

Cross-Cultural Business

Learning Objectives

After studying this chapter, you should be able to

1. Describe culture and explain the significance of both national culture and subcultures.
2. Identify the components of culture and describe their impact on international business.
3. Describe cultural change and explain how companies and culture affect each other.
4. Explain how the physical environment and technology influence culture.
5. Describe the two main frameworks used to classify cultures and explain their practical use.
6. Explain the three different types of staffing policies used by international companies.
7. Describe the recruitment, selection, and cultural training issues facing international companies.
8. Explain how companies compensate managers and workers in international markets.

A LOOK BACK

Chapter 1 introduced us to international business. We examined the impact of globalization on markets and production, the forces behind its expansion, and each main argument in the debate over globalization. We also profiled the kinds of companies engaged in international business.

A LOOK AT THIS CHAPTER

This chapter introduces the important role of culture in international business. We explore the main elements of culture and how they affect business policies and practices. We learn different methods of classifying cultures and how these methods can be applied to business. We study how a company acquires and manages its most important resource—its employees. We also learn about culture shock and how employees can deal with its effects.

A LOOK AHEAD

Chapter 3 describes the political and legal systems of nations. We will learn how different national systems affect international businesses and how managers can reduce political risk.



Connecting Cultures

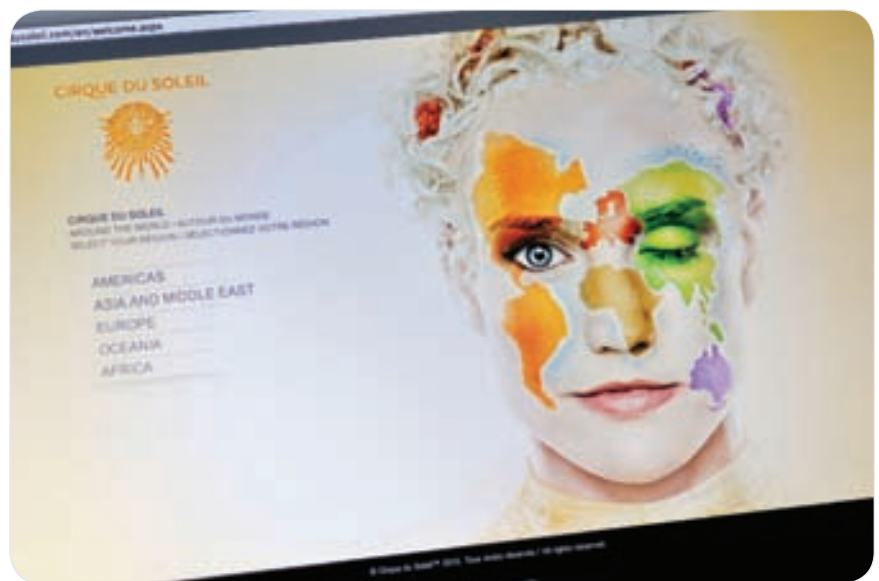
MONTREAL, Quebec—Cirque du Soleil (www.cirquedusoleil.com) is the world's leading circus and Canada's largest cultural export. Founded in 1984 by a group of 20 street performers, the company employs over 5000 people, including approximately 1300 performers from more than 50 countries, and generates \$800 million in annual revenue.

Cirque du Soleil has staged productions in over 300 cities worldwide and has resident shows in the United States and China. To achieve success in foreign markets, Cirque du Soleil employed Canadian delegates abroad as intermediaries. They assisted the company to understand cultural differences, provided information about local market trends, and furnished business contacts. With its entrance into foreign markets, Cirque du Soleil extended its touring season to countries with warmer climates than Canada.

Many internal factors contribute to Cirque du Soleil's international success. Its shows have no spoken language, making them accessible to diverse audiences. The company's ability to adapt and change, and to tolerate uncertainty (the opposite of Hofstede's uncertainty avoidance, discussed in this chapter) has helped it maintain a culture of innovation. Cirque du Soleil focuses on geocentric staffing, recruiting talent from around the world, including support staff such as physiotherapy and fitness specialists. It relies on a casting team supported by a global network of partners who act as eyes and ears in the field, discovering and recommending artists from around the world.

Recruiting artists is a challenge, because the shows have a 15-year lifespan: Cirque du Soleil must not only find the best performers in the world, but must also retain them for a long run. The talent team holds auditions worldwide throughout the year. The company has a Web site (available in seven languages) dedicated to recruiting and also recruits through social networking sites. More than half the artists Cirque du Soleil hires are athletes whose competitive careers are ending. The company also hires from circus schools and has training programs in China and Russia.

As you read this chapter, consider how culture influences international business. Think about the human resource issues that arise when international companies manage their employees around the world and about how company actions affect culture.¹



Source: Cirque du Soleil.

This chapter is the first of four that describe the links between international business activity and a nation's business environment. We introduce these topics early because of their strong influence on how commerce is conducted in different countries. Success in international business can often be traced directly to a deep understanding of some aspect of a people's commercial environment. This chapter explores the influence of *culture* on international business activity and examines how companies acquire and manage their employees. Chapter 3 presents the roles of *political and legal systems*; Chapter 4 describes the different approaches to ethics and the ethical dilemmas that arise; and Chapter 5 looks at the impact of *economic systems and emerging markets* on international business.

An assessment of any nation's overall business climate is typically the first step in analyzing its potential as a host for international commercial activity. This means addressing some important questions, such as the following: What language(s) do the people speak? What is the climate like? Are the local people open to new ideas and new ways of doing business? Do government officials and the people want our business? Is the political situation stable enough so that our assets and employees are not placed at unacceptable levels of risk? Answers to these kinds of questions—plus statistical data on items such as income level and labour costs—allow companies to evaluate the attractiveness of a location as a place for doing business.

We address culture first in our discussion of national business environments because of its pivotal role in all international commercial activity. Whether we are discussing an entrepreneur running a small import/export business or a huge global firm directly involved in more than 100 countries, *people* are at the centre of all business activity. When people from around the world come together to conduct business, they bring with them different backgrounds, assumptions, expectations, and ways of communicating—in other words, *culture*.

We begin this chapter by exploring the influence of nation-states and subcultures on a people's overall cultural image. Next we learn the importance of values, attitudes, manners, and customs in any given culture. We then examine ways in which social institutions, religion, language, and other key elements of culture affect business practices and national competitiveness. We also look at two alternative methods for classifying cultures.

Finally, we focus on how a company acquires and manages *people*. People are a company's most important resource, and, as mentioned earlier, culture affects business practices. Therefore, we look at the different types of staffing policies international companies use; at the recruitment, selection, and cultural training issues these companies face; and at the ways in which they compensate managers and workers in international markets.

What Is Culture?

When travelling in other countries, we often perceive differences in the way people live and work. In Canada dinner is commonly eaten around 6:00 p.m.; in Spain and Mexico it's not served until 8:00 or 9:00 p.m. In Canada most people shop in large supermarkets once or twice a week; Italians and the Dutch tend to shop in smaller local grocery stores nearly every day. Essentially, we are experiencing differences in **culture**—the set of values, beliefs, rules, and institutions held by a specific group of people. Culture is a highly complex portrait of a people. It includes everything from high tea in England to the tropical climate of Barbados, to Mardi Gras in Brazil, to segregation of the sexes in Saudi Arabian schools.

Before we learn about the individual components of culture, let's look at one important concept that should be discouraged and one that should be fostered.

AVOIDING ETHNOCENTRICITY **Ethnocentricity** is the belief that one's own ethnic group or culture is superior to that of others. Ethnocentricity can seriously undermine international business projects. It causes people to view other cultures in terms of their own and, therefore, disregard the beneficial characteristics of other cultures. Ethnocentricity played a role in many stories, some retold in this chapter, of companies that failed when they tried to implement a new business practice in a subsidiary abroad. The failures occurred because managers ignored a fundamental aspect of the local culture, which provoked a backlash from the local population, their government, or nongovernmental groups. As suppliers and buyers increasingly treat the world as a single, interconnected marketplace, managers should eliminate the biases inherent in ethnocentric thinking. For more information on how companies can foster a non-ethnocentric

culture

Set of values, beliefs, rules, and institutions held by a specific group of people.

ethnocentricity

Belief that one's own ethnic group or culture is superior to that of others.

Culture Matters

Creating a Global Mindset

In this era of globalization, companies need employees who function without the blinders of ethnocentricity. Here are some ways managers can develop a *global mindset*:

- **Cultural Adaptability.** Managers need the ability to alter their behaviour when working with people from other cultures. The first step is to develop one's knowledge of unfamiliar cultures; one way to begin is to join an organization such as another culture's Chamber of Commerce and attend meetings where nationals of that culture will be present.² The second step is to act on that knowledge to alter behaviour to suit cultural expectations. The manager with a global mindset can evaluate others in a culturally unbiased way, and can motivate and lead multicultural teams.
- **Bridging the Gap.** A large gap can emerge between theory and practice when Western management ideas are applied in Eastern cultures. Whereas North American management principles are often accepted at face value in businesses throughout the world, North American business customs are not. In Asia, for example, Western managers may try implementing "collective leadership" practices more in line with Asian management styles.
- **Building Global Mentality.** Companies can apply personality-testing techniques to measure the global aptitude of managers. A global mindset test evaluates an individual's openness and flexibility, understanding of global principles, and strategic implementation abilities. It can also identify areas in which training is needed and generate a list of recommended programs. A global mindset requires managers to swallow personal pride, put aside ego, and ignore cultural preconceptions.
- **Flexibility Is Key.** The more behavioural are the issues, the greater is the influence of local cultures. Japanese and Korean managers are more likely than North American managers to wait for directions and consult peers on decisions. Western managers posted in the Middle East must learn to work within a rigid hierarchy to be successful. And although showing respect for others is universally valued, respect is defined differently from country to country.
- **Want to Know More?** Visit the Centre for Creative Leadership (www.ccl.org); The Globalist (www.theglobalist.com); and Transnational Management Associates (www.tmaworld.com).

perspective, see this chapter's Culture Matters feature, titled "Creating a Global Mindset," and read about geocentric staffing toward the end of the chapter.

DEVELOPING CULTURAL LITERACY As globalization continues, people directly involved in international business increasingly benefit from a certain degree of **cultural literacy**—detailed knowledge about a culture that enables a person to function effectively within it. Cultural literacy improves people's ability to manage employees, market products, and conduct negotiations in other countries. Global brands such as Procter & Gamble (www.pg.com) and Apple (www.apple.com) provide a competitive advantage because consumers know and respect these highly recognizable names. Yet cultural differences often dictate alterations in some aspect of a business to suit local tastes and preferences. The culturally literate manager who compensates for local needs and desires brings his or her company closer to customers and improves the firm's competitiveness.

As you read through the concepts and examples in this chapter, try to avoid reacting with *ethnocentricity* while developing your own *cultural literacy*. Because these two concepts are central to the discussion of many international business topics, you will encounter them throughout this chapter and this book.

National Culture and Subcultures

Rightly or wrongly, we tend to invoke the concept of the *nation-state* when speaking of culture. In other words, we usually refer to British and Indonesian cultures as if all Britons and all Indonesians were culturally identical. We do this because we are conditioned to think in terms of *national culture*. But this is at best a generalization. In Great Britain, campaigns for greater Scottish and Welsh independence continue to make progress. And people in remote parts of Indonesia build homes in treetops even as people in the nation's developed regions pursue ambitious economic development projects. Let's now take a closer look at the diversity that lies beneath the veneer of national culture.

cultural literacy

Detailed knowledge about a culture that enables a person to function effectively within it.

Subculture members define themselves by their style (such as clothing, hair, tattoos) and rebel against mass consumerism. London, England's Camden district is famous for its historic markets and as a gathering place for alternative subcultures such as goth, punk, and emo. Businesses like YouTube help subcultures to spread quickly worldwide. Can you think of a company that targets an international subculture with its products?

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NATIONAL CULTURE Nation-states *support* and *promote* the concept of national culture by building museums and monuments to *preserve* the legacies of important events and people. Nation-states also intervene in business to preserve national culture. Most nations, for example, regulate culturally sensitive sectors of the economy, such as filmmaking and broadcasting. France continues to voice fears that its language is being tainted with English and its media with North American programming. To stem the English invasion, French laws limit the use of English in product packaging and storefront signs. At peak listening times, at least 40 percent of all radio station programming is reserved for French artists. Similar laws apply to television broadcasting. The French government even fined the local branch of a US university for failing to provide a French translation on its English-language Web site.

Cities, too, get involved in enhancing national cultural attractions, often for economic reasons. Lifestyle enhancements to a city can help it attract companies, which benefit by having an easier task retaining top employees. The Guggenheim Museum in Bilbao, Spain (www.guggenheim-bilbao.es), designed by Frank Gehry, revived that old Basque industrial city. And Hong Kong's government enhanced its cultural attractions by building a Hong Kong Disneyland to lure businesses that might otherwise locate elsewhere in Asia.

SUBCULTURES A group of people who share a unique way of life within a larger, dominant culture is called a **subculture**. A subculture can differ from the dominant culture in language, race, lifestyle, values, attitudes, or other characteristics.

Although subcultures exist in all nations, they are often glossed over by our *impressions* of national cultures. For example, the customary portrait of Chinese culture often ignores the fact that China's population includes more than 50 distinct ethnic groups. Decisions regarding product design, packaging, and advertising should consider each group's distinct culture. Marketing campaigns also need to recognize that Chinese dialects in the Shanghai and Canton regions differ from those in the country's interior; not everyone is fluent in the official Mandarin dialect.

Canada also has many subcultures, the three largest of which are English, French, and Chinese Canadians. Both French Canadians and Chinese Canadians tend to be extremely family-oriented and respond to advertising that understands their heritage and reinforces traditional family values. French Canadians make up over 15 percent of the total Canadian population. The majority of them live in Quebec, and over 50 percent speak only French. In terms of culture, French Canadians tend to be more individualistic, liberal, and autonomy-seeking than Canadians from other cultural backgrounds, and place a higher value on work–life balance. French Canadians also drink more coffee but less tea, and try to eat more organic food.³

subculture

A group of people who share a unique way of life within a larger, dominant culture.

Chinese Canadians are the largest visible minority population in Canada and the second largest subculture. Chinese (if Mandarin and Cantonese are combined) is the third most spoken language in Canada. Chinese Canadians are concentrated in five major cities: Toronto, Vancouver, Montreal, Calgary, and Edmonton. Chinese Canadians value education and are interested in luxury goods and brand name products as a way of gaining status (see the Social Status section later in this chapter).⁴

Cultural boundaries do not always correspond to political boundaries. In other words, subcultures sometimes exist across national borders, especially if the boundaries have been arbitrarily drawn after a conflict. People who live in different nations but who share the same subculture can have more in common with one another than with their fellow nationals. Arab culture, for example, extends from northwest Africa to the Middle East, with pockets of Arabs in many European countries and North America. Because Arabs share a common language and tend to share purchasing behaviours related to Islamic religious beliefs, marketing to Arab subcultures can sometimes be accomplished with a single marketing campaign.

