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Wal-Mart's Foreign Expansion

Wal-Mart is the world's largest retailer. The company employs some 1.8 million people, operates 3,900 stores in the United States and 2,700 in the rest of the world, and generated sales of \$345 billion in the fiscal year ending January 31, 2007. Some \$77 billion of these sales were generated in 15 nations outside of the United States. Facing a slowdown in growth in the United States, Wal-Mart began its international expansion in the early 1990s when it entered Mexico, teaming up in a joint venture with Cifra, Mexico's largest retailer, to open a series of super-centers that sell both groceries and general merchandise.

Initially the retailer hit some headwinds in Mexico. It quickly discovered that shopping habits were different. Most people preferred to buy fresh produce at local stores, particularly items like meat, tortillas, and pan dulce, which didn't keep well overnight (many Mexicans lacked large refrigerators). Many consumers also lacked cars, and did not buy in large volumes as in the United States. Wal-Mart adjusted its strategy to meet the local conditions, hiring local managers who understood Mexican culture, letting those managers control merchandising strategy, building smaller stores that people could walk

to, and offering more fresh produce. At the same time, the company believed that it could gradually change the shopping culture in Mexico, educating consumers by showing them the benefits of its American merchandising culture. After all, Wal-Mart's managers reasoned, people once shopped at small stores in the United States, but starting in the 1950s they increasingly gravitated toward large stores like Wal-Mart. As it built up its distribution systems in Mexico, Wal-Mart was able to lower its own costs, which it passed on to Mexican consumers in the form of lower prices. The customization, persistence, and low prices paid off. Mexicans started to change their shopping habits. Today Wal-Mart is Mexico's largest retailer, and the country is widely considered to be the company's most successful foreign venture.

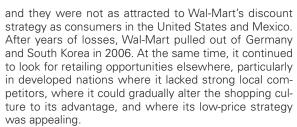
Next Wal-Mart expanded into a number of developed nations, including Britain, Germany, and South Korea. There its experiences have been less successful. In all three countries it found itself going head to head against well-established local rivals who had nicely matched their offerings to local shopping habits and consumer preferences. Moreover, consumers in all three countries seemed to have a preference for higher quality merchandise,

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LEARNING OBJECTIVES

After you have read this chapter you should:

- Know what is meant by the culture of a society.
- Lo²) Identify the forces that lead to differences in social culture.
- ldentify the business and economic implications of differences in culture.
- Understand how differences in social culture influence values in the workplace.
- Develop an appreciation for the economic and business implications of cultural change.



Recently, the centerpiece of its international expansion efforts has been China. Wal-Mart opened its first store in China in 1996, but initially expanded very slowly, and by 2006 had only 66 stores. What Wal-Mart discovered, however, was the Chinese were bargain hunters and open to the low-price strategy and wide selection offered at Wal-Mart stores. Indeed, in terms of their shopping habits, the emerging Chinese middle class seemed more American than European. But to succeed in China, Wal-Mart also found it had to adapt its merchandising and operations strategy so that it meshes with Chinese culture. One of the things that Wal-Mart has learned: Chinese consumers insist that food must be freshly harvested, or even killed in front of them. Wal-Mart

initially offended Chinese consumers by trying to sell them dead fish, as well as meat packed in Styrofoam and cellophane. Shoppers turned their noses up at what they saw as old merchandise. So Wal-Mart began to display the meat uncovered, installed fish tanks into which shoppers could plunge fishing nets to pull out their evening meal, and began selling live turtles for turtle soup. Sales soared.

Wal-Mart has also learned that in China, success requires it to embrace unions. Whereas in the United States Wal-Mart has vigorously resisted unionization, it came to the realization that in China unions don't bargain for labor contracts. Instead, they are an arm of the state, providing funding for the Communist Party and (in the government's view) securing social order. In mid-2006 Wal-Mart broke with its long standing antagonism to unions and agreed to allow unions in its Chinese stores. Many believe this set the stage for Wal-Mart's most recent move, the purchase in December 2006 of a 35 percent stake in the Trust-Mart chain, which has 101 hypermarkets in 34 cities across China. Now Wal-Mart has proclaimed that China lies at the center of its growth strategy.¹

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As Wal-Mart has discovered, international business is different from domestic business because countries are different. In Chapter 2, we saw how national differences in political, economic, and legal systems influence the benefits, costs, and risks associated with doing business in different countries. In this chapter, we will explore how differences in culture across and within countries can affect international business. Wal-Mart, for example, has had to change the way it displays and sells food to accommodate the culturally embedded tastes and preferences of Chinese consumers.

Several themes run through this chapter. The first theme is that business success in a variety of countries requires cross-cultural literacy. By cross-cultural literacy, we mean an understanding of how cultural differences across and within nations can affect the way business is practiced. In these days of global communications, rapid transportation, and worldwide markets, when the era of the global village seems just around the corner, it is easy to forget just how different various cultures really are. Underneath the veneer of modernism, deep cultural differences often remain. Westerners in general, and Americans in particular, are quick to conclude that because people from other parts of the world also wear blue jeans, listen to Western popular music, eat at McDonald's, and drink Coca-Cola, they also accept the basic tenets of Western (or American) culture. However, this is not true. For example, increasingly, the Chinese are embracing the material products of modern society. Anyone who has visited Shanghai cannot fail to be struck by how modern the city seems, with its skyscrapers, department stores, and freeways. Yet beneath the veneer of Western modernism, long-standing cultural traditions rooted in a 2,000-year-old ideology continue to have an important influence on the way business is transacted in China. For example, in China, guanxi, or relationships backed by reciprocal obligations, are central to getting business done. Firms that lack sufficient guanxi may find themselves at a disadvantage when doing business in China. One of the things that Wal-Mart learned was that to build up *guanxi*, it needed to embrace unions. Once it did this, in 2006 the government opened the way for the company to acquire Trust Mart, one of the biggest operators of hypermarkets in China. The lesson: to succeed in China you have to play by Chinese rules. More generally, in this chapter, we shall argue that it is important for foreign businesses to gain an understanding of the culture that prevails in those countries where they do business, and that success requires a foreign enterprise to adapt to the culture of its host country.²

Another theme developed in this chapter is that a relationship may exist between culture and the cost of doing business in a country or region. Different cultures are more or less supportive of the capitalist mode of production and may increase or lower the costs of doing business. For example, some observers have argued that cultural factors lowered the costs of doing business in Japan and helped to explain Japan's rapid economic ascent during the 1960s, 70s, and 80s.³ Similarly, cultural factors can sometimes raise the costs of doing business. Historically, class divisions were an important aspect of British culture, and for a long time, firms operating in Great Britain found it difficult to achieve cooperation between management and labor. Class divisions led to a high level of industrial disputes in that country during the 1960s and 1970s and raised the costs of doing business relative to the costs in countries such as Switzerland, Norway, Germany, or Japan, where class conflict was historically less prevalent.

The British example, however, brings us to another theme we will explore in this chapter. Culture is not static. It can and does evolve, although the rate at which culture can change is the subject of some dispute. Important aspects of British culture have changed significantly over the past 20 years, and this is reflected in weaker class distinctions and a lower level of industrial disputes. Between 1995 and 2005, the number of days lost per 1,000 workers due to strikes in the United Kingdom was on average 28 each year, significantly less than in the United States (33 each year), Ireland (81), and Canada (168). Finally, it is important to note that multinational enterprises can themselves be

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engines of cultural change. In Mexico for example, Wal-Mart has helped to change the shopping culture of that nation, drawing them away from small local stores and toward large self-service discount stores. It now hopes to do the same in China.

What Is Culture?

Scholars have never been able to agree on a simple definition of *culture*. In the 1870s, the anthropologist Edward Tylor defined culture as "that complex whole which includes knowledge, belief, art, morals, law, custom, and other capabilities acquired by man as a member of society." Since then hundreds of other definitions have been offered. Geert Hofstede, an expert on cross-cultural differences and management, defined culture as "the collective programming of the mind which distinguishes the members of one human group from another. . . . Culture, in this sense, includes systems of values; and values are among the building blocks of culture." Another definition of culture comes from sociologists Zvi Namenwirth and Robert Weber, who see culture as a system of ideas and argue that these ideas constitute a design for living.

Here we follow both Hofstede and Namenwirth and Weber by viewing **culture** as a system of values and norms that are shared among a group of people and that when taken together constitute a design for living. By **values** we mean abstract ideas about what a group believes to be good, right, and desirable. Put differently, values are shared assumptions about how things ought to be.⁸ By **norms** we mean the social rules and guidelines that prescribe appropriate behavior in particular situations. We shall use the term **society** to refer to a group of people who share a common set of values and norms. While a society may be equivalent to a country, some countries harbor several societies (i.e., they support multiple cultures), and some societies embrace more than one country.

VALUES AND NORMS

Values form the bedrock of a culture. They provide the context within which a society's norms are established and justified. They may include a society's attitudes toward such concepts as individual freedom, democracy, truth, justice, honesty, loyalty, social obligations, collective responsibility, the role of women, love, sex, marriage, and so on. Values are not just abstract concepts; they are invested with considerable emotional significance. People argue, fight, and even die over values such as freedom. Values also often are reflected in the political and economic systems of a society. As we saw in Chapter 2, democratic free market capitalism is a reflection of a philosophical value system that emphasizes individual freedom.

Norms are the social rules that govern people's actions toward one another. Norms can be subdivided further into two major categories: folkways and mores. Folkways are the routine conventions of everyday life. Generally, folkways are actions of little moral significance. Rather, they are social conventions concerning things such as the appropriate dress code in a particular situation, good social manners, eating with the correct utensils, neighborly behavior, and the like. Although folkways define the way people are expected to behave, violation of them is not normally a serious matter. People who violate folkways may be thought of as eccentric or ill-mannered, but they are not usually considered to be evil or bad. In many countries, foreigners may initially be excused for violating folkways.

A good example of folkways concerns attitudes toward time in different countries. People are keenly aware of the passage of time in the United States and Northern European cultures such as Germany and Britain. Businesspeople are very conscious about scheduling their time and are quickly irritated when their time is wasted because a business associate is late for a meeting or if they are kept waiting. They talk about time as though it were money, as something that can be spent, saved, wasted, and lost. Alternatively, in Arab, Latin, and Mediterranean cultures, time has a more elastic character. Keeping to a schedule is viewed as less important than finishing an interaction with people. For example,

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Understanding rituals and symbolic behaviors is essential to doing business in foreign countries.

an American businesswoman might feel slighted if she is kept waiting for 30 minutes outside the office of a Latin American executive before a meeting; but the Latin American may simply be completing an interaction with an associate and view the information gathered from this as more important than sticking to a rigid schedule. The Latin American executive intends no disrespect, but due to a mutual misunderstanding about the importance of time, the American may see things differently. Similarly, Saudi attitudes to time have been shaped by their nomadic Bedouin heritage, in which precise time played no real role and arriving somewhere tomorrow might mean next week. Like Latin Americans, many Saudis are unlikely to understand the American obsession with precise time and schedules, and Americans need to adjust their expectations accordingly.

Folkways include rituals and symbolic behavior. Rituals and symbols are the most visible manifestations of a culture and constitute the outward expression of deeper values. For example, upon meeting a foreign business executive, a Japanese executive will hold his business card in both hands and bow while presenting the card to the foreigner. ¹⁰ This ritual behavior is loaded with deep cultural symbolism. The card specifies the rank of the Japanese executive, which is a very important piece of information in a hierarchical society such as Japan (Japanese often have business cards with Japanese printed on one side, and English printed on the other). The bow is a sign of respect, and the deeper the angle of the bow, the greater the reverence one person shows for the other. The person receiving the card is expected to examine it carefully, which is a way of returning respect and acknowledging the card giver's position in the hierarchy. The foreigner is also expected to bow when taking the card, and to return the greeting by presenting the Japanese executive with his own card, similarly bowing in the process. To not do so, and to fail to read the card that he has been given, instead casually placing it in his jacket, violates this important folkway and is considered rude.

