mostly in Asian nations such as China, Tibet, Korea, Japan, Vietnam, and Thailand.
  - b. Buddhism promotes a life centered on spiritual rather than worldly matters. Buddhists seek *nirvana* (escape from reincarnation) through charity, modesty, compassion for others, restraint from violence, and general self-control.
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5. Confucianism
    - a. China nearly 2,500 years ago founded by exiled politician and philosopher named *Confucius*. China is home to most of Confucianism's 225 million followers.
    - b. Confucian thought is ingrained in the cultures of Japan, South Korea, and nations with large numbers of ethnic Chinese, including Singapore.
    - c. South Korean business practice reflects Confucian thought in its rigid organizational structure and reverence for authority (e.g., Korean-style management in overseas subsidiaries).
    - d. For centuries, as people despised merchants because earning money violated Confucian beliefs, many Chinese moved to Indonesia, Malaysia, Singapore, and Thailand to launch successful businesses.
  6. Judaism
    - a. First religion to believe in one God and is more than 3,000 years old, and claims 18 million followers worldwide. Orthodox ("fully observant") Jews make up 12 percent of Israel and constitute an increasingly important economic segment.
    - b. Important observances are Rosh Hashanah (the Jewish New Year), Yom Kippur (the Day of Atonement), Passover (the Exodus from Egypt), and Hanukkah (a victory over the Syrians).
    - c. Employers must be aware of those Jewish holidays. Also, because the Sabbath lasts from sundown on Friday to sundown on Saturday, work schedules might need adjustment.
    - d. Marketers must take into account foods that are banned among observant Jews (e.g., Pork and shellfish prohibited, meat stored and served separately from milk). Also, "kosher" foods.
  7. Shinto
    - a. Means "way of the gods," arose as the native religion of the Japanese, and teaches sincere and ethical behavior, loyalty and respect toward others, and enjoyment of life. Today Shinto claims about 3.5 million strict adherents in Japan.
    - b. Shinto beliefs are reflected in the workplace through lifetime employment (although this is waning today) and the traditional trust extended between firms and customers.
    - c. Japanese competitiveness in world markets has benefited from loyal workforces, low employee turnover, and good labor-management cooperation.
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- F. Personal Communication (PPT 11-12)
- Every culture has a communication system to convey thoughts, feelings, knowledge, and information through speech, actions, and writing. Understanding a culture's spoken language provides insight into why people think and behave in a certain way. Understanding a culture's body language avoids unintended or embarrassing messages.
1. Spoken Language

## 2: Cross-Cultural Business

- a. Spoken Language is the part of a culture's communication system embodied in its spoken and written vocabulary.
  - b. Linguistically different segments of a population are often culturally, socially, and politically distinct (e.g., Malaysia is Malay [60%], Chinese [30%], and Indian [10%]).
  - c. Companies have made language blunders in their international business dealings (e.g., Chevrolet "No va" means "No go").
  - d. A *lingua franca* is a third or "link" language that is understood by two parties who speak different languages (e.g., Matsushita).
  - e. The world is losing languages, which can mean loss of much of a people's culture. Some languages are growing, including Mandarin, Spanish, and English.
2. Body Language
- a. **Body Language** is communicated through unspoken cues, including hand gestures, facial expressions, physical greetings, eye contact, and the manipulation of personal space.
  - b. Body language communicates information and feelings and differs among cultures. Most body language is subtle and takes time to interpret.
  - c. Proximity is an element of body language; standing too close may invade personal space and appear aggressive (e.g., in North America cultures stand about 19 inches apart while Middle Eastern cultures stand about 8 to 12 inches apart).

### G. Education (PPT 13-14)

Education is crucial for passing on traditions, customs, and values. Cultures educate young people through schooling, parenting, religious teachings, and group memberships. Families and other groups provide informal instruction about customs and how to socialize with others.

1. Education Level
  - a. Nations with excellent basic education attract high-wage industries that invest in training and increases productivity. Nations with skilled, well-educated workforces attract high-paying jobs; poorly educated attract low-paying jobs.
  - b. Newly industrialized economies in Asia owe much of their economic development to solid education systems.
2. The "Brain Drain" Phenomenon
  - a. **Brain drain** is the departure of highly educated people from one profession, geographic region, or nation to another (e.g., Indonesia, Eastern Europe).
  - b. Some countries lure professionals back to their homelands—a process known as *reverse brain drain*.
  - c. Australia has experienced a brain gain in recent years with a net gain of over 155,000 skilled workers in a five-year period.

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### H. Physical and Material Environments (PPT 15)

The physical environment and material surroundings of a culture heavily influence its development and pace of change.

