China, Hong Kong, Macau, and Taiwan

opening case

A lot of international business discussion today centers on how much economic power, political influence, and international competitiveness the People's Republic of China (PRC) has achieved and is forecast to gain in the next decades. China along with India, Brazil, and Russia form the BRIC (an acronym formulated using their initial letters) countries, which have been viewed as the business engines of tomorrow (especially China) based on their immense economic potential. The BRICs, which cover a quarter of the world's landmass and contain 40 percent of its population, had a combined GDP of $20 trillion in 2001. Today, these increasingly market-oriented economies boast a GDP of $37 trillion (or 22 percent of global GDP), a figure forecast to reach $120 trillion by 2050. Together, they control more than 43 percent of the world's currency reserves ($4 trillion) and 20 percent of its trade.

Basically, size of the population and size of the market were the two overriding factors that led former Goldman Sachs chief economist Jim O'Neill to first coin the acronym BRIC to highlight the immense collective economic potential of these four emerging markets. However, despite many countries' and companies' enthusiasm for increased global interaction and economic exchange with the BRIC economies, especially China and India, many have found that cultural differences hinder their ability to conduct business in these countries. Not only is the culture different between each BRIC country and most other of the globe's remaining 192 countries, but the business and societal cultures within the BRIC countries are also vastly different from each other.

The outlook for the BRICs may not be as positive as we have been led to believe anyway. For example, the structural transformation of China, which has been the main driver of the BRICs, from an export-driven economy to one relying more on domestic consumption, has added some woes. The likelihood is that the trend of annual increases of exports to China from much of the developed world also will slow down (but that we will see trade increases nevertheless, just not as significantly as in the past decade).

Importantly, China is still trying to implement the "one country, two systems" approach—a constitutional principle formulated by Deng Xiaoping—which involves how to merge mainland China with Hong Kong and Macau. In addition, Taiwan presents an even bigger ongoing structural, legal, and cultural challenge for China.

Hong Kong, a business port located off the southeast coast of China in eastern Asia, traces its history to the Old Stone Age, and really became entrenched in today's infrastructure with its inclusion into the Chinese empire during the Qin dynasty (221–206 B.C.). However, Hong Kong was a self-governing British colony from 1841 to 1997, at which time Hong Kong became a Special Administrative Region (SAR) of the People's Republic of China (on July 1, 1997), pursuant to the 1984 Sino-British Joint Declaration. The

continued

backdrop is that, throughout the colonial era, Hong Kong's citizens developed a distinctive "Hong Kong identity." To this day, the cultural differences between mainland China and Hong Kong are often pronounced, and they are potentially becoming more contentious with mainland China asserting its influence. The sentiment in Hong Kong is that it needs to be recognized as having a unique culture and "national identity." Hong Kong is in many ways often at odds with mainland China, and periodic clashes flare between Hong Kong and China, as happened in 2012.

Prior to 1999, Macau was a Portuguese colony, followed by being an overseas province under Portuguese administration from 1887 to 1999. Macau was both the first and last European colony in China. Just before its return to China in 1999, Macau had been experiencing a number of economic difficulties. Macau's biggest revenue items—gaming and tourism—decreased in 1993, followed by the collapse of the property market in 1994, and then the economic crisis in 1997 that affected much of Asia. By the time 1999 came around for a handover from Portugal to China, most locals welcomed the change because of deteriorating public order, rising crime rates, and widespread corruption that had infiltrated the culture during the last years of the Portuguese-Macau government. Today, Macau is being positioned as a key diplomatic player in China's relations with Portuguese-speaking countries.

Taiwan, officially the Republic of China (ROC), is an island nation (Island of Taiwan, formerly Formosa). It is the most populous country and the largest economy that is not a member of the United Nations. Taiwan was ceded by the Qing dynasty to Japan in 1895 after the Sino-Japanese War. The Republic of China was established in 1912 after the fall of the Qing dynasty while Taiwan was under Japanese rule. However, China has consistently claimed sovereignty over Taiwan and asserted that the Republic of China is no longer in legitimate existence. Under its One-China Policy, China even refuses to engage in diplomatic relations with any country that recognizes Taiwan. In this semi-independent state, Taiwan has experienced solid economic growth and industrialization, creating a stable industrial economy. The culture blends Confucianist Han Chinese and Taiwanese aboriginal influences.

When we combine mainland China, Hong Kong, Macau, and Taiwan, we often talk about the entity "Greater China" or the "Greater China Region." Obviously, there is no legal entity or sovereignty associated with this "greater region," except in business/economic development terms. Some argue that the "region" can be seen as being culturally homogeneous but such arguments do not hold up well given the clashes between mainland China and Hong Kong and Taiwan. Interestingly, Macau has been more positive about its relationship or partnership with China, perhaps due to experiencing such serious financial difficulties immediately prior to the 1999 handover (that were essentially solved in the China partnership). Given the strained relationships and the nuances of political issues between China and its close cultural neighbors, the phrase "sinophone world" ("Chinese-speaking world") is often used instead of Greater China to incorporate mainland China, Hong Kong, Macau, and Taiwan. ●

Sources: Tomas Hult, "The U.S. Shouldn't Fret over Cheaper Yuan," *Time*, August 14, 2015; Tomas Hult, "Why the Fed Is No Longer Center of the Financial Universe," *Fortune*, September 17, 2015; Tomas Hult, "Does the Global Stock Market Sell-Off Signal the BRIC Age Is Already Over?" *The Conversation*, August 28, 2015; Tomas Hult, "U.S. Shouldn't Fret over Cheaper Yuan: China's Growing Middle Class Will Keep Buying 'Made In America,'" *The Conversation*, August 13, 2015; Tomas Hult, "The BRIC Countries," *globalEDGE Business Review*, 3 (4), 2009; Bruce Keillor, Tomas Hult, Robert Erffmeyer, and Emin Babakus, "NATID: The Development and Application of a National Identity Measure for Use in International Marketing," *Journal of International Marketing*, 4 (2), 1996, pp. 57–73; Erkan Ozkaya, Cornelia Droge, Tomas Hult, Roger Calantone, and Elif Ozkaya, "Market Orientation, Knowledge Competence, and Innovation," *International Journal of Research in Marketing*, 32 (3), 2015, pp. 309–18; and Mark Esposito, Amit Kapoor, and Deepti Mathur, "What Is the State of the BRICS Economies?" World Economic Forum, April 19, 2016.

Introduction

In Chapters 2 and 3, 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 "cultural" chapter, we explore how differences in culture across and within countries can have an effect on the development and implementation of a company's international business strategies. This includes a focus on the operations of all types of multinational companies—from

small to medium to large companies. Several themes run through this chapter. The first is that business success in many, if not most, countries requires what we call 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. It is sometimes easy to forget how different various cultures really are, even today.[1] Underneath the veneer of modernism and globalization, deep cultural differences often remain.[2]

cross-cultural literacy
Understanding how the culture of a country affects the way business is practiced.

The opening case on China, Hong Kong, Macau, and Taiwan highlights that deep cultural differences exist in what many would consider to be a region with a very similar cultural background, i.e., Greater China. Instead, what we find is that throughout the colonial era, Hong Kong's citizens developed a distinct "Hong Kong identity" that seeks to be recognized as a unique culturally based "national identity." Meanwhile, the Taiwanese culture, a blend of Confucian Han Chinese and Taiwanese aboriginal cultures, is often at odds with mainland China. Interestingly, Macau has had a better experience with the Chinese takeover due to the economic difficulties that preceded the handover from Portugal in 1999, resulting in a much better partnership between China and Macau. Macau is being positioned as a key diplomatic player in China's relations with Portuguese-speaking countries. While some observers around the world may simply refer to the Greater China Region as "Chinese," the deeply ingrained cultural values and norms in the region are very different from each other as a practical matter.