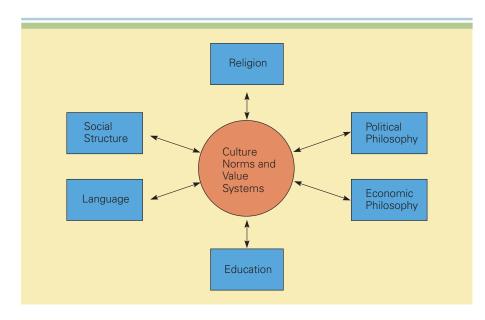
Mores are norms that are seen as central to the functioning of a society and to its social life. They have much greater significance than folkways. Accordingly, violating mores can bring serious retribution. Mores include such factors as indictments against theft, adultery, incest, and cannibalism. In many societies, certain mores have been enacted into law. Thus, all advanced societies have laws against theft, incest, and cannibalism. However, there are also many differences between cultures. In America, for example, drinking alcohol is widely accepted, whereas in Saudi Arabia the consumption of alcohol is viewed as violating important social mores and is punishable by imprisonment (as some Western citizens working in Saudi Arabia have discovered).

CULTURE, SOCIETY, AND THE NATION-STATE

We have defined a society as a group of people who share a common set of values and norms; that is, people who are bound together by a common culture. There is not a strict one-to-one correspondence between a society and a nation-state. Nation-states are political creations. They may contain a single culture or several cultures. While the French nation can be thought of as the political embodiment of French culture, the nation of Canada has at least three cultures—an Anglo culture, a French-speaking "Quebecois" culture, and a Native American culture. Similarly, many African nations have important cultural differences between tribal groups, as exhibited in the early 1990s when Rwanda dissolved into a bloody civil war between two tribes, the Tutsis and Hutus. Africa is not alone in this regard. India is composed of many distinct cultural groups. During the first Gulf War, the prevailing view presented to Western audiences was that Iraq was a homogenous Arab nation. However, over the past 15 years, we have learned that several different societies exist within Iraq, each with its own culture. The Kurds in the north do not view themselves as Arabs and have their own distinct history and traditions. There are two Arab societies: the Shiites in the south and the Sunnis who populate the

FIGURE 3.1

The Determinants of Culture



middle of the country and who ruled Iraq under the regime of Saddam Hussein (the terms Shiites and Sunnis refer to different sects within the religion of Islam). Among the southern Sunnis is another distinct society of 500,000 Marsh Arabs who live at the confluence of the Tigris and Euphrates rivers, pursuing a way of life that dates back 5,000 years.¹¹

At the other end of the scale are cultures that embrace several nations. Several scholars argue that we can speak of an Islamic society or culture that the citizens of many different nations in the Middle East, Asia, and Africa share. As you will recall from the last chapter, this view of expansive cultures that embrace several nations underpins Samuel Huntington's view of a world that is fragmented into different civilizations, including Western, Islamic, and Sinic (Chinese).¹²

To complicate things further, it is also possible to talk about culture at different levels. It is reasonable to talk about "American society" and "American culture," but there are several societies within America, each with its own culture. One can talk about African American culture, Cajun culture, Chinese American culture, Hispanic culture, Indian culture, Irish American culture, and Southern culture. The relationship between culture and country is often ambiguous. Even if a country can be characterized as having a single homogenous culture, often that national culture is a mosaic of subcultures.

THE DETERMINANTS OF CULTURE

The values and norms of a culture do not emerge fully formed. They are the evolutionary product of a number of factors, including the prevailing political and economic philosophies, the social structure of a society, and the dominant religion, language, and education (see Figure 3.1). We discussed political and economic philosophies at length in Chapter 2. Such philosophies clearly influence the value systems of a society. For example, the values found in Communist North Korea toward freedom, justice, and individual achievement are clearly different from the values found in the United States, precisely because each society operates according to different political and economic philosophies. Below we will discuss the influence of social structure, religion, language, and education. The chain of causation runs both ways. While factors such as social structure and religion clearly influence the values and norms of a society, the values and norms of a society can also influence social structure and religion.

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Part 2 Country Difference



A society's **social structure** refers to its basic social organization. Although social structure consists of many different aspects, two dimensions are particularly important when explaining differences between cultures. The first is the degree to which the basic unit of social organization is the individual, as opposed to the group. In general, Western societies tend to emphasize the primacy of the individual, whereas groups tend to figure much larger in many other societies. The second dimension is the degree to which a society is stratified into classes or castes. Some societies are characterized by a relatively high degree of social stratification and relatively low mobility between strata (e.g., Indian); other societies are characterized by a low degree of social stratification and high mobility between strata (e.g., American).

INDIVIDUALS AND GROUPS

A group is an association of two or more individuals who have a shared sense of identity and who interact with each other in structured ways on the basis of a common set of expectations about each other's behavior.¹³ Human social life is group life. Individuals are involved in families, work groups, social groups, recreational groups, and so on. However, while groups are found in all societies, societies differ according to the degree to which the group is viewed as the primary means of social organization.¹⁴ In some societies, individual attributes and achievements are viewed as being more important than group membership; in others the reverse is true.

The Individual

In Chapter 2, we discussed individualism as a political philosophy. However, individualism is more than just an abstract political philosophy. In many Western societies, the individual is the basic building block of social organization. This is reflected not just in the political and economic organization of society but also in the way people perceive themselves and relate to each other in social and business settings. The value systems of many Western societies, for example, emphasize individual achievement. The social standing of individuals is not so much a function of where they work as it is of their individual performance in whatever work setting they choose.

The emphasis on individual performance in many Western societies has both beneficial and harmful aspects. In the United States, the emphasis on individual performance finds expression in an admiration of rugged individualism and entrepreneurship. One benefit of this is the high level of entrepreneurial activity in the United States and other Western societies. New products and new ways of doing business (e.g., personal computers, photocopiers, computer software, biotechnology, supermarkets, and discount retail stores) have repeatedly been created in the United States by entrepreneurial individuals. One can argue that the dynamism of the U.S. economy owes much to the philosophy of individualism.

Individualism also finds expression in a high degree of managerial mobility between companies, and this is not always a good thing. Although moving from company to company may be good for individual managers who are trying to build impressive résumés, it is not necessarily a good thing for American companies. The lack of loyalty and commitment to an individual company, and the tendency to move on for a better offer, can result in managers who have good general skills but lack the knowledge, experience, and network of interpersonal contacts that come from years of working within the same company. An effective manager draws on company-specific experience, knowledge, and a network of contacts to find solutions to current problems, and American companies may suffer if their managers lack these attributes. One positive aspect of high managerial mobility is that executives are exposed to different ways of doing business. The ability to compare business practices helps U.S. executives identify how good practices and techniques developed in one firm might be profitably applied to other firms.



The emphasis on individualism may also make it difficult to build teams within an organization to perform collective tasks. If individuals are always competing with each other on the basis of individual performance, it may be difficult for them to cooperate. A study of U.S. competitiveness by the Massachusetts Institute of Technology concluded that U.S. firms are being hurt in the global economy by a failure to achieve cooperation both within a company (e.g., between functions; between management and labor) and between companies (e.g., between a firm and its suppliers). Given the emphasis on individualism in the American value system, this failure is not surprising.¹⁵ The emphasis on individualism in the United States, while helping to create a dynamic entrepreneurial economy, may raise the costs of doing business due to its adverse impact on managerial stability and cooperation.

The Group

In contrast to the Western emphasis on the individual, the group is the primary unit of social organization in many other societies. For example, in Japan, the social status of an individual is determined as much by the standing of the group to which he or she belongs as by his or her individual performance. ¹⁶ In traditional Japanese society, the group was the family or village to which an individual belonged. Today, the group has frequently come to be associated with the individual's work team or business organization. In a now-classic study of Japanese society, Nakane noted how this expresses itself in everyday life:

When a Japanese faces the outside (confronts another person) and affixes some position to himself socially he is inclined to give precedence to institution over kind of occupation. Rather than saying, "I am a typesetter" or "I am a filing clerk," he is likely to say, "I am from B Publishing Group" or "I belong to S company." 1

Nakane goes on to observe that the primacy of the group to which an individual belongs often evolves into a deeply emotional attachment in which identification with the group becomes all-important in one's life. One central value of Japanese culture is the importance attached to group membership, which may have beneficial implications for business firms. Strong identification with the group is argued to create pressures for mutual self-help and collective action. If the worth of an individual is closely linked to the achievements of the group (e.g., firm), as Nakane maintains is the case in Japan, this creates a strong incentive for individual members of the group to work together for the common good. Some argue that the success of Japanese enterprises in the global economy has been based partly on their ability to achieve close cooperation between individuals within a company and between companies. This has found expression in the widespread diffusion of self-managing work teams within Japanese organizations, the close cooperation among different functions within Japanese companies (e.g., among manufacturing, marketing, and R&D), and the cooperation between a company and its suppliers on issues such as design, quality control, and inventory reduction. ¹⁸ In all of these cases, the need to improve the performance of the group (i.e., the business firm) drives cooperation.

The primacy of the value of group identification also discourages managers and workers from moving from company to company. Lifetime employment in a particular company was long the norm in certain sectors of the Japanese economy (estimates suggest that between 20 and 40 percent of all Japanese employees have formal or informal lifetime employment guarantees). Over the years, managers and workers build up knowledge, experience, and a network of interpersonal business contacts. All these things can help managers perform their jobs more effectively and achieve cooperation

However, the primacy of the group is not always beneficial. Just as U.S. society is characterized by a great deal of dynamism and entrepreneurship, reflecting the primacy of values associated with individualism, some argue that Japanese society is characterized by a corresponding lack of these traits. Although the long-run consequences are unclear, the United States could continue to create more new industries than Japan and to be more successful at pioneering radically new products and new ways of doing business.

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Part 2 Country Differences

SOCIAL STRATIFICATION

All societies are stratified on a hierarchical basis into social categories—that is, into social strata. These strata are typically defined on the basis of characteristics such as family background, occupation, and income. Individuals are born into a particular stratum. They become a member of the social category to which their parents belong. Individuals born into a stratum toward the top of the social hierarchy tend to have better life chances than those born into a stratum toward the bottom of the hierarchy. They are likely to have better education, health, standard of living, and work opportunities. Although all societies are stratified to some degree, they differ in two related ways. First, they differ from each other with regard to the degree of mobility between social strata; second, they differ with regard to the significance attached to social strata in business contexts.

Social Mobility

The term **social mobility** refers to the extent to which individuals can move out of the strata into which they are born. Social mobility varies significantly from society to society. The most rigid system of stratification is a caste system. A **caste system** is a closed system of stratification in which social position is determined by the family into which a person is born, and change in that position is usually not possible during an individual's lifetime. Often a caste position carries with it a specific occupation. Members of one caste might be shoemakers, members of another might be butchers, and so on. These occupations are embedded in the caste and passed down through the family to succeeding generations. Although the number of societies with caste systems diminished rapidly during the 20th century, one partial example still remains. India has four main castes and several thousand subcastes. Even though the caste system was officially abolished in 1949, two years after India became independent, it is still a force in rural Indian society where occupation and marital opportunities are still partly related to caste.¹⁹

A **class system** is a less rigid form of social stratification in which social mobility is possible. It is a form of open stratification in which the position a person has by birth can be changed through his or her own achievements or luck. Individuals born into a class at the bottom of the hierarchy can work their way up; conversely, individuals born into a class at the top of the hierarchy can slip down.