Quick Study

1. Define *culture*. How does ethnocentricity distort one's view of other cultures?
2. What is *cultural literacy*? Why should businesspeople understand other cultures?
3. How do nation-states and *subcultures* influence a nation's cultural image?

Components of Culture

The actions of nation-states and the presence of subcultures help define the culture of a group of people. But a people's culture also 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. Let's take a detailed look at each main component of culture (see Figure 2.1): *aesthetics, values and attitudes, manners and customs, social structure, religion, personal communication, education, and physical and material environments*.

Aesthetics

What a culture considers "good taste" in the arts (including music, painting, dance, drama, and architecture), the imagery evoked by certain expressions, and the symbolism of certain colours is called **aesthetics**.

Aesthetics are important when a company does business in another culture. The selection of appropriate colours for advertising, product packaging, and even work uniforms can improve the

aesthetics

What a culture considers "good taste" in the arts, the imagery evoked by certain expressions, and the symbolism of certain colours.

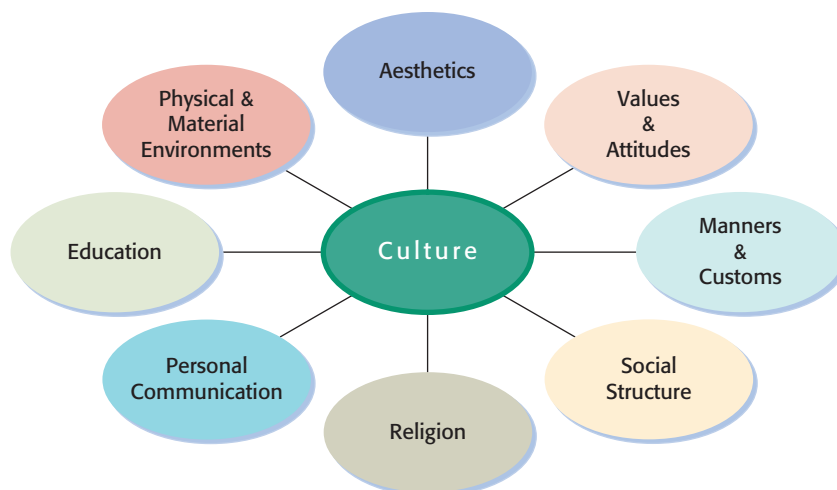


FIGURE 2.1

Components of Culture

Entrepreneur's Toolkit

Giving Web Sites Local Appeal

When going global with an Internet presence, the more a company localizes the better. Online customers want an experience corresponding to their cultural context offline. Here are a few tips for entrepreneurs launching an online presence.

- **Choosing Colours.** A black-and-white Web site is fine for many countries, but in Asia visitors may think you are inviting them to a funeral. In Japan and across Europe, Web sites in pastel colour schemes often work best.
- **Selecting Numbers.** Many Chinese-speaking cultures consider the number four unlucky, although eight and nine symbolize prosperity. Be careful that your Web address and phone numbers do not send the wrong signal.
- **Watching the Clock.** If marketing to countries that use the 24-hour clock, adjust times stated on the site so it reads, "Call between 9:00 and 17:00" instead of "Call between 9 a.m. and 5 p.m."
- **Avoiding Slang.** English in Britain is different from that in the United States, Spanish in Spain is different from that in Mexico, and French in France is different from that in Quebec. Avoid slang to lessen the potential negative impact of such differences.
- **Waving the Flag.** Using national flags as symbols for buttons that access different language versions of your site should be done carefully. Mexican visitors to your site may be put off by a Spanish flag to signify the site's Spanish-language version, for example.
- **Doing the Math.** Provide conversions into local currencies for buyer convenience. For online ordering, be sure your site calculates any shipping costs, tax rates, tariffs, and so on. Also allow enough blanks on the order form to accommodate longer international addresses.
- **Getting Feedback.** Finally, talk with customers to know what they want to accomplish on your Web site. Then, thoroughly test the site to ensure it functions properly.

odds of success. For example, green is a favourable colour in Islam and adorns the national flags of most Islamic nations, including Jordan, Pakistan, and Saudi Arabia. Companies take advantage of the emotional attachment to the colour green in these countries by incorporating it into a product, its packaging, or its promotion. Across much of Asia, on the other hand, green is associated with sickness. In Europe, Mexico, and Canada, the colour of death and mourning is black; in Japan and most of Asia, it's white.

Shoe manufacturer Nike (www.nike.com) experienced first-hand the importance of imagery and symbolism in international marketing. The company emblazoned a new line of shoes with the word "Air" written to resemble flames or heat rising off blacktop. The shoes were given various names, including *Air Bakin'*, *Air Melt*, *Air Grill*, and *Air B-Que*. But what Nike did not realize was that the squiggly lines of the "Air" logo resembled Arabic script for "Allah," the Arabic name for God. Under threat of a worldwide boycott by Muslims, who considered it a sacrilege, Nike apologized and recalled the shoes.

Music is deeply embedded in culture and, when used correctly, can be a clever and creative addition to a promotion; if used incorrectly, it can offend the local population. The architecture of buildings and other structures should also be researched to avoid making cultural blunders attributable to the symbolism of certain shapes and forms.

The importance of aesthetics is just as great when going international using the Internet. Many companies exist that teach corporations how to globalize their Internet presence. These companies often provide professional guidance on how to adapt Web sites to account for cultural preferences such as colour scheme, imagery, and slogans. The advice of specialist firms can be particularly helpful for entrepreneurs and small businesses because they rarely have in-house employees well versed in other cultures. To read how small business owners can tailor a Web site to suit local aesthetics and other cultural variables, see the Entrepreneur's Toolkit, titled "Giving Web Sites Local Appeal."

Values and Attitudes

Ideas, beliefs, and customs to which people are emotionally attached are called **values**. Values include concepts such as honesty, marital faithfulness, freedom, and responsibility. Values are important to business because they affect a people's work ethic and desire for material possessions.

values

Ideas, beliefs, and customs to which people are emotionally attached.

For example, whereas people in Singapore value hard work and material success, people in Greece value leisure and a modest lifestyle. The United States and Canada value individual freedom; Japan and South Korea value group consensus.

The influx of values from other cultures can be fiercely resisted. Many Muslims believe drugs, alcohol, and certain kinds of music and literature will undermine important Islamic values. This is why nations under Islamic law (including Iran and Saudi Arabia) exact severe penalties against anyone possessing illegal items such as drugs and alcohol. Deeply held conservative values are why the Arab world's reality TV programs tend to be short-lived. In Bahrain, the local version of *Big Brother* was cancelled after people objected to the program's format, which involved young unmarried adults of both sexes living under the same roof. The Lebanon-based program *Hawa Sawa (On Air Together)* was shut down because its "eliminate" format (in which a young man would gradually eliminate young women to finally select a date) was perceived by many people as too Western.

Attitudes are positive or negative evaluations, feelings, and tendencies that individuals harbour toward objects or concepts. Attitudes reflect underlying values. For example, a Westerner would be expressing an attitude if he or she were to say, "I do not like the Japanese purification ritual because it involves being naked in a communal bath." The Westerner quoted here might hold conservative beliefs regarding exposure of the body.

Similar to values, attitudes are learned from role models, including parents, teachers, and religious leaders. Attitudes also differ from one country to another because they are formed within a cultural context. But unlike values (which generally concern only important matters), people hold attitudes toward both important and unimportant aspects of life. And whereas values remain quite rigid over time, attitudes are more flexible.

A "European" attitude has sunk into the psyche of young people there as companies from different countries merge, industries consolidate, and nations grow closer together in the European Union. Many young people in Europe today consider themselves to be "European" as much as they identify with their individual national identities. Still, the underlying values of young Europeans tend to remain similar to those of their parents. Such cultural knowledge can help managers decide whether to adapt promotions to local attitudes for maximum effectiveness.

Let's now look at how people's attitudes differ toward three important aspects of life that directly affect business activities: time, work and achievement, and cultural change.

ATTITUDES TOWARD TIME People in many Latin American and Mediterranean cultures are casual about their use of time. They maintain flexible schedules and would rather enjoy their time than sacrifice it to unbending efficiency. Businesspeople, for example, may arrive after the scheduled meeting time and prefer to build personal trust before discussing business. Not surprisingly, it usually takes longer to conduct business in these parts of the world than in the United States or northern Europe.

By contrast, people in Japan and Canada typically arrive promptly for meetings, keep tight schedules, and work long hours. The emphasis on using time efficiently reflects the underlying value of hard work in both these countries. Yet people in Japan and Canada sometimes differ in how they use their time at work. For example, Canadian employees strive toward workplace efficiency and may leave work early if the day's tasks are done, reflecting the value placed on producing individual results. But in Japan, although efficiency is prized, it is equally important to look busy in the eyes of others even when business is slow. A Japanese employee would not leave work early even if he finished the day's task ahead of schedule. Japanese workers want to demonstrate their dedication to superiors and co-workers—an attitude grounded in values such as the concern for group cohesion, loyalty, and harmony.

ATTITUDES TOWARD WORK Whereas some cultures display a strong work ethic, others stress a more balanced pace in juggling work and leisure. People in southern France like to say they work to live, while people in North America live to work. The French say work is a means to an end for them, whereas work is an end in itself in North America. Not surprisingly, the lifestyle in southern France is slower-paced. People tend to concentrate on earning enough money to enjoy a relaxed, quality lifestyle. Businesses practically close down during August, when many workers take month-long paid holidays, often outside the country.

People tend to launch their own businesses when capital is available for new business start-ups and when the cultural stigma of entrepreneurial failure is low. In European countries,

attitudes

Positive or negative evaluations, feelings, and tendencies that individuals harbour toward objects or concepts.

start-ups are considered quite risky, and capital for entrepreneurial ventures can be scarce. Moreover, if an entrepreneur's venture goes bust, he or she can find it very hard to obtain financing for future projects because of the stigma of failure. This remains true despite some progress recently. The opposite attitude tends to prevail in North America. Reference to prior bankruptcy in a business plan is sometimes considered a valuable learning experience (assuming lessons were learned). As long as Canadian bankers or venture capitalists see or hear about promising business plans, they are generally willing to lend money. An example of this attitude is the popular TV show *Dragon's Den*, where aspiring entrepreneurs pitch their business ideas to a panel of Canadian business investors. Today, many European nations are working to foster an entrepreneurial spirit similar to that of North America.

cultural trait

Anything that represents a culture's way of life, including gestures, material objects, traditions, and concepts.

ATTITUDES TOWARD CULTURAL CHANGE A **cultural trait** is anything that represents a culture's way of life, including gestures, material objects, traditions, and concepts. Such traits include bowing to show respect in Japan (gesture), a Buddhist temple in Thailand (material object), relaxing in a tearoom in Kuwait (tradition), and practising democracy in North America (concept). Let's look more closely at the role of cultural traits in causing cultural change over time and the relation between international companies and cultural change.

cultural diffusion

Process whereby cultural traits spread from one culture to another.

CULTURAL DIFFUSION The process whereby cultural traits spread from one culture to another is called **cultural diffusion**. As new traits are accepted and absorbed into a culture, *cultural change* occurs naturally and, as a rule, gradually. Globalization and technological advances are increasing the pace of both cultural diffusion and cultural change. Satellite television, videoconferencing, and videos on the Internet increase the frequency of international contact and expose people of different nations to new ideas and practices.

cultural imperialism

Replacement of one culture's traditions, folk heroes, and artifacts with substitutes from another.

When Companies Change Cultures International companies are often agents of cultural change. As trade and investment barriers fall, for example, US consumer-goods and entertainment companies are moving into untapped markets. Critics in some of these places charge that in exporting the products of such firms, the United States is practising **cultural imperialism**—the replacement of one culture's traditions, folk heroes, and artifacts with substitutes from another.

Fears of cultural imperialism still drive some French to oppose the products of the Walt Disney Company (www.disney.com) and its Disneyland Paris theme park. They fear "Mickey and Friends" could replace traditional characters rooted in French culture. McDonald's (www.mcdonalds.com) is also sometimes charged with cultural imperialism. It is reported that the average Japanese child thinks McDonald's was invented in Japan and exported to the United States. Chinese children consider "Uncle" McDonald "funny, gentle, kind, and understanding." Meanwhile, politicians in Russia decry the Snickerization of their culture—a snide term that refers to the popularity of the candy bar made by Snickers (www.snickers.com). And when the Miss World Pageant was held in India, conservative groups criticized Western corporate sponsors for spreading the message of consumerism and portraying women as sex objects.

Sensitivity to the cultures in which they operate can help companies avoid charges of cultural imperialism. Firms must focus not only on meeting people's product needs but also on how their activities and products affect people's traditional ways and habits. Rather than view their influence on culture as the inevitable consequence of doing business, companies can take several steps to soften those effects. For example, policies and practices that are at odds with deeply held beliefs can be introduced gradually. Managers could also seek the advice of highly respected local individuals such as elders, who fulfill key societal roles in many developing countries. And businesses should always make clear to local workers the benefits of any proposed changes that are closely linked to cultural traits.

When Cultures Change Companies Culture often forces companies to adjust their business policies and practices. Managers from the United States, for example, often encounter cultural differences that force changes in how they motivate employees in other countries. Managers sometimes use *situational management*—a system in which a supervisor walks an employee through every step of an assignment or task and monitors the results at each stage. Although time-consuming, this technique helps employees fully understand the scope of their jobs and clarifies the boundaries of their responsibilities.

Other types of changes might also be needed to suit local culture. Vietnam's traditional, agriculture-based economy means people's concept of time revolves around the seasons. The local



A student in Krakow, Poland, pedals his way to an outlet of Sweden-based IKEA. Sweden historically dominated other Scandinavian nations, including Denmark. Now some in Denmark say IKEA is a “cultural imperialist” for portraying Denmark as Sweden’s doormat because it assigns Danish names to doormats and rugs, but reserves Swedish names for expensive items such as beds and chairs. IKEA says the product names are simply a coincidence.

Source: © CORBIS. All Rights Reserved.

“timepiece” is the monsoon, not the clock. Western managers, therefore, modify their approach and take a more patient, long-term view of business by modifying employee evaluation and reward systems. For example, individual criticism should be delivered privately to save employees from “losing face” among co-workers. Individual praise for good performance can be delivered either in private or in public, if done carefully. The Vietnamese place great value on group harmony, so an individual can be embarrassed if singled out publicly as being superior to the rest of the work unit.

Is a Global Culture Emerging? What does the rapid pace of cultural change worldwide mean for international business? Are we witnessing the emergence of a new, truly global culture in which all people share similar lifestyles, values, and attitudes? The rapid pace of cultural diffusion today is causing cultures to converge to some extent. The successful American TV show *So You Think You Can Dance* (www.fox.com/dance), where aspiring dancers compete for a chance to become a celebrity, is one example of global pop culture. The show has many clones around the world. It is available in Armenia, Australia, Benelux, Denmark, Finland, France, Germany, Israel, Malaysia, Scandinavia, South Africa, and Vietnam, although it was recently cancelled in Canada.