The chapter's closing case on The Swatch Group illustrates the various cultural differences that exist in the world and how these cultural differences can be used when developing watches that fit a large number of global customer segments. While Swatch has become a very well-known company and most people would recognize a Swatch watch from a distance, Swatch's large-scale production of watches and jewelry is used to help create individually and culturally based customer uniqueness. The company thrives on playing to country-specific cultures that make people different from each other as well as personal characteristics people showcase in their individualized Swatch use. The company encourages this individuality via the tags #MySwatch and #YourMove. In this chapter, we make a case that it is important for foreign businesses to gain an understanding of the culture that prevails in countries where they do business and indeed that success requires a foreign enterprise to adapt, at least to some degree for most products and services, to the macro (overall) culture of its host country as well as to dominant subcultures within the country.[3]

Another theme that we will develop in this chapter is that a relationship may exist between culture and the cost of doing business in a country or region. Different countries will be either more or less supportive of the market-based mode of production and sales to customers (i.e., where supply and demand set the prices for products and services). For example, cultural factors may have lowered the costs of doing business in Japan and may help explain Japan's rapid economic ascent as an industrialized and competitive nation in the world about half a century ago.[4] Cultural factors can sometimes also raise the costs of doing business. Historically, class divisions were an important aspect of British culture, and for a long time, firms operating in the United Kingdom 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 same period that Japan was developing into a global force. This raised the costs of doing business in Britain relative to the costs in countries such as Germany, Japan, Norway, Sweden, and Switzerland, where class conflict was historically less prevalent.

The examples of Japan and the United Kingdom bring us to another theme that we explore in this chapter. Culture is not static. Culture is rooted in the values and norms that we have as people, and those are generally tied to doing something over a period of time. Think about it: If you do the same thing over and over, it becomes a habit and then you almost take it for granted. But sometimes you break the habit and start something new. Culture is very much the same. Culture can and does evolve, although the rate at which culture can change is the subject of dispute (how easy or often do we change habits?). Generally, culture evolves as behaviors of people become ingrained and coded in their values and norms. A cultural mindset develops consistent with people's behavior over time. But things happen sometimes to cause people's behavior to change, and so culture evolves.

Did You Know?
Did you know arriving late is expected in some cultures?

Visit your instructor's Connect® course and click on your eBook or SmartBook® to view a short video explanation from the authors.

You may recognize how your own personal cultural values and norms are hard to change. The same goes for the culture of a society, which evolves when large population segments in a country or region adopt values based on common ways of behaving, which change only slowly. Finally, multinational corporations operating across national cultures can themselves have unique values and norms. Individuals may operate a certain way in their personal lives, a different way at work, and yet a different way in society. This is not to say that there are not overlaps—but many people also act differently in each context.

LO 4-1
Explain what is meant by the culture of a society.

What Is Culture?

People have a hard time agreeing on a simple definition of *culture*. This makes it difficult to build culture into companies' global operations across the world's 196 countries. In the 1870s, 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."[5] Since then, thousands of definitions have been offered by diverse experts from many cultures—in other words culture actually affects how different people define *culture* itself!

Florence Kluckhohn and Fred Strodtbeck's values orientation theory of culture states that all definitions of culture must answer a limited number of universal problems, that the value-based solutions are limited in number and universally known, and that different cultures have different preferences among them.[6] Following their work, other prominent specialists have supported the idea of a universal set of human values serving as the basis for culture; see Milton Rokeach's work on "the nature of human values" and Shalom Schwartz's work on the "theory of basic human values."[7]

Also supportive of a finite set of human values, Geert Hofstede, a Dutch expert on cross-cultural differences and international management, defined *culture* as "the collective programming of the mind which distinguishes the members of one human group from another."[8] Hofstede's work is by far the most used culture research in both scholarship and business practice over the last half a century, and we have relied on his scientific approach to understand how, when, and why culture has an impact on multinational corporations. Culture includes systems of values, and values are among the building blocks of culture.[9] Another complementary 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.[10]

culture
A system of values and norms that are shared among a group of people and that when taken together constitute a design for living.

values
Abstract ideas about what a society believes to be good, right, and desirable.

norms
Social rules and guidelines that prescribe appropriate behavior in particular situations.

society
Group of people who share a common set of values and norms.



Geert Hofstede, often viewed as the foremost expert on cross-cultural differences in international business, presents his work in Istanbul, Turkey, at the Academy of International Business conference.

©Academy of International Business (AIB)

As authors of this textbook, we subscribe to the definitions of Hofstede and the team of 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 ideas about what a group believes to be good, right, and desirable. Put differently, values are shared assumptions about how things ought to be.[11] By **norms**, we mean the social rules and guidelines that prescribe appropriate behavior in particular situations. We use the term **society** to refer to a group of people sharing a common set of values and norms. While a society may be equivalent to a country, some countries have several societies or subcultures, and some societies embrace more than one country. For example, the Scandinavian countries of Denmark, Finland, Iceland, Norway, and Sweden are often viewed as culturally being one society for the purpose of a multinational corporation engaging in that marketplace. So, if one Scandinavian country's people like a

product from a company, there is a very good chance customers from the other Scandinavian countries will as well.

VALUES AND NORMS

Values form the bedrock of a culture. Values 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, 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. Freedom and security are often the core reasons the U.S. political leadership uses when justifying the country engaging in various parts of the world, in some way, as the "global police" force. Values are also often reflected in the 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.[12]

Norms are the social rules that govern people's actions toward one another. These norms can be subdivided into two major categories: folkways and mores. Both of these categories were coined a long time ago in 1906 by William Graham Sumner, an American sociologist, and they are still applicable and embedded in our societies. **Folkways** are the routine conventions of everyday life. Generally, folkways are actions of little moral significance. Rather, they are social conventions that deal with things like appropriate dress code in a particular situation, good social manners, eating with the correct utensils, neighborly behavior, and so on. 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. However, traveling managers are increasingly expected to know about specific dress codes, social and professional manners, eating with the correct utensils, and business etiquette. The evolution of norms now demands that business partners at least try to behave according to the folkways in the country in which they are doing business.

folkways
Routine conventions of everyday life.

A good example of a folkway is people's attitude toward time. People are very aware of what time it is, the passage of time, and the importance of time in the United States and northern European cultures such as Germany, Netherlands, and the Scandinavian countries (Denmark, Finland, Iceland, Norway, and Sweden). In these cultures, businesspeople are very conscious about scheduling their time and are quickly irritated when time is wasted because a business associate is late for a meeting or if they are kept waiting. Time is really money in the minds of these businesspeople.

The opposite of the time-conscious Americans, Germans, Dutch, and Scandinavians, businesspeople in many Arabic, Latin, and African cultures view time as more elastic. Keeping to a schedule is viewed as less important than building a relationship or finishing an interaction with people. For example, an American businessperson might feel slighted if he or she is kept waiting for 30 minutes outside the office of a Latin American executive before a meeting. However, the Latin American person 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 Arabian attitudes toward time have been shaped by their nomadic Bedouin heritage, in which precise time

Planning on Doing Business Internationally?

If a company is planning to export a product, two basic questions need to be asked. Is the product ready to be exported? And, is the company ready to export the product (i.e., does the company have the infrastructure, knowledge, and skills to export the product)? Culturally, the product is either ready for a global market or not (and, if not, the company can modify it if the market is important enough). Company readiness is much more culturally sensitive. Having the appropriate cultural knowledge and skills is important. If you have the basic information about a company, you can use globalEDGE's diagnostic tool called CORE (Company Readiness to Export) to assess both product and company readiness to export. Which do you think is the most important: product readiness or company readiness?

Sources: globalEDGE's CORE diagnostic tool, http://globalEDGE.msu.edu; Badenhausen, K., "America's Best Small Companies," *Forbes*, October 9, 2013.

played no real role and arriving somewhere "tomorrow" might mean next week. Like Latin Americans, many Saudis are unlikely to understand Westerners' obsession with precise times and schedules.

Folkways also 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.[13] 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. 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 (Japanese often have business cards with Japanese printed on one side and English printed on the other), 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 or her own card, similarly bowing in the process. To not do so and to fail to read the card that he or she has been given, instead casually placing it in a jacket, pocket, or purse, violates this important folkway and is considered rude.

