FAQ: Cultural Differentiations

**Question 1:** Define culture, and explain important cultural differentiations.

**Answer 1:** Culture is extensively defined and discussed in international business literature. A thorough understanding of the term assists in understanding the underlying dynamics of culture's impact on international business management.

Culture is learned behavior and acquired knowledge. This means that culture is not hereditary or genetic and not indigenous or instinctual. Culture in the form of a learned behavior is used by the individual and groups to interpret the world around them, to understand the social behavior, and to translate the behavior of others around them (Mead, 1994).

The acquired knowledge helps individuals and groups to form their own values and attitudes and influences behavior.

Keeping this broad definition in mind, the study of the impact of different cultures in the world upon behavior and attitudes is naturally crucial to the study of international management. Culture can affect a simple act of greeting in business, such as a handshake versus a bow. Culture also affects a host of managerial approaches such as decision making, reward systems, and the nature of competition among people.

**Decision making:** In many countries, such as India, China, and Japan, all important organizational decisions are made by the top managers. In these societies, the levels of hierarchy are well defined, and international managers are expected to follow these well-defined protocols in their business practices. For instance, if a firm based in the United States is planning to enter into a partnership with a Chinese firm in Shanghai, Chinese leaders expect that the American counterpart will approach the top manager at the Chinese firm to initiate the discussion for potential partnership. The American counterpart initiating the discussion is likely to be a department head, director of international operations, or even vice president of international operations, depending on the size of the firm. However, in many Western societies such as the United States and Canada, the decision-making process is diffused throughout the enterprise, so middle- and lower level managers actively participate in and make key decisions. This difference needs to be taken into account in international business dealings, and adequate planning and accommodation must be executed to avoid misunderstanding.

**Rewards:** There are differences in how rewards are handled across different cultures. In some countries, employees who show outstanding performance are
given individual rewards in the form of commissions and bonuses. In other cultures, cultural norms require that group rewards be given instead. This is especially true in the case of Japanese culture, where individual rewards are not encouraged. In several of the state-owned oil firms in India, production incentive at the end of the year is equally distributed among all employees based on their position in the company. For example, the manager of production and the manager of human resources will get the same amount of production incentive, irrespective of the fact that the manager of production is a line manager and responsible for the yearly production of oil from the refineries.

**Competition versus cooperation:** Some societies encourage cooperation among their people, and other societies encourage competition. Though cooperation along with healthy competition is most desirable to achieve best performance, many societies give preference to one over the other. Competition is highly encouraged in countries like the United States. For instance, one of the performance targets of project managers of a software development project is to maintain a desired profit from the project. Upon achieving this target, it may be that only the project manager is rewarded with an incentive. The same scenario would be handled slightly different in countries like India or Japan. In India, for instance, the project managers would be rewarded, but so would the entire team. It is considered very rude for a single project manager to take the credit for the project’s success.

**Question 2:** How do differences in national and regional culture affect the organizational culture of MNCs?

**Answer 2:** The culture of a particular country is defined as a national culture. The culture to which the country belongs is defined as the regional culture of that country. For example, Iran is a country in the Middle East, so it has a regional culture from the Middle East. It can be argued that with globalization and ease of mobility of labor from one country to another, the national cultures of several countries are becoming more regional or global in nature. However, national culture is unique to a particular country with respect to social and economic attitudes of the population, education, language, religion, gender roles, family arrangements, workplace ethics, sports, politics, and more.

When an individual joins a multinational corporation, he or she brings national culture with him or her, greatly affecting the new employee’s learned values, beliefs, attitudes, and behavior. At the same time, he or she enters into the organizational culture of that MNC. Organizational culture of an MNC is not unique to any particular country; rather, it is a set of basic assumptions developed by a group of employees as they learn to cope with the problem of
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external adaptation and internal integration. These assumptions are taught to new members of the organization, irrespective of the country to which they belong as the correct way to perceive, think, and feel in relation to organizational problems. The shared values and beliefs of the group of people in the organization enable members to understand their roles and the norms of the organizations.

How does the national culture affect the organizational culture, and what is the nature of interaction between national and organizational culture? A widely held belief is that organizational culture tends to moderate or erase the impact of national culture. The logic of such conventional wisdom is that if a U.S. MNC set up operations in France, it would not be long before the French employees begin to adopt some American culture. In fact, evidence is accumulating that just the opposite may be true. Hofstede’s research found that the national cultural values of employees have a significant impact on their organizational performance and that the cultural values employees bring to the workplace with them are not easily changed by the organization.