It might be true that people in different cultures are developing similar perspectives on certain issues. But it seems that just as often as we see signs of an emerging global culture, we discover some new habit unique to one culture. When that happens, we are reminded of the roles of history and tradition in defining culture. Though values and attitudes are under continually greater pressure from globalization, their transformation will be gradual rather than abrupt because they are deeply ingrained in culture. This is why the managers of tomorrow must work to develop their knowledge and understanding of other cultures.

Quick Study

1. What is meant by a culture’s *aesthetics*? Give several examples.
2. How can businesses incorporate aesthetics into their Web sites?
3. Compare and contrast *values* and *attitudes*. How do cultures differ in their attitudes toward time, work, and cultural change?
4. Describe the process of *cultural diffusion*. Why should international businesses be sensitive to charges of *cultural imperialism*?

Manners and Customs

When doing business in another culture, it is important to understand a people's manners and customs. At a minimum, understanding manners and customs helps managers avoid making embarrassing mistakes or offending people. In-depth knowledge, meanwhile, improves the ability to negotiate in other cultures, market products effectively, and manage international operations. Let's explore some important differences in manners and customs around the world.

manners

Appropriate ways of behaving, speaking, and dressing in a culture.

MANNERS Appropriate ways of behaving, speaking, and dressing in a culture are called **manners**. In Arab cultures, for example, one does not extend a hand to greet an older person unless the elder first offers the greeting. In going first, a younger person would be displaying bad manners. Moreover, because Arab culture considers the left hand the one used for personal hygiene, using it to pour tea or serve a meal is considered very bad manners.

Jack Ma founded Alibaba (www.alibaba.com) as a way for suppliers and buyers to increase efficiency by cutting through layers of intermediaries and trading companies. But he realized early that his Chinese clients needed training in business etiquette to cross the cultural divide and do business with people from Western cultures. So Alibaba offers seminars on business manners that instruct clients to spend more time chitchatting with clients and conversing more casually.⁵

Conducting business during meals is common practice in Canada. In Mexico, however, it is poor manners to bring up business at mealtime unless the host does so first. Business discussions in Mexico typically begin when coffee and tequila arrive. Likewise, toasts in Canada tend to be casual and sprinkled with light-hearted humour. In Mexico, where a toast should be philosophical and full of passion, a light-hearted toast would be offensive. See the Global Manager's Briefcase, titled "A Globetrotter's Guide to Manners," for additional pointers on appropriate manners when abroad on business.

customs

Habits or ways of behaving in specific circumstances that are passed down through generations in a culture.

CUSTOMS When habits or ways of behaving in specific circumstances are passed down through generations, they become **customs**. Customs differ from manners in that they define appropriate habits or behaviours in *specific situations*. Sharing food gifts during the Islamic holy month of Ramadan is a custom, as is the Japanese tradition of throwing special parties for young women and men who turn age 20. Let's examine two types of customs and see how instances of each vary around the world.

folk custom

Behaviour, often dating back several generations, that is practised by a homogeneous group of people.

Folk and Popular Customs A **folk custom** is behaviour, often dating back several generations, that is practised by a homogeneous group of people. The wearing of turbans by Muslims in southern Asia and the art of belly dancing in Turkey are both folk customs. A **popular custom** is behaviour shared by a heterogeneous group or by several groups. Popular customs can exist in just one culture or in two or more cultures at once. Wearing blue jeans and playing golf are both popular customs across the globe. Folk customs that spread by cultural diffusion to other regions develop into popular customs.

popular custom

Behaviour shared by a heterogeneous group or by several groups.

Despite their appeal, popular customs can be seen as a threat by some members of a culture. Authorities in a devoutly religious district of Indonesia's Aceh province banned Muslim women from wearing tight clothing, short skirts, and blue jeans. Islamic police set up raids to distribute long skirts to women found violating the ban and to confiscate their offending garments. Violators were released from custody after they provided their identities to police and received advice from Islamic preachers.⁶

We can also distinguish between folk and popular food. Popular Western-style fast food, for instance, is rapidly replacing folk food around the world. Widespread acceptance of "burgers 'n' fries" (born in the United States) and "fish 'n' chips" (born in Britain) is altering deep-seated dietary traditions in many Asian countries, especially among young people. In Japan and South Korea today, these popular foods are even becoming a part of home-cooked meals.

The Business of Gift Giving Although giving token gifts to business and government associates is customary in many countries, the proper type of gift varies. A knife, for example, should not be offered to associates in Russia, France, or Germany, where it signals the severing of a relationship. In Japan, gifts must be wrapped in such a delicate way that it is wise to ask someone trained in the practice to do the honours. It is also Japanese custom for the giver to protest that the gift is small and unworthy of the recipient, and for the recipient not to open the gift in front of the giver. This tradition does not endorse trivial gifts but is simply a custom.

Global Manager's Briefcase

A Globetrotter's Guide to Manners

Large multinationals need top managers who are comfortable living, working, and travelling worldwide. Here are a few guidelines for a manager to follow when meeting colleagues from other cultures:

- **Familiarity.** Avoid the temptation to get too familiar too quickly. Use titles such as “doctor” and “mister.” Switch to a first-name basis only when invited to do so, and do not shorten people’s names from, say, Catherine to Cathy.
- **Personal Space.** Culture dictates what is considered the appropriate distance between two people. Middle Eastern and Latin American nations close the gap significantly. And in Latin America the man-to-man embrace can occur regularly in business.
- **Religious Values.** Be cautious so that your manners do not offend people. Former Secretary of State Madeline Albright acquired the nickname “The Kissing Ambassador” for kissing the Israeli and Palestinian leaders of these two religious peoples.
- **Business Cards.** In Asia, business cards are considered an extension of the individual. Business cards in Japan are typically exchanged after a bow, with two hands extended, and the wording facing the recipient. Leave the card on the table for the entire meeting—don’t quickly stuff it in your wallet or toss it into your briefcase.
- **Comedy.** Use humour cautiously because it often does not translate well. Avoid jokes that rely on word-play and puns or events in your country, of which local people might have little or no knowledge.
- **Body Language.** Do not “spread out” by hanging your arms over the backs of chairs, but don’t be too stiff either. Look people in the eye lest they deem you untrustworthy, but don’t stare too intently in a challenging manner.

Cultures differ in their legal and ethical rules against giving or accepting bribes. Large gifts to business associates are particularly suspicious. To reduce ethical or legal issues in this regard, the Canadian federal government developed guidelines with suggested gift values for presents offered to foreign dignitaries by or on behalf of ministers. The list puts a limit of \$800 on gifts to foreign heads of state, \$600 for foreign ministers, \$400 for officials such as state governors or mayors, \$300 for senior bureaucrats, and \$50 for security staff, drivers, translators, and so forth. Appropriate gifts include contemporary arts and crafts or items representative of Canadian culture, such as silver-plated maple leaf business card cases, maple leaf cufflinks, and wool scarves with maple leaves.⁷

Yet in many cultures bribery is woven into a social fabric that has worn well for centuries. In Germany, bribe payments may even qualify for tax deductions. Though many governments worldwide are adopting stricter measures to control bribery, in some cultures large gifts are still an effective way to obtain contracts, enter markets, and secure protection from competitors.

Social Structure

Social structure embodies a culture’s fundamental organization, including its groups and institutions, its system of social positions and their relationships, and the process by which its resources are distributed. Social structure plays a role in many business decisions, including production-site selection, advertising methods, and the costs of doing business in a country. Three important elements of social structure that differ across cultures are social group associations, social status, and social mobility.

SOCIAL GROUP ASSOCIATIONS People in all cultures associate themselves with a variety of **social groups**—collections of two or more people who identify and interact with each other. Social groups contribute to each individual’s identity and self-image. Two groups that play especially important roles in affecting business activity everywhere are family and gender.*

social structure

A culture’s fundamental organization, including its groups and institutions, its system of social positions and their relationships, and the process by which its resources are distributed.

social group

Collection of two or more people who identify and interact with each other.

*We put these two “groups” together for the sake of convenience. Strictly speaking, a gender is not a group. Sociologists regard it as a category—people who share some sort of status. A key to group membership is mutual interaction. Individuals in categories know that they are not alone in holding a particular status, but the vast majority remain strangers to one another.

Family There are two different types of family groups:

- The *nuclear family* consists of a person's immediate relatives, including parents, brothers, and sisters. This concept of family prevails in Australia, Canada, the United States, and much of Europe.
- The *extended family* broadens the nuclear family and adds grandparents, aunts and uncles, cousins, and relatives through marriage. It is an important social group in much of Asia, the Middle East, North Africa, and Latin America.

Extended families can present some interesting situations for businesspeople unfamiliar with the concept. In some cultures, owners and managers obtain supplies and materials from another company in which someone from the extended family works. Gaining entry into such family arrangements can be difficult because quality and price are not sufficient motives to ignore family ties.

In extended-family cultures, managers and other employees often try to find jobs for relatives inside their own companies. This practice (called "nepotism") can present a challenge to the human resource operations of a Western company, which typically must establish explicit policies on the practice.

Gender *Gender* refers to socially learned traits associated with, and expected of, men or women. It includes behaviours and attitudes such as styles of dress and activity preferences. It is not the same thing as sex, which refers to the biological fact that a person is either male or female.

Though many countries have made great strides toward gender equality in the workplace, others have not. In countries where women are denied equal opportunity in the workplace, their unemployment rate can easily be double that for men and their pay half that for men in the same occupation. Women's salaries can be so low and the cost of childcare so high that it simply makes more sense for mothers to stay home with their children. Caring for children and performing household duties are also likely considered women's work and not the responsibility of the entire family.

Countries operating under Islamic law sometimes segregate women and men in public schools, universities, and social activities, and restrict women to certain professions. Yet women are sometimes allowed teaching careers in all-female classrooms only, or they can become physicians for female patients only.

SOCIAL STATUS Another important aspect of social structure is the way a culture divides its population according to *status*—that is, according to positions within the structure. Although some cultures have only a few categories, others have many. The process of ranking people into social layers or classes is called **social stratification**.

Three factors that normally determine social status are family heritage, income, and occupation. In most industrialized countries, royalty, government officials, and top business leaders occupy the highest social layer. Scientists, medical doctors, and others with a university education occupy the middle layer. Below are those with vocational training or a secondary-school education, who dominate the manual and clerical occupations. Although rankings are fairly stable, they can and do change over time. For example, because Confucianism (a major Chinese religion) stresses a life of learning, not commerce, Chinese culture frowned on businesspeople for centuries. In modern China, however, people who have obtained wealth and power through business are now considered important role models for younger generations.

SOCIAL MOBILITY Moving to a higher social class is easy in some cultures but difficult or impossible in others. **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*.

Caste System A **caste system** is a system of social stratification in which people are born into a social ranking, or *caste*, with no opportunity for social mobility. India is the classic example of a caste culture. Although the Indian constitution officially bans discrimination by caste, its influence persists. Little social interaction occurs between castes, and marrying out of one's caste is taboo. Opportunities for work and advancement are defined within the system, and certain occupations are reserved for the members of each caste. For example, a member of a lower caste cannot supervise someone of a higher caste because personal clashes would be inevitable.

social stratification

Process of ranking people into social layers or classes.

social mobility

Ease with which individuals can move up or down a culture's "social ladder."

caste system

System of social stratification in which people are born into a social ranking, or caste, with no opportunity for social mobility.

The caste system forces Western companies to make some hard ethical decisions when entering the Indian marketplace. They must decide whether to adapt to local human resource policies in India or import their own from the home country. As globalization penetrates deeper into Indian culture, the nation's social system and international companies will face many challenges to overcome.

Class System A **class system** is a system of social stratification in which personal ability and actions determine social status and mobility. It is the most common form of social stratification in the world today. But class systems vary in the amount of mobility they allow. Highly class-conscious cultures offer less mobility and, not surprisingly, experience greater class conflict. Across Western Europe, for example, wealthy families have retained power for generations by restricting social mobility. Countries there must sometimes deal with class conflict in the form of labour–management disputes that can increase the cost of doing business.

Conversely, lower levels of class consciousness encourage mobility and lessen conflict. A more cooperative atmosphere in the workplace tends to prevail when people feel that a higher social standing is within their reach. Most Canadians share the belief that hard work can improve their standard of living and social status. People attribute higher status to greater income or wealth but often with little regard for family background.

class system

System of social stratification in which personal ability and actions determine social status and mobility.

Quick Study

1. How do *manners* and *customs* differ? Give examples of each.
2. List several manners that managers should consider when doing business abroad.
3. Define *folk* and *popular* customs. How can a folk custom become a popular custom?
4. Define *social structure*. How do social rank and *social mobility* affect business?

Religion

Human values often originate from religious beliefs. Different religions take different views of work, savings, and material goods. Identifying why they do so may help us understand business practices in other cultures. Knowing how religion affects business is especially important in countries with religious governments.

Map 2.1 shows where the world's major religions are practised. Religion is not confined to national political boundaries but can exist in different regions of the world simultaneously. It is also common for several or more religions to be practised within a single nation. In the following sections, we explore Christianity, Islam, Hinduism, Buddhism, Confucianism, Judaism, and Shinto. We examine their potential effects, both positive and negative, on international business activity.

CHRISTIANITY Christianity was born in Palestine around 2000 years ago among Jews who believed that God sent Jesus of Nazareth to be their saviour. Although Christianity boasts more than 300 denominations, most Christians belong to the Roman Catholic, Protestant, or Eastern Orthodox churches. With two billion followers, Christianity is the world's single largest religion. 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—a tenet known widely as the “Protestant work ethic.” Many historians believe this conviction to be a main factor in the development of capitalism and free enterprise in nineteenth-century Europe.

Christian organizations sometimes get involved in social causes that affect business policy. For example, some conservative Christian groups have boycotted the Walt Disney Company (www.disney.com), charging that in portraying young people as rejecting parental guidance, Disney films impede the moral development of young viewers worldwide.

The Church itself has been involved in some highly publicized controversies. Ireland-based Ryanair (www.ryanair.com), Europe's leading low-fare airline, ruffled the feathers of the Roman Catholic Church with an ad campaign. The ad depicted the pope (the head of the Church) claiming

MAP 2.1

World Religions





- | | |
|---|---|
| Christianity | Buddhism |
| Judaism | Nature religion |
| Hinduism | Chinese religion |
| Islam | Other groups |

that the fourth secret of Fatima was Ryanair's low fares. The Church sent out a worldwide press release accusing the airline of blaspheming the pope. But much to the Church's dismay, the press release generated an enormous amount of free publicity for Ryanair.

Hyundai (www.hyundai.com) offended the Catholic Church when it ran a television commercial during the 2010 World Cup. The spot showed a "church" in Argentina with a stained glass window of a soccer ball, a soccer ball topped with a crown of thorns, and parishioners receiving slices of pizza instead of communion hosts. The Catholic Church took offence at the images of people worshipping soccer and at the mocking of its practice of receiving Holy Communion. Hyundai put a stop to the ad two days after it began airing, saying that upon review the ad was found to be unintentionally insensitive.⁸

ISLAM With 1.3 billion adherents, Islam is the world's second-largest religion. The prophet Muhammad founded Islam around 600 CE in Mecca, the holy city of Islam located in Saudi Arabia. Islam thrives in north-western Africa, the Middle East, Central Asia, Pakistan, and some Southeast Asian nations, including Indonesia. Muslim concentrations are also found in most European and US cities. *Islam* means "submission to Allah" and *Muslim* means "one who submits to Allah." Islam revolves around the "five pillars": (1) reciting the *Shahada* (profession of faith); (2) giving to the poor; (3) praying five times daily; (4) fasting during the holy month of *Ramadan*; and (5) making the *Hajj* (pilgrimage) to the Saudi Arabian city of Mecca at least once in one's lifetime.

