Organizational Culture & Ethics

7

Chapter Outline:

Key Terms

culture
cultural strength
ethical relativism
integrative social contracts view of ethics
justice view of ethics
managerial ethics
religious view of ethics
rights view of ethics
self-interest view of ethics
social obligation
social responsibility
social responsiveness
utilitarian view of ethics
values-based management

There is a "way things are done" in every organization. Long-term members understand it well and newcomers tend to learn it quickly. Organizational theorists refer to this phenomenon as organizational or corporate culture. **Culture** refers to the commonly held values and beliefs of a particular group of people,[1] and the concept of organizational culture reflects the application of the culture concept to members of an organization.

culture
the commonly held values and beliefs of a particular group of people

The concept of organizational culture is based on the observation from anthropology that unique norms of behavior develop for groups of individuals who spend a considerable amount of time together. Originally the term was used to describe behaviors within geographical boundaries, such as the British, French, or Chinese cultures. Organizational theorists have applied the concept to the study of organizations. Organizational culture (also called corporate culture) refers to the shared values and patterns of belief and behavior that are accepted and practiced by the members of a particular organization.[2] As we shall see, the organizational culture can greatly influence the success or failure of the organization.

Standards and expectations for ethics and social responsibility are often intertwined with an organization's culture. Managers and employees are expected to act in "appropriate" ways or consider certain criteria when making decisions. As such, the notions of ethics and responsibility are inseparable from that of organizational culture. The second part of this chapter discusses ethics and responsibility in greater detail.

7-1 Organizational Culture

Although it can be traced to the 1940s, the concept of organizational culture became popular in the 1980s when scholars and executives began searching for reasons to explain recent Japanese business success.[3] They coined terms such as "Theory Z" to describe the type of cultures that are common to Japanese organizations.[4] Hence, an *organizational* culture is influenced by the prevailing *national* culture, although the two concepts should be distinguished.

An organization's culture exists at two levels. At the *surface level*, one can observe specific behavior of the culture, such as accepted forms of dress and rituals or ceremonies. These artifacts reflect a deeper, *underlying level* that includes shared values, belief patterns, and thought processes common to members of the organization.[5] The underlying level is the most critical to understand. Because it cannot be seen, it is often inferred by studying the surface level.

Because each organization develops its own unique culture, even organizations within the same industry and city will exhibit distinctly different ways of functioning. The organizational culture enables a firm to adapt to environmental changes and to coordinate and integrate its internal operations.[6] Ideally, the values that define

a culture should be clear, easy to understand by all employees, embodied at the top of the organization, and reinforced over time. "Adaptive cultures" are innovative and encourage initiative, whereas "inert cultures" are conservative and encourage maintenance of existing resources.

An organizational culture provides members with a sense of belonging and identity within the organization. By definition, all organizations have cultures, although some are more pervasive than others. When a culture is well understood and managed, conflicts are handled more efficiently, knowledge is transferred more effectively, turnover is reduced, and teamwork is enhanced. Because culture unifies members of an organization around a set of beliefs and behaviors, it can be a powerful help or hindrance in efforts to facilitate change.

The first and most important influence on an organization's culture is its founder or founders. The founder's core values and business beliefs serve as the foundation for the organization's activities.[7] For instance, the primary influence on McDonald's culture was the fast-food company's founder, Ray Kroc. Although he passed away in 1984, his philosophy of fast service, assembly line food preparation, wholesome image, cleanliness, and devotion to quality are still central facets of the organization's culture.[8] Likewise, Sam Walton's influence on the Wal-Mart culture can still be seen today even though he passed away a number of years ago.

Whether allowed to evolve on its own or skillfully managed, the organization's culture serves as the basis for many day-to-day decisions in an organization. For example, members of an organization whose culture values innovation are more likely to invest the time necessary to develop creative solutions to complex problems than their counterparts in organizations whose culture values short-term cost containment.

Deal and Kennedy identified four key dimensions of culture.[9] *Values* constitute the beliefs central to the culture. *Heroes* are individuals within the organization who embody the values. *Rites and rituals* (or ceremonies) are symbolic events that occur within organizations that influence the culture. The *culture network* includes the informal hierarchy and communication systems that develop in any organization. Identifying these four dimensions for any organization can help determine why decisions are made.

4 Key Dimensions of Culture

Values

Heroes

Rites & Rituals

Culture Network

Views and assumptions about an organization's distinctive competence comprise one of the most important elements of culture when an organization is formed and begins to develop. For example, historically innovative firms are likely to respond to a sales decline with new product introductions, whereas companies whose success is based on low prices may respond with attempts to lower costs even further.[10] However, it is possible to modify the culture over time as the environment changes, rendering some of the culture obsolete and even dysfunctional.

Sometimes there is considerable agreement among an organization's members concerning its values, norms, and behavior. At other times, however, this

is not the case. **Cultural strength** refers to the extent to which organizational members agree about the importance of certain values.[11] Strong cultures—such as 3M's strong emphasis on innovation and Southwest Airlines' strong emphasis on delivering value in a friendly manner—can lead to success, but a culture strong in all respects may not be appropriate for all organizations. Colleges and universities, for example, value diversity of thought and expression among faculty and students. As such, a culture strong in the sense that all members place a high value on freedom of expression and differences of opinion may be appropriate. However, a culture strong in the sense that all members agree on various perspectives may not be appropriate.

cutural strength
the extent to which organizational members agree about the importance of certain values

It is essential that an organization's culture be aligned with its strategy. For example, an organization whose environment is rapidly changing may craft a new strategy that makes sense from financial, product, and marketing points of view. Implementing the strategy may be problematic, however, because it requires significant changes in assumptions, values, and ways of working.[12] All things considered, changing an organization's strategy is often easier than changing its culture, and both are often required for organizations to be successful.[13]

Organizations with "strategically appropriate cultures"—such as PepsiCo, Wal-Mart, and Shell—tend to outperform those whose cultures do not fit as well with their strategies. Successful firms tend to develop cultures that emphasize three key groups of stakeholders: customers, stockholders, and employees. Note that the point is *not* that these corporations have strong cultures, but that the culture must be appropriate to that firm's strategy and must contain values that can help the firm adapt to environmental change.[14]

Because culture reflects the past, changes in the environment can necessitate changes in an organization's culture.[15] Conservative organizations do not become aggressive and entrepreneurial simply because they have formulated new goals and plans, but because they embark on a substantial effort to modify the culture, the "way things are done."[16]

It should be noted that cultural considerations do not end at the organizational level. Subcultures can develop in any organization and tend to be more prevalent when the organization is relatively large and its culture is relatively weak. Shared values and beliefs in a subculture can be based on commonalities within departments or divisions such as functional expertise, geography, or differences in national culture.

7-1a Categorizing Culture

Each organization has a different culture. It is difficult to categorize cultures along similarities lest the uniqueness be lost in the discussion. Nonetheless, it is useful to identify broad characterizations of cultures as a means of better understanding how they influence organizational effectiveness. One way to do so is to consider

four broad categorizations on the basis of the organization's primary internal and external characteristics. From an internal perspective, the key issue for the organization is the extent to which its strategic focus is internal or external. From an external perspective, the key issue for the organization is whether the environment necessitates flexibility or stability. In broad terms, these key issues suggest four categories of culture, as depicted in figure 7-1.

Figure 7-1

Source: Adapted from D.R. Denison and A. K. Mishra, "Organizational Culture & Effectiveness," (2001)

	Categories of Organizational Culture		
Strategic Emphasis	External	Adaptation Culture	Mission Culture
	Internal	Involvement Culture	Bureaucratic Culture
		Flexibility	Stability
		Environmental Emphasis	

The *adaptation culture* emphasizes an external strategic focus through change and flexibility. Innovation and creativity are highly valued and encouraged. The organization remains flexible so that its members can adapt to changes in the environment as they occur. Organizations with an adaptation culture seek not only to adapt to the needs of the external environment, but also to influence it.

The *mission culture* emphasizes an external strategic focus through stability. Leaders in such organizations place a great value on developing a shared understanding of the mission and vision. The mission culture is often best suited for organizations pursuing a focus strategy, as stability is achieved through concentration on only one specific segment of the market.

The *involvement culture* emphasizes an internal strategic focus through change and flexibility. Organizations with involvement cultures view performance as emanating from satisfied employees, well-equipped with ample resources to do their jobs. Employees are encouraged to become involved as instigators of change in the organization.

The *bureaucratic culture* emphasizes an internal strategic focus through stability. Consistency and predictability are valued by the organization's members. Business is conducted in a methodical manner following established rules and procedures in order to sustain a stable environment. The bureaucratic culture is often seen as less effective than other cultures because it does not allow members of the organization to tailor solutions to the individual needs of customers.

Should managers attempt to promote an organizational culture consistent with only one category or should they draw from multiple categories? The answer is not always clear. On the one hand, it can be argued that an organization's strategy should have both an internal and an external focus, and that a balance of stability and flexibility might be appropriate for most environments in which organizations operate. Following this logic, one might reject the notion of a clearly defined culture and attempt to create a culture that reflects each of the competing internal and external perspectives.

On the other hand, however, effective organizational leadership requires choices and accepts the fact that some paths will be taken and others will be avoided. It is rarely possible to produce products or services in all recognized categories for all segments of the market equally well. When an organization's mission and

Best Practices

The Individual - Organization Fit

Do you like to dress casually, set your own hours, and make a lot of the decisions that affect your professional life? Or do you prefer a highly defined structure with clear sets of responsibilities and hierarchical decision-making? Characteristics such as these describe an organization's culture. Studies suggest that many individuals leave one job for another because of differences in the organizational culture.