**Question 3:** How is management in the multinational corporation (MNC) impacted by cultural differences?

**Answer 3:** An understanding of cross-cultural differences and similarities on a team is very critical for the success of MNCs. These differences must be recognized to effectively manage cross-cultural teams. The way in which MNCs manage their home businesses are often different from the way MNCs manage their overseas operations.

In the early 1970s, when internationalization began to take off, many companies quickly admitted that it would not be possible to do business the same way in every city in the world. For a time, it was popularly believed that many of the procedures and strategies that worked so well at home could be adopted overseas without much modification. However, in the 1990s, this notion was proven false. This is not to say that there are no similarities among cultures at all; several similarities across cultures were uncovered by researchers.

For example, through direct observation, Luthans, Welsh, and Rosenkrantz (1993) studied a sample of managers in the largest textile factory in Russia to determine their activities. They found that many of the functions carried out by the managers were handled the same way as American managers would have handled them, such as traditional management, communication, human resources, and networking activities. However, the emphasis on these activities
differed from that of American managers. Standardization of technology has created greater similarity in the way infrastructure and technology management activities are conducted across cultures. For instance, the electronic channel of communication across culture is e-mail. Teams working in MNCs across national boundaries are able to access data and information in reasonable time from various parts of the world because of standardized technology such as remote-access desktop or file protocol transfer. However, different cultures require different management approaches, arguably creating far more differences than similarities across cultures. There are many good examples of human resources management practices across different cultures:

- The concept of an hourly wage does not exist in Mexico. Labor laws in Mexico require that employees receive full pay 365 days a year.
- In Austria and Brazil, employees with 1 year of service are automatically given 30 days of paid vacations.
- In Japan, compensation levels are determined using the objective factors of age, length of service, and educational background rather than skill, ability, and performance. Performance does not count until after an employee reaches age 45.
- In India, labor laws mandate maternity leave for the working mothers of the newborn. Female employees can take paid leave up to 6 weeks pre- and post childbirth.
- In the United Kingdom, employees are allowed up to 40 weeks of maternity leave, and employers must provide a government-mandated amount of pay for 18 of those weeks.
- In 87% of large Swedish companies, the head of the human resources department is on the board of directors (Caudron, 1995).

These examples clearly show how human resource management (HRM) practices across other cultures are different from those of the United States. MNCs must develop and redefine their approaches for international management if they are to be successful in their international venture.

**Question 4:** In what way are parochialism and simplification barriers to effective cross-cultural management?

**Answer 4:** Parochialism and simplification are limited ways of perceiving things. Parochialism is the tendency to view the rest of the world through one’s own eyes and perspective. Simplification occurs when one exhibits the same orientation toward different cultural groups. This would occur if, for example, a French manager interacts with a U.S. manager in the same way in which he or she behaves when doing business with a Chinese manager.
Either of these tendencies creates a barrier to effective cross-cultural communications. For instance, many international managers who come from industrialized economies believe that their advanced knowledge is quite adequate to handle all the challenges of doing business in developing countries. This parochial view is changing rapidly as many of the emerging market economies such as India and China are catching up quickly with the technological advances of the industrialized nations. A vast majority of the software development of industrialized economies is currently being carried out in India. Similarly, China handles more of the manufacturing needs of the United States than any other country in the world.

**Question 5:** How does a U.S. firm decide which management orientation to use?

**Answer 5:** An ethnocentric predisposition is one in which the values and interests of the parent company guide the strategic decisions. This MNC’s orientation tends toward top-down authority relationships, product development determined by the needs of the home country, and personnel of the home country developed for key positions worldwide.

A polycentric predisposition results in strategic decisions that are tailored to suit the cultures of the countries where the MNCs operate. For example, there would be an emphasis on public acceptance, more bottom-up authority relationships, local product development based on local needs, retention of profits in the host country, and people of the local country being trained for key positions in their own country.

A regiocentric predisposition results in the MNC trying to blend its own interests with those of its subsidiaries on a regional basis. Governance is often mutually negotiated among the region and its subsidiaries. Both profitability and public acceptance are important, and profits are often redistributed within the region. Further, regional people are developed for key positions anywhere in the region.

A geocentric predisposition results in the company trying to integrate a global systems approach to decision making. This requires a global integrative and national responsiveness strategy. A network of organizations would exist including some stakeholders and some competitor organizations. The product orientation would be global with some local variations, and profits would be redistributed globally. The best candidates worldwide would be developed for key positions everywhere in the world.
The effectiveness of the orientation used depends on a number of factors. For example, if the firm uses a flexible manufacturing system, a regiocentric or geocentric orientation would be appropriate. A batch production system, however, would warrant a polycentric orientation, whereas a mass production system would call for an ethnocentric orientation.