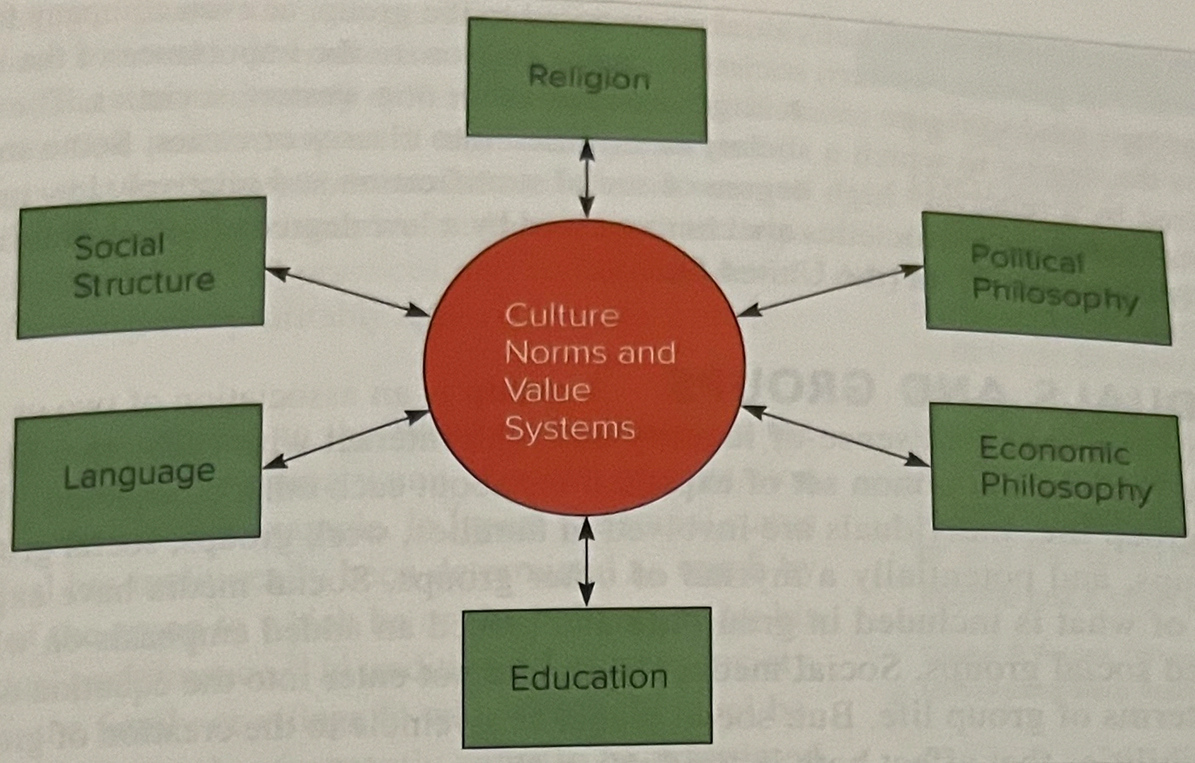
mores
Norms seen as central to the functioning of a society and to its social life.

Mores refer to norms that are more widely observed, have greater moral significance than folkways, and are central to the functioning of a society and to its social life. Mores have a much greater significance than folkways. Violating mores can bring serious retribution, ill will, and the collapse of any business deal. Mores are often so important that they have been enacted into law. Mores, to use extreme examples, include laws against theft, adultery, incest, and cannibalism. All advanced societies have laws against theft and cannibalism, among other things, but in modern times not necessarily adultery. Many mores (and laws) differ across cultures. In the United States, 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 to their dismay). That said, countries like Saudi Arabia and the United Arab Emirates are becoming more tolerant of Westerners behaving like Westerners in their countries—such as drinking alcohol if they do not flaunt it. Over time, mores may be implemented differently depending on where you are and who you are, and it pays to know the difference.

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. While nation-states are often studied for their "national identity," "national character," and even "competitive advantage of nations," in reality they may contain a single culture or several subcultures.[14] The French nation can be thought of as the political embodiment of French culture. However, the nation of Canada has a French culture too, and at least three cultures—an Anglo culture, a French-speaking "Quebecois" culture, and a Native American culture. Similarly, many of the 55 African nations have important cultural differences among tribal groups, as horrifically 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, for example, is composed of many distinct cultural groups with their own rich history and traditions (e.g., Andhras, Gonds, Gujaratis, Marathas, Oriya, Rajputs, Tamils).

Cultures can also embrace several nations, as the Scandinavian countries of Denmark, Finland, Iceland, Norway, and Sweden. There is a strong case that we can consider Islamic society as a culture that is shared by the citizens of many different nations in the Middle East, Asia, and Africa. There are nuances to the Islamic world—those who adhere to various degrees, or to different elements, of Islam. As you will recall from Chapter 3, 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).[15]



4.1 FIGURE
Determinants of culture.

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. For example, in the United States, one can talk about African American culture, Cajun culture, Chinese American culture, Hispanic culture, Indian culture, Irish American culture, Southern culture, and many more cultural groups. In some way, this means that the relationship between culture and country is often ambiguous. Even if a country can be characterized as having a single homogeneous culture, often that national culture is a mosaic of subcultures. To honor these cultural nuances, businesspeople need to be aware of the delicate issues that pertain to folkways, and they also need to make sure not to violate mores in the country or culture in which they intend to do business. Increased globalization has meant an increased number of business relationships across countries and cultures, but not necessarily an increased cultural understanding to go with it. Culture is a complex phenomenon with multiple dimensions and multiple levels always worthy of study.[16]

DETERMINANTS OF CULTURE The values and norms of a culture do not emerge fully formed. They evolve over time in response to a number of factors, including prevailing political and economic philosophies, the social structure of a society, and the dominant religion, language, and education (see Figure 4.1). We discussed political and economic philosophies 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 Sweden, precisely because each society operates according to different political and economic philosophies. In the next sections of this chapter, we 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 influence social structure and religion.

LO 4-2
Identify the forces that lead to differences in social culture.

test PREP
Use SmartBook to help retain what you have learned. Access your Instructor's Connect course to check out SmartBook or go to learnsmartadvantage.com for help.

Social Structure

A society's **social structure** refers to its basic social organization. In essence, we are talking about how a society is organized in terms of its values, norms, and the relationships that are part of the society's fabric. How society operates and how people, groups, and companies treat each other both emerge from and are determinants of the behaviors of individuals in the specific society. Although the social structure consists of many different aspects, two dimensions are particularly important when explaining differences. The first is the degree to which the basic unit

social structure
The basic social organization of a socie

of a social organization is the individual, as opposed to the group, or even company for which a person works. In general, western societies tend to emphasize the importance of the individual, whereas groups tend to figure much larger in many other non-western 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 (India); other societies are characterized by a low degree of social stratification and high mobility between strata (the United States).

group
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.

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.[17] Human social life is group life. Individuals are involved in families, work groups, social groups, recreational groups, and potentially a myriad of other groups. Social media have expanded the boundaries of what is included in group life and placed an added emphasis on what we can call extended social groups. Social media clearly did not enter into the equation of what was possible in terms of group life. But, social media as a vehicle to the creation of group life has unique possibilities that affect both individuals within a social group and the group itself. For example, consumers are significantly more likely to buy from the brands they follow on Instagram, Twitter, Facebook, or LinkedIn, or that they get exposed to via Snapchat, due to group influences. However, while groups are found in all societies, some societies differ according to the degree to which the group is viewed as the primary means of social organization.[18] In some societies, individual attributes and achievements are viewed as being more important than group membership; in others, the reverse is true.

LO 4-3
Identify the business and economic implications of differences in culture.

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 whom they work for as of their individual performance in whatever work setting they choose. More and more, individuals are regarded as "independent contractors" even though they belong to and work for a company. These individuals, in essence, build their personal brands by the knowledge, skills, and experience that they have, which often translates to increased salaries and promotions at the current company or another company that believes that it can benefit from that person's capabilities. In science, the label "star scientist" has become synonymous with these individual high-producers of innovative products based on their knowledge, skills, and experience.[19]

The emphasis on individual performance has both beneficial and harmful aspects. In the United States, the emphasis on individual performance finds expression in an admiration of rugged individualism, entrepreneurship, and innovation. One benefit of this is the high level of entrepreneurial activity in the United States, in Europe, and throughout many of the so-called developed nations. Over time, entrepreneurial individuals in the United States have created lots of new products and new ways of doing business (personal computers, photocopiers, computer software, biotechnology, supermarkets, discount retail stores). One can argue that the dynamism of the U.S. economy owes much to the philosophy of individualism. Highly individualistic societies are often synonymous with those capable of constantly innovating by their creative ideas for products and services.