While many societies have class systems, social mobility within a class system varies from society to society. For example, some sociologists have argued that Britain has a more rigid class structure than certain other Western societies, such as the United States. Historically, British society was divided into three main classes: the upper class, which was made up of individuals whose families for generations had wealth, prestige, and occasionally power; the middle class, whose members were involved in professional, managerial, and clerical occupations; and the working class, whose members earned their living from manual occupations. The middle class was further subdivided into the uppermiddle class, whose members were involved in important managerial occupations and the prestigious professions (e.g., lawyers, accountants, doctors), and the lower-middle class, whose members were involved in clerical work (e.g., bank tellers) and the less prestigious professions (e.g., schoolteachers).

Historically, the British class system exhibited significant divergence between the life chances of members of different classes. The upper and upper-middle classes typically sent their children to a select group of private schools, where they wouldn't mix with lower-class children, and where they picked up many of the speech accents and social norms that marked them as being from the higher strata of society. These same private schools also had close ties with the most prestigious universities, such as Oxford and Cambridge. Until fairly recently, Oxford and Cambridge guaranteed a certain number of places for the graduates of these private schools. Having been to a prestigious university, the offspring of the upper and upper-middle classes then had an excellent chance of being offered a prestigious job in companies, banks, brokerage firms, and law firms run by members of the upper and upper-middle classes.

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In contrast, the members of the British working and lower-middle classes typically went to state schools. The majority left at 16, and those who went on to higher education found it more difficult to get accepted at the best universities. When they did, they found that their lower-class accent and lack of social skills marked them as being from a lower social stratum, which made it more difficult for them to get access to the most prestigious jobs.

Because of this, the class system in Britain perpetuated itself from generation to generation, and mobility was limited. Although upward mobility was possible, it could not normally be achieved in one generation. While an individual from a working-class background may have established an income level that was consistent with membership in the upper-middle class, he or she may not have been accepted as such by others of that class due to accent and background. However, by sending his or her offspring to the "right kind of school," the individual could ensure that his or her children were accepted.

According to many commentators, modern British society is now rapidly leaving this class structure behind and moving toward a classless society. However, sociologists continue to dispute this finding and present evidence that this is not the case. For example, a study reported that in the mid-1990s, state schools in the London suburb of Islington, which has a population of 175,000, had only 79 candidates for university, while one prestigious private school alone, Eton, sent more than that number to Oxford and Cambridge. This, according to the study's authors, implies that "money still begets money." They argue that a good school means a good university, a good university means a good job, and merit has only a limited chance of elbowing its way into this tight little circle.

The class system in the United States is less extreme than in Britain and mobility is greater. Like Britain, the United States has its own upper, middle, and working classes. However, class membership is determined to a much greater degree by individual economic achievements, as opposed to background and schooling. Thus, an individual can, by his or her own economic achievement, move smoothly from the working class to the upper class in a lifetime. Successful individuals from humble origins are highly respected in American society.

Another society where class divisions have historically been of some importance has been China, where there has been a long-standing difference between the life chances of the rural peasantry and urban dwellers. Ironically, this historic division was strengthened during the high point of Communist rule because of a rigid system of household registration that restricted most Chinese to the place of their birth for their lifetime. Bound to collective farming, peasants were cut off from many urban privileges—compulsory education, quality schools, health care, public housing, varieties of foodstuffs, to name only a few—and they largely lived in poverty. Social mobility was thus very limited. This system crumbled following reforms of the late 1970s and early 1980s, and as a consequence, migrant peasant laborers have flooded into China's cities looking for work. Sociologists now hypothesize that a new class system is emerging in China based less on the rural—urban divide and more on urban occupation.²²

Significance

From a business perspective, the stratification of a society is significant if it affects the operation of business organizations. In American society, the high degree of social mobility and the extreme emphasis on individualism limit the impact of class background on business operations. The same is true in Japan, where most of the population perceives itself to be middle class. In a country such as Great Britain, however, the relative lack of class mobility and the differences between classes have resulted in the emergence of class consciousness. **Class consciousness** refers to a condition where people tend to perceive themselves in terms of their class background, and this shapes their relationships with members of other classes.

Class consciousness has been played out in British society in the traditional hostility between upper-middle-class managers and their working-class employees. Mutual antagonism and lack of respect historically made it difficult to achieve cooperation between management and labor in many British companies and resulted in a relatively high level of industrial disputes. However, as noted earlier, the last two decades have seen a dramatic reduction

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in industrial disputes, which bolsters the arguments of those who claim that the country is moving toward a classless society (the level of industrial disputes in the United Kingdom is now lower than in the United States). Alternatively, as noted above, class consciousness may be reemerging in urban China, and it may ultimately prove to be significant there.

An antagonistic relationship between management and labor classes, and the resulting lack of cooperation and high level of industrial disruption, tends to raise the costs of production in countries characterized by significant class divisions. In turn, higher costs can make it more difficult for companies based in such countries to establish a competitive advantage in the global economy.

Religious and Ethical Systems

Religion may be defined as a system of shared beliefs and rituals that are concerned with the realm of the sacred.²³ **Ethical systems** refer to a set of moral principles, or values, that are used to guide and shape behavior. Most of the world's ethical systems are the product of religions. Thus, we can talk about Christian ethics and Islamic ethics. However, there is a major exception to the principle that ethical systems are grounded in religion. Confucianism and Confucian ethics influence behavior and shape culture in parts of Asia, yet it is incorrect to characterize Confucianism as a religion.

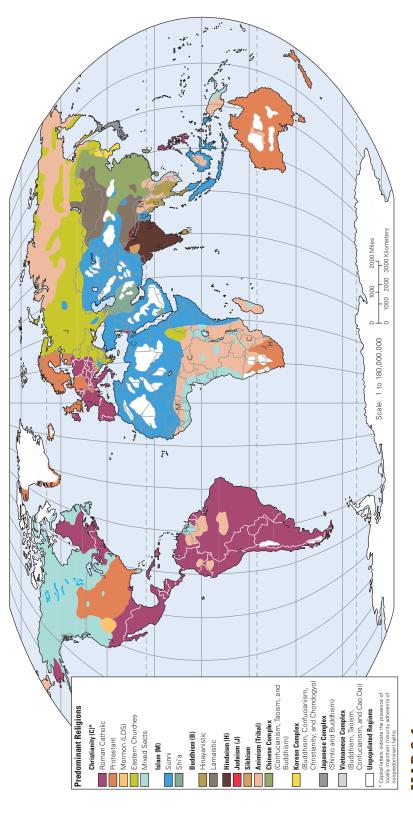
The relationship among religion, ethics, and society is subtle and complex. Among the thousands of religions in the world today, four dominate in terms of numbers of adherents: Christianity with 1.7 billion adherents, Islam with around 1 billion adherents, Hinduism with 750 million adherents (primarily in India), and Buddhism with 350 million adherents (see Map 3.1). Although many other religions have an important influence in certain parts of the modern world (for example, Judaism, which has 18 million adherents), their numbers pale in comparison with these dominant religions (however, as the precursor of both Christianity and Islam, Judaism has an indirect influence that goes beyond its numbers). We will review these four religions, along with Confucianism, focusing on their business implications. Some scholars have argued that the most important business implications of religion center on the extent to which different religions shape attitudes toward work and entrepreneurship and the degree to which the religious ethics affect the costs of doing business in a country.

It is hazardous to make sweeping generalizations about the nature of the relationship between religion and ethical systems and business practice. While some scholars argue that there is a relationship between religious and ethical systems and business practice in a society, in a world where nations with Catholic, Protestant, Muslim, Hindu, and Buddhist majorities all show evidence of entrepreneurial activity and sustainable economic growth, it is important to view such proposed relationships with a degree of skepticism. The proposed relationships may exist, but their impact is probably small compared to the impact of economic policy. Alternatively, recent research by economists Robert Barro and Rachel McCleary does suggest that strong religious beliefs, and particularly beliefs in heaven, hell, and an afterlife, have a positive impact on economic growth rates, irrespective of the particular religion in question.²⁴ Barro and McCleary looked at religious beliefs and economic growth rates in 59 countries during the 1980s and 1990s. Their conjecture was that higher religious beliefs stimulate economic growth because they help to sustain aspects of individual behavior that lead to higher productivity.

CHRISTIANITY

Christianity is the most widely practiced religion in the world. Approximately 20 percent of the world's people identify themselves as Christians. The vast majority of Christians live in Europe and the Americas, although their numbers are growing rapidly in Africa. Christianity grew out of Judaism. Like Judaism, it is a monotheistic religion (monotheism is the belief in one god). A religious division in the 11th century led to the establishment of two major Christian organizations—the Roman Catholic Church and the Orthodox Church. Today,

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MAP 3.1

World Religions

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II. Country Differences

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the Roman Catholic Church accounts for more than half of all Christians, most of whom are found in southern Europe and Latin America. The Orthodox Church, while less influential, is still of major importance in several countries (e.g., Greece and Russia). In the 16th century, the Reformation led to a further split with Rome; the result was Protestantism. The nonconformist nature of Protestantism has facilitated the emergence of numerous denominations under the Protestant umbrella (e.g., Baptist, Methodist, Calvinist).

Economic Implications of Christianity: The Protestant Work Ethic

Several sociologists have argued that of the main branches of Christianity—Catholic, Orthodox, and Protestant—the latter has the most important economic implications. In 1904, a German sociologist, Max Weber, made a connection between Protestant ethics and "the spirit of capitalism" that has since become famous. Weber noted that capitalism emerged in Western Europe, where

business leaders and owners of capital, as well as the higher grades of skilled labor, and even more the higher technically and commercially trained personnel of modern enterprises, are overwhelmingly Protestant. 26

Weber theorized that there was a relationship between Protestantism and the emergence of modern capitalism. He argued that Protestant ethics emphasize the importance of hard work and wealth creation (for the glory of God) and frugality (abstinence from worldly pleasures). According to Weber, this kind of value system was needed to facilitate the development of capitalism. Protestants worked hard and systematically to accumulate wealth. However, their ascetic beliefs suggested that rather than consuming this wealth by indulging in worldly pleasures, they should invest it in the expansion of capitalist enterprises. Thus, the combination of hard work and the accumulation of capital, which could be used to finance investment and expansion, paved the way for the development of capitalism in Western Europe and subsequently in the United States. In contrast, Weber argued that the Catholic promise of salvation in the next world, rather than this world, did not foster the same kind of work ethic.

Protestantism also may have encouraged capitalism's development in another way. By breaking away from the hierarchical domination of religious and social life that characterized the Catholic Church for much of its history, Protestantism gave individuals significantly more freedom to develop their own relationship with God. The right to freedom of form of worship was central to the nonconformist nature of early Protestantism. This emphasis on individual religious freedom may have paved the way for the subsequent emphasis on individual economic and political freedoms and the development of individualism as an economic and political philosophy. As we saw in Chapter 2, such a philosophy forms the bedrock on which entrepreneurial free market capitalism is based. Building on this, some scholars claim there is a connection between individualism, as inspired by Protestantism, and the extent of entrepreneurial activity in a nation.²⁷ Again, one must be careful not to generalize too much from this historical sociological view. While nations with a strong Protestant tradition such as Britain, Germany, and the United States were early leaders in the industrial revolution, nations with Catholic or Orthodox majorities show significant and sustained entrepreneurial activity and economic growth in the modern world.

ISLAM

With around 1 billion adherents, Islam is the second largest of the world's major religions. Islam dates back to 610 CE when the prophet Muhammad began spreading the word, although the Muslim calendar begins in 622 CE when, to escape growing opposition, Muhammad left Mecca for the oasis settlement of Yathrib, later known as Medina. Adherents of Islam are referred to as Muslims. Muslims constitute a majority in more than 35 countries and inhabit a nearly contiguous stretch of land from the northwest coast of Africa, through the Middle East, to China and Malaysia in the Far East.



Chapter 3





Despite the rise of radical Islamic fundamentalism, the vast majority of the Muslim population supports peace.