Religion strongly affects the kinds of goods and services acceptable to Muslim consumers. Islam, for example, prohibits the consumption of alcohol and pork. Popular alcohol substitutes are soda pop, coffee, and tea. Substitutes for pork include lamb, beef, and poultry (all of which must be slaughtered in a prescribed way so as to meet *halal* requirements). Because hot coffee and tea often play ceremonial roles in Muslim nations, the markets for them are quite large. And because usury (charging interest for money lent) violates the laws of Islam, credit card companies collect management fees rather than interest, and each cardholder's credit line is limited to an amount held on deposit.

Nations governed by Islamic law (see Chapter 3) sometimes segregate the sexes at certain activities and in locations such as schools. In Saudi Arabia, women cannot drive cars on public streets. In orthodox Islamic nations, men cannot conduct market research surveys with women at home unless they are family members. Women visiting Islamic cultures need to be especially sensitive to Islamic beliefs and customs. In Iran, for example, the Ministry of Islamic Guidance and Culture posts a reminder to visiting female journalists: "The body is a tool for the spirit and the spirit is a divine song. The holy tool should not be used for sexual intentions." Although the issue of *hejab* (Islamic dress) is hotly debated, both Iranian and non-Iranian women are officially expected to wear body-concealing garments. They are also expected to wear scarves over their hair because hair is considered enticing.

HINDUISM Hinduism formed around 4000 years ago in present-day India, where more than 90 percent of its 900 million adherents live. It is also the majority religion of Nepal and a secondary religion in Bangladesh, Bhutan, and Sri Lanka. Considered by some to be a way of life rather than a religion, Hinduism recalls no founder and recognizes no central authority or spiritual leader. Integral to the Hindu faith is the caste system described earlier.

Hindus believe in reincarnation—the rebirth of the human soul at the time of death. For many Hindus the highest goal of life is *moksha*—escaping from the cycle of reincarnation and entering a state of eternal happiness called *nirvana*. Hindus tend to disdain materialism. Strict Hindus do not eat or wilfully harm any living creature because it may be a reincarnated human soul. Because Hindus consider cows sacred animals, they do not eat beef; consuming milk is considered a means of religious purification. Firms such as McDonald's (www.mcdonalds.com) must work closely with government and religious officials in India to respect Hindu beliefs. In many regions, McDonald's has removed all beef products from its menu and prepares vegetable and fish products in separate kitchen areas. And for those Indians who do eat red meat (but not cows because of their sacred status), the company sells the Maharaja Mac, made of lamb, in place of the Big Mac.

In India, there have been attacks on Western consumer-goods companies in the name of preserving Indian culture and Hindu beliefs. Some companies, such as Pepsi-Cola (www.pepsi.com), have been vandalized, and local officials even shut down a KFC restaurant (www.kfc.com)

for a time. Although it currently operates in India, Coca-Cola (www.cocacola.com) once left the market completely rather than succumb to demands that it reveal its secret formula to authorities. India's investment environment has improved greatly in recent years. Yet labour–management relations sometimes deteriorate to such a degree that strikes cut deeply into productivity.

BUDDHISM Buddhism was founded about 2600 years ago in India by a Hindu prince named Siddhartha Gautama. Today, Buddhism has around 380 million followers, mostly in China, Tibet, Korea, Japan, Vietnam, and Thailand, and there are pockets of Buddhists in Europe and the Americas. Although founded in India, Buddhism has relatively few adherents there. Unlike Hinduism, Buddhism rejects the caste system of Indian society. But like Hinduism, Buddhism promotes a life centred on spiritual rather than worldly matters. In a formal ceremony, Buddhists take refuge in the “three jewels”: the Buddha, the *dharma* (his teachings), and the *sangha* (community of enlightened beings). They seek *nirvana* (escape from reincarnation) through charity, modesty, compassion for others, restraint from violence, and general self-control.

Although monks at many temples are devoted to lives of solitary meditation and discipline, many other Buddhist priests are dedicated to lessening the burden of human suffering. They finance schools and hospitals across Asia and are active in worldwide peace movements. In Tibet, where most people still acknowledge the exiled Dalai Lama as the spiritual and political head of the Buddhist culture, the Chinese communist government suppresses allegiance to any outside authority. In the United States, a coalition of religious groups, human rights advocates, and supporters of the Dalai Lama continue to press the US Congress to apply economic sanctions against countries, such as China, that are seen as practising religious persecution.

CONFUCIANISM An exiled politician and philosopher named Kung-fu-dz (pronounced *Confucius* in English) began teaching his ideas in China nearly 2500 years ago. Today, China is home to most of Confucianism's 225 million followers. Confucian thought is also ingrained in the cultures of Japan, South Korea, and nations with large numbers of ethnic Chinese, such as Singapore.

South Korean business practice reflects Confucian thought in its rigid organizational structure and unswerving reverence for authority. Whereas Korean employees do not question strict chains of command, non-Korean managers and workers often feel differently. Efforts to apply Korean-style management in overseas subsidiaries have caused some high-profile disputes with US executives and even physical confrontations with factory workers in Vietnam.



Buddhism instructs its followers to live a simple life void of materialistic ambitions. Buddhism also teaches that seeking pleasure for the human senses causes suffering. But as globalization pries open Asia's markets, the products of Western multinationals are streaming in. Here a young Buddhist monk passes in front of an advertisement for Heineken beer. Do you think Asian cultures can modernize while retaining their traditional values and beliefs?

Source: Emmanuel Dunand/AFP/Getty Images, Inc./Agence France Presse.

Some observers contend that the Confucian work ethic and educational commitment helped spur East Asia's phenomenal economic growth. But others respond that the link between culture and economic growth is weak. They argue that economic, historical, and international factors are at least as important as culture. They say Chinese leaders distrusted Confucianism for centuries because they believed that it stunted economic growth. Likewise, many Chinese despised merchants and traders because their main objective (earning money) violated Confucian beliefs. As a result, many Chinese businesspeople moved to Indonesia, Malaysia, Singapore, and Thailand, where they launched successful businesses. Today, these countries (along with Taiwan) are financing much of China's economic growth.

JUDAISM More than 3000 years old, Judaism was the first religion to preach belief in a single God. Nowadays, Judaism has roughly 18 million followers worldwide. In Israel, Orthodox (“fully observant”) Jews make up 12 percent of the population and constitute an increasingly important economic segment. In Jerusalem, there is even a modelling agency that specializes in casting Orthodox Jews in ads aimed both inside and outside the Orthodox community. Models include scholars and one rabbi. In keeping with Orthodox principles, women model only modest clothing and never appear in ads alongside men.

Employers and human resource managers must be aware of important days in the Jewish faith. Because the Sabbath lasts from sundown on Friday to sundown on Saturday, work schedules might need adjustment. Devout Jews want to be home before sundown on Fridays. On the Sabbath itself, they do not work, travel, or carry money. Several other important observances are Rosh Hashanah (the two-day Jewish New Year, in September or October), Yom Kippur (the Day of Atonement, 10 days after New Year), Passover (which celebrates the Exodus from Egypt, in March or April each year), and Hanukkah (which celebrates an ancient victory over the Syrians, usually in December).

Marketers must take into account foods that are banned among strict Jews. Pork and shellfish (such as lobster and crab) are prohibited. Meat is stored and served separately from milk. Other meats must be slaughtered according to a practice called *shehitah*. Meals prepared according to Jewish dietary traditions are called *kosher*. For example, most airlines offer *kosher* meals for Jewish passengers on their flights.

SHINTO Shinto (meaning “way of the gods”) arose as the native religion of the Japanese. But today Shinto can claim only about 4 million strict adherents in Japan. Because modern Shinto preaches patriotism, it is sometimes said that Japan's real religion is nationalism. Shinto teaches sincere and ethical behaviour, loyalty and respect toward others, and enjoyment of life.

Shinto beliefs are reflected in the workplace through the traditional practice of lifetime employment (although this is waning today) and through the traditional trust extended between firms and customers. Japanese competitiveness in world markets has benefited from loyal workforces, low employee turnover, and good labour–management cooperation. The phenomenal success of many Japanese companies in recent decades gave rise to the concept of a Shinto work ethic, certain aspects of which have been emulated by Western managers.

Quick Study

1. What are the main beliefs of each of the seven religions presented above?
2. In what ways does religion affect international business activities?
3. Identify the dominant religion in each of the following countries: (a) Brazil, (b) China, (c) India, (d) Ireland, (e) Mexico, (f) Russia, and (g) Thailand.

Personal Communication

People in every culture have a **communication** system to convey thoughts, feelings, knowledge, and information through speech, writing, and actions. Understanding a culture's spoken language gives us great insight into why people think and act the way they do. Understanding a culture's body language helps us avoid sending unintended or embarrassing messages. Let's examine each of these forms of communication more closely.

communication

System to convey thoughts, feelings, knowledge, and information through speech, writing, and actions.

SPOKEN AND WRITTEN LANGUAGE Spoken and written language is the most obvious difference we notice when travelling in another country. We overhear and engage in a number of conversations and read many signs and documents to find our way. Knowledge of a people's language is often essential for achieving success in international business; understanding its language is the key to deeply understanding a culture.

Linguistically different segments of a population are often culturally, socially, and politically distinct. Malaysia's population is composed of Malay (60 percent), Chinese (30 percent), and Indian (10 percent). Although Malay is the official national language, each ethnic group speaks its own language and continues its traditions. The United Kingdom includes England, Northern Ireland, Scotland, and Wales. The native languages of Ireland and Scotland are dialects of *Gaelic*, and the speaking of *Welsh* in Wales predates the use of English in Britain. After decades of decline, Gaelic and Welsh are staging comebacks on radio and television, and in school curricula. Read the Global Challenges feature, titled "Speaking in Fewer Tongues," to learn about endangered languages around the world.

Implications for Managers The importance of understanding local languages is becoming increasingly apparent on the Internet. Roughly two-thirds of all Web pages are in English, but around three-quarters of all Internet users are non-native English speakers. Software solutions providers are assisting companies from English-speaking countries in adapting their Web sites for global e-business. Web surfers from cultures across the globe bring their own specific tastes, preferences, and buying habits online with them. The company that can provide its customer in Mexico City, Paris, or Tokyo with a quality buying experience in his or her native language will have an edge on the competition.

Language proficiency is crucial in production facilities where non-native managers are supervising local employees. One North American manager in Mexico was confused when his seemingly relaxed and untroubled workers went on strike. The problem lay in different cultural perspectives. Mexican workers generally do not take the initiative in problem solving and

Global Challenges Speaking in Fewer Tongues

One day this year, somewhere in the world, an old man or woman will die and with them will go their language. Dozens of languages have just one native speaker still living, and some blame globalization. Here are the facts, the consequences, and the challenge.

- **Some Are Losing.** Of the world's roughly 6000 languages, about 90 percent have fewer than 100 000 speakers. By the end of this century, more than half of the world's languages may be lost; perhaps fewer than 1000 will survive. One endangered language is Aramaic, a 2500-year-old Semitic language that was once the major language in the Middle East.
- **Some Are Gaining.** Even as minority languages die out, three languages continue to grow in popularity: Mandarin, Spanish, and English. English has emerged as the universal language of business, higher education, diplomacy, science, popular music, entertainment, and international travel. More than 70 nations give special status to English, and roughly one-quarter of the world's population is fluent or competent in it.
- **The Consequences.** The loss of a language can mean the loss of a people's culture because it is the vehicle for cultural, spiritual, and intellectual life. What is lost includes prayers, myths, humour, poetry, ceremonies, conversational styles, and terms for emotions, behaviours, and habits. When a language dies, all these must be expressed in a new language with different words, sounds, and grammar. The result is that much of a culture can simply vanish.
- **The Challenge.** Linguists are concerned that such a valuable part of human culture could vanish. The impending loss of more languages has linguists creating videotapes, audiotapes, and written records of endangered tongues before they disappear. Communities themselves are also taking action. In New Zealand, Maori communities set up nursery schools called *kohanga reo*, or "language nests," that are staffed by elders and conducted entirely in Maori.
- **Want to Know More?** Visit the Linguistic Society of America (www.lsadc.org), European Bureau for Lesser Used Languages (www.eblul.org), and Foundation for Endangered Languages (www.ogmios.org).

workplace complaints. Workers concluded the plant manager knew, but did not care, about their concerns because he did not question employees about working conditions.

American-born Thomas Kwan, who now works for a health products company in Shanghai, China, says similar scenarios occur there. “Whereas Americans are encouraged to challenge their boss to explain things, I have to ask Chinese staff what they think and encourage them to speak up. A lot of [expatriate] managers fail in China because they don’t understand that Chinese don’t tell you what they think,” he says.⁹

Marketers prize insights into the interests, values, attitudes, and habits of teenagers. Habbo (www.habbo.com), the world’s largest virtual hangout for teens, surveyed more than 50 000 teenagers in 31 countries to learn how they communicate with each other. The study found that although 72 percent of teens have active e-mail accounts, 76 percent communicate with friends primarily through instant messaging. Teens reserve e-mail for nonpersonal needs such as school, work, and corresponding with family members. Knowledge of these habits helps marketers to better target promotions.¹⁰

Language Blunders Advertising slogans and company documents must be translated carefully so messages are received precisely as intended. There are many stories of companies making terrible language blunders in their international business dealings. General Motors’ Chevrolet division (www.chevrolet.com) made perhaps the most well-known blunder when it first launched its Chevrolet Nova in Spanish-speaking markets. The company failed to notice beforehand that “No va” means “No go” in Spanish. Chevrolet had far greater success when it renamed the car *Caribe* (piranha)—the voraciously carnivorous freshwater fish native to South America that attacks and destroys living animals! In Sweden, Kellogg (www.kellogg.com) had to rename its Bran Buds cereal because the Swedish translation came out roughly as “burned farmer.” And then there’s the entrepreneur in Miami who tried to make the most of a visit to the United States by the pope of the Roman Catholic Church. He quickly began printing T-shirts for Spanish-speaking Catholics that should have read, “I saw the Pope (el Papa).” But a gender error on the noun resulted in T-shirts proclaiming “I saw the Potato (la Papa)”!¹¹ Other translation blunders include the following:

- An English-language sign in a Moscow hotel read, “You are welcome to visit the cemetery where famous Russian composers, artists, and writers are buried daily except Thursday.”
- A sign for English-speaking guests in a Tokyo hotel read, “You are respectfully requested to take advantage of the chambermaids.”
- An airline ticket office in Copenhagen read in English, “We take your bags and send them in all directions.”
- A Japanese knife manufacturer labelled its exports to the United States with “Caution: Blade extremely sharp! Keep out of children.”
- Braniff Airlines’ English-language slogan “Fly in Leather” was translated as “Fly Naked” in Spanish.