Individualism also finds expression in a high degree of managerial mobility between companies, as our "personal brand" example illustrated earlier, 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 and increase their salaries, it is not necessarily a good thing for companies. The lack of loyalty and commitment to a 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 contacts that come from years of working for the same company. An

effective manager draws on company-specific experience, knowledge, and a network of contacts to find solutions to current problems, and companies may suffer if their managers lack these attributes. One positive aspect of high managerial mobility, however, is that executives are exposed to different ways of doing business. The ability to compare business practices helps executives identify how good practices and techniques developed in one firm might be profitably applied to other firms.

Is Social Class Determined by Income?

In the text, we say that a class system is a less rigid form of social stratification than caste, in which social mobility is possible. Class 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. Social class can broadly be divided into three levels, the upper (or rich), middle, and lower (or poor). These levels appear to be tied to income, but does a high income automatically bring power and prestige? Is it the income that determines social class, or is it the social class that will determine the income? Or, is income just a small portion of social class status?

Source: D. Francis, "Where Do You Fall in the American Economic Class System?" *US News and World Report*, September 13, 2012.

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 has traditionally been determined as much by the standing of the group to which he or she belongs as by his or her individual performance.[20] 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 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."[21]

Nakane goes on to observe that the primacy of the group often evolves into a deeply emotional attachment in which identification with the group becomes very important in a person's life. For example, as a student, you will often identify yourself as going to XYZ University or, soon enough, as a graduate of XZY University—and the latter identification as an alumnus of a university is something that you carry with you for life. In many cases, we also extend that group thinking beyond a company, organization, or university. For example, we talk about being a part of a university-related conference—for example, "I'm going to Michigan State University, and we are part of the Big Ten Conference."

At the country level, one central value of Japanese culture is the importance attached to group membership. This 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, 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 some Japanese companies 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.[22] In all these cases, cooperation is driven by the need to improve the performance of the group.

The primacy of the value of group identification also discourages managers and other workers, in many cases, 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), albeit those norms have changed significantly in recent decades, with much more movement being seen between companies today. 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 with others.

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 dynamism and entrepreneurship. Although the long-run consequences are unclear, one implication is that the United States could continue to create more new industries than Japan and continue to be more successful at pioneering radically new products and new ways of doing business. By most estimates, the United States has led the world in innovation for some time, especially radically new products and services, and the country's individualism is a strong contributor to this innovative mindset. At the same time, some group-oriented countries such as Japan do very well in innovation, especially non-radical "normal" innovations, according to the GE Global Innovation Barometer.[23] This is an indication that multiple paths to being innovative exist in both individualistic and group-oriented cultures, drawing from the uniqueness of the particular culture and what core competencies are reflected in the culture.[24] Some argue that individualistic societies are great at creating innovative ideas while collectivist, or group-oriented, societies are better at the implementation of those ideas (taking the idea to the market).

LO 4-2
Identify the forces that lead to differences in social culture.

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 socioeconomic 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. Overall, social stratification is based on four basic principles:[25]

social strata
Hierarchical social categories often based on family background, occupation, and income.

1. Social stratification is a trait of society, not a reflection of individual differences.
2. Social stratification carries over a generation to the next generation.
3. Social stratification is generally universal but variable.
4. Social stratification involves not just inequality but also beliefs.

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 twentieth 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 (for more details, see the accompanying Country Focus on the caste system in India today).[26]

social mobility
The extent to which individuals can move out of the social strata into which they are born.

caste system
A system of social 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.

class system
A system of social stratification in which social status is determined by the family into which a person is born and by subsequent socioeconomic achievements; mobility between classes is possible.

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 the United Kingdom has a more rigid class structure than certain other western societies, such as the United States.[27] 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

country FOCUS

Determining Your Social Class by Birth

Modern India is a country of dramatic contrasts. The country's information technology (IT) sector is among the most vibrant in the world, with companies such as Tata Consultancy Services, Cognizant Technology Solutions, Infosys, and Wipro as powerful global players. Cognizant is an interesting company in that it was founded as a technology arm of Dun & Bradstreet (USA), but it is typically considered an Indian IT company because a majority of its employees are based in India. In fact, many IT companies locate or operate in India because of its strong IT knowledge, human capital, and culture.

Traditionally, India has had one of the strongest caste systems in the world. Somewhat sadly, this caste system still exists today even though it was officially abolished in 1949, and many Indians actually prefer it this way! At the core, the caste system has no legality in India, and discrimination against lower castes is illegal. India has also enacted numerous new laws and social initiatives to protect and improve living conditions of lower castes in the country.

Historically, India's caste system was an impediment to social mobility. But the stranglehold on people's socioeconomic conditions is steadily becoming a fading memory among the educated, urban middle-class Indians who make up the majority of employees in the high-tech economy. Unfortunately, the same is not true in rural India, where some 70 percent of the nation's population still resides. In the rural part of the country, the caste remains a pervasive influence.

For example, a young female engineer at Infosys, who grew up in a small rural village and is a *dalit* (sometimes called a "scheduled caste"), recounts how she never entered the house of a *Brahmin*, India's elite priestly caste, even though half of her village were *Brahmins*. And when a *dalit* was hired to cook at the school in her native village, *Brahmins* withdrew their children from the school. The engineer herself is the beneficiary of a charitable training scheme developed by Infosys. Her caste, making up about 16 percent of the country (or around 165 million people), is among the poorest in India, with some 91 percent making less than $100 a month, compared to 65 percent of *Brahmins*.

To try to correct this historical inequality, politicians have talked for years about extending the employment quota system to private enterprises. The government has told private companies to hire more *dalits* and members of tribal communities and have been warned that "strong measures" will be taken if companies do not comply. Private employers are resisting attempts to impose quotas, arguing with some justification that people who are guaranteed a job by a quota system are unlikely to work very hard.

At the same time, progressive employers realize they need to do something to correct the inequalities, and unless India taps into the lower castes, it may not be able to find the employees required to staff rapidly growing high-technology enterprises. As a consequence, the Confederation of Indian Industry implemented a package of *dalit*-friendly measures, including scholarships for bright lower-caste children. Building on this, Infosys is leading the way among high-tech enterprises. The company provides special training to low-caste engineering graduates who have failed to get a job in industry after graduation. While the training does not promise employment, so far almost all graduates who completed the seven-month training program have been hired by Infosys and other enterprises. Positively, Infosys programs are a privatized version of the education offered in India to try to break down India's caste system.

Sources: Mari Marcel Thekaekara, "India's Caste System Is Alive and Kicking—and Maiming and Killing," *The Guardian*, August 15, 2016; Noah Feldman, "India's High Court Favors Nationalism over Democracy," *Bloomberg View*, January 8, 2017; "Why Some of India's Castes Demand to Be Reclassified," *The Economist*, February 16, 2016.

middle class was further subdivided into the upper-middle class, whose members were involved in important managerial occupations and the prestigious professions (lawyers, accountants, doctors), and the lower-middle class, whose members were involved in clerical work (bank tellers) and the less prestigious professions (schoolteachers).

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.

According to some commentators, modern British society is now rapidly leaving behind this class structure and moving toward a classless society. However, sociologists continue to dispute this finding and present evidence that this is not the case. For example, one study reported that state schools in the London Borough (suburb) of Islington, which now has a population of 230,000, had only 79 candidates for university, while one prestigious private school alone, Eton, sent more than that number to Oxford and Cambridge.[28] 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. In another recent survey of the empirical literature, a sociologist noted that class differentials in educational achievement have changed surprisingly little over the last few decades in many societies, despite assumptions to the contrary.[29]

Another society for which 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 the reforms of a few decades ago, 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.[30]

The class system in the United States is less pronounced than in India, the United Kingdom, and China and mobility is greater. Like the UK, 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.

LO 4-3
Identify the business and economic implications of differences in culture.

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 the United Kingdom or India, 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 by which people tend to perceive themselves in terms of their class background, and this shapes their relationships with members of other classes.

consciousness
endency for individuals to perceive themselves in terms of their class background.