Business analytics software leader SAS is known for a highly unusual corporate culture, one that reflects a people-centeredness and promotes high loyalty and low turnover. Developing and promoting a culture can be costly, however. SAS' Cary, North Carolina headquarters includes two on-site childcare centers, an employee health care center, wellness programs, and even a 77,000 square foot recreation and fitness facility.[35]

SAS has been included in the list of Best Companies for Working Mothers thirteen times and is frequently listed on *Fortune's* "100 Best Companies to Work for in America." SAS' ability to recruit and retain highly marketable, talented and creative professionals can be attributed to its ability to develop a company "too good to leave."

strategies are clearly defined, it is logical that a culture whose values reflect the mission and strategies will be most appropriate. Hence, the key issue is the *fit* between the organization's culture and other characteristics of the organization.

7-1b Managing Culture

It is difficult to change an organization's culture. It often evolves on its own and is affected by a number of factors outside of the control of organizational leaders. The culture can be managed, however, so that it begins to reflect a desired set of values over a period of time.

According to researcher Edgar Schein, leaders can manage and shape the organization's culture in at least five ways.[17] The first way is to systematically pay attention to areas of the business believed to be of key importance to the strategy's success. Employees notice where leaders invest time and resources and are likely to incorporate the values and practices they observe into their own behavior. The leader may take steps to accomplish this goal formally by measuring and controlling the activities of those areas, or less formally by making specific comments or questions at meetings. These specific areas should be ones identified as critical to the firm's long-term performance and survival, and may include such areas as customer service, new product development, or quality control.

The second means involves the leader's reactions to critical incidents and organizational crises. The way a CEO deals with a crisis or important occurrence in an organization, such as declining sales or technological obsolescence, can emphasize norms, values, and working procedures, or even create new ones. When Saturn's chief executive chose to destroy a group of vehicles produced with faulty coolant instead of simply draining the radiators, a strong pro-quality message was sent to its workers.

The third means is to serve as a deliberate role model, teacher, or coach. Employees take notice of what a CEO does, both on and off the job. When a CEO models certain behavior, others in the organization are likely to adopt it as well. For example, chief executives who give up their reserved parking place and park among the line workers send a message about the importance of status in the organization.

The fourth means is the process through which top management allocates rewards and status. Leaders communicate their priorities by consistently linking pay raises and promotions, or the lack thereof, to particular behaviors. Rewarded behavior tends to continue and become ingrained in the fabric of the organization. Policies that reward seniority, for example, support a culture in which loyalty, not necessarily high performance or innovation, is highly valued.

The fifth means of shaping the culture is to modify the procedures through which an organization recruits, selects, promotes, and terminates employees. An organization's culture can be perpetuated by hiring and promoting individuals whose values are similar to those of the firm and whose beliefs and behaviors more closely fit the organization's changing value system. The easiest way to affect culture over the long term is to hire individuals who possess the desired cultural attributes.

In sum, an organization's culture can be changed, but modification is generally a difficult, time-consuming process. Leaders should seek to modify the culture in a positive direction (i.e., one that is appropriate for the organization). However, they should also recognize their limitations in institutionalizing steep cultural changes over a short period of time.

7-2 Managerial Ethics

Inherent in an organization's culture is a set of expectations concerning ethical behavior and decision-making. **Managerial ethics** refers to an individual's responsibility to make business decisions that are legal, honest, moral, and fair. Unethical behavior in organizations can result in costly government fines and penalties when it involves a violation of the law. However, the greater costs incurred by organizations engaging in such practices are indirect, such as the loss of reputation, the departure of top employees, lost customers, and greater government regulation.[18] Most managers and scholars agree that organizational decisions should be made in an ethical manner. Difficulties arise when the concept of managerial ethics is examined in greater detail, however, as competing definitions and perspectives can have a great bearing on what would be considered as ethical or unethical.

managerial ethics
an individual's responsibility to make business decisions that are legal, honest, moral, and fair

7-2a Ethical Relativism

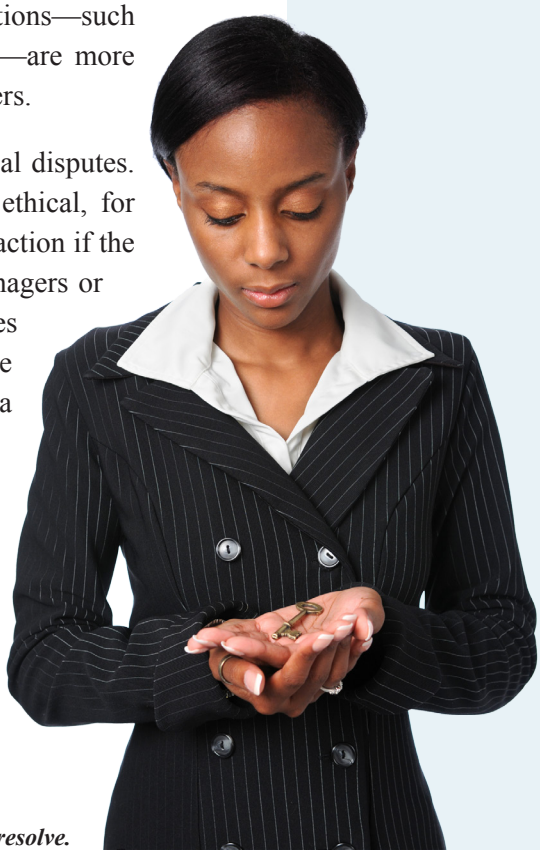
Two contextual issues should be considered at the beginning of this discussion. The first is the frequently debated notion of **ethical relativism**, the idea that ethics is based on accepted norms in a culture. Most ethical relativists would argue, for example, that bribery is unethical in the United States and most western nations where the practice is generally viewed as inappropriate. In contrast, bribery is ethical in other parts of the world where the practice is a generally accepted means of getting things done. Hence, according to the ethical relativist, the culture defines the ethics.

ethical relativism
the idea that ethics is based on accepted norms in a culture

Strict opponents of ethical relativism argue that actions are either ethical or unethical without consideration to cultural acceptance. They would argue that bribery might be an accepted practice in some parts of the world, but not necessarily for the right reasons. Following this logic, allowing a culture to define ethics would result in a society where the ethical nature of all decisions is negotiable and clear standards of right and wrong cannot be established.

Although the debate between ethical relativists and their opponents is real and legitimate, most decision-makers balance these contrasting views in practice. Most managers who embrace ethical relativism, for example, would acknowledge that certain actions in organizations—such as stealing from a coworker or defrauding a customer—are simply unethical in any culture. Likewise, most managers who eschew ethical relativism would acknowledge that other actions—such as giving a small gift of appreciation to a major customer—are more complex and might be ethical in some cultures but not in others.

The second contextual issue involves the resolution of ethical disputes. If a decision-maker determines that a course of action is ethical, for example, should a subordinate be required to implement the action if the subordinate believes the action is unethical? In general, managers or other employees should not be required to perform activities inconsistent with their ethical convictions concerning the role that they may be expected to play in firm activities. From a practical perspective, however, employees should consider their ethical views when evaluating employment and pursue positions that do not inherently run counter to those views. The ethics test on the next page provides food for thought concerning both of these issues.



Ethical dilemmas in organizations are not always easy to resolve.

Ethics Test

Strongly Disagree -0- -1- -2- -3- Strongly Agree

	-0-	-1-	-2-	-3-
1. Employees should not expect to inform on their peers for wrongdoings.	☐	☐	☐	☐
2. There are times when a manager must overlook contract and safety violations in order to get on with the job.	☐	☐	☐	☐
3. It is not always possible to keep accurate expense account records; therefore, it is sometimes necessary to give approximate figures.	☐	☐	☐	☐
4. There are times when it is necessary to withhold embarrassing information from one's superior.	☐	☐	☐	☐
5. We should do what our managers suggest, though we may have doubts about it being the right thing to do.	☐	☐	☐	☐
6. It is sometimes necessary to conduct personal business on company time.	☐	☐	☐	☐
7. Sometimes it is good psychology to set goals somewhat above normal if it will help to obtain a greater effort from the sales force.	☐	☐	☐	☐
8. I would quote a "hopeful" shipping date in order to get an order.	☐	☐	☐	☐
9. It is proper to use the company 800 line for personal calls as long as it's not in company use.	☐	☐	☐	☐
10. Management must be goal oriented; therefore, the end justifies the means.	☐	☐	☐	☐
11. If it takes heavy entertainment and twisting a bit of company policy to win a large contract, I would authorize it.	☐	☐	☐	☐
12. Exceptions to company policy and procedures are a way of life.	☐	☐	☐	☐
13. Inventory controls should be designed to report "underages" rather than "overages" in goods received.	☐	☐	☐	☐
14. Occasional use of the company's copier for personal or community activities is acceptable.	☐	☐	☐	☐
15. Taking home company property (pens, tape, paper, etc.) for personal use is an accepted fringe benefit.	☐	☐	☐	☐

Total Score: _____

If your score is:

0	Prepare for canonization ceremony
1-5	Bishop material
6-10	High ethical values
11-15	Good ethical values
16-25	Average ethical values
26-35	Need moral development
36-44	Slipping fast
45	Leave valuables with warden

7-2b Perspectives on Ethics

What constitutes ethical behavior can be viewed in a number of ways, six of which are discussed here (see table 7-1).

Table 7-1 Six Common Views of Ethical Decision-Making

View of Ethics	Primary Strength	Primary Weakness
Utilitarian	Decisions are based on actual outcomes.	A decision often has multiple outcomes, some positive, others negative, and even others undetermined.
Self-interest	Promotes freedom, initiative, and personal responsibility.	Decisions best for an individual could be devastating to a group.
Rights	Ensures that the rights of all involved are protected.	It is possible to protect individual rights at the expense of group benefits.
Justice	Decisions are made in a consistent manner because they are based on existing rules and procedures.	Rules and procedures must be developed in advance, a timely and imperfect process.
Integrative Social Contracts	Situational factors are emphasized.	Clear standards of right and wrong are deemphasized.
Religious	Clear standards of right and wrong are emphasized.	There may be different interpretations of religious principles in different areas and among different groups.