Islam has roots in both Judaism and Christianity (Islam views Jesus Christ as one of God's prophets). Like Christianity and Judaism, Islam is a monotheistic religion. The central principle of Islam is that there is but the one true omnipotent God. Islam requires unconditional acceptance of the uniqueness, power, and authority of God and the understanding that the objective of life is to fulfill the dictates of his will in the hope of admission to paradise. According to Islam, worldly gain and temporal power are an illusion. Those who pursue riches on earth may gain them, but those who forgo worldly ambitions to seek the favor of Allah may gain the greater treasure—entry into paradise. Other major principles of Islam include (1) honoring and respecting parents, (2) respecting the rights of others, (3) being generous but not a squanderer, (4) avoiding killing except for justifiable causes, (5) not committing adultery, (6) dealing justly and equitably with others, (7) being of pure heart and mind, (8) safeguarding the possessions of orphans, and (9) being humble and unpretentious. 28 Obvious parallels exist with many of the central principles of both Judaism and Christianity.

Islam is an all-embracing way of life governing the totality of a Muslim's being.²⁹ As God's surrogate in this world, a Muslim is not a totally free agent but is circumscribed by religious principles—by a code of conduct for interpersonal relations—in social and economic activities. Religion is paramount in all areas of life. The Muslim lives in a social structure that is shaped by Islamic values and norms of moral conduct. The ritual nature of everyday life in a Muslim country is striking to a Western visitor. Among other things, orthodox Muslim ritual requires prayer five times a day (business meetings may be put on hold while the Muslim participants engage in their daily prayer ritual), requires that women should dress in a certain manner, and forbids the consumption of pork and alcohol.

Islamic Fundamentalism

The past three decades have witnessed the growth of a social movement often referred to as Islamic fundamentalism.³⁰ In the West, Islamic fundamentalism is associated in the media with militants, terrorists, and violent upheavals, such as the bloody conflict occurring in Algeria, the killing of foreign tourists in Egypt, and the September 11, 2001, attacks on the World Trade Center and Pentagon in the United States. This characterization is misleading. Just as Christian fundamentalists are motivated by sincere and deeply held religious values firmly rooted in their faith, so are Islamic fundamentalists. The violence that the Western media associates with Islamic fundamentalism is perpetrated by a small minority of radical "fundamentalists" who have hijacked the religion to further their own political and violent ends. (Some Christian "fundamentalists" have done exactly the same, including Jim Jones and David Koresh.) The vast majority of Muslims point out that Islam Part 2 Country Differences

teaches peace, justice, and tolerance, not violence and intolerance, and that Islam explicitly repudiates the violence that a radical minority practices.

The rise of fundamentalism has no one cause. In part, it is a response to the social pressures created in traditional Islamic societies by the move toward modernization and by the influence of Western ideas, such as liberal democracy, materialism, equal rights for women, and attitudes toward sex, marriage, and alcohol. In many Muslim countries, modernization has been accompanied by a growing gap between a rich urban minority and an impoverished urban and rural majority. For the impoverished majority, modernization has offered little in the way of tangible economic progress, while threatening the traditional value system. Thus, for a Muslim who cherishes his or her traditions and feels that his or her identity is jeopardized by the encroachment of alien Western values, Islamic fundamentalism has become a cultural anchor.

Fundamentalists demand a rigid commitment to traditional religious beliefs and rituals. The result has been a marked increase in the use of symbolic gestures that confirm Islamic values. In areas where fundamentalism is strong, women have resumed wearing floor-length, long-sleeved dresses and covering their hair; religious studies have increased in universities; the publication of religious tracts has increased; and public religious orations have risen. Also, the sentiments of some fundamentalist groups are often anti-Western. Rightly or wrongly, Western influence is blamed for a range of social ills, and many fundamentalists' actions are directed against Western governments, cultural symbols, businesses, and even individuals.

In several Muslim countries, fundamentalists have gained political power and have used this to try to make Islamic law (as set down in the Koran, the bible of Islam) the law of the land. There are good grounds for this in Islam. Islam makes no distinction between church and state. It is not just a religion; Islam is also the source of law, a guide to state-craft, and an arbiter of social behavior. Muslims believe that every human endeavor is within the purview of the faith—and this includes political activity—because the only purpose of any activity is to do God's will. (Some Christian fundamentalists also share this view.) Muslim fundamentalists have been most successful in Iran, where a fundamentalist party has held power since 1979, but they also have had an influence in many other countries, such as Algeria, Afghanistan (where the Taliban established an extreme fundamentalist state until removed by the U.S.-led coalition in 2002), Egypt, Pakistan, the Sudan, and Saudi Arabia.

Economic Implications of Islam

The Koran establishes some explicit economic principles, many of which are pro-free enterprise.³³ The Koran speaks approvingly of free enterprise and of earning legitimate profit through trade and commerce (the prophet Mohammed was once a trader). The protection of the right to private property is also embedded within Islam, although Islam asserts that all property is a favor from Allah (God), who created and so owns everything. Those who hold property are regarded as trustees rather than owners in the Western sense of the word. As trustees they are entitled to receive profits from the property but are admonished to use it in a righteous, socially beneficial, and prudent manner. This reflects Islam's concern with social justice. Islam is critical of those who earn profit through the exploitation of others. In the Islamic view of the world, humans are part of a collective in which the wealthy and successful have obligations to help the disadvantaged. Put simply, in Muslim countries, it is fine to earn a profit, so long as that profit is justly earned and not based on the exploitation of others for one's own advantage. It also helps if those making profits undertake charitable acts to help the poor. Furthermore, Islam stresses the importance of living up to contractual obligations, keeping one's word, and abstaining from deception. For a closer look at how Islam, capitalism, and globalization can coexist, see the next Country Focus feature on the region around Kayseri in Central Turkey.

Given the Islamic proclivity to favor market-based systems, Muslim countries are likely to be receptive to international businesses as long as those businesses behave in a manner that is consistent with Islamic ethics. Businesses that are perceived as making an

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COUNTRY FOCUS

Islamic Capitalism in Turkey

For years now Turkey has been lobbying the European Union to allow it to join the free trade block as a member state. If the EU says yes, it will be the first Muslim state in the Union. Many critics in the EU worry that Islam and Western style capitalism do not mix well, and that as a consequence, allowing Turkey into the EU would be a mistake. However, a close look at what is going on in Turkey suggests that this view may be misplaced. Consider the area around the city of Kayseri in Central Turkey. Many dismiss this poor, largely agricultural region of Turkey as a non-European backwater, far removed from the secular bustle of Istanbul. It is a region where traditional Islamic values hold sway. And yet, it is also a region that has produced so many thriving Muslim enterprises that it is sometimes called the "Anatolian Tiger." Businesses based here include large food manufacturers, textile companies, furniture manufacturers, and engineering enterprises, many of which export a substantial percentage of their production.

Local business leaders attribute the success of companies in the region to an entrepreneurial spirit that they say is part of Islam. They point out that the Prophet Muhammad, who was himself a trader, preached merchant honor and commanded that 90 percent of a Muslim's life be devoted to work in order to put food on the table. Outsider observers have gone further, arguing that what is occurring around Kayseri is an example of Islamic Calvinism, a fusion of traditional Islamic values and the work ethic often associated with Protestantism in general, and Calvinism in particular.

Within Kayseri, the influence of Islam is plain to see. Many companies set aside rooms and time for 15-minute prayer breaks. Most of the older businessmen have been to Mecca on the Haji, the pilgrimage that all Muslims are meant to make at least once in a lifetime. Few of the cafés and restaurants in Kayseri serve alcohol, and most women wear a headscarf.

At the Kayseri sugar factory, one of the most profitable in the region, a senior manager claims that Islam has

played a large part in improving the profitability of the enterprise. For a long time the factory bought most of its sugar beets from a single monopoly supplier, who charged a high price. But because Islam preaches equal opportunity in business, managers at the sugar factory decided that the Islamic thing to do was diversify the supply base and encourage small producers to sell beets to them. Today the factory buys sugar beets from 20,000 small growers. Competition between them has lowered prices and boosted the factory's profitability. The same manager also noted that "If you are not a good Muslim, don't pray five times a day and don't have a wife who wears a headscarf, it can be difficult to do business here."

However, not everyone agrees that Islam is the driving force behind the region's success. Saffet Arslan, the managing director of Ipek, the largest furniture producer in the region (which exports to more than 30 countries), claims that another force is at work—globalization. According to Arslan, over the last three decades local Muslims who once eschewed making money in favor of focusing on religion are now making business a priority. They see the Western world, and Western capitalism, as a model, not Islam, and because of globalization and the opportunities associated with it, they want to become successful. At the same time, Arslan is a practicing Muslim who has built a mosque in the basement of Ipec's headquarters building so that people can pray while at work.

If there is a weakness in the Islamic model of business that is emerging in places like Kayseri, some say it can be found in traditional attitudes toward the role of women in the work place, and the low level of female employment in the region. According to a report by the European Stability Initiative, the same group that holds up the Kayseri region as an example of Islamic Calvinism, the low participation of women in the local workforce is the Achilles heel of the economy, and it may stymie the attempts of the region to catch up with the countries of the European Union.³⁴

unjust profit through the exploitation of others, by deception, or by breaking contractual obligations are unlikely to be welcomed in an Islamic country. In addition, in Islamic countries where fundamentalism is on the rise, hostility toward Western-owned businesses is likely to increase.

In the previous chapter, we noted that one economic principle of Islam prohibits the payment or receipt of interest, which is considered usury. This is not just a matter of theology;

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in several Islamic states, it is also becoming a matter of law. The Koran clearly condemns interest, which is called *riba* in Arabic, as exploitative and unjust. For many years, banks operating in Islamic countries conveniently ignored this condemnation, but starting about 30 years ago with the establishment of an Islamic bank in Egypt, Islamic banks started to open in predominantly Muslim countries. By 2005, some 176 Islamic financial institutions worldwide managed more than \$240 billion in assets, making an average return on capital of more than 16 percent. Even conventional banks are entering the market—both Citigroup and HSBC, two of the world's largest financial institutions, now offer Islamic financial services. While only Iran and the Sudan enforce Islamic banking conventions, in an increasing number of countries customers can choose between conventional banks and Islamic banks.

Conventional banks make a profit on the spread between the interest rate they have to pay to depositors and the higher interest rate they charge borrowers. Because Islamic banks cannot pay or charge interest, they must find a different way of making money. Islamic banks have experimented with two different banking methods—the *mudarabah* and the *murabaha*.³⁵

A *mudarabah* contract is similar to a profit-sharing scheme. Under *mudarabah*, when an Islamic bank lends money to a business, rather than charging that business interest on the loan, it takes a share in the profits that are derived from the investment. Similarly, when a business (or individual) deposits money at an Islamic bank in a savings account, the deposit is treated as an equity investment in whatever activity the bank uses the capital for. Thus, the depositor receives a share in the profit from the bank's investment (as opposed to interest payments) according to an agreed-on ratio. Some Muslims claim this is a more efficient system than the Western banking system since it encourages both long-term savings and long-term investment. However, there is no hard evidence of this, and many believe that a *mudarabah* system is less efficient than a conventional Western banking system.

The second Islamic banking method, the *murabaha* contract, is the most widely used among the world's Islamic banks, primarily because it is the easiest to implement. In a *murabaha* contract, when a firm wishes to purchase something using a loan—let's say a piece of equipment that costs \$1,000—the firm tells the bank after having negotiated the price with the equipment manufacturer. The bank then buys the equipment for \$1,000, and the borrower buys it back from the bank at some later date for, say, \$1,100, a price that includes a \$100 markup for the bank. A cynic might point out that such a markup is functionally equivalent to an interest payment, and it is the similarity between this method and conventional banking that makes it so much easier to adopt.