This 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, the past two decades have seen a dramatic reduction in industrial disputes, which bolsters the arguments of those who claim that the country is moving toward a classless society. Alternatively, as noted earlier, class consciousness may be reemerging in urban China, and it may ultimately prove to be significant in the country.

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. This can make it more difficult for companies based in such countries to establish a competitive advantage in the global economy.

test PREP
Use SmartBook to help retain what you have learned. Access your Instructor's Connect course to check out SmartBook or go to learnsmartadvantage.com for help.

Religious and Ethical Systems

LO 4-2
Identify the forces that lead to differences in social culture.

religion
A system of shared beliefs and rituals concerned with the realm of the sacred.

ethical system
A set of moral principles, or values, that is used to guide and shape behavior.

Religion may be defined as a system of shared beliefs and rituals that are concerned with the realm of the sacred.[31] An **ethical system** refers to a set of moral principles, or values, that are used to guide and shape behavior.[32] 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 roughly 2.20 billion adherents, Islam with around 1.60 billion adherents, Hinduism with 1.10 billion adherents (primarily in India), and Buddhism with about 535 million adherents (see Map 4.1). Although many other religions have an important influence in certain parts of the modern world (e.g., Shintoism in Japan, with roughly 40 million followers, and Judaism, which has 18 million adherents and accounts for 75 percent of the population of Israel), their numbers pale in comparison with these dominant religions (although as the precursor of both Christianity and Islam, Judaism has an indirect influence that goes beyond its numbers). We review these four religions, along with Confucianism, focusing on their potential business implications.

Some scholars have theorized 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. However, it is hazardous to make sweeping generalizations about the nature of the relationship between religion and ethical systems and business practice. While some professionals 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 may be small compared with the impact of economic policy. On the other hand,



4.1 MAP

World religions.

Source: "Map 14," in Allen, John

research by economists Robert Barro and Rachel McCleary does suggest that strong religious beliefs, particularly beliefs in heaven, hell, and an afterlife, have a positive impact on economic growth rates, irrespective of the particular religion in question.[33] Barro and McCleary looked at religious beliefs and economic growth rates in 59 countries. Their conjecture was that higher religious beliefs stimulate economic growth because they help sustain aspects of individual behavior that lead to higher productivity.

CHRISTIANITY

Christianity is the most widely practiced religion in the world with some 2.20 billion followers. 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 eleventh century led to the establishment of two major Christian organizations—the Roman Catholic Church and the Orthodox Church. Today, 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 (especially Greece and Russia). In the sixteenth 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 (Baptist, Methodist, Calvinist, and so on).

LO 4-3
Identify the business and economic implications of differences in culture.

Economic Implications of Christianity

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, prominent German sociologist Max Weber made a connection between Protestant ethics and "the spirit of capitalism" that has since become famous.[34] 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.[35]

Weber theorized that there was a relationship between Protestantism and the emergence of modern capitalism. He argued that Protestant ethics emphasizes 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.[36] Again, we 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 about 1.60 billion adherents, Islam is the second largest of the world's major religions. Islam dates to 610 A.D. when the Prophet Muhammad began spreading the word, although the Muslim calendar begins in 622 A.D. 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 40 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.

LO 4-2
Identify the forces that lead to differences in social culture.

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 (Allah). 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.[37] 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.[38] 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), demands that women should be dressed 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.[39] 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. For most, this characterization is misleading. Just as Christian fundamentalists are motivated by deeply held religious values that are firmly rooted in their faith, so are Islamic fundamentalists.

A small minority of radical "fundamentalists" who have hijacked the religion to further their own political and violent ends perpetrate the violence that the Western media associates with Islamic fundamentalism. Radical Islamic fundamentalists exist in various forms today, but the most notorious is probably ISIS—an acronym for Islamic State of Iraq and Syria. Now, the violence associated with radical Islamic fundamentalists can be seen across other religions as well. Some Christian "fundamentalists" have incited their own political engagement and violence. The vast majority of Muslims point out that Islam teaches peace, justice, and tolerance, not violence and intolerance. In fact, the foundation is that Islam explicitly repudiates the violence that a radical minority practices.

The rise of Islamic 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 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.[40] 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 grounds for this in Islamic doctrine. Islam makes no distinction between church and state. It is not just a religion; Islam is also the source of law, a guide to statecraft, 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.[41] (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 Afghanistan, Algeria, Egypt, Pakistan, Saudi Arabia, and the Sudan.

LO 4-3
Identify the business and economic implications of differences in culture.

Economic Implications of Islam

The Koran establishes some explicit economic principles, many of which are pro-free enterprise.[42] The Koran speaks approvingly of free enterprise and of earning legitimate profit through trade and commerce (the Prophet Muhammad himself 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 accompanying Country Focus 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, customs, and business practices. Businesses that are perceived as making an unjust profit through the exploitation of others, by deception, or by breaking contractual obligations are unlikely to be welcomed in an Islamic country. In Islamic countries where fundamentalism is on the rise, general hostility toward Western-owned businesses is likely to increase.

One economic principle of Islam prohibits the payment or receipt of interest, which is considered usury. This is not just a matter of theology; in several Islamic states, it is also 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 in the 1970s with the establishment of an Islamic bank in Egypt, Islamic banks opened in predominantly Muslim countries. Now there are hundreds of Islamic banks in more than 50 countries with assets of around $1.6 trillion; plus more than $1 trillion is managed

country FOCUS

Turkey, Its Religion, and Politics

For years now, Turkey has been lobbying the European Union to allow it to join the free trade bloc as a member state. If the EU says yes, it will be the first Muslim state in the union. But this is unlikely to happen any time soon; after all, it has been half a century in the making!

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 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 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. Outside 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.

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), says another force is at work: globalization! According to Arslan, over the past 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.

If there is a weakness in the Islamic model of business that is emerging in places such as Kayseri, some say it can be found in traditional attitudes toward the role of women in the workplace 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 may stymie the attempts of the region to catch up with the countries of the European Union.

Sources: Marc Champion, "Turkey's President Is Close to Getting What He's Always Wanted," *Bloomberg BusinessWeek*, February 8, 2017; "Dress in a Muslim Country: Turkey Covers Up," *The Economist*, January 26, 2017; "Turkey's Future Forward to the Past: Can Turkey's Past Glories Be Revived by Its Grandiose Islamist President?" *The Economist*, January 3, 2015.

by mutual funds that adhere to Islamic principles.[43] 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 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*.[44]

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-upon ratio. Some



©Glow Images

globalEDGE — Culture on globalEDGE

The "Culture" section of globalEDGE™ (globaledge.msu.edu/global-resources/culture) offers a variety of sources, information, and data on culture and international business. In addition, the "Insights by Country" section (globaledge.msu.edu/global-insights/by/country), with coverage of more than 200 countries and states, has culture coverage (e.g., what to do and not to do when visiting a country). In Chapter 4, we cover a lot of material on culture, and Geert Hofstede's research has been the most influential on culture and business for about half a century. globalEDGE™ has "The Hofstede Centre" as one of its cultural reference sources. This reference focuses on Hofstede's research on cultural dimensions, including scores for countries, regions, charts, and graphs. Are you interested in the scores for a country that we do not illustrate in Table 4.1? If so, check out "The Hofstede Centre" and its "Culture Compass," and see what the scores are for your favored country.

Muslims claim this is a more efficient system than the Western banking system because 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.

LO 4-2
Identify the forces that lead to differences in social culture.

HINDUISM Hinduism has approximately 1.10 billion 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.

LO 4-3
Identify the business and economic implications of differences in culture.

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.[45] 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.[46] But we must be careful not to read too much into Weber's rather old

arguments. Modern India is a very dynamic entrepreneurial society, and millions of hardworking entrepreneurs form the economic backbone of the country's rapidly growing economy, especially in the information technology sector.[47]

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, as discussed earlier in the chapter, it still casts a long shadow over Indian life.

BUDDHISM Buddhism, with some 535 million adherents, was founded in the sixth century B.C. by Siddhartha Gautama in what is now Nepal. Siddhartha renounced his wealth to pursue an ascetic lifestyle and spiritual perfection. His adherents claimed he 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, most Buddhists 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. This 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 is encouraged by Hinduism. Nevertheless, like Hindus, Buddhists stress the afterlife and spiritual achievement rather than involvement in this world.