The **utilitarian view of ethics** suggests that anticipated outcomes and consequences should be the only considerations when evaluating an ethical dilemma. The primary shortcoming associated with this approach, however, is that it a decision may have multiple consequences, some of which may be positive, others negative, and still others undetermined. For example, a decision to layoff ten percent of an organization's work force will harm those who lose their jobs but may help shareholders by increasing the projected returns on their investments. The long-term effect of the layoff could be positive if the organization emerges as a more competitive entity or negative if employee morale suffers and productivity declines. Hence, the utilitarian view is not always easy to apply.

utilitarian view of ethics
perspective suggesting that anticipated outcomes and consequences should be the only considerations when evaluating an ethical dilemma

The **self-interest view of ethics** suggests that benefits of the decision-maker(s) should be the primary considerations. This view assumes that society will likely benefit when its individual members make decisions that are in their own best interest. As Smith and Friedman argued, firms that attempt to maximize their returns within the legal regulations of society behave ethically. This perspective limits ethical concerns to the consideration of short-term financial benefits for the organization.

self-interest view of ethics
perspective suggesting that benefits of the decision-maker(s) should be the primary considerations when faced with an ethical dilemma

However, self-interest can be viewed from a narrow, short-run perspective or from a broader, long-term perspective. It can be argued that one who always promotes his or her short-term interests at the expense of others will suffer greater loss in the long term. For example, firms whose managers construct loopholes in their product or service warranties to promote short-term profits can ultimately alienate their customers. Hence, ethical behavior has long-term profit considerations.

The **rights view of ethics** evaluates organizational decisions on the extent to which they protect basic individual rights, such as a customer's right to privacy and an employee's right to a safe work environment. The key shortcoming of this approach, however, is that it is possible to protect individual rights at the expense of group progress or productivity.

rights view of ethics
perspective that evaluates organizational decisions on the extent to which they protect basic individual rights

The rights view is generally inferred when legislation prohibiting various forms of employee discrimination is considered. Such legislation often seeks to protect the rights of current or prospective employees even if organizations must incur costs to safeguard them. From an ethical standpoint, proponents of anti-discrimination legislation often desire a bias-free workplace but invoke a different view of ethics when evaluating the proposed law.

The **justice view of ethics** suggests that all decisions will be made in accordance with pre-established rules or guidelines. Employee salaries may be administered by developing a formula that computes salary based on level of experience, amount of training, years of experience, and previous job evaluations. The key shortcoming associated with the justice view is that it requires decision-makers to develop rules and procedures for every possible anticipated outcome, an arduous task indeed.

justice view of ethics
perspective suggesting that all decisions will be made in accordance with pre-established rules or guidelines

The **integrative social contracts view of ethics** suggests that decisions should be based on existing norms of behavior, including cultural, community, or industry factors. Although this perspective emphasizes the situational influences on a particular decision, it deemphasizes the need for clear standards of right and wrong devoid of the situation.[19]

integrative social contracts view of ethics
perspective suggesting that decisions should be based on existing norms of behavior, including cultural, community, or industry factors

The **religious view of ethics** is based on personal or religious convictions. In the United States, the Judeo-Christian heritage has formed a distinct notion of ethics, whereas Islam, Hinduism, and other religions comprise the majority viewpoint in many other nations. From the Christian perspective, for example, individuals should behave in ways that benefit others, treating other people as one would wish to be treated.[20] In one respect, the religious perspective counters the integrative social contracts view because it emphasizes clear principles of right or wrong with limited regard to situational variables. Needless to say, however, the religious view would result in markedly different ethical perspectives across cultures.

religious view of ethics
perspective that ethical dilemmas should be evaluated by considering personal or religious convictions

It should be noted that various additional ethical perspectives exist. Some have rich philosophical underpinnings, such as those traced to Aristotle or the famous eighteenth century philosopher Immanuel Kant. Others are based in contemporary business thought and provide a broader framework for decision-making that extends beyond ethical considerations. One such perspective, the stakeholder approach, suggests that organizational decisions should balance the interests of the organization's stakeholders (i.e., those groups that have a stake in the organization, such as employees, customers, suppliers, the community, etc.). Hence, the views presented in this chapter represent the major perspectives and do not comprise an exhaustive list.

It is also worth noting that most decisions are made without conscious thought to the perspective on which they are based. For example, decision-makers rarely speak of whether an organizational decision should be made from a justice view or an integrative social contracts view. In most cases, managers evaluate alternatives and make a decision. As such, some of the perspectives applied may be subconscious.

Most decisions are made without conscious thought to the perspective on which they are based.

Of the major approaches, research suggests that the utilitarian view is the most commonly applied perspective in organizations.[21] It should be emphasized, however, that these views of ethical decision-making are not always mutually exclusive. Further, it is likely that most managers employ a combination of ethical perspectives when making decisions. This is especially true when organizations are faced with decisions whose ethical dimensions are not always clear. In 2003 for example, the Recording Industry Association of America launched several hundred lawsuits at teenagers and college students in an effort to emphasize the notion that swapping copyrighted music files via the Internet is against the law. Critics charged that "suing kids" is both bad business and unethical, while industry executives argued that the law is clear and that widespread violations are taking a serious toll on its member firms.[22]

7-2c Overcoming Ethical Dilemmas

The ethical imperatives of other decisions may be easier to identify, however. For example, some organizations and individuals indiscriminately use bulk e-mails to "spam" the public by e-mailing unwanted direct response advertisements of pornography sites, mortgage and investment services, and the like. One study suggested that spam cost American corporations $9 billion in 2002 due to loss of worker productivity, consumption of bandwidth and other technological resources, and the use of technical support time. Although this largely illegal practice is deplored by most industry groups and Internet users, enforcement is a complicated legal endeavor.[23]

Why do some organizations portray a pattern of unethical business practices? Anand and Ashforth identified six commonly used rationalization tactics to explain this behavior.[24] First, individuals *deny responsibility*, rationalizing that they have no other choice but to participate in unethical behavior. One employee may contend that the practice is directly associated with another's responsibility.

Second, individuals *deny injury*, suggesting that the unethical behavior did not really hurt anyone. This perspective defines behavior only as unethical if directly injured parties can be clearly identified and then hesitates to acknowledge the injury.

Third, individuals *deny rights of the victims*, rationalizing that "they deserve what they got anyway." This perspective rationalizes unethical behavior when competitors or other related parties are alleged to be involved

at least the same level of corruption.

Fourth, individuals engage in *social weighting* by making carefully controlled comparisons. One way this is done is by character assassination of those suggesting that a particular pattern of behavior is unethical. If those condemning us are corrupt—the argument goes—then how much credence can be given to their arguments? Another way this is done is by selectively comparing the unethical action to others whose actions are purported to be even more unethical. For example, falsifying an expense account for meals not eaten on a business trip is not considered a major offense when compared to someone who falsifies expenses for an entire business trip that never occurred.

Fifth, individuals can *appeal to higher values* by suggesting that justification of the unethical behavior is due to a higher order value. In this sense, one might argue that it is necessary to accept some degree of lower-level unethical behavior in pursuit of ethical responsibility at a higher level. For example, one sales rep who is brought in to help resolve a dispute between a customer and another sales rep may deny the legitimate claims of the customer, rationalizing that loyalty among sales representatives is a higher order value.

Finally, individuals may invoke the *metaphor of the ledger*, arguing that they have the right to engage in certain unethical practices because of other good things they have done. For example, a manager on a business trip may justify padding a travel expense account because she has already done "more than her share" of traveling in recent months.

Table 7-2 Myths and Realities of Organizational Ethics

Myth	Reality
1. Ethical decision-making is easy.	Ethical decision-making is a complex process.
2. Unethical behavior can be traced to a limited number of "bad apples" in an organization.	Unethical behavior can be a systemic part of the organization's culture.
3. Ethics can be managed by developing formal ethics codes and programs.	Formal codes are programs are helpful, but ethical expectations must be part of the culture and fabric of the organization.
4. Ethical leadership is really about leader morality and honesty.	Leader morality and honesty is a good start, but the leader must also infuse ethics into the organization and hold others accountable.
5. Business leaders are less ethical today than they used to be.	Ethical concern in organizations has always been a pervasive issue.

Improving the ethical stance of an organization is not easy, however. Treviño and Brown identified five commonly held myths concerning ethics in organizations.[25] These myths and accompanying realities are summarized in table 7-2. In concert, they argue that ethical decision-making is a complex process that extends beyond removing the "bad apples" from the organization and establishing formal ethics codes. It begins with proactive behavior on the part of top executives that infuses ethics into the fabric and culture of the organization.

In addition, the extent to which an individual behaves ethically is influenced by many factors, including one's stage of moral development, individual and personality differences, and the culture of the organization. The organization can influence some but not all of these factors. Organizations can foster more ethical decision-making to a substantial extent, however, by emphasizing ethics in leader decisions, selecting and rewarding individuals who act in an ethical manner, and raising awareness of ethical concerns through training.

Career Point

Valuing Ethics in the Organization

Most people desire to work in an organization embodied by sound ethical principles. However, it can be difficult to distinguish between ethical organizations and unethical ones during a job search. This problem is further complicated by the fact that an organization one may loosely refer to as "ethical" probably employ some managers whose activities are not considered to be in line with company standards.

Business publications can provide insight into this dilemma, especially in large firms. Periodicals such as Forbes, Fortune, and Business Week compile lists of the "most ethical" firms. It is typically difficult to collect accurate data in order to make this distinction, however. Ultimately, it is necessary to do your own detective research on organizations where you might like to work.