HINDUISM

Hinduism has approximately 750 million adherents, most of them on the Indian subcontinent. Hinduism began in the Indus Valley in India more than 4,000 years ago, making it the world's oldest major religion. Unlike Christianity and Islam, its founding is not linked to a particular person. Nor does it have an officially sanctioned sacred book such as the Bible or the Koran. Hindus believe that a moral force in society requires the acceptance of certain responsibilities, called *dharma*. Hindus believe in reincarnation, or rebirth into a different body, after death. Hindus also believe in *karma*, the spiritual progression of each person's soul. A person's karma is affected by the way he or she lives. The moral state of an individual's karma determines the challenges he or she will face in the next life. By perfecting the soul in each new life, Hindus believe that an individual can eventually achieve *nirvana*, a state of complete spiritual perfection that renders reincarnation no longer necessary. Many Hindus believe that the way to achieve nirvana is to lead a severe ascetic lifestyle of material and physical self-denial, devoting life to a spiritual rather than material quest.

One of the interesting aspects of Hindu culture is the reverence for the cow, which Hindus see as a gift of the gods to the human race. The sacred status of the cow created some unique problems for McDonald's when it entered India in the 1990s, since devout Hindus do not eat beef (and many are also vegetarians). The accompanying Management Focus looks at how McDonald's dealt with that challenge.

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MANAGEMENT FOCUS



McDonald's and Hindu Culture

In many ways, McDonald's Corporation has written the book on global expansion. Every day, on average, somewhere around the world 4.2 new McDonald's restaurants are opened. The company has some 30,000 restaurants in more than 120 countries that collectively serve close to 50 million customers each day.

One of the latest additions to McDonald's list of countries hosting the famous golden arches is India, where McDonald's started to establish restaurants in the late 1990s. Although India is a poor nation, the large and relatively prosperous middle class, estimated to number around 200 million, attracted McDonald's. India, however, offered McDonald's unique challenges. For thousands of years, India's Hindu culture has revered the cow. Hindu scriptures state that the cow is a gift of the gods to the human race. The cow represents the Divine Mother that sustains all human beings. Cows give birth to bulls that are harnessed to pull plows, cow milk is highly valued and used to produce yogurt and ghee (a form of butter), cow urine has a unique place in traditional Hindu medicine, and cow dung is used as fuel. Some 300 million of these animals roam India, untethered, revered as sacred providers. They are everywhere, ambling down roads, grazing in rubbish dumps, and resting in temples—everywhere, that is, except on your plate, for Hindus do not eat the meat of the sacred cow.

McDonald's is the world's largest user of beef. Since its founding in 1955, countless animals have died to produce Big Macs. How can a company whose fortunes are built upon beef enter a country where the consumption of beef is a grave sin? Use pork instead? However, there are some 140 million Muslims in India, and Muslims don't eat pork. This leaves chicken and mutton. McDonald's responded to this cultural food dilemma by creating an Indian version of its Big Mac—the "Maharaja Mac"—which is made from mutton. Other additions to the menu conform to local sensibilities such as the "McAloo Tikki Burger," which is made from chicken. All foods are strictly segregated into vegetarian and nonvegetarian lines to conform with preferences in a country where many Hindus are vegetarian. According to the head of McDonald's Indian operations, "We had to

reinvent ourselves for the Indian palate." Indeed, 75 percent of the menu in McDonald's in India is Indianized.

For a while, this seemed to work. Then in 2001 Mc-Donald's was blindsided by a class-action lawsuit that three Indian businessmen living in Seattle brought against it in the United States. The businessmen, all vegetarians and two of whom were Hindus, sued McDonald's for "fraudulently concealing" the existence of beef in McDonald's French fries! McDonald's had said it used only 100 percent vegetable oil to make French fries, but the company soon admitted that it used a "minuscule" amount of beef extract in the oil. McDonald's settled the suit for \$10 million and issued an apology, which read, "McDonald's sincerely apologizes to Hindus, vegetarians, and others for failing to provide the kind of information they needed to make informed dietary decisions at our U.S. restaurants." Going forward, the company pledged to do a better job of labeling the ingredients of its food and to find a substitute for the beef extract used in its oil.

However, news travels fast in the global society of the 21st century, and the revelation that McDonald's used beef extract in its oil was enough to bring Hindu nationalists onto the streets in Delhi, where they vandalized one McDonald's restaurant, causing \$45,000 in damage; shouted slogans outside another; picketed the company's headquarters; and called on India's prime minister to close McDonald's stores in the country. McDonald's Indian franchise holders quickly issued denials that they used oil that contained beef extract, and Hindu extremists responded by stating they would submit McDonald's oil to laboratory tests to see if they could detect beef extract.

The negative publicity seemed to have little impact on McDonald's long-term plans in India, however. The company continued to open restaurants, and by 2006 had over 60 restaurants in the country with plans to open another 30 or so. When asked why they frequented McDonald's restaurants, Indian customers noted that their children enjoyed the "American" experience, the food was of a consistent quality, and the toilets were always clean!³⁸

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Economic Implications of Hinduism

Max Weber, famous for expounding on the Protestant work ethic, also argued that the ascetic principles embedded in Hinduism do not encourage the kind of entrepreneurial activity in pursuit of wealth creation that we find in Protestantism.³⁶ According to Weber, traditional Hindu values emphasize that individuals should be judged not by their material achievements but by their spiritual achievements. Hindus perceive the pursuit of material well-being as making the attainment of nirvana more difficult. Given the emphasis on an ascetic lifestyle, Weber thought that devout Hindus would be less likely to engage in entrepreneurial activity than devout Protestants.

Mahatma Gandhi, the famous Indian nationalist and spiritual leader, was certainly the embodiment of Hindu asceticism. It has been argued that the values of Hindu asceticism and self-reliance that Gandhi advocated had a negative impact on the economic development of postindependence India.³⁷ But one must be careful not to read too much into Weber's arguments. Modern India is a very dynamic entrepreneurial society, and millions of hard-working entrepreneurs form the economic backbone of the country's rapidly growing economy.

Historically, Hinduism also supported India's caste system. The concept of mobility between castes within an individual's lifetime makes no sense to traditional Hindus. Hindus see mobility between castes as something that is achieved through spiritual progression and reincarnation. An individual can be reborn into a higher caste in his or her next life if he or she achieves spiritual development in this life. Although the caste system has been abolished in India, it still casts a long shadow over Indian life according to many observers. In so far as the caste system limits individuals' opportunities to adopt positions of responsibility and influence in society, the economic consequences of this religious belief are somewhat negative. For example, within a business organization, the most able individuals may find their route to the higher levels of the organization blocked simply because they come from a lower caste. By the same token, individuals may get promoted to higher positions within a firm as much because of their caste background as because of their ability.

BUDDHISM

Buddhism was founded in India in the sixth century BCE by Siddhartha Gautama, an Indian prince who renounced his wealth to pursue an ascetic lifestyle and spiritual perfection. Siddhartha achieved nirvana but decided to remain on earth to teach his followers how they too could achieve this state of spiritual enlightenment. Siddhartha became known as the Buddha (which means "the awakened one"). Today, Buddhism has 350 million followers, most of whom are found in Central and Southeast Asia, China, Korea, and Japan. According to Buddhism, suffering originates in people's desires for pleasure. Cessation of suffering can be achieved by following a path for transformation. Siddhartha offered the Noble Eightfold Path as a route for transformation. The Eightfold Path emphasizes right seeing, thinking, speech, action, living, effort, mindfulness, and meditation. Unlike Hinduism, Buddhism does not support the caste system. Nor does Buddhism advocate the kind of extreme ascetic behavior that Hinduism encourages. Nevertheless, like Hindus, Buddhists stress the afterlife and spiritual achievement rather than involvement in this world.

Economic Implications of Buddhism

The emphasis on wealth creation that is embedded in Protestantism is not found in Buddhism. Buddhist societies have not placed the same kind of historical cultural stress on entrepreneurial behavior that Weber claimed could be found in the Protestant West. But unlike Hinduism, the lack of support for the caste system and extreme ascetic behavior suggests that a Buddhist society may represent a more fertile ground for entrepreneurial activity than a Hindu culture.

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CONFUCIANISM

Confucianism was founded in the fifth century BCE by K'ung-Fu-tzu, more generally known as Confucius. For more than 2,000 years until the 1949 Communist revolution, Confucianism was the official ethical system of China. While observance of Confucian ethics has been weakened in China since 1949, more than 200 million people still follow the teachings of Confucius, principally in China, Korea, and Japan. Confucianism teaches the importance of attaining personal salvation through right action. Although not a religion, Confucian ideology has become deeply embedded in the culture of these countries over the centuries, and therefore it has an impact on the lives of many millions more. Confucianism is built around a comprehensive ethical code that sets down guidelines for relationships with others. High moral and ethical conduct and loyalty to others are central to Confucianism. Unlike religions, Confucianism is not concerned with the supernatural and has little to say about the concept of a supreme being or an afterlife.

Economic Implications of Confucianism

Some scholars maintain that Confucianism may have economic implications as profound as those Weber argued were to be found in Protestantism, although they are of a different nature.³⁹ This basic thesis is that Confucian ethics may help explain the economic success of China, Japan, South Korea, and Taiwan because it lowers the costs of doing business in those countries. In this regard, three values central to the Confucian system of ethics are of particular interest: loyalty, reciprocal obligations, and honesty in dealings with others.

In Confucian thought, loyalty to one's superiors is regarded as a sacred duty—an absolute obligation. In modern organizations based in Confucian cultures, the loyalty that binds employees to the heads of their organization can reduce the conflict between management and labor that we find in more class-conscious societies. Cooperation between management and labor can be achieved at a lower cost in a culture where the value system emphasizes the virtue of loyalty.

However, in a Confucian culture, loyalty to one's superiors, such as a worker's loyalty to management, is not blind loyalty. The concept of reciprocal obligations is important. Confucian ethics stress that superiors are obliged to reward the loyalty of their subordinates by bestowing blessings on them. If these "blessings" are not forthcoming, then neither will be the loyalty. This Confucian ethic is central to the Chinese concept of guanxi, which refers to relationship networks supported by reciprocal obligations.⁴⁰ Guanxi means relationships, although in business settings it can be better understood as connections. Today, Chinese will often cultivate a guanxiwang, or "relationship network," for help. Reciprocal obligations are the glue that holds such networks together. If those obligations are not met—if favors done are not paid back or reciprocated—the reputation of the transgressor is tarnished and the person will be less able to draw on his or her guanxiwang for help in the future. Thus, the implicit threat of social sanctions is often sufficient to ensure that favors are repaid, obligations are met, and relationships are honored. In a society that lacks a rule-based legal tradition, and thus legal ways of redressing wrongs such as violations of business agreements, guanxi is an important mechanism for building long-term business relationships and getting business done in China.

A third concept found in Confucian ethics is the importance attached to honesty. Confucian thinkers emphasize that, although dishonest behavior may yield short-term benefits for the transgressor, dishonesty does not pay in the long run. The importance attached to honesty has major economic implications. When companies can trust each other not to break contractual obligations, the costs of doing business are lowered. Expensive lawyers are not needed to resolve contract disputes. In a Confucian society, people may be less hesitant to commit substantial resources to cooperative ventures than in a society where honesty is less pervasive. When companies adhere to Confucian ethics,

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they can trust each other not to violate the terms of cooperative agreements. Thus, the costs of achieving cooperation between companies may be lower in societies such as Japan relative to societies where trust is less pervasive.

For example, it has been argued that the close ties between the automobile companies and their component parts suppliers in Japan are facilitated by a combination of trust and reciprocal obligations. These close ties allow the auto companies and their suppliers to work together on a range of issues, including inventory reduction, quality control, and design. The competitive advantage of Japanese auto companies such as Toyota may in part be explained by such factors. Finilarly, the combination of trust and reciprocal obligations is central to the workings and persistence of *guanxi* networks in China. Someone seeking and receiving help through a *guanxi* network is then obligated to return the favor and faces social sanctions if that obligation is not reciprocated when it is called upon. If the person does not return the favor, his or her reputation will be tarnished and he or she will be unable to draw on the resources of the network in the future. It is claimed that these relationship-based networks can be more important in helping to enforce agreements between businesses than the Chinese legal system. Some claim, in fact, that *guanxi* networks are a substitute for the legal system.