Such blunders are not the exclusive domain of humans. The use of machine translation—computer software used to translate one language into another—is booming along with the explosion in the number of non-native English speakers using the Internet. One search engine allows its users to search the Internet in English and Asian languages, translate Web pages, and compose an e-mail in one language and send it in another. The computers attempted a translation of the following: “The Chinese Communist Party is debating whether to drop its ban on private-enterprise owners being allowed to join the Party.” And it came up with this in Chinese: “The Chinese Communist Party is debating whether to deny its ban in join the Party is allowed soldier enterprise owners on.” Various other machine translators turned the French version of “I don’t care” (“*Je m’en fou*”) into “I myself in crazy,” “I of insane,” and “Me me in madman.”

Lingua Franca A **lingua franca** is a third or “link” language understood by two parties who speak different native languages. The original *lingua franca* arose to support ancient trading activities and contained a mixture of Italian and French, along with Arabic, Greek, and Turkish. Although only 5 percent of the world’s population speaks English as a first language, it is the most common *lingua franca* in international business, followed closely by French and Spanish.

The Cantonese dialect of Chinese spoken in Hong Kong and the Mandarin dialect spoken in Taiwan and on the Chinese mainland are so different that a *lingua franca* is often preferred.

lingua franca

Third or “link” language understood by two parties who speak different native languages.

And, although India's official language is Hindi, its *lingua franca* among the multitude of dialects is English because it was once a British colony. Yet many young people speak what is referred to as “Hinglish”—a combination of Hindi, Tamil, and English words mixed within a single sentence. Multinational corporations sometimes choose a *lingua franca* for official internal communications because they operate in many nations, each with its own language.

Companies that use English for internal correspondence include Philips (www.philips.com) (a Dutch electronics firm), Asea Brown Boveri (www.abb.ca) (a Swiss industrial giant), and Alcatel-Lucent (www.alcatel-lucent.com) (a French telecommunications firm). Executives of Japan's number one Internet shopping site, Rakuten (www.rakuten.co.jp), announced in 2010 that it will officially adopt English because of its pervasiveness on the Internet. All executive meetings are to be held in English and all internal documents will eventually be written in English. The company expects the move to “improve its employees' abilities and broaden their perspectives.”¹²

BODY LANGUAGE **Body language** communicates through unspoken cues, including hand gestures, facial expressions, physical greetings, eye contact, and the manipulation of personal space. Similar to spoken language, body language communicates both information and feelings, and differs greatly from one culture to another. Italians, French, Arabs, and Venezuelans, for example, animate conversations with lively hand gestures and other body motions. Japanese and Koreans, although more reserved, communicate just as much information through their own body languages; a look of the eye can carry as much or more meaning as two flailing arms.

Most body language is subtle and takes time to recognize and interpret. For example, navigating the all-important handshake in international business can be tricky. In the United States, it is a firm grip and can include several pumps of the arm. But in the Middle East and Latin America, a softer clasp of the hand with little or no arm pump is the custom. And in some countries, such as Japan, people do not shake hands at all but bow to one another. Bows of respect carry different meanings, usually depending on the recipient. Associates of equal standing bow about 15 degrees toward one another. But proper respect for an elder requires a bow of about 30 degrees. Bows of remorse or apology should be about 45 degrees.

Proximity is an extremely important element of body language to consider when meeting someone from another culture. If you stand or sit too close to your counterpart (from their perspective), you may invade their personal space and appear aggressive. If you remain too far away, you risk appearing untrustworthy. For North Americans, a distance of about 19 inches is about right between two speakers. For Western Europeans, 14 to 16 inches seems appropriate, but someone from the United Kingdom might prefer about 24 inches. Koreans and Chinese are likely to be comfortable about 36 inches apart; people from the Middle East will close the distance to about 8 to 12 inches.

Physical gestures often cause the most misunderstanding between people of different cultures because they can convey very different meanings. The thumbs-up sign is vulgar in Italy and Greece but means “all right” or even “great” in the United States.



Physical gestures reflect centuries of cultural differences. Forming the thumb-and-index circle in most of Europe and in the United States means “okay”; in Germany it's a very rude gesture. Tapping one's nose in England and Scotland means “You and I are in on the secret”; in nearby Wales it means “You're very nosy.” Tapping one's temple in much of Western Europe means “You're crazy”; in the Netherlands it means “You're very clever.”

Sources: (left) foto.fritz/Shutterstock; (centre) Shutterstock; (right) Shutterstock.

body language

Language communicated through unspoken cues, including hand gestures, facial expressions, physical greetings, eye contact, and the manipulation of personal space.

Quick Study

1. Define *communication*. Why is knowledge of a culture's spoken language important for international business?
2. Describe the threat faced by endangered languages. What is being done to help them survive?
3. What is a *lingua franca*? Describe its implications for conducting international business.
4. Why is *body language* important for international business? Give several examples of how it differs across cultures.

Education

Education is crucial for passing on traditions, customs, and values. Each culture educates its 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. In most cultures, intellectual skills such as reading and mathematics are taught in formal educational settings. Two important topics in education are education level and brain drain.

EDUCATION LEVEL Data that a government provides on its people's education level must be taken with a grain of salt. Comparisons from country to country can be difficult because many nations rely on literacy tests of their own design. Although some countries administer standardized tests, others require only a signature as proof of literacy. Yet searching for untapped markets or new factory locations can force managers to rely on such undependable benchmarks. As you can see from Table 2.1, some countries have further to go than others in increasing national literacy rates.

TABLE 2.1 Literacy Rates of Selected Countries

Country	Adult Literacy Rate (Percentage of People Age 15 and up)
Mali	31
Sierra Leone	42
Central African Rep.	56
Bangladesh	57
Timor-Leste	58
Nepal	60
Nigeria	61
Ghana	67
Egypt	72
Guatemala	75
Iraq	78
El Salvador	84
Saudi Arabia	87
Puerto Rico	90
Brazil	90
Mexico	93
Vietnam	93
Colombia	93
China	94

Source: Based on *World Development Indicators 2012*, World Bank Web site (www.worldbank.org).

The table shows that China and Brazil, which are major emerging markets, have a 6 and 10 percent illiteracy rate (respectively). Around 800 million adults remain illiterate worldwide. Although global illiteracy rates are higher for women, the gap with men is closing. Globally, the average literacy rate for youth (ages 15–24) is lowest in Sub-Saharan Africa, at 72 percent; South Asia has the second lowest youth literacy rate, at 79 percent, followed by the Arab world, at 87 percent.¹³

Countries with poorly educated populations attract the lowest-paying manufacturing jobs. Nations with excellent programs for basic education tend to attract relatively good-paying industries. Those that invest in worker training are usually repaid in productivity increases and rising incomes. Meanwhile, countries with skilled, highly educated workforces attract all sorts of high-paying jobs, often called “brainpower” industries.

Emerging economies in Asia owe much of their rapid economic development to solid education systems. Hong Kong, South Korea, Singapore, and Taiwan focus on rigorous mathematical training in primary and secondary schooling. University education concentrates on the hard sciences and aims to train engineers, scientists, and managers. On the other hand, some experts say China’s rote-learning education system graduates many bright engineers but few managers. This could pose problems for China as quality managers are what the country needs to take its economy to a higher level.¹⁴

THE “BRAIN DRAIN” PHENOMENON The quality of a nation’s education system is related to its level of economic development. **Brain drain** is the departure of highly educated people from one profession, geographic region, or nation to another. Over the years, political unrest and economic hardship forced many Indonesians to flee their homeland for other nations, particularly Hong Kong, Singapore, and the United States. Most of Indonesia’s brain drain occurred among Western-educated professionals in finance and technology—exactly the people needed for economic development.

Many countries in Eastern Europe experienced high levels of brain drain early in their transition to market economies. Economists, engineers, scientists, and researchers in all fields fled westward to escape poverty. But as these nations continue to liberalize, some are luring professionals back to their homelands—a process known as *reverse brain drain*.

Physical and Material Environments

The physical environment and material surroundings of a culture heavily influence its development and pace of change. In this section, we first look at how physical environment and culture are related, and then we explore the effect of material culture on business.

PHYSICAL ENVIRONMENT Although the physical environment affects a people’s culture, it does not directly determine it. Two aspects of the physical environment that heavily influence a people’s culture are topography and climate.

Topography All the physical features that characterize the surface of a geographic region constitute its **topography**. Some surface features such as navigable rivers and flat plains facilitate travel and contact with others. By contrast, treacherous mountain ranges and large bodies of water can discourage contact. Cultures isolated by topographical features can find themselves less exposed to the cultural traits of other peoples, which can mean slower cultural change.

Topography can affect consumers’ product needs. For example, there is little market for Honda scooters (www.honda.com) in most mountainous regions because their engines are too small. These are better markets for the company’s more rugged, manoeuvrable motorcycles with larger engines. Thinner air at higher elevations might also entail modifications in carburetor design for gasoline-powered vehicles.

Topography can have a profound impact on personal communication in a culture. For example, mountain ranges and the formidable Gobi Desert consume two-thirds of China’s land surface. Groups living in the valleys of these mountain ranges hold on to their own ways of life and speak their own languages. Although the Mandarin dialect was decreed the national language many years ago, the mountains, desert, and vast expanse of China still impair personal communication and, therefore, the proliferation of Mandarin.

Climate Climate affects where people settle and helps direct systems of distribution. In Australia, for example, intensely hot and dry conditions in two large deserts and jungle conditions in the northeast pushed settlement to coastal areas. These climatic conditions, combined with the

brain drain

Departure of highly educated people from one profession, geographic region, or nation to another.

topography

All the physical features that characterize the surface of a geographic region.

higher cost of land transport, means coastal waters are still used to distribute products between distant cities.

Climate plays a large role in lifestyle and work habits. The heat of the summer sun grows intense in the early afternoon hours in the countries of southern Europe, northern Africa, and the Middle East. For this reason, people often take afternoon breaks of one or two hours in July and August. People use this time to perform errands, such as shopping, or even take short naps before returning to work until about 7 or 8 p.m. Companies doing business in these regions must adapt to this local tradition.

Climate also affects customs such as the type of clothing people wear. People in many tropical areas wear little clothing and wear it loosely because of the warm, humid climate. In the desert areas of the Middle East and North Africa, people also wear loose clothing, but they wear long robes to protect themselves from intense sunshine and blowing sand.

MATERIAL CULTURE All the technology used in a culture to manufacture goods and provide services is called its **material culture**. Material culture is often used to measure the technological advancement of a nation's markets or industries. Generally, a firm enters a new market under one of two conditions: demand for its products has developed or the infrastructure is capable of supporting production operations.

Many regions and nations lack the most basic elements of a modern society's material culture. For example, companies are not flocking to the Southeast Asian nation of Myanmar because the nation lacks both sufficient product demand and an adequate infrastructure. Political and social problems under a repressive military government have stalled Myanmar's economic development. Yet technology is helping some nations at the bottom of the global economic pyramid break down barriers that keep their people mired in poverty.

Uneven Material Culture Material culture often displays uneven development across a nation's geography, markets, and industries. For example, much of China's recent economic progress is occurring in coastal cities. Shanghai has long played an important role in China's international trade because of its strategic location and its superb harbour on the East China Sea. Although it is home to only 1 percent of the total population, Shanghai accounts for about 5 percent of China's total output—including about 12 percent of both its industrial production and its financial-services output.

material culture

All the technology used in a culture to manufacture goods and provide services.

Members of the "2010 Chinese Root-Seeking Tour" pose for photos under an old tree in the Temple of Heaven in Beijing, China. The summer camp program attracts more than 6000 overseas Chinese youths from 51 countries and regions each year. It is designed to educate young people in the cultural traditions of their Chinese ancestors. Organizers hope that by gaining a better understanding of Chinese history and culture, these youths will grow to become good cross-cultural communicators between China and other nations.

Source: Wang Yongji/Newscom.



Likewise, Bangkok, the capital city of Thailand, houses only 10 percent of the nation's population but accounts for about 40 percent of its economic output. Meanwhile, the northern parts of the country remain rural, consisting mostly of farms, forests, and mountains.

Quick Study

1. Why is the education level of a country's people important to international companies?
2. What is meant by the terms *brain drain* and *reverse brain drain*?
3. How are a people's culture and physical environment related?
4. What is the significance of *material culture* for international business?

Classifying Cultures

Throughout this chapter, you've seen how cultures can differ greatly from one another. People living in broadly different cultures tend to respond differently in similar business situations. There are two widely accepted ways to classify cultures based on differences in characteristics such as values, attitudes, social structure, and so on. Let's now take a detailed look at each of these tools: the Kluckhohn–Strodtbeck and Hofstede frameworks.

Kluckhohn–Strodtbeck Framework

The **Kluckhohn–Strodtbeck framework** compares cultures along six dimensions. It studies a given culture by asking each of the following questions:¹⁵

- 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?

CASE: DIMENSIONS OF JAPANESE CULTURE By providing answers to each of these six questions, we can briefly apply the Kluckhohn–Strodtbeck framework to Japanese culture:

1. **Japanese believe in a delicate balance between people and environment that must be maintained.** Suppose an undetected flaw in a company's product harms customers using it. In many countries, a high-stakes class-action lawsuit would be filed against the manufacturer on behalf of the victims' families. This scenario is rarely played out in Japan. Japanese culture does not feel that individuals can possibly control every situation but that accidents happen. Japanese victims would receive heartfelt apologies, a promise it won't happen again, and a relatively small damage award.
2. **Japanese culture emphasizes the future.** Because Japanese culture emphasizes strong ties between people and groups, including companies, forming long-term relationships with people is essential when doing business there. Throughout the business relationship, Japanese companies remain in close, continuous contact with buyers to ensure that their needs are being met. This relationship also forms the basis of a communication channel by which suppliers learn about the types of products and services buyers would like to see in the future.
3. **Japanese culture treats people as quite trustworthy.** Business dealings among Japanese companies are based heavily on trust. Once an agreement to conduct business has been made, it is difficult to break unless there are extreme uncontrollable factors at work. This is due to the fear of "losing face" if one cannot keep a business commitment. In addition to business applications, society at large reflects the Japanese concern for

Kluckhohn–Strodtbeck framework

Framework for studying cultural differences along six dimensions, such as focus on past or future events and belief in individual or group responsibility for personal well-being.

trustworthiness. Crime rates are quite low, and the streets of Japan's largest cities are very safe to walk at night.