LO 4-2
Identify the forces that lead to differences in social culture.

Economic Implications of Buddhism

The emphasis on wealth creation that is embedded in Protestantism is historically not found in Buddhism. Thus, in Buddhist societies, we do not see the same kind of 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. In effect, innovative ideas and entrepreneurial activities may take hold throughout society independent of which caste a person may belong to, but again, each culture is uniquely oriented toward its own types of entrepreneurial behavior.

LO 4-3
Identify the business and economic implications of differences in culture.

In Buddhism, societies were historically more deeply rooted to their local place in the natural world.[48] This means that economies were more localized, with relations between people and also between culture and nature being relatively unmediated. In the modern economy, complex technologies and large-scale social institutions have led to a separation between people and also between people and the natural world. Plus, as the economy grows, it is difficult to understand and appreciate the potential effects people have on the natural world. Both of these separations are antithetical to the Buddha's teachings.

Interestingly, recent trends actually bring in the "Zen" orientation from Buddhism into business in the Western world.[49] Now there are some 700 trademarks containing the word *Zen* in the United States alone, according to the U.S. Patent and Trademark Office. "In business, 'Zen' is often a synonym for ordinary nothingness," blogged Nancy Friedman, a corporate copywriter who consults with businesses on naming and branding. She said that "*Zen* can be combined with *mail* to describe 'an incoming e-mail message with no message or attachments.' *Zen spin* is a verb meaning 'to tell a story without saying anything at all.' And *to zen* a computing problem means to figure it out in an intuitive flash—perhaps while you're plugged into the earphones of your ZEN MP3 player, available from Creative."[50]

CONFUCIANISM Confucianism was founded in the fifth century B.C. 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, many people still follow the teachings of Confucius, principally in China, Korea, and Japan. Confucianism teaches the importance of

LO 4-2
Identify the forces that lead to differences in social culture.

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, through that, has an impact on the lives of many millions more.[51] 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.

LO 4-3

Identify the business and economic implications of differences in culture.

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.[52] Their basic thesis is that the influence of Confucian ethics on the culture of China, Japan, South Korea, and Taiwan, by lowering the costs of doing business in those countries, may help explain their economic success. 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 virtue of loyalty is emphasized in the value systems.

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 stresses 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.[53] *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. For an example of the importance of *guanxi*, read the accompanying Management Focus on 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, 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.[54] Similarly, the combination of trust and reciprocal obligations is central to the workings and persistence of *guanxi* networks in China.

test PREP

Use SmartBook to help retain what you have learned. Access your Instructor's Connect course to check out SmartBook or go to learnsmartadvantage.com for help.

management FOCUS

China and Its *Guanxi*

A few years ago, DMG 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. Dan Mintz, the company's founder, says that the success of DMG was connected strongly 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 and obligations to one's superiors (or to family) are 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. Chinese will often cultivate a *guanxiwang*, or "relationship network," for help. 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. 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. 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 could 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 high-level 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*. 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 get around them and get things done."*

Today, DMG Entertainment has expanded into being a Chinese-based production and distribution company. While it began as an advertising agency, the company started distributing non-Chinese movies in the Chinese market in the late 2000s (e.g., *Iron Man 3,* the sixth-highest-grossing film of all time in China) as well as producing Chinese films, the first being *Founding of a Republic,* a movie that marked the 60th anniversary of the People's Republic of China. In these activities, DMG is also enjoying *guanxi* in the country. *Variety* reported that DMG benefited from "strong connections" with Chinese government officials and the state-run China Film Group Corporation.

*Graser, M., "Featured Player," *Variety*, October 18, 2004, p. 6.

Sources: Rob Cain, "Chinese Studio DMG Emerges as Bidder for Major Stake in Paramount Pictures," *Media and Entertainment*, March 15, 2016; Ali Jaafar, "China's DMG Inks Deal with Hasbro to Launch First 'Transformers' Live Action Attraction," *Deadline Hollywood*, January 16, 2016; A. Busch, "China's DMG and Valiant Entertainment Partner to Expand Superhero Universe," *Deadline Hollywood*, March 12, 2015; C. Coonan, "DMG's Dan Mintz: Hollywood's Man in China," *Variety*, June 5, 2013; and Simon Montlake, "Hollywood's Mr China: Dan Mintz, DMG," *Forbes*, August 29, 2012.

Language

One obvious way in which many countries differ is language. By language, we mean both the spoken and the unspoken means of communication. Language is also one of the defining characteristics of a culture. Oftentimes, learning a language entails learning a culture and vice versa. Some would even argue that a person cannot get entrenched in a culture without knowing its dominant language.

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, distinguishing different forms of snow is so important in the lives of the Inuit that they have 24 words that describe different types of snow (e.g., powder snow, falling snow, wet snow, drifting snow).[55]

Can You Speak the Most Important Languages?

Mastering your own native language is important to doing business in your home country. Mastering the language of a foreign country is also an added value in any cross-cultural relationship. English leads the way in terms of business languages, but which languages are important after English? Spanish? No, not necessarily. The three languages that are important for business after English are Mandarin Chinese, French, and Arabic. Spanish is fifth, so it is clearly important, but not as useful as English, Mandarin, French, and Arabic because of the number of people who speak these languages. Do you agree with the rank order of these languages? Why or why not? Did you know that you can now learn a new language online? Check out the Language Resources on globalEDGE™ (globalEDGE.msu.edu/global-resources/language-resources), and learn a new language (including Mandarin, French, Arabic, and Spanish).

Source: S. Kim, "Top 3 Useful Foreign Languages for Business Excludes Spanish," *ABC News*, September 1, 2011, http://abcnews.go.com/business/t/blogEntry?id=14427844.

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 continually engage in some level of conflict. The island is now partitioned into two parts as a consequence. While it does not necessarily follow that language differences create differences in culture and, therefore, separatist pressures (witness the harmony in Switzerland, where four languages are spoken), there certainly seems to be a tendency in this direction.[56]

Mandarin (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, followed by French, Spanish, and Mandarin (many people speak English as a second language). English is increasingly becoming the language of international business throughout the world, as it has been in much of the developed world for years. When Japanese and German businesspeople 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 people prefer to converse in their own language, and being able to speak the local language can build rapport and goodwill, 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.[57] Ford made a similar and somewhat embarrassing mistake in Brazil. The Ford Pinto may well have been a good car, but the Brazilians wanted no part of a car called "pinto," which is slang for tiny male genitals in Brazil. Even the world's largest furniture manufacturer, IKEA from Sweden, ran into branding issues when it named a plant pot "Jättebra" (which means great or superbly good in Swedish). Unfortunately, *Jättebra* resembles the Thai slang word for sex. Pepsi's slogan "come alive with the Pepsi Generation" did not quite work in China. People in China took it literally to mean "bring your ancestors back from the grave."

LO 4-2
Identify the forces that lead to differences in social culture.

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 someone you are talking with. In the United States, the

customary distance apart adopted by parties in a business discussion is five to eight feet. In Latin America, it is 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.

test PREP

Use SmartBook to help retain what you have learned. Access your Instructor's Connect course to check out SmartBook or go to learnsmartadvantage.com for help.

Education

LO 4-2

Identify the forces that lead to differences in social culture.

Formal education plays a key role in a society, and it is usually the medium through which individuals learn many of the languages and other 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.[58]

From an international business perspective, one important aspect of education is its role as a determinant of national competitive advantage.[59] The availability of a pool of skilled and knowledgeable workers is a major determinant of the likely economic success of a country. In analyzing the competitive success of Japan, for example, Harvard Business School Professor Michael Porter notes that after the last World 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 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.[60]

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 was not 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. As a direct example, a country where more than 50 percent of the population is illiterate is unlikely to be a good market for popular books. But perhaps more importantly, promotional material containing written descriptions of mass-marketed products is unlikely to have an effect in a country where a half of the population cannot read. It is far better to use pictorial promotions in such circumstances.

test PREP

Use SmartBook to help retain what you have learned. Access your Instructor's Connect course to check out SmartBook or go to learnsmartadvantage.com for help.

Culture and Business

LO 4-4

Recognize how differences in social culture influence values in business.