Asking an organization's customers—and former customers—for their opinions is a great place to start. Customers may report that the organization is always upfront in its dealings, stands behind its promises, and can be counted on to conduct business in a fair manner. In contrast, they may express difficulty dealing with members of the organization or even feel "ripped off" at times. Asking prospective co-workers in the organization during an interview can also be helpful. They may not disclose complete information about the company, but it is often possible to gain valuable information in the process.

7-3 Social Responsibility

Whereas managerial ethics refers to an individual's responsibility when making business decisions, social responsibility refers to the expectation that organizations should serve both society and the financial interests of the owners or shareholders. In other words, the notion of social responsibility adds to the given economic and financial concerns the concept of **social responsiveness**, the idea that organizations must adapt to changing environmental conditions and decisions should be made to promote positive social change.

An organization's stance on social responsibility is typically embedded in its culture. This stance can and should influence both strategic and day-to-day decisions. If social responsibility is not considered, decisions may be aimed only at short-term objectives without balancing social objectives that the firm might also wish to consider. As we shall see, however, these issues are not always easy to resolve.

Business organizations have always been expected to provide employment for individuals and to meet consumer needs. Today, however, many members of developed societies also expect firms to help preserve the environment, to sell safe products, to treat their employees equitably, and to be truthful with their customers.[26] In some cases, firms are even expected to provide training to unemployed workers, contribute to education and the arts, and help revitalize urban areas. Some organizations are noted for their social positions. Firms such as Coca-Cola, UPS, and Johnson &

Johnson recently earned high marks for social responsibility, whereas Bridgestone and Philip Morris were at the bottom of the list.[27]

At the global level, environmental concerns have become a major social responsibility issue. Issues such as the depletion of natural resources, pollution of various forms, disposal of toxic wastes, and global warming are commonly discussed areas of concern. Fundamentally, organizations must either behave in a manner that is consistent with what is believed to be sound environmental practice or risk increased and costly regulation from governments.

social responsiveness
the perspective that organizations must adapt to changing environmental conditions and decisions should be made promote positive social change

Some organizations practice **values-based management**, a system whereby organizational decisions are based on a set of established organizational values. A values-based approach also has implications for ethical decision-making. Ultimately, these values reflect the culture of the organization and the principles it holds dear.

values-based management
a system whereby organizational decisions are based on a set of established organizational values

The degree to which social responsibility is a relevant concern is widely debated, however. There is a second perspective that should be considered, the **social obligation** perspective. This view suggests that organizations should only be required to meet their economic and social responsibilities. As such, many economists, however, including such notables as Adam Smith and Milton Friedman, have argued that social responsibility should not be part of management's decision-making process. Friedman has maintained that business organizations functions best when it concentrates on maximizing returns by producing goods and services within society's legal restrictions. According to Friedman, corporations should be concerned only with the legal pursuit of profits and let shareholders address any priorities they might have on an individual basis.

social obligation
the perspective that business organizations should only be required to meet their economic and social responsibilities

Debates between the social obligation and social responsibility perspectives often delve into philosophical arguments. As an example, the social obligation view suggests that rights to property ownership are natural or "God given." As such, an individual owner or a group of owners (i.e., shareholders) have the inherent right to pursue profit as long as it is pursued in a legal manner. Proponents of the social obligation view tend to emphasize the idea that organizations should not harm society, not the idea that organizations should seek to advance society in a certain direction.

In contrast, according to the social responsibility view, individual property rights may be seen as granted by a society as a means of advancing social welfare for the entire society. Following this view, managers have a responsibility to direct the organization so that it furthers society's objectives. It should be noted, however, that these philosophical viewpoints are simplified herein. Contrary to the social obligation perspective, advocates of the social responsibility view emphasize the

notion that organizations should actively seek to advance certain societal goals.

Delving deeper into this debate is beyond the scope of this text. From a pragmatic perspective, however, even if one accepts the social obligation view, one could argue that organizations should act in a socially responsible manner. There are two primary reasons why. First, not behaving in a socially responsible manner can increase the likelihood of more costly government regulation. Historically, a number of government regulations over business operations have been enacted because some firms refused to act in a socially responsible manner. Had some organizations not damaged the environment, sold unsafe products, or engaged in discrimination or misleading advertising—even when no laws were broken—legislation in these areas would not have been necessary. Government regulation is always possible when companies operate in a manner contrary to society's interests.

Second, stakeholders affected by an organization's social responsibility stance—most notably customers—are also those who must choose whether or not to purchase its goods or services. Prospective customers have become more interested in learning about a company's social and philanthropic activities before making purchase decisions. The social responsibility debate aside, many executives—especially those in large firms—have concluded that their organizations must at least *appear* to be socially responsible or face the wrath of angry consumers. As such, they are concerned not only about the actual behavior of the firm, but also about how it is perceived. Evidence suggests that consumers want the firms that produce the products and services they buy not only to support public initiatives, but also to uphold the same values in terms of the day-to-day decisions of running the company.[28]

The line between social responsibility and managerial ethics can be difficult to draw, as what

Management Focus on Ethics
A Memory Device for Making Ethical Decisions

Most people believe it is important that ethics take on a conscious, deliberate role in business decision making. In a nutshell, the issue of ethics boils down to asking yourself, "What price am I willing to pay for this decision, and can I live with that price?" This process can be helped by defining each letter of the word ethics.

E = EXPERIENCE. The values we carry with us into adulthood, and into business, are those that were modeled to us, usually by a parent, teacher, or some other significant adult. How people behave and the decisions they make speak much louder and are more convincing than what they say.

T = TRAINING. Training means training yourself to keep the question of ethics fresh in your mind deliberately.

H = HINDSIGHT. Success leaves clues that we need to tap into in order to help us make that tough decision. What if the problem you face was the problem of the person you admire most in life? What would he/she do?

I = INTUITION. What does your "gut" tell you is the right thing to do? Some call it conscience, or insight. How do you know when you've gone against your "gut"? You feel guilt, shame, remorse, have a restless, sleepless night, etc. Now the decision is what to do about it?

C = COMPANY. How will your decision affect the company, the people who work with and/or for you, your customers and your family? No matter how big or small your decision is, it affects other people in your life.

S = SELF ESTEEM. The greatest ethical decision is one that builds one's self-esteem through the accomplishment of goals based on how these goals positively impact those around you.

Sources: Adapted from Frank Bucaro, "Ethical Considerations in Business," Manage, August/September 2000, p. 14; and Alice Gaudine and Linda Thorne, "Emotion and Ethical Decision Making in Organizations," Journal of Business Ethics, 1 May 2001, pp. 175–187.

may be considered by some to be socially irresponsible firm behavior may be a direct result of unethical managerial decision-making. Nonetheless, while the debate over social responsibility continues, few would argue that managers should not behave ethically. However, what is morally right or wrong continues to be a topic of debate, especially when firms operate across borders where ethical standards can vary considerably. In the U.S., for example, bribes to government officials to secure favorable treatment would be considered unethical. In a number of other countries—especially those with developing economies—small "cash tips" are an accepted means of transacting business and may even be considered an integral part of an underpaid government official's compensation.

The notion of social responsibility can be difficult to put into practice. By definition, a firm that is socially responsible is one that is able to generate both profits and societal benefits. However, exactly what is good for society is not always clear.[29] For example, society's demands for high employment and the production of desired goods and services must be balanced against the pollution and industrial wastes that may be generated by manufacturing operations. The decisions made to balance these concerns can be quite difficult to make.

Many consumers and activists in the United States have become increasingly concerned about trade deficits with other nations and job losses that occur when an organization moves a production facility abroad or a retailer stocks its shelves with imported products.[30] A number of American firms have closed production facilities in the United States and opened new ones in Mexico, China, India, and other countries where labor costs are substantially lower.[31] In 2003, China and Mexico accounted for almost one quarter of imported apparel in the U.S., followed by Honduras, Bangledesh, and El Salvador. With the expiration of world garment quotas in 2005, China's lead is expected to increase.[32] Analysts also suggest that differences in wages could spark increased global outsourcing in a broad array of professional and technical fields, such as architects, accountants, and even attorneys.[33]

Although outsourcing usually does not create legal concerns for an organization, many organizations have become more sensitive to this issue. In 2004, for example, E-Loan announced that customers would be given a choice about whether loan applications will be processed in Delhi or Dallas, with the latter taking as much as two days longer.[34] Hence, E-Loan customers can make their own decisions by balancing their concerns for speed and outsourcing.

Summary

In many respects, an organization is defined by its culture, the shared values and beliefs held by its members. For an organization to be effective, its culture must be aligned with other characteristics of the organization, including the strategy. It is possible for leaders to shape the culture within an organization, but this process can be difficult.

The culture of an organization is likely to include values or expectations concerning both managerial ethics and social responsibility. Ethics can be viewed from a variety of perspectives and is a key component in organizational decision-making. Although the extent to which social responsibility should be a concern for organizations is often debated, acting in a social responsible manner is generally in the organization's best interest.

Review Questions & Exercises

1. What is the difference between a national culture and an organizational culture? Are the two related? Explain.
2. What are four categories of organizational culture? Which of the four is best? Explain.
3. What is the difference between social responsibility and managerial ethics? Explain.
4. Could you argue that organizations should act in a socially responsible manner even if their leaders do not accept the notion that firms have social responsibilities?

Glossary

- **Culture:** The commonly held values and beliefs of a particular group of people.
- **Cultural Strength:** The extent to which organizational members agree about the importance of certain values.
- **Ethical Relativism:** The idea that ethics is based on accepted norms in a culture.
- **Integrative Social Contracts View of Ethics:** Perspective suggesting that decisions should be based on existing norms of behavior, including cultural, community, or industry factors.
- **Justice View of Ethics:** Perspective suggesting that all decisions will be made in accordance with pre-established rules or guidelines.
- **Managerial Ethics:** An individual's responsibility to make business decisions that are legal, honest, moral, and fair.
- **Religious View of Ethics:** Perspective that ethical dilemmas should be evaluated by considering personal or religious convictions.
- **Rights View of Ethics:** Perspective that evaluates organizational decisions on the extent to which they protect basic individual rights.
- **Self-Interest View of Ethics:** Perspective suggesting that benefits of the decision-maker(s) should be the primary considerations when faced with an ethical dilemma.
- **Social Obligation:** The perspective that business organizations should only be required to meet their economic and social responsibilities.
- **Social Responsibility:** The expectation that business firms should serve both society and the financial interests of shareholders.

