

Global Business **EXPRESS**

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To Agnes, Grace, and James

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PREFACE

Preface

PREFACE

Global Business intends to set a new standard for international business (IB) textbooks. Written for undergraduate and MBA students around the world, this book will make IB teaching and learning (1) more engaging, (2) more comprehensive, (3) more fun, and (4) more relevant.

MORE ENGAGING

For the first time in the history of IB textbooks, a unified framework integrates all chapters. Given the wide range of topics in IB, most textbooks present the discipline in a fashion that “Today is Tuesday, it must be Luxembourg.” Very rarely do authors address: “Why Luxembourg today?” More important, what is it that we do in IB? What is the big question that the field is trying to address? Our unified framework suggests that the discipline can be united by one big question and two core perspectives. The big question is: What determines the success and failure of firms around the globe? This focus on firm performance around the globe defines our field. To address this question, we introduce two core perspectives: (1) an institution-based view and (2) a resource-based view, in all chapters. It is this relentless focus on our big question and core perspectives that enables this book to engage a variety of IB topics in an integrated fashion. This provides great continuity in the learning process.

Another vehicle used to engage students is debates. Virtually all textbooks uncritically present knowledge “as is” and ignore debates. However, it is debates that drive the field of practice and research forward. Obviously, our field has no shortage of debates, ranging from outsourcing to social responsibility. It is the responsibility of textbook authors to engage students by introducing cutting-edge debates. Thus, I have written a beefy “Debates and Extensions” section for every chapter.

MORE COMPREHENSIVE

Global Business offers the most comprehensive and innovative coverage of IB topics available on the market. Unique chapters not found elsewhere are:

- Chapter 9 on entrepreneurship and small firms’ internationalization
- Chapter 11 on competitive dynamics
- Chapter 16 on corporate governance
- Chapter 17 on corporate social responsibility (in addition to one full-blown chapter on ethics, cultures, and norms, Chapter 3)
- Half of Chapter 12 (alliances and acquisitions) deals with the under-covered topic of acquisitions. Approximately 70% of market entries based on foreign direct investment (FDI) around the world use acquisitions. Yet, no other IB textbook has a chapter on acquisitions—a missing gap that Chapter 12 fills.

The most comprehensive topical coverage is made possible by drawing on the most comprehensive range of the literature. Specifically, every article in each issue in the past ten years in the Journal of International Business Studies and other leading IB journals has been read and coded. In addition, I have endeavored to consult numerous specialty journals. For example:

As research for the book progressed, my respect and admiration for the diversity of insights of our field grew tremendously. The end result is the unparalleled, most comprehensive set of evidence-based insights on the IB market. While citing every article is not possible, I am confident that I have left no major streams of research untouched. Feel free to check the authors found in the Name Index to verify this claim.

MORE FUN

In case you think that this book must be very boring because it draws so heavily on current research, you are wrong. I have used a clear, engaging, conversational style to tell the “story.” Relative to rival books, my chapters are generally more lively and shorter. For example, most books use two chapters to go over topics such as trade, FDI, and foreign exchange. I cut out a lot of “fat” and use one chapter to cover each of these topics, thus enhancing the “weight-to-contribution” ratio.

SUPPORT MATERIALS

A full set of supplements is available for students and adopting instructors, all designed to facilitate ease of learning, teaching, and testing.

Instructor’s Resource DVD-ROM. Instructors will find all of the teaching resources they need to plan, teach, grade, and assess student understanding and progress at their fingertips with this all-in-one resource for Global Business. The IR-DVD-ROM contains:

- **Instructor’s Manual**—Written by John Bowen (Ohio State University, Newark and Columbus State Community College), this valuable, time-saving Instructor’s Manual includes comprehensive resources to streamline course preparation, including teaching suggestions, lecture notes, and answers to all chapter questions. Also included are discussion guidelines and answers for the Integrative Cases found at the end of each part.
- **Testbank**—Prepared by Ann Langlois (Palm Beach Atlantic University), the Global Business Testbank in ExamView® software allows instructors to create customized texts by choosing from 25 True/False, 25 Multiple Choice, and at least 5 short answer/essay questions for each of the 17 chapters. Ranging in difficulty, all questions have been tagged to the text’s Learning Objectives and AACSB standards to ensure students are meeting the course criteria.
- **Powerpoint® Slides**—Mike Giambattista (University of Washington) has created a comprehensive set of more than 250 Powerpoint® slides that will assist instructors in the presentation of the chapter material, enabling students to synthesize key global concepts.
- **Video Cases**—Perhaps one of the most exciting and compelling bonus features of this program, these 17 short and powerful video clips, produced by 50 Lessons, provide additional guidance on international business strategies. The video clips offer real-world business

acumen and valuable learning experiences from an array of internationally known business leaders.