The firm’s strategy is another important factor. Is the firm concerned with global integration, national responsiveness, regional integration, or a combination of the three? The existing structure of the firm and the firm’s willingness to deviate from its existing structure will be another important factor. If the firm is set on a hierarchical product division structure, it will tend to adopt an ethnocentric orientation. If the firm is currently using or is open to the possibility of a matrix structure, a regiocentric structure may be more appropriate. These factors and a number of others that make up the profile of the firm will ultimately determine which orientation is likely to be most effective.

**Question 6:** How has the technological environment fostered greater integration and created more dependencies for MNCs?

**Answer 6:** We have all seen the world of technology change before our own eyes. No matter where we are in the world, we can effectively communicate with each other millions of miles apart cheaply and effectively because of advancements in telecommunications. Computers, telephones, televisions, and wireless forms of communication now are merging into telecommunications to create multimedia products and allow individuals anywhere in the world to communicate with each other. Technology advancement has allowed large projects to be implemented more effectively and cheaper in different parts of the world. The portability of jobs that is facilitated by advances in technology has opened up new business opportunities in outsourcing and offshoring.

These changes to technology have been manifested in terms of increased e-commerce and telecommunications as well as the implications in terms of outsourcing, offshoring, transparency, and international market integration in general. On the positive side, technology allows organizations to capitalize on their core competencies and create sustainable competitive advantages through networking, outsourcing, and other globally flexible arrangements. Moreover, integration of and mobility in financial and labor markets allows for drawing on more competitive sources of capital and labor. Technology is also facilitating open communication and transparency and eliminating much of the opaqueness that existed in many regions. There are also challenges that are presented by technology, especially the dislocation of jobs in many developed countries. Overall, technology has increased opportunities in the global business
environment.

**Question 7:** What effects on business customs might be anticipated from increases in international business activity?

**Answer 7:** Business customs within a country are an extension of the country’s national culture. Though there are many similarities and differences in how business is conducted from country to country, the differences, if not properly adjusted for, often cause enormous problems. It is not necessary for a global manager to forsake his or her ways and change to conform to local customs where he or she is conducting business; rather, the individual must be aware of differences and be willing to understand and accommodate the differences in the home country’s culture versus the host country’s culture.

First, an individual must be aware of his or her own culture. He or she needs to understand the other person’s cultural differences so those differences do not cause anxiety, frustration, or misunderstanding of the host’s intentions. The key is to preserve one’s own identity while being aware of local customs. A businessperson must also be willing to accommodate those differences that can cause misunderstanding. If these differences are not accommodated, it can cause misunderstandings that could lead to huge losses to the business.

Cross-cultural literature is full of examples of misunderstandings between global managers from different cultures when each responds to the other from his or her own cultural context without an appreciation of the cultural context at work in the other environment. The classic example is time. In some Latin-American cultures, there is a different urgency level placed on time. The punctuality of someone from the United States can appear pushy or too hurried to make a decision, whereas the lackadaisical response to time by a Latin-American person can be erroneously interpreted as lazy or indifferent by a manager in United States. In the United States, whereas calling someone by his or her first name when first introduced implies friendliness, it appears rude or boorish to a French or German person. The Chinese are often much less animated speakers than Westerners. They avoid open displays of affection, do not slap each other on the back, and tend to be more retiring and reserved than North or South Americans.

With the accelerated growth in international business activity, business customs are bound to be altered in all countries. It is believed that when two cultures meet, there is a blending of the two cultures rather than an elimination of one or the other. One would therefore expect business practices to become more standard because of the necessity of dealing in the same ways. This will of course take more time, requiring cooperation among different nations of the world to collectively channel the common ground for doing business.
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internationally.

**Question 8:** What are the national cultural differences with respect to monochronic and polychronic time systems?

**Answer 8:** Edward Hall (1982) defines two kinds of time systems in the world: monochronic and polychronic time. M-time (i.e., monochronic) typifies most North Americans, Swiss, Germans, and Scandinavians. In these Western cultures, people tend to concentrate on one thing at a time. In general, individuals from the M-time cultures are not considered to be good at multitasking. They divide time into small units and are concerned with promptness. M-time is used in a linear way and is experienced as being almost tangible—we save time, waste time, bide time, spend time, and lose time. Most low-context cultures operate on M-time.