One obvious way in which countries differ is language. By language, we mean both the spoken and the unspoken means of communication. Language is one of the defining characteristics of a culture.

SPOKEN LANGUAGE

Language does far more than just enable people to communicate with each other. The nature of a language also structures the way we perceive the world. The language of a society can direct the attention of its members to certain features of the world rather than others. The classic illustration of this phenomenon is that whereas the English language has but one word for snow, the language of the Inuit (Eskimos) lacks a general term for it. Instead, because distinguishing different forms of snow is so important in the lives of the Inuit, they have 24 words that describe different types of snow (e.g., powder snow, falling snow, wet snow, drifting snow).⁴³

Because language shapes the way people perceive the world, it also helps define culture. Countries with more than one language often have more than one culture. Canada has an English-speaking culture and a French-speaking culture. Tensions between the two can run quite high, with a substantial proportion of the French-speaking minority demanding independence from a Canada "dominated by English speakers." The same phenomenon can be observed in many other countries. Belgium is divided into Flemish and French speakers, and tensions between the two groups exist; in Spain, a Basque-speaking minority with its own distinctive culture has been agitating for independence from the Spanish-speaking majority for decades; on the Mediterranean island of Cyprus, the culturally diverse Greek- and Turkish-speaking populations of the island engaged in open conflict in the 1970s, and the island is now partitioned into two parts. While it does not necessarily follow that language differences create differences in culture and, therefore, separatist pressures (e.g., witness the harmony in Switzerland, where four languages are spoken), there certainly seems to be a tendency in this direction. Here is a culture of the control of the control of the culture and the certainly seems to be a tendency in this direction.

Chinese is the mother tongue of the largest number of people, followed by English and Hindi, which is spoken in India. However, the most widely spoken language in the world is English (that is, many people speak English as a second language), followed by French, Spanish, and Chinese. English is increasingly becoming the language of international business. When a Japanese and a German businessperson get together to do business, it is almost certain that they will communicate in English. However, although English is widely used, learning the local language yields considerable advantages. Most

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people prefer to converse in their own language, and being able to speak the local language can build rapport, which may be very important for a business deal. International businesses that do not understand the local language can make major blunders through improper translation. For example, the Sunbeam Corporation used the English words for its "Mist-Stick" mist-producing hair curling iron when it entered the German market, only to discover after an expensive advertising campaign that mist means excrement in German. General Motors was troubled by the lack of enthusiasm among Puerto Rican dealers for its new Chevrolet Nova. When literally translated into Spanish, nova means star. However, when spoken it sounds like "no va," which in Spanish means "it doesn't go." General Motors changed the name of the car to Caribe. 45

UNSPOKEN LANGUAGE

Unspoken language refers to nonverbal communication. We all communicate with each other by a host of nonverbal cues. The raising of eyebrows, for example, is a sign of recognition in most cultures, while a smile is a sign of joy. Many nonverbal cues, however, are culturally bound. A failure to understand the nonverbal cues of another culture can lead to a communication failure. For example, making a circle with the thumb and the forefinger is a friendly gesture in the United States, but it is a vulgar sexual invitation in Greece and Turkey. Similarly, while most Americans and Europeans use the thumbs-up gesture to indicate that "it's all right," in Greece the gesture is obscene.

Another aspect of nonverbal communication is personal space, which is the comfortable amount of distance between you and the person you are talking with. In the United States, the parties in a business discussion customarily choose a distance of three to five feet. Consequently, many North Americans unconsciously feel that Latin Americans are invading their personal space and can be seen backing away from them during a conversation. Indeed, the American may feel that the Latin is being aggressive and pushy. In turn, the Latin American may interpret such backing away as aloofness. The result can be a regrettable lack of rapport between two businesspeople from different cultures.



Formal education plays a key role in a society. Formal education is the medium through which individuals learn many of the language, conceptual, and mathematical skills that are indispensable in a modern society. Formal education also supplements the family's role in socializing the young into the values and norms of a society. Values and norms are taught both directly and indirectly. Schools generally teach basic facts about the social and political nature of a society. They also focus on the fundamental obligations of citizenship. Cultural norms are also taught indirectly at school. Respect for others, obedience to authority, honesty, neatness, being on time, and so on are all part of the "hidden curriculum" of schools. The use of a grading system also teaches children the value of personal achievement and competition. 46

From an international business perspective, one important aspect of education is its role as a determinant of national competitive advantage. 47 The availability of a pool of skilled and educated workers seems to be a major determinant of the likely economic success of a country. In analyzing the competitive success of Japan since 1945, for example, Michael Porter notes that after the war, Japan had almost nothing except for a pool of skilled and educated human resources:

With a long tradition of respect for education that borders on reverence, Japan possessed a large pool of literate, educated, and increasingly skilled human resources. . . . Japan has benefited from a large pool of trained engineers. Japanese universities graduate many more engineers per capita than in the United States. . . . A first-rate primary and secondary education system in Japan operates based on high standards and emphasizes math and

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science. Primary and secondary education is highly competitive. . . . Japanese education provides most students all over Japan with a sound education for later education and training. A Japanese high school graduate knows as much about math as most American college graduates.⁴⁸

Porter's point is that Japan's excellent education system is an important factor explaining the country's postwar economic success. Not only is a good education system a determinant of national competitive advantage, but it is also an important factor guiding the location choices of international businesses. The recent trend to outsource information technology jobs to India, for example, is partly due to the presence of significant numbers of trained engineers in India, which in turn is a result of the Indian education system. By the same token, it would make little sense to base production facilities that require highly skilled labor in a country where the education system was so poor that a skilled labor pool wasn't available, no matter how attractive the country might seem on other dimensions. It might make sense to base production operations that require only unskilled labor in such a country.

The general education level of a country is also a good index of the kind of products that might sell in a country and of the type of promotional material that should be used. For example, a country where more than 70 percent of the population is illiterate is unlikely to be a good market for popular books. Promotional material containing written descriptions of mass-marketed products is unlikely to have an effect in a country where almost three-quarters of the population cannot read. It is far better to use pictorial promotions in such circumstances.

Culture and the Workplace

Of considerable importance for an international business with operations in different countries is how a society's culture affects the values found in the workplace. Management process and practices may need to vary according to culturally determined work-related values. For example, if the cultures of the United States and France result in different work-related values, an international business with operations in both countries should vary its management process and practices to account for these differences.

Probably the most famous study of how culture relates to values in the workplace was undertaken by Geert Hofstede.⁴⁹ As part of his job as a psychologist working for IBM, Hofstede collected data on employee attitudes and values from more than 100,000 individuals from 1967 to 1973. These data enabled him to compare dimensions of culture across 40 countries. Hofstede isolated four dimensions that he claimed summarized different cultures—power distance, uncertainty avoidance, individualism versus collectivism, and masculinity versus femininity.

Hofstede's **power distance** dimension focused on how a society deals with the fact that people are unequal in physical and intellectual capabilities. According to Hofstede, high power distance cultures were found in countries that let inequalities grow over time into inequalities of power and wealth. Low power distance cultures were found in societies that tried to play down such inequalities as much as possible.

The **individualism versus collectivism** dimension focused on the relationship between the individual and his or her fellows. In individualistic societies, the ties between individuals were loose and individual achievement and freedom were highly valued. In societies where collectivism was emphasized, the ties between individuals were tight. In such societies, people were born into collectives, such as extended families, and everyone was supposed to look after the interest of his or her collective.

Hofstede's uncertainty avoidance dimension measured the extent to which different cultures socialized their members into accepting ambiguous situations and tolerating uncertainty. Members of high uncertainty avoidance cultures placed a premium on job security, career patterns, retirement benefits, and so on. They also had a strong need for rules and regulations; the manager was expected to issue clear instructions, and subordinates' initiatives were tightly controlled. Lower uncertainty avoidance cultures were characterized by a greater readiness to take risks and less emotional resistance to change.

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TABLE 3.1

Work-Related Values for 20 Selected Countries

Source: G. Hofstede, "The Cultural Relativity of Organizational Practices and Theories," *Journal of International Business Studies*, 14 (Fall 1983), pp. 75–89.

	Power Distance	Uncertainty Avoidance	Individualism	Masculinity
				-
Argentina	49	86	46	56
Australia	36	51	90	61
Brazil	69	76	38	49
Canada	39	48	80	52
Denmark	18	23	74	16
France	68	86	71	43
Germany (F.R.)	35	65	67	66
Great Britain	35	35	89	66
India	77	40	48	56
Indonesia	78	48	14	46
Israel	13	81	54	47
Japan	54	92	46	95
Mexico	81	82	30	69
Netherlands	38	53	80	14
Panama	95	86	11	44
Spain	57	86	51	42
Sweden	31	29	71	5
Thailand	64	64	20	34
Turkey	66	85	37	45
United States	40	46	91	62

Hofstede's masculinity versus femininity dimension looked at the relationship between gender and work roles. In masculine cultures, sex roles were sharply differentiated and traditional "masculine values," such as achievement and the effective exercise of power, determined cultural ideals. In feminine cultures, sex roles were less sharply distinguished, and little differentiation was made between men and women in the same job.

Hofstede created an index score for each of these four dimensions that ranged from 0 to 100 and scored high for high individualism, high power distance, high uncertainty avoidance, and high masculinity. He averaged the score for all employees from a given country. Table 3.1 summarizes these data for 20 selected countries. Western nations such as the United States, Canada, and Britain score high on the individualism scale and low on the power distance scale. At the other extreme are a group of Latin American and Asian countries that emphasize collectivism over individualism and score high on the power distance scale. Table 3.1 also reveals that Japan's culture has strong uncertainty avoidance and high masculinity. This characterization fits the standard stereotype of Japan as a country that is male dominant and where uncertainty avoidance exhibits itself in the institution of lifetime employment. Sweden and Denmark stand out as countries that have both low uncertainty avoidance and low masculinity (high emphasis on "feminine" values).

Hofstede's results are interesting for what they tell us in a very general way about differences between cultures. Many of Hofstede's findings are consistent with standard Western stereotypes about cultural differences. For example, many people believe Americans are more individualistic and egalitarian than the Japanese (they have a lower power distance), who in turn are more individualistic and egalitarian than Mexicans. Similarly, many might

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agree that Latin countries such as Mexico place a higher emphasis on masculine value—they are machismo cultures—than the Nordic countries of Denmark and Sweden.

However, one should be careful about reading too much into Hofstede's research. It has been criticized on a number of points. ⁵⁰ First, Hofstede assumes there is a one-to-one correspondence between culture and the nation-state, but as we saw earlier, many countries have more than one culture. Hofstede's results do not capture this distinction. Second, the research may have been culturally bound. The research team was composed of Europeans and Americans. The questions they asked of IBM employees and their analysis of the answers may have been shaped by their own cultural biases and concerns. So it is not surprising that Hofstede's results confirm Western stereotypes, because it was Westerners who undertook the research.

Third, Hofstede's informants worked not only within a single industry, the computer industry, but also within one company, IBM. At the time, IBM was renowned for its own strong corporate culture and employee selection procedures, making it possible that the employees' values were different in important respects from the values of the cultures from which those employees came. Also, certain social classes (such as unskilled manual workers) were excluded from Hofstede's sample. A final caution is that Hofstede's work is now beginning to look dated. Cultures do not stand still; they evolve, albeit slowly. What was a reasonable characterization in the 1960s and 1970s may not be so today.