1. Physical Environment
  - a. **Topography** refers to all the physical features that characterize the surface of a geographic region. Cultures isolated by impassable mountains or large bodies of water are less exposed to the cultural traits of others and change slowly. Topography impacts product needs (e.g., no Honda scooters in mountains).
  - b. Topography impacts personal communication (e.g., mountains and the Gobi Desert consume two thirds of China).
  - c. *Climate* refers to the weather conditions of a geographic region. Climate affects where people settle and directs systems of distribution (e.g., Australian desert, jungles, coastal areas).
  - d. Climate plays large role in lifestyle, clothing, and work habits. Production schedules must be adjusted to allow for hours during which machines stand idle (e.g., Intense summer heat in S. Europe, N. Africa, Middle East).
2. Material Culture

**Material Culture** includes the technology employed in a culture to manufacture goods and provide services. Material culture can be used to measure a culture's technological advancement.

  - a. A firm enters a market under one of two conditions: (1) demand for its products has developed, or (2) the market is capable of supporting its production operations.
  - b. Changes in material culture often cause changes in other aspects of culture. As economies advance and people get on the Web popular culture is changing.
  - c. Uneven Material Culture Material culture displays uneven development across geography, markets, and industries (e.g., Bangkok, Thailand: 10% population, 40% economic output).

#### 4. CLASSIFYING CULTURES

People living in different cultures respond differently in similar business situations. There are two ways to classify cultures based on differences in characteristics such as values, attitudes, and social structure: the Kluckhohn-Strodtbeck and Hofstede frameworks.

##### I. Kluckhohn-Strodtbeck Framework (PPT 16)

The **Kluckhohn-Strodtbeck Framework** compares cultures along six dimensions, asking the following questions:

- Do people believe that their environment controls them, that they control the environment, or that they are part of nature?
  - Do people focus on past events, on the present, or on the future implications of their actions?
  - Are people easily controlled and not to be trusted, or can they be trusted to act freely and responsibly?
  - Do people desire accomplishments in life, carefree lives, or spiritual and contemplative lives?
  - Do people believe that individuals or groups are responsible for each person's welfare?
  - Do people prefer to conduct most activities in private or in public?
1. Dimensions of Japanese Culture:
    - Japanese believe in a delicate balance between people and environment that must be maintained.

- Japanese culture emphasizes the future.
  - Japanese culture treats people as quite trustworthy.
  - Japanese are accomplishment-oriented for employers and work units.
  - Japanese culture emphasizes individual responsibility to the group and group responsibility to the individual.
  - The culture of Japan tends to be public.
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J. Hofstede Framework (PPT 17-19)

The **Hofstede Framework** grew from a study of more than 110,000 people working in IBM subsidiaries by Dutch psychologist Geert Hofstede. He developed four dimensions for examining cultures.

1. *Individualism versus Collectivism*: Identifies the extent to which a culture emphasizes the individual versus the group.
  - a. Individualist cultures value hard work, entrepreneurial risk-taking, and freedom to focus on personal goals.
  - b. Collectivist cultures feel a strong association to groups, including family and work units. The goal is to maintain group harmony and work toward collective rather than personal goals.
2. *Power Distance*: Identifies the degree to which a culture accepts social inequality among its people.
  - a. A culture with large power distance is characterized by inequality between superiors and subordinates. Organizations are hierarchical, with power derived from prestige, force, and inheritance.
  - b. Cultures with small power distance display equality, with prestige and rewards equally shared between superiors and subordinates. Power in these cultures derives from hard work and is considered more legitimate.
  - c. Refer to Figure 2.2. Tight grouping of nations within the five clusters (plus Costa Rica): African, Asian, Central and South American, and Middle Eastern nations in Quadrant 1 (cultures with large power distance and lower individualism). Quadrants 2 and 3 include Australia and the nations of North America and Western Europe (cultures high in individualism and smaller power distance scores).
3. *Uncertainty Avoidance*: Identifies the extent to which a culture avoids uncertainty and ambiguity.
  - a. Cultures with large uncertainty avoidance value security and place faith in strong systems of rules and procedures in society. Also tend to have lower employee turnover, formal rules for employee behavior, and more difficulty implementing change.
  - b. Cultures, low on uncertainty avoidance, are more open to change and new ideas.
  - c. Refer to Figure 2.3. Quadrant 4 contains nations characterized by small uncertainty avoidance and small power distance, including Australia, Canada, Jamaica, the United States, and many Western European nations. Quadrant 2 contains many Asian, Central American, South American, and Middle Eastern

nations—nations having large power distance and large uncertainty avoidance indexes.

4. *Achievement versus Nurturing*: Identifies the extent to which a culture emphasizes personal achievement and materialism versus relationships and quality of life.
    - a. Cultures scoring high are characterized by assertiveness and the accumulation of wealth, and entrepreneurial drive.
    - b. Cultures scoring low have relaxed lifestyles, with more of a concern for others than material gain.
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5. **BOTTOM LINE FOR BUSINESS**

In this chapter we discussed many of the cultural differences among nations that affect international business. We saw how problems can erupt from cultural misunderstandings and learned how companies can improve their performance with cultural literacy. Being culturally literate can mean the difference between returning home with a signed contract and returning empty-handed. As globalization propels more and more companies into the international business arena, localizing business policies and practices can help managers succeed. Moreover, understanding a people's values, beliefs, rules, and institutions makes managers more effective marketers, negotiators, and production managers.