P-time (i.e., polychronic) is characterized by the simultaneous occurrence of many things and by a great involvement with people. P-time allows for relationships to build and context to be absorbed. In Japan, there is a mix between P-time and M-time. For appointments, Japan is very M-time, but for all other interaction, they are more P-time. On the other hand, the American desire to get straight to the point, to get down to business, and other indications of directness are all manifestations of M-time cultures. The P-time system gives rise to loose time schedules, deeper involvement with individuals, and a wait-and-see attitude. For example, two Indian people conversing would likely opt to be late for their next appointments rather than abruptly terminate the conversation before it came to a natural conclusion.

When business people from M-time and P-time meet, adjustments on both sides need to be made for a harmonious relationship. P-time is characterized by a much looser notion of what is on time or late. Interruptions are routine, and delays are expected. It is not so much putting things off until tomorrow as it is the concept that human activities are not expected to proceed like clockwork.

One study comparing perceptions of punctuality in the United States and Brazil found that Brazilian timepieces were less reliable, and public clocks were less available than in the United States. Researchers also found that Brazilians more often described themselves as late arrivals, allowing greater flexibility in defining early and late, less concerned about being late, and more likely to blame external factors for their lateness than were Americans. Clarity can often be gained by specifying tactfully, for example, whether a meeting is to be on "Mexican time" or "American time." An American who has been working successfully with the Saudis for many years says he has learned to take plenty
of things to do when he travels. Others schedule appointments in their offices so that they can work until their P-time friend arrives.

**Question 9:** What ethical issues have arisen with the growth of international business?

**Answer 9:** The growth of international business has positive and negative effects on the home and host countries.

Multinational corporations (MNCs) have often had negative impacts on the environment and the ozone. Companies looking to build manufacturing plants in countries with more liberal pollution regulations than they have at home are finding that regulations everywhere are becoming more strict. Many Asian governments are drafting new regulations and strictly enforcing existing ones. A strong motivator for Asia and the rest of the world is the realization that pollution is on the verge of getting completely out of control.

Neither Western Europe nor the rest of the industrialized world is free of environmental damage; rivers are polluted, and the atmosphere in many major urban areas is far from clean. The very process of controlling industrial wastes leads to another, and perhaps equally critical, issue: the issue of disposing of hazardous waste, a by-product of pollution control. Estimates of hazardous waste collected annually exceed 300 million tons; the critical challenge is disposal that does not move the problem elsewhere.

The business community is responding positively to the notion that the focus must be on the global environment rather than the quality of the air, land, and water in our own backyards. An International Chamber of Commerce Industry Forum on the environment reflected a shift in company attitudes toward environmental issues, reflecting a move away from a reactive and largely defensive stance to a proactive and constructive approach. Some skeptics may dismiss such statements as window dressing, and they could be, but the beginning of change is awareness. Responsibility for cleaning up the environment does not rest solely with governments, businesses, or activist groups. Each citizen has social and moral responsibility to include environmental protection among his or her highest goals.

**Question 10:** Discuss the issues and challenges involved in doing business in the cultural environment of Arab countries.

**Answer 10:** The political and economic changes and conflicts taking place in the Middle East have increased our awareness of the Arab culture. Though
multinational corporations understand that Arab cultures are distinctly different from Western cultures, Americans often find it hard to do business in Arab countries because of a lack of understanding of Arab perspective and cultural intricacies.

It is important not to display the feeling of superiority when dealing with people from an Arab culture because this can put an Arab person on the defense internally. Those from an Arab culture would prefer one’s actions speak for the person, and they do not like when people brag or put on a show of self-importance. This is in contrast to the culture of the United States, where businesses like to brag about the firm’s strengths and show self-importance. Team credit is more critical in Arab cultures, and it is considered rude to take credit for joint efforts. A great deal of what is accomplished is as a result of group work; to indicate that one accomplished something alone is a mistake.

Bureaucracy is very common in Arab culture, and it is often difficult to bypass the bureaucratic channels in an Arab country. If a multinational corporation (MNC) tries to avoid bureaucratic channels, it may be regarded as disrespectful toward the legal and governmental institutions. Networks and connections are considered extremely important in conducting business. It takes a while to close a deal in Arab cultures; hence, time should be taken into account. Patience is often key to closing a business deal. Also, while many people provide input to the final decision, the person at the top makes the final decisions. Trust and rapport with Arab officials and personal impressions are considered important in the business of the Arab world. Face-to-face meetings are almost always preferred, especially when important decisions are made. Arab cultures prefer in-person contact, not correspondence or telephone. When MNC leaders are personally present, it results in success in the Arab world.

References


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