- **Social Responsiveness:** The perspective that organizations must adapt to changing environmental conditions and decisions should be made promote positive social change.
- **Utilitarian View of Ethics:** Perspective suggesting that anticipated outcomes and consequences should be the only considerations when evaluating an ethical dilemma
- **Values-Based management:** A system whereby organizational decisions are based on a set of established organizational values.

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Global Dynamics

12

Chapter Outline:

Key Terms

comparative advantage
cultural relativism
cultural universalism
customization
international franchising
international licensing
self-reference criterion
standardization

Most large organizations in the developed world have shifted from an emphasis on resources, products and customers in their home countries to one that seeks to produce and distribute products worldwide. This global transformation has altered how organizations function in a variety of ways. Today more than ever, an understanding of a global orientation—including the acquisition of resources, production of goods and services, and marketing to customers across borders—is essential to organizational success. This understanding begins with the concept of culture, a concept applied to organizations in a previous chapter.

12-1 Culture

Each of the world's nations has its own distinctive culture, its generally accepted values, traditions, and patterns of behavior.[1] With many organizations functioning in multiple countries and conducting business across borders, the need to understand the influence of national culture on organizational processes has never been more important. The concept of a national culture should be distinguished from that of a corporate or organizational culture, however. A national culture refers to commonalities among individuals within a country, whereas a corporate culture refers to commonalities within a single organization. In this chapter, the word culture refers to a national culture.

Geert Hofstede developed a popular approach for comparing and contrasting national cultures in 1980.[2] His work is based on over 116,000 surveys of employees in over 70 countries. Although it has been both refined and critiqued ever since, Hofstede's framework provides an excellent starting point for discussing national culture.[3] According to Hofstede, cultures can be classified along five dimensions.

The first dimension, *power-distance*, refers to the degree in which individuals with less power expect and accept unequal distributions of power within a culture. Cultures like Mexico with high power-distance emphasize hierarchies and centralization, whereas cultures with low power-distance emphasize flatter hierarchies and a more equal distribution of power.

The second dimension, *individualism*, refers to the degree to which one's self and immediate family are emphasized over the society at large. High individualism cultures such as the Australia and the United States value freedom, individualized rewards, and privacy, whereas low individualism cultures emphasize collectivism, tradition, experience, and group harmony.

The third dimension, *masculinity*, refers to the degree to which a culture emphasizes the traditional masculine roles of assertiveness and competition. High masculinity cultures such as Japan value these roles, whereas low masculinity cultures emphasize cooperation and family support.

The fourth dimension, *uncertainty avoidance*, refers to the degree to which individuals within a culture seek to avoid uncertain events. Cultures high in uncertainty avoidance like France emphasize formality and structure, whereas those low in uncertainty avoidance are more informal and relaxed.

A fifth dimension, *long-term or short-term orientation*, was a later addition to the framework.[4] Cultures with a long-term orientation such as Korea prioritize values focusing on the future such as frugality, persistence, and hard work. Those with a short-term orientation emphasize such values as stability and respect for tradition.

Table 12-1 lists culture dimension scores for eleven select nations and one nation cluster.[5] Following Hofstede's framework, distinct differences can be seen among nations. The United States, for example, is the most individualistic nation. As such, factors such as employee personal time, freedom and challenge in job assignments, and salary level (as opposed to working condition) are relatively more important than in other nations. In contrast, Mexico—the United States' neighbor to the south, scored the lowest in individualism among the select twelve in the table. Japan's high scores in masculinity and uncertainty avoidance are also noteworthy, as is Israel's low score on power distance.

Table 12-1: Culture Dimension Scores for Select Nations

Nation	Power Distance	Individualism	Masculinity	Uncertainty Avoidance
Arab Countries	80	38	53	68
Australia	36	90	61	51
Brazil	69	38	49	76
Canada	39	80	52	48
France	68	71	43	86
Germany	35	67	66	65
Great Britain	35	89	66	35
India	77	48	56	40
Israel	13	54	47	81
Japan	54	46	95	92
Mexico	81	30	69	82
United States	40	91	62	46
Mean of all 53 nations and nation clusters	57	43	49	65

In a similar vein, Ronen and Shenkar proposed eight country clusters based on cultural characteristics: Anglo, Germanic, Nordic, Near Eastern, Arab, Far Eastern, Latin American, and Latin European. The Anglo cluster, for example, includes the United States, Canada, Australia, the United Kingdom, Ireland, New Zealand, and South Africa. Ronen and Shenkar note that cultural values tend to change as a country developed economically and technologically, and are also infuenced by language, religion, and geography.[6]

Other attempts to understand and categorize national cultures have also been made. Trompenaars, for example, surveyed over 15,000 managers in 28 countries over a ten-year period and proposed a five-dimensional framework.[7] In many respects, there are substantial similarities across approaches, however.

The work of Hofstede and others demonstrates the importance of taking culture into consideration, especially when decisions concern organizations or divisions across borders. In too many instances, these differences are avoided or simply ignored. The unconscious reference to one's own cultural values as a standard of judgment—the **self-reference criterion**—has been suggested as the cause of many business problems when multiple cultures are involved. Individuals, regardless of culture, become so accustomed to their own ways of looking at the world that they often have difficulty comprehending other perspectives. When organizations function in multiple countries, however, they should adjust to the culture of a host country to improve prospects for success.[8] Some adjustments are product related, such as KFC's decision to sell a spicier version of its chicken in China than it sells in the United States.

The self-reference criterion presents other problems related to organizational culture as well. Managers often believe that the leadership styles and organizational culture that are effective in their home country should work elsewhere. Because each nation has its own unique culture, organizational values and norms must be tailored

to fit the unique culture of each country in which the organization operates, at least to some extent. The need to customize values and norms can create special challenges when firms from different countries become partners or even merge their organizations. There is also considerable debate on precisely how much customization is appropriate when mergers occur.

Whereas the self-reference criterion refers to the subconscious realm, a distinction should be made between the conscious perspectives of cultural universalism and cultural relativism.[9] **Cultural universalism** holds that there is a single best culture—either in theory or in practice—and all cultures should be evaluated on the basis of the superior culture's characteristics. For example, a proponent of cultural universalism would hold that specified levels of power distance, individualism, masculinity, and uncertainty avoidance would comprise the best possible combination. These specified levels may be embodied within a certain culture, or they may represent a theoretical standard. Other cultures would be judged on the proximity of their scores to those of the superior one.

In contrast, **cultural relativism** holds that no single culture can be judged as inherently superior to any other culture. This perspective suggests that managers should not attempt to enforce culturally sensitive standards when functioning in other nations. Instead, management styles should be tailored to the specific characteristics of each culture.

Cultural universalism and cultural relativism can be viewed as opposite ends of a continuum. As such, individual perspectives may lean substantially in one direction or the other, but most would comprise some sort of mix of the two extremes, at least within a specified range. Hence, individual differences in perspectives on culture are not always easy to categorize or quantify.

In some respects, cultural differences appear to be diminishing as familiarity with other cultures increases. Indeed, the Internet explosion is in part responsible for some degree of cultural convergence in recent years. As individuals become more comfortable with other parts of the world, they become less resistant to other cultures. Although the introduction of high-speed travel and communication coupled with the expansion of the Internet has led to a convergence of social and other practices across nations, substantial differences among nations still remain.[10] Rather, the differences in culture that can affect organizations operating across borders will likely remain important in the upcoming years.

It should be noted that global effects on culture are not limited to national culture, but also include organizational culture. In many respects, an organization's culture can be viewed as a subset of the national culture. Operating outside one's own country can create leadership challenges and make it more difficult to maintain a strong organizational culture. For example, leaders of some nations resist innovation and radical new approaches to conducting business, whereas others welcome such change. Such national tendencies often become a part of the culture of the organization in those countries.

self-reference criterion
the unconscious reference to one's own cultural values as a standard of judgment

cultural universalism
the idea that that there is a single best culture—either in theory or in practice—and all cultures should be evaluated on the basis of the superior culture's characteristics

cultural relativism
the idea that no culture is inherently superior to any other

Career Point

Working Abroad

Would you be excited about an international career assignment or would you rather leave the organization? As global business expansion continues, more managers will have the opportunity to work in other countries and experience other cultures. In addition to opening career doors within the organization, accepting an international assignment can also provide a rich cultural experience for a manager and his or her family. There are several things you can do to prepare for an international assignment.

First, seek employment with a global organization and express your interest in working abroad. There is a need for talented, energetic professionals willing to live and work abroad. Finding the right company is the best place to start.

Second, study a foreign language. Taking college courses in a language is one way to learn, but there are also numerous audio and computer-based programs designed to teach foreign languages. In general, an organization will not require language capability for an assignment and will provide "immersion" training to facilitate the survival skills within a given country. The more background one has prior to this training, however, the better.

Finally, consider your personal and family goals. Discuss your plans with your spouse before you pursue an international assignment. Your spouse may also need employment and many organizations are willing to assist spouses in obtaining a rewarding experience abroad as well.

12-1a Influence of Religion

Cultures are comprised of and influenced by such factors as family values, educational institution, and religious orientation. It can be argued that religion is the greatest of these factors because it greatly influences many of the others. Most religions attempt to shape the morals and values of their followers, but there can be differences. There are a number of religion orientations represented in the world, but five appear to have the greatest influence on world cultures (see table 12-2). A cursory understanding of each of these is essential to comprehending differences in world cultures.