Of considerable importance for a multinational corporation, or any company—small, medium or large—with operations in different countries is how a society's culture affects the values found in the workplace. Management processes and practices may need to vary according to culturally determined work-related values. For example, if the cultures of Brazil and the United Kingdom

or the United States and Sweden result in different work-related values, a company with operations in the different countries should vary its management processes and practices to account for these differences.

The most famous study of how culture relates to values in the workplace was undertaken by Geert Hofstede.[61] As part of his job as a psychologist working for IBM, Hofstede collected data on employee attitudes and values for more than 116,000 individuals. Respondents were matched on occupation, age, and gender. The data later on enabled him to compare dimensions of culture across 50 countries. Hofstede initially isolated four dimensions that he claimed summarized the different cultures[62]—power distance, uncertainty avoidance, individualism versus collectivism, and masculinity versus femininity—and then, later on, he added a fifth dimension inspired by Confucianism that he called long-term versus short-term orientation.[63]

The fifth dimension was added as a function of the data obtained via the Chinese Value Survey (CVS), an instrument developed by Michael Harris Bond based on discussions with Hofstede.[64] Bond used input from "Eastern minds," as Hofstede called it, to develop the Chinese Value Survey. Bond also references Chinese scholars as helping him create the values that exemplify this new long-term versus short-term orientation. In his original research, Bond called the fifth dimension "Confucian work dynamism," but Hofstede said that in practical terms, the dimension refers to a long-term versus short-term orientation.

power distance
Theory of how a society deals with the fact that people are unequal in physical and intellectual capabilities. High power distance cultures are found in countries that let inequalities grow over time into inequalities of power and wealth; low power distance cultures are found in societies that try to play down such inequalities as much as possible.

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.

individualism versus collectivism
Theory focusing on the relationship between the individual and his or her fellows; in individualistic societies, the ties between individuals are loose and individual achievement is highly valued; in societies where collectivism is emphasized, ties between individuals are tight, people are born into collectives, such as extended families, and everyone is supposed to look after the interests of his or her collective.

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.

uncertainty avoidance
Extent to which cultures socialize members to accept ambiguous situations and to tolerate uncertainty.

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.

ulinity versus femininity
y of the relationship between der and work roles. In masculine ultures, sex roles are sharply differentiated and traditional "masculine values" such as achievement and the effective exercise of power determine cultural ideals; in feminine cultures, sex roles are less sharply distinguished, and little differentiation is made between men and women in the same job.

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.

long-term versus short-term orientation
The theory of the extent to which a culture programs its citizens to accept delayed gratification of their material, social, and emotional needs. It captures attitudes toward time, persistence, ordering by status, protection of face, respect for tradition, and reciprocation of gifts and favors

The **long-term versus short-term orientation** dimension refers to the extent to which a culture programs its citizens to accept delayed gratification of their material, social, and emotional needs. It captures attitudes toward time, persistence, ordering by status, protection of face, respect for tradition, and reciprocation of gifts and favors. The label refers to these "values" being derived from Confucian teachings.

Hofstede created an index score for each of these five dimensions that ranged from 0 to 100 and scored high for individualism, power distance, uncertainty avoidance, masculinity, and for long-term orientation.[65] By using the company IBM, Hofstede was able to hold company constant across cultures. Thus, any differences across the country cultures would by design be due to differences in the countries' cultures and not the company's culture. He averaged the scores for all employees from a given country to create an index score between 0 and 100.

A strong movement is under way to add a sixth dimension to Hofstede's work. Geert Hofstede, working with Michael Minkov's analysis of the World Values Survey, added a promising new dimension called indulgence versus restraint (IND) in 2010.[66] On January 17, 2011,

	Power Distance	Uncertainty Avoidance	Individualism	Masculinity	Long-Term Orientation
Australia	36	51	90	61	31
Brazil	69	76	38	49	65
Canada	39	48	80	52	23
Germany (F.R.)	35	65	67	66	31
United Kingdom	35	35	89	66	25
India	77	40	48	56	61
Japan	54	92	46	95	80
Netherlands	38	53	80	14	44
New Zealand	22	49	79	58	30
Pakistan	55	70	14	50	00
Philippines	94	44	32	64	19
Singapore	74	8	20	48	48
Sweden	31	29	71	5	33
Thailand	64	64	20	34	56
United States	40	46	91	62	29

4.1 TABLE

Work-Related Values for 15 Selected Countries

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

Hofstede delivered a webinar for SIETAR Europe called "New Software of the Mind" to introduce the third edition of *Cultures and Organizations*, in which the results of Minkov's analysis were included to support this sixth dimension. In addition, in a keynote delivered at the annual meeting of the Academy of International Business (http://aib.msu.edu) in Istanbul, Turkey, on July 6, 2013, Hofstede again presented results and theoretical rationale to support the indulgence versus restraint dimension. *Indulgence* refers to a society that allows relatively free gratification of basic and natural human drives related to enjoying life and having fun. *Restraint* refers to a society that suppresses gratification of needs and regulates it by means of strict social norms.

Table 4.1 summarizes data for 15 selected countries for the five established dimensions of individualism versus collectivism, power distance, uncertainty avoidance, masculinity versus femininity, and long-term versus short-term orientation (the Hofstede data were collected for 50 countries and the Bond data were collected for 23 countries; numerous other researchers have also added to the country samples). Western nations such as the United States, Canada, and United Kingdom score high on the individualism scale and low on the power distance scale. Latin American and Asian countries emphasize collectivism over individualism and score high on the power distance scale. Table 4.1 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 among cultures. Many of Hofstede's findings are consistent with standard 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 agree that Latin countries place a higher emphasis on masculine value—they are machismo cultures—than the Scandinavian countries of Denmark and Sweden. As might be expected, East Asian countries such as Japan and Thailand scored high on long-term orientation, while nations such as the United States and Canada scored low.

However, we should be careful about reading too much into Hofstede's research. It has been criticized on a number of points.[67] First, Hofstede assumes there is a one-to-one correspondence

How Strong Is Your National Identity?

As we have found out in this chapter, a lot of measures exist to assess cultural values and norms. Self-assessment is one of the best ways to better know yourself, and we encourage you to take a rigorous cultural personality test such as what Hofstede has developed. But let's have some easy fun! How strong is your personal national identity? On a scale from 1 to 7, with 1 being "strongly disagree" and 7 being "strongly agree" (and with scores of 2, 3, 4, 5, and 6 being in between those two extremes), rate yourself on these four questions:

1. My country has a strong historical heritage (national heritage).
2. People from my country are proud of their nationality (cultural homogeneity).
3. A true native of my country would never reject their religious beliefs (belief system).
4. It is always best to purchase products made from my home country (consumer ethnocentrism).

If you scored above 23 in total for the four questions, you have a strong "national identity"; if you scored below 9, you have a weak "national identity." Most people fall in between these two extremes.

Sources: B. Keillor and T. Hult, "A Five-Country Study of National Identity: Implications for International Marketing Research and Practice," *International Marketing Review*, 1999, pp. 65–82; B. Keillor, T. Hult, R. Erffmeyer, and E. Babakus, "NATID: The Development and Application of a National Identity Measure for Use in International Marketing," *Journal of International Marketing*, vol. 4, 1996.

between culture and the nation-state, but as we discussed earlier, many countries have more than one culture. Second, Hofstede's 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. The later addition of the long-term versus short-term dimension illustrates this point. 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, as we also pointed out earlier.

Still, Hofstede's work is the leading research the world has seen on culture. It represents a great 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.[68] Nevertheless, managers should use the results with caution. One reason for caution is the plethora of new cultural values surveys and data points that are starting to become important additions to Hofstede's work. Two additional cultural values frameworks that have been examined and have been related to work-related and/or business-related issues are the Global Leadership and Organizational Behavior Effectiveness instrument and the World Values Survey.

The *Global Leadership and Organizational Behavior Effectiveness (GLOBE)* instrument is designed to address the notion that a leader's effectiveness is contextual.[69] It is embedded in the societal and organizational norms, values, and beliefs of the people being led. The initial GLOBE findings from 62 societies involving 17,300 middle managers from 951 organizations build on findings by Hofstede and other culture researchers. The GLOBE research established nine cultural dimensions: power distance, uncertainty avoidance, humane orientation, institutional collectivism, in-group collectivism, assertiveness, gender egalitarianism, future orientation, and performance orientation.