4. **Japanese are accomplishment-oriented—not necessarily for themselves, but for their employers and work units.** Japanese children learn the importance of groups early by contributing to the upkeep of their schools. They share duties such as mopping floors, washing windows, cleaning chalkboards, and arranging desks and chairs. They carry such habits learned in school into the adult workplace, where management and labour tend to work together toward company goals. Japanese managers make decisions only after considering input from subordinates. Also, materials buyers, engineers, designers, factory floor supervisors, and marketers cooperate closely throughout each stage of a product's development.
5. **Japanese culture emphasizes individual responsibility to the group and group responsibility to the individual.** This trait has long been a hallmark of Japanese corporations. Traditionally, subordinates promise hard work and loyalty, and top managers provide job security. But to remain competitive internationally, Japanese companies have eliminated jobs and moved production to low-wage nations like China and Vietnam. As the tradition of job security falls by the wayside, more Japanese workers now consider working for non-Japanese companies, whereas others find work as temporary employees. Although this trait of loyalty is diminishing somewhat in business, it remains a very prominent feature in other aspects of Japanese society, especially family.
6. **The culture of Japan tends to be public.** You will often find top Japanese managers located in the centre of a large, open-space office surrounded by the desks of many employees. By comparison, Western executives are often secluded in walled offices located on the perimeter of workspaces. This characteristic reaches deep into Japanese society—consider, for example, Japan's continued fondness for public baths.

Hofstede Framework

Hofstede framework

Framework for studying cultural differences along five dimensions, such as individualism versus collectivism and equality versus inequality.

The **Hofstede framework** compares cultures along five dimensions.¹⁶ Dutch psychologist Geert Hofstede developed the framework from a study of more than 110 000 people working in IBM subsidiaries (www.ibm.com) in 40 countries and a follow-up study of students in 23 countries. Let's examine each of these dimensions in detail.¹⁷

1. **Individualism versus collectivism.** This dimension identifies the extent to which a culture emphasizes the individual versus the group. Individualist cultures (those scoring high on this dimension) value hard work and promote entrepreneurial risk taking, thereby fostering invention and innovation. Although people are given freedom to focus on personal goals, they are held responsible for their actions. That is why responsibility for poor business decisions is placed squarely on the shoulders of the individual in charge. At the same time, higher individualism may be responsible for higher rates of employee turnover.

On the contrary, people in collectivist cultures (those scoring low on this dimension) feel a strong association to groups, including family and work units. The goal of maintaining group harmony is probably most evident in the family structure. People in collectivist cultures tend to work toward collective rather than personal goals and are responsible to the group for their actions. In turn, the group shares responsibility for the well-being of each of its members. Thus, in collectivist cultures, success or failure tends to be shared among the work unit, rather than any particular individual receiving all the praise or blame. All social, political, economic, and legal institutions reflect the group's critical role.

2. **Power distance.** This dimension conveys the degree to which a culture accepts social inequality among its people. A culture with large power distance tends to be characterized by much inequality between superiors and subordinates. Organizations tend also to be more hierarchical, with power deriving from prestige, force, and inheritance. This is why executives and upper management in cultures with large power distance often enjoy special recognition and privileges. On the other hand, cultures with small power distance display a greater degree of equality, with prestige and rewards more equally shared between superiors and subordinates. Power in these cultures (relative to cultures with large power distance) is seen to derive more from hard work and entrepreneurial drive and is therefore often considered more legitimate.

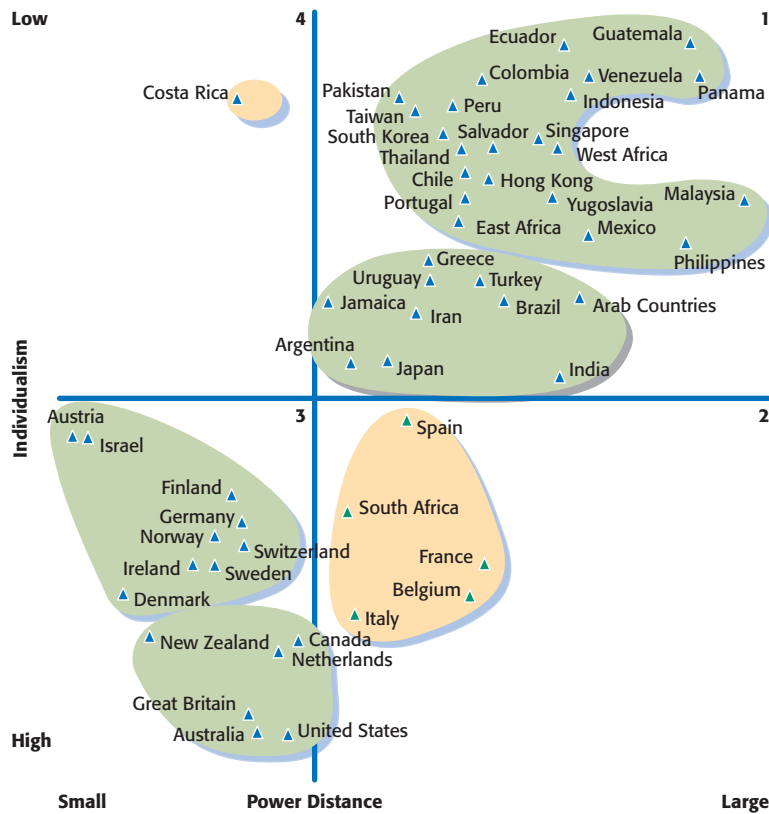


FIGURE 2.2
Power Distance and Individualism versus Collectivism

Source: Based on Geert Hofstede, "The Cultural Relativity of Organizational Practices and Theories," *Journal of International Business Studies*, Fall 1983, p. 82.

Figure 2.2 shows how various countries rank according to these first two dimensions: power distance and individualism versus collectivism. What is striking about this figure is the tight grouping of nations within the five clusters (plus Costa Rica). You can see the concentration of mostly African, Asian, Central and South American, and Middle Eastern nations in Quadrant 1 (cultures with relatively larger power distance and lower individualism). By contrast, Quadrants 3 and 2 comprise mostly the cultures of Australia and the nations of North America and Western Europe. These nations had the highest individualism scores, and many had relatively smaller power distance scores.

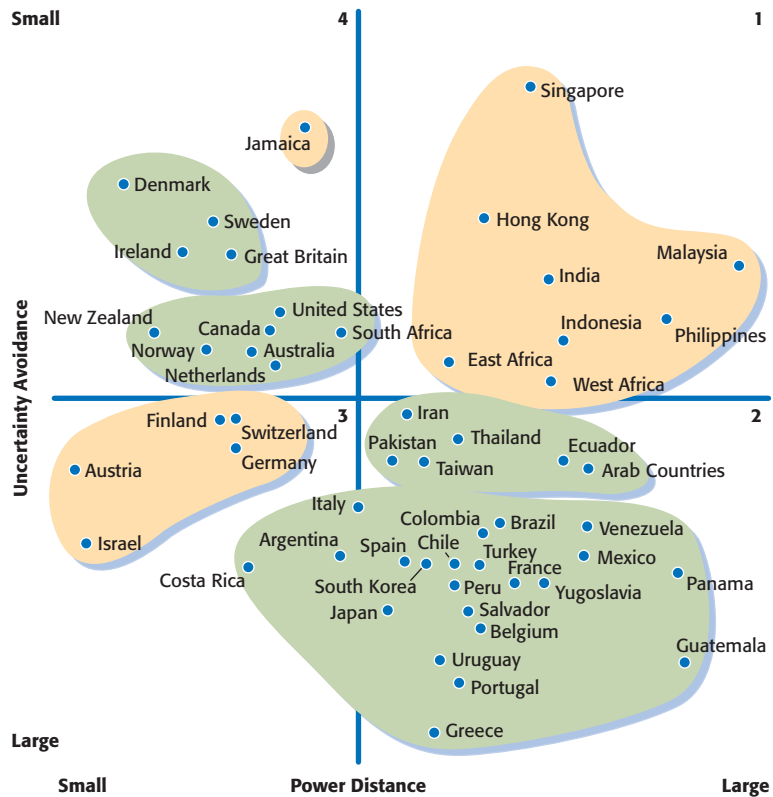
3. **Uncertainty avoidance.** This dimension identifies the extent to which a culture avoids uncertainty and ambiguity. A culture with large uncertainty avoidance values security and places its faith in strong systems of rules and procedures in society. It is perhaps not surprising then that cultures with large uncertainty avoidance normally have lower employee turnover, more formal rules for regulating employee behaviour, and more difficulty implementing change. Cultures scoring low on uncertainty avoidance tend to be more open to change and new ideas. This helps explain why individuals in this type of culture tend to be entrepreneurial and organizations tend to welcome the best business practices from other cultures. Because people tend to be less fearful of change, however, these cultures can also suffer from higher levels of employee turnover.

Figure 2.3 plots countries according to the second and third dimensions: power distance and uncertainty avoidance. Although the lines of demarcation are somewhat less obvious in this figure, patterns do emerge among the six clusters (plus Jamaica). 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. Meanwhile, 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.** This dimension captures the extent to which a culture emphasizes personal achievement and materialism versus relationships and quality of life. Cultures scoring high on this index tend to be characterized more by personal assertiveness and the accumulation of wealth, typically translating into an entrepreneurial drive. Cultures

FIGURE 2.3
Power Distance and
Uncertainty Avoidance

Source: Based on Geert Hofstede, "The Cultural Relativity of Organizational Practices and Theories," *Journal of International Business Studies*, Fall 1983, p. 84.



scoring low on this dimension generally have more relaxed lifestyles, wherein people are more concerned about caring for others as opposed to material gain.

5. **Long-term orientation.** This dimension indicates a society's time perspective and an attitude of overcoming obstacles with time, if not with will and strength. It attempts to capture the differences between Eastern and Western cultures. A high-scoring culture (strong long-term orientation) values respect for tradition, thrift, perseverance, and a sense of personal shame. These cultures tend to have a strong work ethic because people expect long-term rewards from today's hard work. A low-scoring culture is characterized by individual stability and reputation, fulfilling social obligations, and reciprocation of greetings and gifts. These cultures can change more rapidly because tradition and commitment are not impediments to change.

Locate your country in Figures 2.2 and 2.3. In your personal experience, do you agree with the placement of your nation in these figures? Do you believe managers in your country display the types of behaviours depicted on each dimension just described?

Quick Study

1. What six dimensions comprise the *Kluckhohn–Strodtbeck framework* for classifying cultures?
2. What are the five dimensions of the *Hofstede framework* for classifying cultures?
3. Briefly explain how each framework can be used to analyze a culture.

International Human Resource Management

Perhaps the most important resource of any successful business is the people who comprise it. If a company gives its human resource management practices the importance they deserve, it can have a profound impact on performance. Highly trained and productive employees who

are proficient in their duties allow a company to achieve its business goals both domestically and internationally. **Human resource management (HRM)** is the process of staffing a company and ensuring that employees are as productive as possible. It requires managers to be effective in recruiting, selecting, training, developing, evaluating, and compensating employees and in forming good relationships with them.

International HRM differs considerably from HRM in a domestic setting because of differences in national business environments. There are concerns over the employment of **expatriates**—citizens of one country who are living and working in another. Companies must deal with many issues when they have expatriate employees on job assignments that could last several years. Some of these issues are related to the inconvenience and stress of living in an unfamiliar culture.

Training and development programs must often be tailored to local practices. Some countries, such as Germany and Japan, have extensive vocational-training schools that turn out graduates ready to perform their jobs proficiently. Finding well-qualified managerial workers in those markets is relatively easy. By contrast, developing a production facility in many emerging markets requires far more basic training of workers. For example, workers in China work hard and tend to be well educated. But because China lacks an advanced vocational training system like those in Germany and Japan, Chinese workers tend to require more intensive on-the-job training. Recruitment and selection practices must also be adapted to the host nation's hiring laws. Hiring practices regarding non-discrimination among job candidates must be carefully monitored so that the company does not violate such laws. And companies that go abroad to lower labour expenses then adjust pay scales and advancement criteria to suit local customs.

International Staffing Policy

The customary means by which a company staffs its offices is called its **staffing policy**. Staffing policy is greatly influenced by the extent of a firm's international involvement. There are three main approaches to the staffing of international business operations—*ethnocentric*, *polycentric*, and *geocentric*. Although we discuss each of these approaches as being distinct from one another, companies often blend different aspects of each staffing policy in practice. The result is an almost infinite variety of international staffing policies among international companies.

Ethnocentric Staffing

In **ethnocentric staffing**, individuals from the home country manage operations abroad. This policy tends to appeal to companies that want to maintain tight control over decision making in branch offices abroad. Accordingly, those companies work to formulate policies designed to work in every country in which they operate. But note that firms generally pursue this policy in their international operations for top managerial posts—implementing it at lower levels is often impractical.

ADVANTAGES OF ETHNOCENTRIC STAFFING Firms pursue this policy for several reasons. First, locally qualified people are not always available. In developing and newly industrialized countries, there is often a shortage of qualified personnel that creates a highly competitive local labour market.

Second, companies use ethnocentric staffing to recreate local operations in the image of home-country operations. Especially if they have climbed the corporate ladder in the home office, expatriate managers tend to infuse branch offices with the corporate culture. This policy is important for companies that need a strong set of shared values among the people in each international office—such as firms implementing global strategies. For example, Mihir Doshi was born in Bombay, but his family moved to the United States in 1978. Doshi graduated from New York University and became a naturalized US citizen in 1988. In 1995 he became executive director of Morgan Stanley's (www.ms.com) operations in India. "Mentally," he reports, "I'm very American. Here, I can be Indian. What the firm gets is somebody to indoctrinate Morgan Stanley culture. I provide the link."¹⁸

By the same token, a system of shared values is important when a company's international units are highly interdependent. For instance, fashioning branch operations in the image of home-office operations can also ease the transfer of special know-how. This advantage is particularly valuable when that know-how is rooted in the expertise and experience of home-country managers.

Finally, some companies feel that managers sent from the home country will look out for the company's interests more earnestly than will host-country natives. Japanese companies are

human resource management (HRM)

Process of staffing a company and ensuring that employees are as productive as possible.

expatriates

Citizens of one country who are living and working in another.

staffing policy

Customary means by which a company staffs its offices.

ethnocentric staffing

Staffing policy in which individuals from the home country manage operations abroad.

notorious for their reluctance to place non-Japanese managers at the helm of international offices. And when they do appoint a foreigner, they often place a Japanese manager in the office to monitor important decisions and report back to the home office. Companies that operate in highly nationalistic markets and those worried about industrial espionage also typically find an ethnocentric approach appealing.

DISADVANTAGES OF ETHNOCENTRIC STAFFING Despite its advantages, ethnocentric staffing has its negative aspects. First, relocating managers from the home country is expensive. The bonuses that managers often receive for relocating plus relocation expenses for entire families can increase the cost of a manager several times over. Likewise, the pressure of cultural differences and long periods away from relatives and friends can contribute to the failure of managers on international assignments.

Second, an ethnocentric policy can create barriers for the host-country office. The presence of home-country managers in the host country might encourage a “foreign” image of the business. Lower-level employees might feel that managers do not really understand their needs because they come from another culture. Occasionally they are right: Expatriate managers sometimes fail to integrate themselves into the local culture. And if they fail to overcome cultural barriers, they typically fail to understand the needs of their local employees and those of their local customers.

Polycentric Staffing

In **polycentric staffing**, individuals from the host country manage operations abroad. Companies can implement a polycentric approach for top and mid-level managers, for lower-level staff, or for non-managerial workers. It is well suited to companies who want to give national units a degree of autonomy in decision making. For example, polycentric staffing is commonly used in retail and food franchise operations. This policy does not mean that host-country managers are left to run operations in any way they see fit. Large international companies usually conduct extensive training programs in which host-country managers visit home offices for extended periods. This exposes them to the company’s culture and specific business practices. Small and medium-sized companies can find this policy expensive, but being able to depend on local managers who fully understand what is expected of them can far outweigh any costs.