Table 12-2. Influence of World Religions

Religion	Geographical Prominence	Est Number	Percentage
Christianity	Americas, Europe	2.1 billion	31%
Islam	Africa, Middle East, Asia	1.5 Billion	22%
Hinduism	Indian Subcontinent	1.1 billion	16%
Non-religious	Various, including U.S. & Australia	900 million	13%
Buddhism	Asia	376 million	5%
Other	Various	892 million	13%

Source: Based on information available at www.adherents.com

Accessed Oct. 2010

Christianity has had the greatest influence in the Americas and Western Europe, although it is growing in other parts of the world as well, including Eastern Europe, Africa, and China. Christianity dates back about 2000 years, although it grew out of Judiasm, an older faith. Christians follow the teachings of Jesus Christ and as such strive to live in peace, respect individual rights and responsibilities, and treat others as they would like to be treated. Christians comprise about 31 percent of the world's population.

Islam had had its greatest influence in the Middle East and Asia with the largest number of Muslims (i.e., practitioners of Islam) living in the populous Asian countries of Indonesia, Pakistan, Bangladesh, and India. Islam claims about 22 percent of the world's population. Although it has roots in Judaism and Christianity, Islam dates back to the teachings of the prophet Muhammad around the year 600 A.D. Like Christianity, Islam teaches mutual respect and moral purity. However, Muslim practices such as the required five daily prayers and modest dress for women tend to transcend other cultural influences more than the practices of many other religions. Hence, where Muslims comprise a high percentage of a nation's population, its influence is usually more prominent in daily life, customs, and even business dealings.

Hinduism claims about 16 percent of the world's population, although most are situated in the Indian subcontinent. Hinduism can be traced back about 4,000 years. In general, Hindus believe that one's karma—the spiritual progression of the soul—is influenced by how one lives. Through reincarnation, individuals can make the soul more perfect with each life and eventually attain nirvana, or spiritual perfection. Hinduism supports the caste system whereby individuals are born into a clearly defined social class that cannot be readily changed. Because Hindus place the cow in high esteem, most do not consume beef and many are vegetarians.

Buddhists comprise about six percent of the world's population, mostly in parts of Asia. Buddhism was founded by Siddhartha Guatama in about 600 B.C. It's followers believe that suffering emanates from the pursuit of pleasure, which can be suppressed by following the Noble Eightfold Path: right understanding, right thought, right speech, right action, right livelihood, right efforts, right mindfulness, and right concentration. Although Buddhism has its roots in Hinduism, it does not support the caste system.

About 13 percent of the world's population follows one of many other religions. These religions can be very important in certain geographical locations where they might be prominent, such as the domination of the nation of Israel by followers of Judaism. Hence, the influence of religions represented in this category should not necessarily be discounted.

The *non-religious* category is often ignored in discussions of world religion because it does not represent a religious affiliation. This group can have a strong influence on culture, however, and includes approximately 13 percent of the world's population. This is a very diverse category, including individuals who deny the existence of any god (i.e., atheists), those who are skeptical but undecided (i.e., agnostics), and those who are simply nonreligious. It should be noted that atheists represent less than one percent of this category, which is

characterized by a general passivity towards religion. Individuals in the non-religious category often argue for high tolerance and diversity in general. In many cases, they seek to deemphasize the influence of a religion on culture. About 7.5 percent of Americans and 15 percent of Australians identify with this group.

The influence of religion on organizational practice is often mediated by a nation's culture. In the West, for example, Sunday—a preferred day of worship for Christians—is often considered to be a "day off" in many lines of employment. In contrast, offices in much of the Middle East are closed on Friday, a preferred day of worship for many Muslims. Most organizations function around these culturally-defined workweeks without regard to the religious preference of the managers or workers.

12-2 Global Influences on the External Environment

Differences in economies across borders can influence organizations in a number of ways. Most notably, these differences include economic and related concerns, as well as differences in social changes and trends. Each of these areas is discussed in greater detail.

12-2a The Economy, Regulations, and Protectionism

Organizations functioning across borders must account for differences in legal systems. Bribery, for example, is an accepted practice in some countries but outlawed in others. In the United States, the Foreign Corrupts Practices Act of 1977 forbade any bribery involving representatives of any American business operating in another country even if the practice is condoned there. As a result, American managers cannot engage in bribery when operating in less developed nations where "financial incentives" are often provided as a matter of course.

The economic environment also varies substantially across borders, especially between developing and emerging nations, where the cost of borrowing can be as high as 100 percent annually. These high interest rates are often accompanied and influenced by excessive rates of inflation, as was the case in parts of Latin America in the 1990s. Routine decisions such as pricing and costing become almost impossible to make under such conditions. High and unpredictable inflation rates also cause the prices of goods and services to rise and become less competitive in international trade.

The effect of global economic forces on organizations is affected by political influences, especially as they relate to regulations of business activities and restrictions on global trade. The period from the 1940s to the late 1980s was marked by increased trade protection in most countries. Many protected their industries by imposing tariffs, import duties, and other restrictions. Import duties in some developing Latin American countries even exceeded 100 percent.[11] However, this trend was also pervasive in the developed world. Countries in Europe and Asia—and even the United States—imposed import fees on a variety of products, including food, steel, and cars. In the 1980s, the United States also convinced Japanese manufacturers to voluntarily restrict exports of automobiles to the U.S. in lieu of a tariff. Interestingly, this particular tariff may be largely responsible for Japanese automobile manufacturers establishing a large number of production facilities in the United States, thereby blurring the concept of the "foreign car" among American consumers.

During this time, however, leaders from many nations recognized that all countries would likely benefit if trade barriers could be reduced across the board. After the end of World War II, 23 countries entered into the cooperative General Agreement on Tariffs and Trade (GATT), working to relax quota and import license requirements, introduce fairer customs evaluation methods, establish a common mechanism to resolve trade disputes. The World Trade Organization (WTO) and the International Monetary Fund (IMF) were also established at this time. By 1994, GATT membership had expanded to more than 110 nations when it was replaced by a new WTO, viewed more as an organization than as a treaty. Today the WTO contains 147 members and continues to negotiate global trade agreements, although member nations must ratify the agreements before they become effective.

A major shift in U.S. policy occurred in the late 1970s and the 1980s to reduce business regulations, eliminating a number of legal constraints in such industries as airlines, trucking, and banking. By 1990, a reversal of trade protectionism and strong governmental influence in business operations began to take place in the United States and many parts of the world. In the U.S., new economic policies reduced governmental influence in business operations by deregulating certain industries, lowering corporate taxes, and relaxing rules against mergers and acquisitions. Although this trend has continued into the twenty-first century, corporate scandals and concerns over outsourcing sparked new calls for business regulation in a number of areas.

The move toward free trade was also seen in Europe, where a number of nations banded together to develop a trade-free European Community. Today, Europe is fast becoming a single market of 350 million consumers. The European Union represents the largest trading bloc on earth, accounting for more than 40 percent of the world's gross domestic product (GDP).[12] Meanwhile, the United States, Canada, and Mexico established the North American Free Trade Agreement (NAFTA) to create its own strategic trading bloc.

Many analysts believe that global business soon will be divided into several such blocs, each providing preferred trading status to other nations within the bloc. Such blocs have strengthened business relationships in North America (NAFTA), Europe (EU), Latin America, Africa, and Southeast Asia. The notion of a trading bloc can be viewed as a compromise between the protectionist model on one end of the spectrum and "totally free world trade" on the other. Because a bloc includes only a subset of the world's nations, and cultural and political differences among nations in a bloc are usually less substantial than exist among the world's nations as a whole, the trading bloc concept allows a nation to pursue free trade with its neighbors without engaging in a degree of conflict that is more likely to occur on a global scale.

This trend toward less regulation has even extended to the former communist countries. As the nations of the former Soviet bloc in Eastern Europe overturned their governments, they began to open markets and to invite foreign investment.[13] In addition, China officially remains a communist nation, but its economic development policies have taken a distinctively free market approach since the late 1990s. Nonetheless, regulation—or the lack thereof—always seems to be a key political and business issue, most recently in copyrighted products distributed electronically such as software, music, and movies.[14]

It should be noted that trade restrictions will always exist to some extent, especially in politically sensitive areas. For example, the United States and other Western countries have banned the export of advanced technology in some circumstances. The United States prohibits the export of certain electronic, nuclear, and defense-related products to many countries, particularly those believed to be involved in international terrorism. Many of these restrictions were revised and strengthened following the terrorist attacks of September 11, 2001.[15]

12-2b Global Social Forces

Changes in social forces occur constantly throughout the world but can take different forms in different nations. Some social changes may occur in many or all nations, but at different times. For example, the pastime of watching television took hold in the United States in the 1950s. Because of its link to technological advances, however, it did not spread to emerging nations for several decades. Other social forces, such as preferences for clothing styles or particular sporting activities, show varying amounts of consistency across borders.

Managers in progressive organizations recognize that cross-cultural differences in norms and values require modifications in their structure and activities. Consider, for example, that business negotiations may take months or even years in countries such as Egypt, China, Mexico, and much of Latin America. Until personal friendships and trust develop between the parties, negotiators are unwilling to commit themselves to major business transactions.[16] In addition, Japanese business executives invite and even expect their clients or suppliers to interact socially with them after working hours, for up to three or four hours an evening, several times a week. Westerners who decline to attend such social gatherings regularly may be unsuccessful in their negotiations because these social settings create a foundation for serious business relationships.