The *World Values Survey (WVS)* is a research project spanning more than 100 countries that explores people's values and norms, how they change over time, and what impact they have in society and business.[70] The WVS includes dimensions for support for democracy; tolerance of foreigners and ethnic minorities; support for gender equality; the role of religion and changing levels of religiosity; the impact of globalization; attitudes toward the environment, work, family, politics, national identity, culture, diversity, and insecurity; and subjective well-being.

As a reminder, culture is just one of many factors that might influence the economic success of a nation. While culture's importance should not be ignored, neither should it be overstated. The Hofstede framework is the most significant and studied framework of culture as it relates to work values and business that we have ever seen. But some of the newer culture frameworks (e.g., GLOBE, WVS) are also becoming popular in the literature, and they have potential to complement and perhaps even supplant Hofstede's work with additional validation and connection to work-related values, business, and marketplace issues. At the same time, the factors discussed in Chapters 2 and 3—economic, political, and legal systems—are probably more important than culture in explaining differential economic growth rates over time.

test PREP

Use SmartBook to help retain what you have learned. Access your Instructor's Connect course to check out SmartBook or go to learnsmartadvantage.com for help.

Cultural Change

LO 4-5
Demonstrate an appreciation for the economic and business implications of cultural change.

An important point we want to make in this chapter on culture is that culture is not a constant; it evolves over time.[71] Changes in value systems can be slow and painful for a society. Change, however, does occur and can often be quite profound. At the beginning of the 1960s, the idea that women might hold senior management positions in major corporations was not widely accepted. Today, of course, it is a reality, and most people in the United States could not fathom it any other way. For example, in 2012 Virginia ("Ginni") Rometty became the CEO of IBM; Mary Teresa Barra became the CEO of General Motors in 2014. Barra, as but one of many examples (in 2018, 27 of the CEO positions at S&P 500 companies were held by women), was named to the *Time 100*, and *Forbes* named her one of the World's 100 Most Powerful Women. No one in the mainstream of American society now questions the development or the capability of women in the business world. American culture has changed.



General Motors Chair and CEO, Mary Barra, making an announcement about the Chevrolet Bolt autonomous vehicles at a news conference in Detroit, Michigan.

©Cook/Reuters

For another illustration of cultural change, consider Japan. Some business professionals argue that a cultural shift has been occurring in Japan, with a move toward greater individualism.[72] The Japanese office worker, or "salary person," is characterized as being loyal to his or her boss and the organization to the point of giving up evenings, weekends, and vacations to serve the organization. However, a new generation of office workers may not fit this model. An individual from the new generation is likely to be more direct than the traditional Japanese. This new-generation person acts more like a Westerner, a *gaijin*. He or she does not live for the company and will move on if he or she gets an offer of a better job or has to work too much overtime.[73]

Several studies have suggested that economic advancement and globalization may be important factors in societal change.[74] There is evidence that economic progress is accompanied by a shift in values away from collectivism and toward individualism.[75] 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 built on collectives, whether the collective is the extended family or the 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. The World Values Survey, which we mentioned earlier, has documented how values change. The study linked these changes in values to changes in a country's level of economic development.[76] 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.

The merging or convergence of cultures can also be traced to the world today being more globalized than ever. Advances in transportation and communication, technology, and international trade have set the tone for global corporations (e.g., Disney, Microsoft, Google) to be part of bringing diverse cultures together into a form of homogeneity we have not seen before.[77] The examples are endless—McDonald's hamburgers in China, The Gap in India, iPhones in South Africa, and MTV in Sweden—of global companies helping to foster a ubiquitous youth culture. Plus, with countries around the world climbing the ladder of economic progress, some argue that the conditions for less cultural variation have been created. There may be a slow but steady convergence occurring across different cultures toward some universally accepted values and norms: This is known as the *convergence* hypothesis.[78]

At the same time, we should not ignore important countertrends, such as the shift toward Islamic fundamentalism in several countries; the continual separatist movement in Quebec, Canada; ethnic strains and separatist movements in Russia; nationalist movements in the United

Kingdom (Brexit); and the election of a populist, nationally oriented Donald Trump as the 45th president of the United States. Such countertrends are a reaction to the pressures for cultural convergence. In an increasingly modern and materialistic world, some societies are trying to re-emphasize their cultural roots and uniqueness. It is also important to note that 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 jeans, eat at McDonald's, use smartphones, watch their national version of *American Idol*, and drive Ford cars to work, we should not assume that they have also adopted American (or Western) values—for often they have not.[79] Thus, a distinction needs to be made between the visible material aspects of culture and the deep structure, particularly core social values and norms. The deep structure changes only slowly, and differences are often far more persistent.

test PREP

Use SmartBook to help retain what you have learned. Access your Instructor's Connect course to check out SmartBook or go to learnsmartadvantage.com for help.

Focus on Managerial Implications

CULTURAL LITERACY AND COMPETITIVE ADVANTAGE

International business is different from national business because countries and societies are different. Societies differ because their cultures vary. Their cultures vary because of 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 explore the first two of these issues in depth. The connection between culture and ethics is explored in Chapter 5.

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 another culture are likely to fail. Doing business in different cultures requires adaptation to conform to 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, appropriate incentive pay systems for salespeople, the structure of the organization, name of a product, 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 ensure that home-country executives are well-versed enough to understand how differences in culture affect the practice of business. Transferring executives globally at regular intervals to expose them to different cultures will help build a cadre of knowledgeable 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.

ethnocentrism

Behavior that is based on the belief in the superiority of one's own ethnic group or culture; often shows disregard or contempt for the culture of other countries.

Anthropologist Edward T. Hall has described how Americans, who tend to be informal in nature, react strongly to being corrected or reprimanded in public.[80] 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 people by their first name. This is uncomfortable enough among executives of the same rank, but it can be seen as insulting when a junior American executive addresses a more senior German manager by his or her 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 myriad 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, with the Arab going slow as a reaction to the American's rudeness. 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, 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.

Culture and Competitive Advantage One theme that surfaces in this chapter is the relationship between culture and national competitive advantage.[81] 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. We have seen how attitudes toward cooperation between management and labor, toward work, and toward the payment of interest are influenced by social structure and religion. It can be argued that the class-based conflict between workers and management in class-conscious societies raises the costs of doing business. Similarly, 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. Islamic laws banning interest payments may raise the costs of doing business by constraining a country's banking system.

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 group affiliation, loyalty, reciprocal obligations, honesty, and education all boost the competitiveness of Japanese companies—at least that is the argument. 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." In addition, 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.[82] Thus, cultural factors may help explain the success enjoyed by many Japanese businesses. Most notably, it has been argued that the rise of Japan as an economic power during the second half of the twentieth century may be in part attributed to the economic consequences of its culture.[83]

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 mindset, 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, 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 over the past 30 years has built it into Japan's top software distributor. Similarly, dynamic entrepreneurial individuals established major Japanese companies such as Sony and Matsushita.

For 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, we might argue that U.S. enterprises are likely to see 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 where 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 underdeveloped, 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, the 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.[84] 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 to people, companies, and society, 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.

y Terms

s-cultural literacy, p. 89
ıre, p. 90
es, p. 90
ns, p. 90
ety, p. 90
ways, p. 91
es, p. 92
al structure, p. 93
group, p. 94
social strata, p. 96
social mobility, p. 96
caste system, p. 96
class system, p. 96
class consciousness, p. 98
religion, p. 98
ethical system, p. 98
power distance, p. 110
individualism versus collectivism, p. 110
uncertainty avoidance, p. 110
masculinity versus femininity, p. 110
long-term versus short-term orientation, p. 110
ethnocentrism, p. 114

mmary

hapter has looked at the nature of culture and discussed ber of implications for business practice. The chapter he following points:

ure is a complex phenomenon that includes ledge, beliefs, art, morals, law, customs, and other ilities acquired by people as members of society.

s and norms are the central components of a culture. s are abstract ideals about

4. The social structure of a society refers to its basic social organization. Two main dimensions along which social structures differ are the individual–group dimension and the stratification dimension.
5. In some societies, the individual is the basic building block of a social organization. These societies emphasize