ADVANTAGES AND DISADVANTAGES OF POLYCENTRIC STAFFING Polycentric staffing places managerial responsibility in the hands of people intimately familiar with the local business environment. Managers with deep cultural understanding of the local market can be an enormous advantage. They are familiar with local business practices and can read the subtle cues of both verbal and nonverbal language. They need not overcome any cultural barriers created by an image of being an outsider, and they tend to have a better feel for the needs of employees, customers, and suppliers.

Another important advantage of polycentric staffing is elimination of the high cost of relocating expatriate managers and families. This benefit can be extremely helpful for small and medium-sized businesses that cannot afford the expenses associated with expatriate employees.

The major drawback of polycentric staffing is the potential for losing control of the host-country operation. When a company employs natives of each country to manage local operations, it runs the risk of becoming a collection of discrete national businesses. This situation might not be a problem when a firm’s strategy calls for treating each national market differently. It is not a good policy, however, for companies that are following global strategies. If these companies lack integration, knowledge sharing, and a common image, performance will surely suffer.

Geocentric Staffing

In **geocentric staffing**, the best-qualified individuals, regardless of nationality, manage operations abroad. The local operation may choose managers from the host country, from the home country, or from a third country. The choice depends on the operation’s specific needs.

polycentric staffing

Staffing policy in which individuals from the host country manage operations abroad.

geocentric staffing

Staffing policy in which the best-qualified individuals, regardless of nationality, manage operations abroad.

This policy is typically reserved for top-level managers. However, as you learned in this chapter's opening case, Cirque du Soleil has successfully applied geocentric staffing in all levels of the business.

ADVANTAGES AND DISADVANTAGES OF GEOCENTRIC STAFFING Geocentric staffing helps a company develop global managers who can adjust easily to any business environment—particularly to cultural differences. This advantage is especially useful for global companies trying to break down nationalistic barriers, whether between managers in a single office or between different offices. One hope of companies using this policy is that a global perspective among its managers will help them seize opportunities that may otherwise be overlooked.

The downside of geocentric staffing is the expense. Understandably, top managers who are capable both of fitting into different cultures and being effective at their jobs are highly prized among international companies. The combination of high demand for their skills and their short supply inflates their salaries. Moreover, there is the expense of relocating managers and their families—sometimes every year or two.

Quick Study

1. List several ways in which *human resource management* differs in the international versus domestic environment.
2. What are the three different types of international *staffing policies* that companies can implement?
3. Identify the advantages and disadvantages of each type of international staffing policy.

Recruiting and Selecting Human Resources

Naturally, companies try to recruit and select qualified managers and non-managerial workers who are well suited to their tasks and responsibilities. But how does a company know the number of managers and workers it needs? How does it recruit the best available individuals? How does it select from the pool of available candidates? In this section, we explore some answers to these and other important questions about recruiting and selecting employees.

Human Resource Planning

Recruiting and selecting managers and workers requires **human resource planning**—the process of forecasting a company's human resource needs and its supply. The first phase of HR planning involves taking an inventory of a company's current human resources—that is, collecting data on every employee, including educational background, special job skills, previous jobs, language skills, and experience living abroad.

The second phase of HR planning is estimating the company's future HR needs. For example, consider a firm that plans to sell its products directly to buyers in a new market abroad. Will it create a new operation abroad and staff it with managers from the home office, or will it train local managers? Will it hire its own local sales force, or will it hire a distributor? Likewise, manufacturing or assembling products in an international market requires factory workers. A company must decide whether to hire these people itself or to subcontract production to other producers—thus eliminating the need for it to hire factory workers. This decision frequently raises ethical questions: Are the employees being treated fairly? Will they be exploited? Are the working conditions offered by the subcontractor good? For example, Apple (www.apple.com) sent a team of investigators to China to look into charges of sweatshop-like conditions at a company manufacturing Apple's iPod. The company that Apple investigated was a division of the world's largest contract electronics manufacturer, Hon Hai Precision Industry.¹⁹

human resource planning

Process of forecasting a company's human resource needs and its supply.

Another example on this topic involves Levi Strauss (www.levistrauss.com). When apparel contractors in Bangladesh admitted that they hired children, Levi Strauss demanded that they comply with local regulations. Unfortunately, it turned out that many of the under-age workers were their families' sole sources of support. So Levi's struck a deal: Contractors agreed to continue paying wages to the youngsters while they went to school and then they would be rehired when they reached age 14. Levi's paid for them to attend school until they came of age.

In the third phase of HR planning, managers develop a plan for recruiting and selecting people to fill vacant and anticipated new positions, both managerial and non-managerial. Sometimes, a firm must also make plans for reducing its workforce—a process called *decrutment*—when current HR levels are greater than anticipated needs. Planning for decruitment normally occurs when a company decides to discontinue manufacturing or selling in a market. Unfortunately, the decision by global companies to shift the location of manufacturing from one country to another can also result in lost jobs. Let's now take a closer look at the recruitment and selection processes.

Recruiting Human Resources

The process of identifying and attracting a qualified pool of applicants for vacant positions is called **recruitment**. Companies can recruit internally from among their current employees or look to external sources.

recruitment

Process of identifying and attracting a qualified pool of applicants for vacant positions.

CURRENT EMPLOYEES Finding an international manager among current employees is easiest for a large company with an abundance of internal managers. Likely candidates within the company are managers who were involved in previous stages of an international project—say, in *identifying* the new production site or potential market. It is likely that these individuals have already made important contacts inside the host country, and they have already been exposed to its culture.

RECENT COLLEGE GRADUATES Companies also recruit from among recent college graduates who have come from other countries to attend college in the firm's home country. This is a particularly common practice among companies in the United States. Over a one-year period, these new hires receive general and specialized training, and then are given positions in their native countries. As a rule, they learn about the organization's culture and the way in which it conducts business. Most important, perhaps, is their familiarity with the culture of the target market, including its customs, traditions, and language.

LOCAL MANAGERIAL TALENT Companies can also recruit local managerial talent. Hiring local managers is common when cultural understanding is a key job requirement. Hiring local managers with government contacts can speed the process of getting approvals for local operations. In some cases, governments force companies to recruit local managers so that they can develop their own internal pools of managerial talent. Governments sometimes also restrict the number of international managers that can work in the host country.

NON-MANAGERIAL WORKERS Companies typically recruit locally for non-managerial positions because there is often little need for highly specialized skills or training. However, a specialist from the home country is typically brought in to train people chosen for more demanding positions.

Firms also turn to the local labour market when governments restrict the number of people allowed into the host country for work purposes. Such efforts are usually designed to reduce unemployment among the local population. On the other hand, countries sometimes permit the importation of non-managerial workers. Kuwait, a wealthy oil-producing country in the Middle East, has brought in large numbers of non-managerial workers for its blue-collar and technical jobs. Many of these workers come from Egypt, India, Lebanon, Pakistan, and the Philippines in search of jobs or higher wages.

selection

Process of screening and hiring the best-qualified applicants with the greatest performance potential.

Selecting Human Resources

The process of screening and hiring the best-qualified applicants with the greatest performance potential is called **selection**. The process for international assignments includes measuring a

person's ability to bridge cultural differences. Expatriate managers must be able to adapt to a new way of life in the host country. Conversely, native host-country managers must be able to work effectively with superiors who have different cultural backgrounds.

In the case of expatriate managers, cultural differences between home country and host country are important factors in their potential success. Culturally sensitive managers increase the likelihood that a company will achieve its international business goals. Recruiters can assess cultural sensitivity by asking candidates questions about their receptiveness to new ways of doing things and questions about racial and ethnic issues. They can also use global aptitude tests such as the one mentioned in the Web Site Report exercise at the end of this chapter.

It is also important to examine the cultural sensitivity of each family member who will be going to the host country. The ability of a family member (particularly a spouse) to adapt to a new culture can be a key factor in the success or failure of an expatriate manager.

Culture Shock

Successful international managers typically do not mind, and often enjoy, living and working outside their native lands. In extreme cases, they might even be required to relocate every year or so. These individuals are capable of adapting quickly to local conditions and business practices. Such managers are becoming increasingly valuable with the emergence of markets in Asia, Central and Eastern Europe, and Latin America. They are also helping to create a global pool of managers who are ready and willing to go practically anywhere on short notice. The size of this pool, however, remains limited because of the difficulties that many people experience in relocating to unfamiliar cultures.

Living in another culture can be a stressful experience. Selecting managers comfortable travelling to and living in unfamiliar cultures, therefore, is an extremely important factor when recruiting for international posts. Set down in the midst of new cultures, many expatriates experience **culture shock**—a psychological process affecting people living abroad that is characterized by homesickness, irritability, confusion, aggravation, and depression. In other words, they have trouble adjusting to the new environment in which they find themselves. *Expatriate failure*—the early return by an employee from an international assignment because of inadequate job performance—often results from cultural stress. The higher cost of expatriate failure is convincing many companies to invest in cultural-training programs for employees sent abroad.

culture shock

Psychological process affecting people living abroad that is characterized by homesickness, irritability, confusion, aggravation, and depression.

Reverse Culture Shock

Ironically, expatriates who successfully adapt to new cultures often undergo an experience called **reverse culture shock**—the psychological process of re-adapting to one's home culture. Because values and behaviour that once seemed so natural now seem so strange, reverse culture shock may be even more disturbing than culture shock. Returning managers often find that either no position or merely a "standby" position awaits them in the home office. Companies often do not know how to take full advantage of the cross-cultural abilities developed by managers who have spent several potentially valuable years abroad. It is not uncommon for expatriates to leave their companies within a year of returning home because of difficulties blending back into the company culture.

reverse culture shock

Psychological process of re-adapting to one's home culture.

Moreover, spouses and children often have difficulty leaving the adopted culture and returning home. For many Japanese employees and their families, re-entry into Japanese culture after a work assignment in North America can be particularly difficult. The fast pace of business and social life in North America, plus the relatively high degree of freedom and independence for women, contrasts with life in Japan. Returning Japanese expatriates can find it difficult to adjust back to life in Japan after years of living in North America.

DEALING WITH REVERSE CULTURE SHOCK The effects of reverse culture shock can be reduced. Home-culture reorientation programs and career-counselling sessions for returning managers and their families can be highly effective. For example, the employer might bring the entire family home for a short stay several weeks before the official return. This kind of trip allows returnees to prepare for at least some of the reverse culture shock that may await them.

Good career development programs can help companies retain valuable managers. Ideally, the career development plan was worked out before the employee went abroad and revised before

his or her return. Some companies work with employees before they go abroad to plan career paths of up to 20 years within the company. Mentors who have previously gone abroad and had to adjust on returning home can also be assigned to returning managers. The mentor becomes a confidant with whom the expatriate manager can discuss particular problems related to work, family, and readjusting to the home culture.

Cultural Training

Ideally, everyone involved in business should be culturally literate and prepared to go anywhere in the world at a moment's notice. Realistically, many employees and many companies do not need or cannot afford to be entirely literate in another culture. The extent of a company's international involvement demands a corresponding level of cultural knowledge from its employees. Companies whose activities are highly international need employees with language fluency and in-depth experience in other countries. Meanwhile, small companies or those new to international business can begin with some basic cultural training. As a company increases its international involvement and cross-cultural contact, employees' cultural knowledge must keep pace.

As we see in Figure 2.4, companies use many methods to prepare managers for an international assignment. These methods tend to reflect a manager's level of international involvement. The goal is to create informed, open-minded, flexible managers with a level of cultural training appropriate to the duties required of them.

ENVIRONMENTAL BRIEFINGS AND CULTURAL ORIENTATIONS *Environmental (area) briefings* constitute the most basic level of training—often the starting point for studying other cultures. Briefings include information on local housing, health care, transportation, schools, and climate. Such knowledge is normally obtained from books, films, and lectures. *Cultural orientations* offer insight into social, political, legal, and economic institutions. Their purpose is to add depth and substance to environmental briefings.

CULTURAL ASSIMILATION AND SENSITIVITY TRAINING *Cultural assimilation* teaches the culture's values, attitudes, manners, and customs. So-called guerrilla linguistics, which involves learning some phrases in the local language, is often used at this stage. It also typically includes role-play exercises: the trainee responds to a specific situation to be evaluated by a team of judges. This method is often used when someone is given little notice of a short stay abroad and wishes to take a crash course in social and business etiquette and communication. *Sensitivity*

FIGURE 2.4

International Assignment Preparation Methods



training teaches people to be considerate and understanding of other people's feelings and emotions. It gets the trainee "under the skin" of the local people.

LANGUAGE TRAINING The need for more thorough cultural preparedness brings us to intensive *language training*. This level of training entails more than memorizing phrases for ordering dinner or asking directions. It gets a trainee "into the mind" of local people. The trainee learns more about why local people behave as they do. This is perhaps the most critical part of cultural training for long-term assignments.

A survey of top executives found that foreign-language skills topped the list of skills needed to maintain a competitive edge. According to the survey, 31 percent of male employees and 27 percent of female employees lacked foreign-language skills. To remedy this situation, many companies either employ outside agencies that specialize in language training or they develop their own programs. Employees at 3M Corporation (www.3m.com) developed a third way. They created an all-volunteer "Language Society" composed of current and retired employees and family members. About 1000 people are members, and the group offers classes in 17 languages taught by 70 volunteer employee teachers. The society meets 45 minutes per week and charges a nominal \$5 membership fee. Officials at 3M say that the society nicely complements the company's formal language education program.²⁰

FIELD EXPERIENCE *Field experience* means visiting the culture, walking the streets of its cities and villages, and becoming absorbed by it for a short time. The trainee gets to enjoy some of the unique cultural traits and feel some of the stresses inherent in living in the culture.

Finally, remember that spouses and children also need cultural training. Training for them is a good investment.

Employee Compensation

Essential to good international HRM is a fair and effective compensation (reward) system. Such a system is designed to attract and retain the best and brightest employees and to reward them for their performance. Because a country's compensation practices are rooted in its culture and legal and economic systems, determining compensation can be complicated. For example, base pay accounts for nearly all employee compensation in some countries. In others, bonuses and fringe benefits account for more than half of a person's compensation.

Managerial Employees

Naturally, compensation packages for managers differ from company to company and from country to country. Good packages are fairly complicated to design, for several reasons. Consider the effect of *cost of living*, which includes factors such as the cost of groceries, dining out, clothing, housing, schooling, health care, transportation, and utilities. Quite simply, it costs more to live in some countries than in others. Moreover, within a given country, the cost of living typically varies from large cities to rural towns and villages. Most companies add a certain amount to an expatriate manager's pay to cover greater cost-of-living expenses. On the other hand, managers who are relocating to lower cost-of-living countries are typically paid the same amount that they were receiving at the home office—otherwise, they would be financially penalized for accepting an international job assignment.