Managers of American organizations should remember that their firms have exceptionally high visibility because of their American origins. As such, citizens of other countries may disrupt the business operations of American corporations as a form of anti-American activity. For example, only two months after Euro Disneyland opened in France, hundreds of French farmers blocked entrances to the theme park with their tractors to express their displeasure with cuts in European Community farm subsidies that had been encouraged by the United States, even though 90 percent of the food sold at the park was produced in France.[17]

12-2c Technological Change in the Global Environment

Changes in technology have had pronounced effects for organizations operating across borders, especially when the extent to which technological advances have been implemented differs markedly across nations. In developed countries, for example, technological amenities such as access to e-mail, cellular telephone service, and reliable scheduled internal transportation services are expected as a matter of course. In less developed nations, however, Internet and cellular telephone service may be available only in certain areas and internal bus or train transportation may not be reliable. These differences must be taken into account when conducting business abroad.

The effect of technology on global business can viewed from an economic development perspective. For years, manufacturers in technologically advanced nations established operations in developing countries to minimize production and other costs. These expansions have generally been successful for both manufactures and the societies where they expand because they bring capital, workforce training and development, and technology to the host country. In many cases, this interaction has benefited the developing country over the long term, most notably in the cases of emerging nations such as Mexico, Brazil, India, and China.[18]

Leaders in developing nations have not always been pleased with this global business expansion, in part because anticipated economic and social benefits do not always materialize. In some cases, the expanding organization promises, but does not deliver specialized business development assistance, the establishment of research and

development (R&D) facilities, and the hiring of locals in managerial and other professional positions.[19] On-the-job training notwithstanding, the overall long-term contribution to the host country is sometimes questioned by leaders in the developing nations.

12-3 Global Influences on Organizational Mission and Direction

An organization's mission may be closely intertwined with the global environment in a number of ways. Most organizations require inputs and resources from abroad. This phenomenon is most pervasive in organizations whose headquarters are located in a small or less developed nation. Consider, for example, that virtually all of Japan's industries would grind to a halt if imports of raw materials from other nations ceased, because Japan is a small island nation and its natural resources are quite limited.

Organizational mission and global involvement are also connected through the economic concept of **comparative advantage**, the idea that certain products may be produced more cheaply or at a higher quality in particular countries due to advantages in labor costs or technology. Chinese manufacturers, for example, have enjoyed some of the lowest global labor rates for unskilled or semi-skilled production in recent years, resulting in increases in the outsourcing of production to facilities there. As skills rise in the rapidly emerging nation, some companies have succeeded in extending this comparative advantage to a number of technical skill areas as well. The annual salary for successful engineers in China had risen to around $10,000 in 2002, a level well below their comparably skilled counterparts in other parts of the world.[20]

comparative advvantage
the idea that certain products may be produced more cheaply or at a higher quality in particular countries, due to advantages in labor costs or technology

Global involvement may also provide advantages to the firm not directly related to costs. For political reasons, a firm often establishes operations in countries where a substantial proportion of sales are made. Doing so can also provide managers with a critical understanding of local markets and customs.

12-4 Global Corporate Strategy

The most fundamental global strategic decision concerns the extent to which an organization will become engaged in activities outside of its host country. An organization may choose to be involved only in its domestic market, or it may compete abroad at the international, multinational, or global level. The use of these three terms to represent three different levels of involvement should not be confused with their relative interchangeability in everyday conversation. In

general, large organizations are more likely to emphasize competition abroad, although small organizations can also be successful pursuing activities across borders.[21]

The most conservative means of moving outside the domestic market is to become involved on an *international* basis. Such organizations operate in various countries but limit their involvement to importing, exporting, licensing, or strategic alliances. Activity at this level can be beneficial to many organizations. Exporting alone can significantly benefit even a small company. International joint ventures—a form of strategic alliance involving cooperative arrangements between businesses across borders—may be desirable even when resources for a direct investment are available. For example, in 2001, GM launched a $333 million joint venture with Russian firm OAO Avtovaz to provide technological support to the struggling holdover from Soviet-era industry for engineering a stripped-down version of an SUV currently offered by the Russian carmaker. By engaging in the joint venture, GM gains immediate access to the market but places its reputation on the line by putting its "Chevy" name on a vehicle produced by a technologically weak automobile producer.[22]

Organizations with global objectives may decide to invest directly in facilities abroad. Due to the complexities associated with establishing operations across borders, however, strategic alliances may be particularly attractive to firms seeking to expand their level of involvement. Organizations often possess market, regulatory, and other knowledge about their domestic markets but may need to partner with companies abroad to gain access to this knowledge as it pertains to international markets. A number of international strategic alliances can be seen among automobile producers, including production facilities owned jointly by General Motors and Toyota or those owned jointly by Ford and Mazda.

Internal growth is usually both attractive and challenging when an organization expands outside its borders. In 2003, for example, McDonald's announced plans to expand its cadre of 566 stores in China by approximately 100 annually. By that time, however, KFC had already grown to about 900 eateries in China with plans for an additional 200 units annually. McDonald's slower growth resulted from its struggle to build a network of local suppliers, many of whom are the same ones it utilizes in the United States, whereas KFC built a network of Chinese suppliers while aggressively adapting to local tastes in an effort to speed up its growth efforts. Starbuck's had fewer than 100 locations in 2003 and has found it difficult to convert a nation of tea drinkers to specialty coffee.[23]

International strategic alliances provide a number of advantages to an organization. They can provide entry into a global market, access to the partner's knowledge about the foreign market, and risk sharing with the partner. They can work effectively when partners can learn from each other and when both partners share common strategic goals

McDonald's struggled with slow growth in China because of the organizations problems in building a network of local suppliers.

image © BrokenSphere / Wikimedia Commons

but are not in direct competition. However, problems can arise from international joint ventures, including disputes and lack of trust over proprietary knowledge, cultural differences between firms, and disputes over ways to share the costs and revenues associated with the partnership.

Other options are also available to a firm seeking an international presence. Under an **international licensing** agreement, a foreign licensee purchases the rights to produce a company's products and/or use its technology in the licensee's country for a negotiated fee structure. This arrangement is common among pharmaceutical firms. Drug producers in one nation typically allow producers in other nations to produce and market their products abroad.[24]

International franchising is a longer-term form of licensing in which a local franchisee pays a franchiser in another country for the right to use the franchiser's brand names, promotions, materials, and procedures.[25] Whereas licensing is predominantly pursued by manufacturers, franchising is more commonly employed in service industries, such as fast-food restaurants.

If top managers are interested in a more substantial degree of activity abroad, the organization can become involved at the *multinational* level, where the organization pursues direct investments in other countries, and their subsidiaries operate independently of one another. Colgate-Palmolive has attained a large worldwide market share through its decentralized operations in a number of foreign markets.

Finally, some firms are *globally* involved, with direct investments and interdependent subdivisions abroad. Global organizations operate in multiple nations and view their markets from a global perspective, often without giving primary consideration to national borders.

Organizational pursue a global orientation for many reasons. Developing global markets can reduce per-unit production costs by increasing volume. A global strategy can extend the product life cycle of products whose domestic markets may be declining, as U.S. cigarette manufacturers did in the 1990s. Establishing facilities abroad can also enable an organization to benefit from comparative advantage, the difference in resources among nations that provide certain production cost advantages in a particular country. For example, athletic shoes tend to be produced most efficiently in parts of Asia where rubber is plentiful and labor is less costly. A global orientation can also lessen risk because demand and competitive factors tend to vary among nations.

International growth is often pursued through expansion into emerging economies, those nations that have achieved enough development to warrant expansion but whose markets are not yet fully served. Although emerging economies such as China, South Africa, Mexico, and parts of Eastern Europe are attractive in

international licensing
an arrangement whereby a foreign licensee purchases the rights to produce a company's products and/or use its technology in the licensee's country for a negotiated fee structure

international franchising
a form of licensing in which a local franchisee pays a franchiser in another country for the right to use the franchiser's brand names, promotions, materials, and procedures

many respects, poor infrastructure (e.g., telecommunications, highways, etc.), cumbersome government regulations, and workforce limitations can create great challenges for the organization considering expansion.

12-5 Global Influences on Business Strategy

Global competition is complex and in many cases intense. There is no simple formula for developing and implementing successful business strategies across national borders. Having a global presence does not guarantee success. Organizations must cultivate a global mindset whereby its members seek knowledge and expertise on a global scale and develop the ability to integrate it into attractive courses of action.[26] Organizations can convert global presence into global competitive advantage by adapting to local market differences as needed, exploiting economies of scale and scope that become available at the global level, tapping optimal locations for activities and resources, and facilitating knowledge transfer across its global sites so that managers at each location can learn from the others.[27]

Fundamentally, an organization has three choices when it develops a competitive strategy for a market abroad.[28] First, it may pursue **standardization** whereby it markets the same product or service in all of its international markets. Second, it may pursue **customization** whereby it modifies its home products or services to meet the needs of markets abroad. Finally, it may choose to develop an entirely different set of products or services for its markets abroad. If one of the first two options is pursued, then the organization must determine whether the communication and promotional efforts should be standardized or customized as well. As a result, the organization has five options as depicted in figure 12-3.

Table 12-3 Global Competitive Strategy Options

Global Competitive Strategy Option	Product/Service Decision	Communication & Promotion Decision
Standardize product/service and communication	Standardize	Standardize
Standardize product/service but customize communication	Standardize	Customize
Customize product/service but standardize communication	Customize	Standardize
Customize product/service and communication	Customize	Customize
Produce different products/services for different markets	New products/services	New communication and promotion

standardization
a global strategic approach whereby the organization markets the same product or service in all of its international markets

customization
a global strategic approach whereby the organization modifies its product or service offering to meet the needs of all of its international markets

Best Practices

Global Success at Yum Brands

Yum Brands operates several well-known restaurant chains including KFC, Pizza Hut, Taco Bell, A&W All American Food Restaurants, and Long John Silver's. In addition to operations in his home country, the United States, Yum Brands is heavily represented in China, Korea, and the United Kingdom. In fact, Yum operates over 500 KFC outlets in China and its brand is widely recognized, especially by young members of the Chinese population.