Still, just as it should not be accepted without question, Hofstede's work should not be dismissed either. It represents a starting point for managers trying to figure out how cultures differ and what that might mean for management practices. Also, several other scholars have found strong evidence that differences in culture affect values and practices in the workplace, and Hofstede's basic results have been replicated using more diverse samples of individuals in different settings. ⁵¹ Still, managers should use the results with caution, for they are not necessarily accurate.

Hofstede subsequently expanded his original research to include a fifth dimension that he argued captured additional cultural differences not brought out in his earlier work.⁵² He referred to this dimension as "Confucian dynamism" (sometimes called long-term orientation). According to Hofstede, Confucian dynamism captures attitudes toward time, persistence, ordering by status, protection of face, respect for tradition, and reciprocation of gifts and favors. The label refers to the derivation of these "values" from Confucian teachings. As might be expected, East Asian countries such as Japan, Hong Kong, and Thailand scored high on Confucian dynamism, while nations such as the United States and Canada scored low. Hofstede and his associates went on to argue that their evidence suggested that nations with higher economic growth rates scored high on Confucian dynamism and low on individualism—the implication being that Confucianism is good for growth. However, subsequent studies have shown that this finding does not hold up under more sophisticated statistical analysis.⁵³ During the past decade, countries with high individualism and low Confucian dynamics such as the United States have attained high growth rates, while some Confucian cultures such as Japan have had stagnant economic growth. In reality, while culture might influence the economic success of a nation, it is just one of many factors, and while its importance should not be ignored, it should not be overstated either. The factors discussed in Chapter 2economic, political, and legal systems—are probably more important than culture in explaining differential economic growth rates over time.



Culture is not a constant; it evolves over time.⁵⁴ Changes in value systems can be slow and painful for a society. In the 1960s, for example, American values toward the role of women, love, sex, and marriage underwent significant changes. Much of the social turmoil of that time reflected these changes. Change, however, does occur and can often be quite profound. For example, at the beginning of the 1960s, the idea that women

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might hold senior management positions in major corporations was not widely accepted. Many scoffed at the idea. Today, it is a reality, and few in the mainstream of American society question the development or the capability of women in the business world. American culture has changed (although it is still more difficult for women to gain senior management positions than men). Similarly, the value systems of many excommunist states, such as Russia, are undergoing significant changes as those countries move away from values that emphasize collectivism and toward those that emphasize individualism. While social turmoil is an inevitable outcome of such a shift, the shift will still probably occur.

Similarly, some claim that a major cultural shift is occurring in Japan, with a move toward greater individualism.⁵⁵ The model Japanese office worker, or "salaryman," is characterized as being loyal to his boss and the organization to the point of giving up evenings, weekends, and vacations to serve the organization, which is the collective of which the employee is a member. However, a new generation of office workers does not seem to fit this model. An individual from the new generation is likely to be more direct than the traditional Japanese. He acts more like a Westerner, a *gaijian*. He does not live for the company and will move on if he gets the offer of a better job. He is not keen on overtime, especially if he has a date. He has his own plans for his free time, and they may not include drinking or playing golf with the boss.⁵⁶

Several studies have suggested that economic advancement and globalization may be important factors in societal change.⁵⁷ For example, there is evidence that economic progress is accompanied by a shift in values away from collectivism and toward individualism.⁵⁸ Thus, as Japan has become richer, the cultural emphasis on collectivism has declined and greater individualism is being witnessed. One reason for this shift may be that richer societies exhibit less need for social and material support structures built on collectives, whether the collective is the extended family or the paternalistic company. People are better able to take care of their own needs. As a result, the importance attached to collectivism declines, while greater economic freedoms lead to an increase in opportunities for expressing individualism.

The culture of societies may also change as they become richer because economic progress affects a number of other factors, which in turn influence culture. For example, increased urbanization and improvements in the quality and availability of education are both a function of economic progress, and both can lead to declining emphasis on the traditional values associated with poor rural societies. A 25-year study of values in 78 countries, known as the World Values Survey, coordinated by the University of Michigan's Institute for Social Research, has documented how values change. The study linked these changes in values to changes in a country's level of economic development. According to this research, as countries get richer, a shift occurs away from "traditional values" linked to religion, family, and country, and toward "secular rational" values. Traditionalists say religion is important in their lives. They have a strong sense of national pride; they also think that children should be taught to obey and that the first duty of a child is to make his or her parents proud. They say abortion, euthanasia, divorce, and suicide are never justified. At the other end of this spectrum are secular rational values.

Another category in the World Values Survey is quality of life attributes. At one end of this spectrum are "survival values," the values people hold when the struggle for survival is of paramount importance. These values tend to stress that economic and physical security are more important than self-expression. People who cannot take food or safety for granted tend to be xenophobic, are wary of political activity, have authoritarian tendencies, and believe that men make better political leaders than women. "Self-expression" or "well-being" values stress the importance of diversity, belonging, and participation in political processes.

As countries get richer, there seems to be a shift from "traditional" to "secular rational" values, and from "survival values" to "well-being" values. The shift, however, takes time, primarily because individuals are socialized into a set of values when they are young and find it difficult to change as they grow older. Substantial changes in values are linked

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to generations, with younger people typically being in the vanguard of a significant change in values.

With regard to globalization, some have argued that advances in transportation and communication technologies, the dramatic increase in trade that we have witnessed since World War II, and the rise of global corporations such as Hitachi, Disney, Microsoft, and Levi Strauss, whose products and operations can be found around the globe, are creating conditions for the merging of cultures. 60 With McDonald's hamburgers in China, The Gap in India, iPods in South Africa, and MTV everywhere helping to foster a ubiquitous youth culture, some argue that the conditions for less cultural variation have been created. At the same time, one must not ignore important countertrends, such as the shift toward Islamic fundamentalism in several countries; the separatist movement in Quebec, Canada; or the continuing ethnic strains and separatist movements in Russia. Such countertrends in many ways are a reaction to the pressures for cultural convergence. In an increasingly modern and materialistic world, some societies are trying to reemphasize their cultural roots and uniqueness. Cultural change is not unidirectional, with national cultures converging toward some homogenous global entity. Also, while some elements of culture change quite rapidly—particularly the use of material symbols—other elements change slowly if at all. Thus, just because people the world over wear blue jeans and eat at McDonald's, one should not assume that they have also adopted American values—for more often than not, they have not.

IMPLICATIONS FOR MANAGERS

International business is different from national business because countries and societies are different. In this chapter, we have seen just how different societies can be. Societies differ because their cultures vary. Their cultures vary because of profound differences in social structure, religion, language, education, economic philosophy, and political philosophy. Three important implications for international business flow from these differences. The first is the need to develop cross-cultural literacy. There is a need not only to appreciate that cultural differences exist but also to appreciate what such differences mean for international business. A second implication centers on the connection between culture and national competitive advantage. A third implication looks at the connection between culture and ethics in decision making. In this section, we will explore the first two of these issues in depth. The connection between culture and ethics is explored in the next chapter.

CROSS-CULTURAL LITERACY

One of the biggest dangers confronting a company that goes abroad for the first time is the danger of being ill-informed. International businesses that are ill-informed about the practices of another culture are likely to fail. Doing business in different cultures requires adaptation to conform with the value systems and norms of that culture. Adaptation can embrace all aspects of an international firm's operations in a foreign country. The way in which deals are negotiated, the appropriate incentive pay systems for salespeople, the structure of the organization, the name of a product, the tenor of relations between management and labor, the manner in which the product is promoted, and so on are all sensitive to cultural differences. What works in one culture might not work in another.

To combat the danger of being ill-informed, international businesses should consider employing local citizens to help them do business in a particular culture. They must also

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ensure that home-country executives are cosmopolitan enough to understand how differences in culture affect the practice of international business. Transferring executives overseas at regular intervals to expose them to different cultures will help build a cadre of cosmopolitan executives. An international business must also be constantly on guard against the dangers of *ethnocentric behavior*. **Ethnocentrism** is a belief in the superiority of one's own ethnic group or culture. Hand in hand with ethnocentrism goes a disregard or contempt for the culture of other countries. Unfortunately, ethnocentrism is all too prevalent; many Americans are guilty of it, as are many French people, Japanese people, British people, and so on. Ugly as it is, ethnocentrism is a fact of life, one that international businesses must be on guard against.

Simple examples illustrate how important cross-cultural literacy can be. Anthropologist Edward T. Hall has described how Americans, who tend to be informal in nature, react strongly to being corrected or reprimanded in public. ⁶¹ This can cause problems in Germany, where a cultural tendency toward correcting strangers can shock and offend most Americans. For their part, Germans can be a bit taken aback by the tendency of Americans to call everyone by their first name. This is uncomfortable enough among executives of the same rank, but it can be seen as insulting when a young and junior American executive addresses an older and more senior German manager by his first name without having been invited to do so. Hall concludes it can take a long time to get on a first-name basis with a German; if you rush the process you will be perceived as over-friendly and rude, and that may not be good for business.

Hall also notes that cultural differences in attitude to time can cause a myriad of problems. He notes that in the United States, giving a person a deadline is a way of increasing the urgency or relative importance of a task. However, in the Middle East, giving a deadline can have exactly the opposite effect. The American who insists an Arab business associate make his mind up in a hurry is likely to be perceived as overly demanding and exerting undue pressure. The result may be exactly the opposite of what the American intended, with the Arab going slow as a reaction to the American's arrogance and rudeness. For his part, the American may believe that an Arab associate is being rude if he shows up late to a meeting because he met a friend in the street and stopped to talk. The American, of course, is very concerned about time and scheduling. But for the Arab, who lives in a society where social networks are a major source of information and maintaining relationships is important, finishing the discussion with a friend is more important than adhering to a strict schedule. Indeed, the Arab may be puzzled as to why the American attaches so much importance to time and schedule.

For another example of the consequences of a lack of cultural sensitivity, see the Management Focus feature on cross-cultural illiteracy.

CULTURE AND COMPETITIVE ADVANTAGE

One theme that continually surfaces in this chapter is the relationship between culture and national competitive advantage. Put simply, the value systems and norms of a country influence the costs of doing business in that country. The costs of doing business in a country influence the ability of firms to establish a competitive advantage in the global marketplace. We have seen how attitudes toward cooperation between management and labor, work, and the payment of interest are influenced by social structure and religion. It can be argued that when the class-based conflict between workers and management in class-conscious societies leads to industrial disruption, it raises the costs of doing business in that society. Similarly, we have seen how some sociologists have argued that the ascetic "other-worldly" ethics of Hinduism may not be as supportive of capitalism as the ethics embedded in Protestantism and Confucianism. Also, Islamic laws banning interest payments may raise the costs of doing business by constraining a country's banking system.

Japan presents an interesting case study of how culture can influence competitive advantage. Some scholars have argued that the culture of modern Japan lowers the costs of doing business relative to the costs in most Western nations. Japan's emphasis on



MANAGEMENT FOCUS

Cross-Cultural Illiteracy

An advertisement for a revolutionary new plane—the Osprey, which can fly like a plane and hover like a helicopter—recently landed the aircraft's makers, Boeing and Bell Helicopter, in a lot of trouble. The ad, which depicted the Osprey hovering above a mosque with soldiers being lowered down on ropes onto the roof, contained the tag lines "It descends from the heavens, ironically it unleashes hell. . . . Consider it a gift from above."

The offending picture initially appeared in the *Armed Forces Journal*. When senior managers at Boeing and Bell saw what their Texas advertising agency had put together, they immediately withdrew it from circulation. For some

reasons, however, the ad was subsequently published in the *National Journal*, causing an outcry from the Council on American Islamic Relations, which feared that the ad conveyed the impression that the war on terror was in fact a war on Islam. Embarrassed by the slip-up, Boeing and Bell issued a press release stating that the ad was ill-conceived, offensive, and should never have been published. Apparently, the Bell executive who cleared the ad for publication was not authorized to do so.