Companies must cover other costs incurred by expatriate managers even when the cost of living abroad is lower than at home. One important concern for relocating managers is the quality of local education. In many cases, children cannot immediately enter local classes because they do not speak the local language. In such instances, most companies pay for private-school education.

BONUS AND TAX INCENTIVES Companies commonly offer managers inducements to accept international postings. The most common is a financial bonus. This bonus can be in the form of a one-time payment or an add-on to regular pay—generally 15 to 20 percent. Bonuses for managers who are asked to go into a particularly unstable country or one with a very low standard of living often receive *hardship pay*.

Managers can also be attracted by another income-related factor. For example, the US government permits citizens working abroad to exclude \$82 000 of “foreign-earned income” from their taxable income in the United States—even if it was earned in a country with no income tax. But earnings over that amount are subject to income tax, as are employee benefits such as free housing.²¹

CULTURAL AND SOCIAL CONTRIBUTORS TO COST Culture also plays an important role in the compensation of expatriate managers. Some nations offer more paid holidays than others. Many offer free medical care to everyone living and working there. Granted, the quality of locally available medical care is not always good. Many companies, therefore, have plans to take seriously ill expatriates and family members home or to nearby countries where medical care is equal to that available in the home country.

Companies that hire managers in the local market might encounter additional costs engendered by social attitudes. For instance, in some countries employers are expected to provide free or subsidized housing. In others the government obliges employers to provide paid maternity leaves of up to one and a half years. Government-mandated maternity leaves vary significantly across European countries. Although not all such costs need to be absorbed by companies, they do tend to raise a country’s cost of doing business.

Managers recruited from within the host country generally receive the same pay as managers who work for local companies. Yet they often receive perks not offered by local firms. And some managers are required to visit the home office at least several times per year. If time allows, many managers will make these into short vacations by taking along their families and adding a few extra days onto the length of the trip.

Quick Study

1. Identify the types of training and development used for international managers.
2. Describe each type of cultural training used to prepare managers for international assignments.
3. What variables are involved in decisions regarding employee compensation for managers?

Bottom Line for Business

As globalization continues to draw companies into the international arena, understanding local culture can give a company an advantage over rivals. By avoiding ethnocentric thinking, managers can avoid mistakenly disregarding the beneficial aspects of other cultures. By contrast, culturally literate managers who understand local needs and desires bring their companies closer to customers and, therefore, increase their competitiveness. They can become more effective marketers, negotiators, and production managers. Let’s explore several areas in which culture has a direct impact on international business activity.

Marketing and Cultural Literacy

Many international companies operating in local markets abroad take advantage of the public relations value of supporting national culture. Some of India’s most precious historical monuments and sites are crumbling due to a lack of government funds for upkeep. Companies are helping the government to maintain key sites and are earning the goodwill of the people.

This chapter introduced the Kluckhohn–Strodtbeck and Hofstede frameworks for classifying cultures. Local culture is important for a company exploring international markets for its products. We see the significance of power

distance in the export of luxury items. A nation with a large power distance accepts greater inequality among its people and tends to have a wealthy upper class that can afford luxury goods. Thus, companies marketing products such as expensive jewellery, high-priced cars, and even yachts could find wealthy market segments within relatively poor nations.

Work Attitudes and Cultural Literacy

National differences in work attitudes are complex and involve other factors in addition to culture. Perceived opportunity for financial reward is no doubt a strong element in attitudes toward work in any culture. Research suggests both North American and German employees work longer hours when there is a greater likelihood that good performance will lead to promotion and increased pay. Yet this appears relatively less true in Germany, where wages are less variable and job security and jobless benefits (such as free national health care) are greater. Thus, other aspects of German society are at least as important as culture in determining work attitudes. The culturally literate manager understands the complexity of national workplace attitudes and would incorporate this knowledge into reward systems.

Expatriates and Cultural Literacy

As stated in our discussion of classifying cultures, people living in broadly different cultures tend to respond differently

in similar business situations. This is why companies that send personnel abroad to unfamiliar cultures are concerned with cultural differences. A Norwegian manager working in Japan for a European car manufacturer, but whose colleagues were mostly Japanese, soon became frustrated with the time needed to make decisions and take action. The main cause for his frustration was that the uncertainty avoidance index for Japan is much larger than that in his native Norway (see Figure 2.3). In Japan, a greater aversion to uncertainty led to the need for a greater number of consultations than would be needed in the home market. The frustrated manager eventually left Japan to return to Europe.

Gender and Cultural Literacy

In Japan, men traditionally hold nearly all positions of responsibility. Women generally serve as office clerks and administrative assistants until their mid- to late 20s, when they are expected to marry and then focus on tending to family needs. Although this is still largely true today, progress is being made in expanding the role of women in Japan's business community. Women own nearly a quarter of all businesses in Japan, but many of these businesses are very small and have little economic clout. Greater gender equality prevails in Australia, Canada, Germany, and the United States, but women in these countries still tend to earn less money than men in similar positions.

Chapter Summary

1. Describe culture and explain the significance of both national culture and subcultures.
 - *Culture* is the set of values, beliefs, rules, and institutions held by a specific group of people.
 - Managers should try to avoid *ethnocentricity* (the tendency to view one's own culture as superior to others) and develop *cultural literacy* (detailed knowledge necessary to function effectively in another culture).
 - We are conditioned to think in terms of national culture—that is, to equate a nation-state and its people with a single culture.
 - Governments promote national culture and intervene in business to protect it from the influence of other cultures.
 - Most nations are also home to numerous *subcultures*—groups of people who share a unique way of life within a larger, dominant culture.
 - Subcultures contribute greatly to national culture and must be considered in marketing and production decisions.
2. Identify the components of culture and describe their impact on international business.
 - *Aesthetics* help determine which colours and symbols will be effective in promotions and advertising.
 - *Values* influence a people's *attitudes* toward time, work and achievement, and cultural change.
 - Knowledge of *manners* and *customs* is necessary for negotiating, marketing products, and managing operations in other cultures.
 - *Social structure* affects business decisions including production-site selection, advertising methods, and the costs of doing business in a country.
 - Different *religions* take different views of work, savings, and material goods.
 - Understanding a people's system of *personal communication* provides insight into their values and behaviour.
 - A culture's *education* level affects the quality of the workforce and a people's standard of living.
 - *Physical* and *material environments* influence work habits and preferences for products such as clothing and food.
3. Describe cultural change and explain how companies and culture affect each other.
 - *Cultural change* occurs when people integrate into their culture the gestures, material objects, traditions, or concepts of another culture through *cultural diffusion*.
 - Globalization and technology are increasing the pace of cultural change around the world.
 - Companies influence culture when they import new products, policies, and business practices into a host country.
 - Companies should try to avoid *cultural imperialism*—the replacement of one culture's traditions, folk heroes, and artifacts with substitutes from another.
 - Cultures affect management styles, work scheduling, and reward systems.
 - Adapting to local cultures around the world means heeding the maxim "Think globally, act locally."
4. Explain how the physical environment and technology influence culture.
 - A people's *physical environment* includes *topography* and climate and how people relate to their surroundings.
 - Cultures isolated by topographical barriers, such as mountains or seas, normally change relatively slowly, and their languages are often distinct.
 - Climate affects a people's work hours, clothing, and food.
 - *Material culture* refers to all the technology a culture uses to manufacture goods and provide services, and it can be uneven within a nation.
 - Businesspeople measure material culture to determine whether a market has developed adequate demand for a company's products and whether it can support production activities.

5. Describe the two main frameworks used to classify cultures and explain their practical use.
 - The *Kluckhohn–Strodtbeck framework* compares cultures along six dimensions by seeking answers to questions on topics including a people’s (1) relation to the environment; (2) focus on past, present, or future; (3) trustworthiness; (4) desire for accomplishment; (5) group–individual responsibility; and (6) public versus private nature.
 - The *Hofstede framework* compares cultures along five dimensions including a people’s (1) individualism versus collectivism; (2) power distance; (3) uncertainty avoidance; (4) achievement vs. nurturing; and (5) long-term orientation.
 - Taken together, these frameworks help companies understand many aspects of a culture, including risk taking, innovation, job mobility, team cooperation, pay levels, and hiring practices.
6. Explain the three different types of staffing policies used by international companies.
 - *Ethnocentric staffing* means staffing operations outside the home country with home-country nationals; it can give a company tight control over subsidiary decision making.
 - *Polycentric staffing* means staffing operations with host-country natives; it can give subsidiaries some autonomy in decision making.
 - *Geocentric staffing* means staffing operations with the best-qualified individuals, regardless of nationality; it is typically reserved for top-level managers.
7. Describe the recruitment and selection issues facing international companies.
 - Large companies often recruit international managers from within the ranks of existing employees, but smaller companies may need to hire outside managers.
 - International students who have graduated from colleges abroad can be hired, trained locally, and posted in their home countries.
 - Local managerial talent may be recruited in the host country to obtain people with an understanding of the local culture and political system; this is often required when a company engages extensively in manufacturing or marketing abroad.
8. Explain how companies compensate managers and workers in international markets.
 - An effective compensation policy takes into account local cultures, laws, and practices; key issues are base pay, bonuses, and fringe benefits.
 - Managerial compensation packages may need adjustment to reflect the local cost of living and, perhaps, the cost of education.
 - *Bonus payments* or hardship pay may be needed to entice managers to accept international assignments.

Key Terms

aesthetics 49	ethnocentric staffing 73	popular custom 54
attitudes 51	ethnocentricity 46	recruitment 76
body language 65	expatriates 73	reverse culture shock 77
brain drain 67	folk custom 54	selection 76
caste system 56	geocentric staffing 74	social group 55
class system 57	Hofstede framework 70	social mobility 56
communication 62	human resource management	social stratification 56
cultural diffusion 52	(HRM) 73	social structure 55
cultural imperialism 52	human resource planning 75	staffing policy 73
cultural literacy 47	Kluckhohn–Strodtbeck framework 69	subculture 48
cultural trait 52	lingua franca 64	topography 67
culture 46	manners 54	values 50
culture shock 77	material culture 68	
customs 54	polycentric staffing 74	

Talk It Over

1. Two students are discussing the various reasons why they are not studying international business. “International business doesn’t affect me,” declares the first student. “I’m going to stay here, not work in some foreign country.” “Yeah, me neither,” agrees the second. “Besides, some cultures are real strange. The sooner other countries start doing business our way, the better.” What counterarguments can you present to these students’ perceptions?
2. In this exercise, two groups of four students each will debate the benefits and drawbacks of individualist versus collectivist cultures. After the first student from each side speaks, the second student questions the opponent’s arguments, looking for holes and inconsistencies. A third student attempts to reply to these counterarguments. Then, a fourth student summarizes each side’s arguments. Finally, the class votes on which team presented the more compelling case.
3. Many Japanese companies use ethnocentric staffing policies in international operations. Why do you think Japanese companies prefer to have Japanese in top management positions? Would you recommend a change in this policy?

Take It to the Web

1. **Video Report.** Visit YouTube (www.youtube.com) and type “cross-cultural business” into the search engine. Watch one of the videos from the results of your search and then summarize it in a half-page report. Reflecting on the contents of this chapter, which components of culture can you identify in the video? How might a company engaged in international business use the information contained in the video?
2. **Web Site Report.** Culture affects the product a company sells in a market or region, how it markets the product, its human resource practices, and so on. It is increasingly important that managers have cultural understanding of their markets in this age of globalization.
Select a well-known multinational company and visit its Web site. Locate the section of the Web site that tells about the company’s activities (usually titled “About Us”). Report on the (1) main products or services the company offers; (2) extent to which the company pursues international business operations (often expressed as percentage of sales or assets); (3) ways that the company has adapted to cultures around the world; and (4) general policies it follows in doing business internationally.
Regarding its Internet presence, does the company offer its Web site in another widely spoken language? Find and click on several of the company’s other national Web sites. What kinds of products are advertised on the home page of the different sites? Can you identify how the company adapts its Web site to suit cultural preferences?

Practising International Management Case

Culture Makes or Breaks the Deal

The Middle East has not traditionally been a hotbed for manufacturing. The economic strength of the region over the past 50 years has come from other areas such as resource extraction, agriculture, and trade. Manufacturing has been left to those parts of the world with fewer resources to exploit and more human resources to draw from. Thus OMNI Oil Technologies' plan to design and manufacture tools for the oil and gas industry in the Middle East was a unique and challenging vision.

OMNI Oil Technologies was established in 2004 in Dubai, United Arab Emirates, the gateway to the Middle East. This global city has earned a tremendous reputation by creating a thriving centre of commerce, trade, and entertainment. Many international visitors have experienced the architectural wonders of Dubai, from the sail-shaped Burj al-Arab hotel to the spectacular 163-storey Burj Khalifa, the tallest building in the world.

For OMNI, a company created by Arabian engineers from Schlumberger (a leading supplier to the oil and gas industry), Dubai was a comfortable fit culturally. But the decision to set up an advanced manufacturing centre in Dubai was a considerable business risk. It had never been done in the region before, and there was no supply-chain base to justify a manufacturing company. However, OMNI became the first cutting-edge oil and gas technology and manufacturing centre in the Middle East.

In 2008, OMNI came to Canada with the goal of penetrating the burgeoning oil and gas industry. Why? Besides envisioning a market for their products, OMNI's CEO and CFO both had children attending school in Canada; they had developed relationships with friends in Canada; and they had experienced a culture of openness and innovation. OMNI set up a partnership with a manufacturing company in the Toronto area that had similar Arab cultural roots and a sales office in Calgary, with an Egyptian manager who had moved to Canada to represent OMNI in the market.

After a year of trying to sell their product on the Canadian market, OMNI realized they were out of sync with the culture and style of doing business in Western Canada. For example, OMNI's

Middle Eastern style was to start later in the day, to conduct most of their business over meals rather than in an office setting, and to adopt a relaxed attitude about following the terms of a contract.

To improve their business prospects in Canada and to penetrate the Canadian market, OMNI hired Rainmaker Global Business Development (www.rainmaker-gbd.com), a Canadian firm specializing in global business development. Rainmaker provided an effective evaluation of the marketplace for OMNI and worked with them to clinch their first sales in Western Canada. As a result, OMNI began working with an established tool manufacturer in Airdrie, Alberta.

Rainmaker's understanding of and connection to the local sub-culture opened up the field for OMNI, and they have since had success in the Canadian market. OMNI has now been acquired by a New York-based private equity group and has merged with four other oilfield service companies to form a global oilfield products company called Tercel. Tercel sells globally diversified oilfield products in 14 countries, servicing all major oil regions in the world.

Thinking Globally

1. What could OMNI have done differently when setting up in Canada to accelerate their market entry?
2. What are some of the cultural challenges OMNI faced when entering the Canadian market?
3. What cross-cultural factors may have influenced OMNI's market entry into Canada?
4. If you were to do a Hofstede analysis, what would you define as the main cultural differences between the United Arab Emirates and Canada?

Sources: This case was developed from information provided by Mr. Clark Grue, president and CEO of Rainmaker Global Business Development, and is based on his personal experience and knowledge of OMNI Oil Technologies, January 2013; Oil & Gas Middle East staff, "Omni Oil Technologies Supplies Drilling Tools," arabianbusiness.com, November 14, 2005.