What is the key to Yum's global success? First, Yum seeks a balance between its strong American brand names and local tastes in the host country. For example, KFC's chicken is a little spicier in China than in the United States. Pizza Hut offers different condiments for its pizzas in Australia. Americans traveling abroad will recognize the products abroad, but will notice minor changes that fit well with local tastes.

Second, Yum hires local managerial talent whenever possible. For example, British managers are in charge of restaurants in the United Kingdom and Japanese managers are responsible for Pizza Hut outlets in Japan. In general, local managers are able to recruit and motivate employees more effectively than expatriates from the home country. They are also more familiar with local customs and preferences.

The first approach is to standardize both the product/service and the means of communication with the customers. This is the least expensive approach from a cost perspective and has been employed by soft drink and other beverage producers. One can argue that consistency across borders is critical, citing examples such as Coca-Cola, whose emphasis on quality, brand recognition, and a small world theme has been successful in a number of global markets.

The second approach is to standardize the product/service, but customize communication. A powdered soup producer may distribute the same product in both Europe and the United States, although it may be marketed as a soup in Europe and a sauce or dip in the U.S.

The third approach is to customize the product/service, but standardize communication. Automakers typically must modify their products to meet local regulations and emissions requirements. In addition, drivers in some countries drive on the right side of the road while those in other countries drive on the left. Hence, communication and promotional efforts may be largely unchanged, although the products have been modified. In addition, KFC modifies the spice content for its fried chicken somewhat to adjust to palates in different countries. The promotional and communications efforts do not change, however.

The fourth approach is to customize both the product/service and the communication, an approach often referenced as "think globally, but act locally." Following this logic, an organization would emphasize the synergy created by serving multiple markets globally, but formulate a distinct competitive strategy for each specific market tailored to its unique situation.

Tailoring a business strategy to meet the unique demands of a different market requires that top managers understand the similarities and differences between the markets from both industry and cultural perspectives. For example, since the 1970s, Japanese automobile manufacturers like Honda have tried to blend a distinctively Japanese approach to car building while remaining sensitive to North American and European values. In 2000, Mitsubishi began aggressively redesigning the Montero Sport to make it a "global vehicle" that could sell effectively in world markets. In 2001, however, the carmaker dropped its "one size fits all" approach and began to emphasize design factors unique to the critical American market.[29]

The final approach is to produce an entirely different array of goods and services for a new market. Although a firm can enjoy the benefits of brand recognition by extending its offerings across borders, the increased costs associates with modifying both the product or service and the message make this a less attractive option.

Regardless of the competitive strategy choice, the intensity of competition in most markets in the developed world suggests that strategic managers should remain abreast of opportunities that may exist in emerging economies. India, for example, has enjoyed considerable growth in recent years. A number of firms have "outsourced" jobs in technical areas to India where trained workers are available at considerably lower wages. Economic liberalization in the country has invited additional foreign investment into the country. India's Tata Motors is helping overcome the country's reputation for poor production quality by exporting an estimated 20,000 CityRovers to the United Kingdom in 2004.[30]

India, however, has received only a small fraction of the level of foreign investment made in China, which boasts the world's largest population and has been tabbed as a world economic leader within the next few decades. China's entrance into the World Trade Organization, declining import tariffs, and increasing consumer incomes suggest a bright future for the nation. At present, China remains a mix of the traditional lifestyle based in socialism and its own form of a neo-Western economic development. Nowhere is this friction seen best than on the roads of the capital, Beijing, where crowds of bicycles attempt to negotiate traffic with buses and a rapidly increasing number of personal automobiles. U.S.-style traffic reports have even become pervasive in a country where the world's largest automakers are fighting for a stake in what many experts believe will be a consumer automobile growth phase of mammoth proportions.[31]

When a western firm seeks to conduct business with one of its Chinese counterparts, managers from both firms must recognize the cultural differences between to the two nations. Recently, a number of consulting and management development organizations in both China and the west have been busy training managers to become aware of such differences and take action to minimize misunderstandings that can arise from them. For example, Chinese managers are more likely than Americans to smoke during meetings and less likely to

China offers myriad opportunities to Western organizations whose managers can adapt to its culture. Photo by Zheng Zhi

answer e-mail from international partners. In the United States, it is more common to emphasize subordinate contributions to solving problems, whereas Chinese managers are more likely to respect the judgment of their superiors without subordinate involvement.[32]

Western manufacturers such as Eastman Kodak, Proctor & Gamble, Group Danone of France, and Siemens AG of Germany have already established a strong presence in China. A number of Western restaurants and retailers have also begun to expand aggressively into China, including U.S.-based McDonald's, Popeye's Chicken, Yum Brands (i.e., KFC and Pizza Hut), and Wal-Mart.[33] French-based Carrefour has been one of the most successful retailers in China with 31 stores in 2003 and plans to double that number by 2005. Product mixes in the Chinese stores tend to be similar to those in the domestic market, with adjustments made for local preferences. For a number of firms, the only attractive prospects for growth lie in emerging economies such as China, Brazil, and Mexico.[34]

12-6 Global Influences on the Individual Manager

As organizations become more involved in the global business environment, managers with additional skills and abilities are required to meet the challenge. Seven characteristics of effective global managers are identified in table 12-4.[35] The first characteristic is a global mindset. Effective global managers view the environment as global, spanning national borders, cultures, languages, and modes of business practice.

Table 12-4 Characteristics of Effective Global Managers

- A Global mindset
- Effective communication skills
- Working knowledge of global strategy
- Ability to manage change effectively
- Understanding and appreciation of cultural diversity
- Ability to work effectively in flexible organizations
- Comfort and ability to lead and work as a member of cross-cultural teams

Source: Based on P. W. Beamish A. J. Morrison, A. C. Inkpen, and P. M. Rosenzweig, International Management, 5th ed. (Boston: Irwin-McGraw-Hill, 2003).

Second, global managers must be highly effective communicators. When one functions in more than one culture, communication barriers resulting from language, expectations and other cultural factors are likely to arise. It is not realistic to expect that such barriers can ever be completely removed. Nonetheless, effective global managers should have the ability to minimize communication problems and transmit knowledge and ideas clearly across cultural boundaries.

Third, effective global managers understand the context of global strategic management. When strategy is viewed at a global level, a number of additional considerations are present. For example, international strategic alliances can provide an opportunity for an organization to pursue a business opportunity abroad without making a large financial commitment, but alliances are not best for every organization. Managers must understand the pros and cons of strategic options so that the most effective strategy can be developed and implemented.

Fourth, global managers must have the ability to manage change effectively. The pace of change, especially in emerging economies, is staggering. In addition, as the geographical boundaries in which one operates become wider, the complexity of change within those boundaries also becomes greater.

Fifth, effective global managers understand and appreciate cultural diversity. They are able to approach business and daily activities in different manners when operating in different cultures, and they genuinely respect cultural differences and enjoy learning about them.

Such a diversity perspective does not necessarily suggest that a manager would not argue for some degree of consistency in practices across cultures. One can understand and appreciate different cultures while either arguing for widely divergent management approaches in different nations or for a high degree of consistency in the organization's management approach across cultures.

In addition, an understanding and appreciation for cultural diversity does not suggest that a manager lacks a strong moral compass with regard to ethical dilemmas. In contrast, an effective manager understands how individuals from multiple nations might view the same situation differently from an ethical perspective and strives to develop solutions and make decisions that are viewed as ethical and upstanding across cultures.

Sixth, because organizations functioning across borders tend to be more flexible, global managers must be able to work effectively in such an environment. Flexible organizations are generally marked by flexible structures, including reporting relationships, job responsibilities, and the like.

Finally, effective global managers not only must not only be able to function as a member of a team, but must also have the ability to lead and work as a member in a *cross-cultural* environment. Managing different languages, time zones, cultural mindsets and other influences are important parts of this characteristic.

It is worth nothing that familiarity with multiple cultures and/or languages from childhood can serve as an excellent foundation for developing the skills necessary to work effectively as a global manager. Although not prerequisites for success, such a background can provide a head start for someone seeking success in the global environment.

Summary

Many opportunities and challenges for organizations can be found outside the borders of its host country. Operating effectively in multiple nations and evaluating global opportunities can only be done if managers understand cultural, economic, and social differences across borders.

The influence of the global environment on organizations is profound. Those wishing to pursue involvement outside of the host country can become involved at the international, the multinational, or the global level. International involvement is minimal and includes areas such as importing, exporting, licensing, or strategic alliances. Maximum involvement is seen with global involvement, where an organization operates interrelated divisions in various countries and serves a global market. The global environment also influences how managers perform their individual jobs as well.

Review Questions & Exercises

1. What is the difference between national culture and organizational culture? Are the two concepts related? Explain.

2. How does the national culture in which an organization functions influence its activities and prospects for success?

3. What strategic options are available for an organization seeking to expand operations outside of its domestic borders?

4. How can managers be successful in a global environment?

Glossary

- **Comparative Advantage:** The idea that certain products may be produced more cheaply or at a higher quality in particular countries, due to advantages in labor costs or technology.

- **Cultural Relativism:** The idea that no culture is inherently superior to any other.

- **Cultural Universalism:** The idea that that there is a single best culture—either in theory or in practice—and all cultures should be evaluated on the basis of the superior culture's characteristics.

- **Customization:** A global strategic approach whereby the organization modifies its product or service offering to meet the needs of all of its international markets.

- **International Franchising:** A form of licensing in which a local franchisee pays a franchiser in another country for the right to use the franchiser's brand names, promotions, materials, and procedures.

- **International Licensing:** An arrangement whereby a foreign licensee purchases the rights to produce a company's products and/or use its technology in the licensee's country for a negotiated fee structure.

- **Self-Reference Criterion:** The unconscious reference to one's own cultural values as a standard of judgment.

- **Standardization:** A global strategic approach whereby the organization markets the same product or service in all of its international markets.

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