Source: "A Hellish Controversy," *The Economist*, October 8, 2005, p. 73.



group affiliation, loyalty, reciprocal obligations, honesty, and education all boost the competitiveness of Japanese companies. The emphasis on group affiliation and loyalty encourages individuals to identify strongly with the companies in which they work. This tends to foster an ethic of hard work and cooperation between management and labor "for the good of the company." Similarly, reciprocal obligations and honesty help foster an atmosphere of trust between companies and their suppliers. This encourages them to enter into long-term relationships with each other to work on inventory reduction, quality control, and design—all of which have been shown to improve an organization's competitiveness. This level of cooperation has often been lacking in the West, where the relationship between a company and its suppliers tends to be a short-term one structured around competitive bidding rather than one based on long-term mutual commitments. In addition,

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the availability of a pool of highly skilled labor, particularly engineers, has helped Japanese enterprises develop cost-reducing process innovations that have boosted their productivity. 62 Thus, cultural factors may help explain the competitive advantage many Japanese businesses enjoy in the global marketplace. The rise of Japan as an economic power during the second half of the 20th century may in part be attributed to the economic consequences of its culture.

It also has been argued that the Japanese culture is less supportive of entrepreneurial activity than, say, American society. In many ways, entrepreneurial activity is a product of an individualistic mind-set, not a classic characteristic of the Japanese. This may explain why American enterprises, rather than Japanese corporations, dominate industries where entrepreneurship and innovation are highly valued, such as computer software and biotechnology. Of course, obvious and significant exceptions to this generalization exist. Masayoshi Son recognized the potential of software far faster than any of Japan's corporate giants, set up his company, Softbank, in 1981, and has since built it into Japan's top software distributor. Similarly, dynamic entrepreneurial individuals established major Japanese companies such as Sony and Matsushita. But these examples may be the exceptions that prove the rule, for as yet there has been no surge in entrepreneurial high-technology enterprises in Japan equivalent to what has occurred in the United States.

For the international business, the connection between culture and competitive advantage is important for two reasons. First, the connection suggests which countries are likely to produce the most viable competitors. For example, one might argue that U.S. enterprises are likely to face continued growth in aggressive, cost-efficient competitors from those Pacific Rim nations where a combination of free market economics, Confucian ideology, group-oriented social structures, and advanced education systems can all be found (e.g., South Korea, Taiwan, Japan, and, increasingly, China).

Second, the connection between culture and competitive advantage has important implications for the choice of countries in which to locate production facilities and do business. Consider a hypothetical case when a company has to choose between two countries, A and B, for locating a production facility. Both countries are characterized by low labor costs and good access to world markets. Both countries are of roughly the same size (in terms of population) and both are at a similar stage of economic development. In country A, the education system is undeveloped, the society is characterized by a marked stratification between the upper and lower classes, and there are six major linguistic groups. In country B, the education system is well developed, social stratification is lacking, group identification is valued by the culture, and there is only one linguistic group. Which country makes the best investment site?

Country B probably does. In country A, conflict between management and labor, and between different language groups, can be expected to lead to social and industrial disruption, thereby raising the costs of doing business.⁶³ The lack of a good education system also can be expected to work against the attainment of business goals.

The same kind of comparison could be made for an international business trying to decide where to push its products, country A or B. Again, country B would be the logical choice because cultural factors suggest that in the long run, country B is the nation most likely to achieve the greatest level of economic growth.

But as important as culture is, it is probably less important than economic, political, and legal systems in explaining differential economic growth between nations. Cultural differences are significant, but we should not overemphasize their importance in the economic sphere. For example, earlier we noted that Max Weber argued that the ascetic principles embedded in Hinduism do not encourage entrepreneurial activity. While this is an interesting academic thesis, recent years have seen an increase in entrepreneurial activity in India, particularly in the information technology sector where India is rapidly becoming an important global player. The ascetic principles of Hinduism and caste-based social stratification have apparently not held back entrepreneurial activity in this sector.

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CHAPTER SUMMARY

We have looked at the nature of social culture and studied some implications for business practice. The chapter made the following points:

- 1. Culture is a complex whole that includes knowledge, beliefs, art, morals, law, customs, and other capabilities people acquire as members of society.
- 2. Values and norms are the central components of a culture. Values are abstract ideals about what a society believes to be good, right, and desirable. Norms are social rules and guidelines that prescribe appropriate behavior in particular situations.
- 3. Values and norms are influenced by political and economic philosophy, social structure, religion, language, and education.
- The social structure of a society refers to its basic social organization. Two main dimensions along which social structures differ are the individualgroup dimension and the stratification dimension.
- In some societies, the individual is the basic building block of social organization. These societies emphasize individual achievements above all else. In other societies, the group is the basic building block of social organization. These societies emphasize group membership and group achievements above all else.
- 6. All societies are stratified into different classes. Class-conscious societies are characterized by low social mobility and a high degree of stratification. Less class-conscious societies are characterized by high social mobility and a low degree of stratification.
- 7. Religion may be defined as a system of shared beliefs and rituals that is concerned with the realm of the sacred. Ethical systems refer to a set of

- moral principles, or values, that are used to guide and shape behavior. The world's major religions are Christianity, Islam, Hinduism, and Buddhism. Although not a religion, Confucianism has an impact on behavior that is as profound as that of many religions. The value systems of different religious and ethical systems have different implications for business practice.
- Language is one defining characteristic of a culture. It has both spoken and unspoken dimensions. In countries with more than one spoken language, we tend to find more than one culture.
- 9. Formal education is the medium through which individuals learn skills and are socialized into the values and norms of a society. Education plays an important role in the determination of national competitive advantage.
- 10. Geert Hofstede studied how culture relates to values in the workplace. He isolated four dimensions that he claimed summarized different cultures: power distance, uncertainty avoidance, individualism versus collectivism, and masculinity versus femininity.
- Culture is not a constant; it evolves. Economic progress and globalization seem to be two important engines of cultural change.
- 12. One danger confronting a company that goes abroad for the first time is being ill-informed. To develop cross-cultural literacy, international businesses need to employ host-country nationals, build a cadre of cosmopolitan executives, and guard against the dangers of ethnocentric behavior.
- The value systems and norms of a country can affect the costs of doing business in that country.

Critical Thinking and Discussion Questions

- 1. Outline why the culture of a country might influence the costs of doing business in that country. Illustrate your answer with examples.
- 2. Do you think that business practices in an Islamic country are likely to differ from business practices in the United States? If so, how?
- 3. What are the implications for international business of differences in the dominant religion or ethical system of a country?
- 4. Choose two countries that appear to be culturally diverse. Compare the cultures of those countries and then indicate how cultural differences

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- influence (a) the costs of doing business in each country, (b) the likely future economic development of that country, and (c) business practices.
- 5. Reread the Country Focus, "Islamic Capitalism in Turkey." Then answer the following questions:
 - Can you see anything in the values of Islam that is hostile to business?
 - b. What does the experience of the region around Kayseri teach us about the relationship between Islam and business?
 - c. What are the implications of Islamic values toward business for the participation of a country like Turkey in the global economy?

- 6. Reread the case, "McDonald's and Hindu Culture," then answer the following questions:
 - McDonald's has been reasonably successful in India, despite the country's very different food culture. Why?
 - b. Do you think that McDonald's could have and should have foreseen the problems it ran into in India when using beef extract in its oil? What could it have done differently?



- 1. You are preparing for a business trip to Brazil where you will need to interact extensively with local professionals. Therefore, you should consider collecting information regarding local culture and business habits prior to your departure. A colleague from Latin America recommends you visit the "Centre for Intercultural Learning" and read through the country insights provided for Brazil. Prepare a short description of the most striking cultural characteristics that may affect business interactions in this country.
- 2. Typically, cultural factors drive the differences in business etiquette encountered during

international business travel. In fact, Asian cultures exhibit significant differences in business etiquette when compared to Western cultures. For example, in Thailand it is considered offensive to show the sole of the shoe or foot to another. Prior to leaving for your first business trip to Asia, a colleague informed you that a guide called "Business Etiquette Around the World" may help you during your trip. Using the globalEDGETM Web site, find five tips regarding business etiquette of the Asian country of your choice.

CLOSING CASE

DMG-Shanghai

Back in 1993, New Yorker Dan Mintz moved to China as a freelance film director with no contacts, no advertising experience, and no Mandarin. By 2006, the company he subsequently founded in China, DMG, had emerged as one of China's fastest growing advertising agencies with a client list that includes Budweiser, Unilever, Sony, Nabisco, Audi, Volkswagen, China Mobile, and dozens of other Chinese brands. Mintz attributes his success in part to what the Chinese call guanxi.

Guanxi literally means relationships, although in business settings it can be better understood as connections. Guanxi has its roots in the Confucian philosophy of valuing social hierarchy and reciprocal obligations. Confucian ideology has a 2,000-year-old history in China. Confucianism stresses the importance of relationships, both within the family and between master and servant. Confucian ideology teaches that people are not created equal. In Confucian thought, loyalty, with its related obligations to one's superiors (or to family), is regarded as a sacred duty, but at the same time, this loyalty has its price. Social superiors are obligated to reward the loyalty of their social inferiors by bestowing "blessings" upon them; thus, the obligations are reciprocal.

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Today, Chinese will often cultivate a guanxiwang, or "relationship network," for help. Reciprocal obligations are the glue that holds such networks together. If those obligations are not met—if favors done are not paid back or reciprocated—the reputation of the transgressor is tarnished, and he or she will be less able to draw on his or her guanxiwang for help in the future. Thus, the implicit threat of social sanctions is often sufficient to ensure that favors are repaid, obligations are met, and relationships are honored. In a society that lacks a strong rule-based legal tradition, and thus legal ways of redressing wrongs such as violations of business agreements, guanxi is an important mechanism for building long-term business relationships and getting business done in China. There is a tacit acknowledgment that if you have the right guanxi, legal rules can be broken, or at least bent. Mintz, who is now fluent in Mandarin, cultivated his guanxiwang by going into business with two young Chinese who had connections, Bing Wu and Peter Xiao. Bing Wu, who works on the production side of the business, was a former national gymnastics champion, which translates into prestige and access to business and government officials. Peter Xiao comes from a military family with major political connections. Together, these three have been able to open doors that long-established Western advertising agencies have not. They have done it in large part by leveraging the contacts of Wu and Xiao, and by backing up their connections with what the Chinese call *shi li*, the ability to do good work.

A case in point was DMG's campaign for Volkswagen, which helped the German company become ubiquitous in China. The ads used traditional Chinese characters, which had been banned by Chairman Mao during the cultural revolution in favor of simplified versions. To get

permission to use the characters in film and print ads—a first in modern China—the trio had to draw on highlevel government contacts in Beijing. They won over officials by arguing that the old characters should be thought of not as "characters" but as art. Later, they shot TV spots for the ad on Shanghai's famous Bund, a congested boulevard that runs along the waterfront of the old city. Drawing again on government contacts, they were able to shut down the Bund to make the shoot. Steven Spielberg had been able to close down only a portion of the street when he filmed Empire of the Sun there in 1986. DMG has also filmed inside Beijing's Forbidden City, even though it is against the law to do so. Using his contacts, Mintz persuaded the government to lift the law for 24 hours. As Mintz has noted, "We don't stop when we come across regulations. There are restrictions everywhere you go. You have to know how to get around them and get things done."64

Case Discussion Questions

- 1. Why do you think that it is so important to cultivate *guanxi* and *guanxiwang* in China?
- 2. What does the experience of DMG tell us about the way things work in China? What would likely happen to a business that obeyed all the rules and regulations, rather than trying to find a way around them as Dan Mintz apparently does?
- 3. What are the ethical issues that might arise when drawing upon *guanxiwang* to get things done in China? What does this suggest about the limits of using *guanxiwang* for a Western business committed to high ethical standards?

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