ACKNOWLEDGEMENTS

Undertaking a project of this magnitude makes me owe a great deal of debt—intellectual, professional, and personal—to many people, whose contributions I would like to acknowledge. Intellectually, I am grateful to Charles Hill (University of Washington), my former PhD advisor, who inspired my interest in global business. At UT Dallas, I thank my colleagues George Barnes, Tev Dalgic, Dave Deeds, Anne Ferrante, Dave Ford, John Fowler, Richard Harrison, Jonathan Hochberg, Marilyn Kaplan, Seung-Hyun Lee, John Li

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and a PhD degree from the University of Washington, Seattle, where he was advised by Professor Charles Hill. Prior to joining UTD, Professor Peng had been on the faculty at the Ohio State University, Chinese University of Hong Kong, and University of Hawaii. In addition, he has held visiting or courtesy appointments in Australia (University of Sydney and Queensland University of Technology), Britain (University of Nottingham), China (Xi’an Jiaotong University, Sun Yat-sen University, and Cheung Kong Graduate School of Business), Denmark (Copenhagen Business School), Hong Kong (Chinese University of Hong Kong and Hong Kong Polytechnic University), Vietnam (Foreign Trade University), and the United States (University of Memphis, University of Michigan, and Seattle Pacific University).

Professor Peng is widely regarded as one of the most prolific and most influential scholars in global business—both the United Nations and the World Bank have cited his work in major publications. Truly global in scope, his research focuses on firm strategies in regions such as Asia,

Central and Eastern Europe, and North America, covering countries such as China, Hong Kong, Japan, Russia, South Korea, Thailand, and the United States. He has published approximately 50 articles in leading academic journals and previously authored three books. The first two are *Behind the Success and Failure of US Export Intermediaries* (Quorum, 1998) and *Business Strategies in Transition Economies* (Sage, 2000). His third book is *Global Strategy* (Thomson South-Western, 2006), which has become the world’s best-selling global strategy book and has been translated into Chinese (Posts and Telecom Press, 2007). *Global Business* builds on and leverages the success of *Global Strategy*.

Professor Peng is active in leadership positions in his field. At the Academy of International Business, he was a Co-Program Chair for the Research Frontiers Conference in San Diego (2006) and is currently guest editing a Journal of International Business Studies special issue on “Asia and global business.” At the Strategic Management Society, he was the first elected Program Chair of the Global Strategy Interest Group (2005-07). At the Academy of Management, he was in charge of the Junior Faculty Consortium for the International Management Division at the Atlanta meetings (2006). Professor Peng has served on the editorial boards of the *Academy of Management Journal*, *Academy of Management Review*, *Journal of International Business Studies*, *Journal of World Business*, and *Strategic Management Journal*. He has also guest edited the *Journal of Management Studies*. At present, he is Editor-in-Chief of the *Asia Pacific Journal of Management*.

On a worldwide basis, Professor Peng has taught students at all levels—undergraduate, MBA, PhD, EMBA, executive, and faculty training programs. Some of his former PhD students are now professors at California State University, Chinese University of Hong Kong, Georgia

State University, Hong Kong University of Science and Technology, Lehigh University, Northeastern University, Southern Methodist University, St. John's University, University of Colorado at Boulder, and University of Texas at Dallas.

Professor Peng is also an active faculty trainer and consultant. He has provided on-the-job-training to over 200 professors around the world. Every year since 1999, he has conducted faculty training workshops on how to teach international business at the University of Memphis with faculty participants from around the country. He has consulted for organizations such as BankOne, Berlitz International, Chinese Chamber of Commerce, Greater Dallas Asian American Chamber of Commerce, Hong Kong Research Grants Council, Manufacturers Alliance/MAPI, National Science Foundation, Nationwide Insurance, Ohio Polymer Association, SAFRAN, US-China Business Council, and The World Bank. His practitioner oriented research has been published in the Harvard Business Review, Academy of Management Executive, and China Business Review.

Professor Peng has received numerous awards and recognitions. He has been recognized as a Foreign Expert by the Chinese government. One of his Academy of

Management Review papers has been found to be a "new hot paper" (based on citations) representing the entire field of Economics and Business by the Institute for Scientific Information (ISI), which publishes the Social Sciences Citation Index (SSCI). One of his Babson conference papers won a Small Business Administration (SBA) Award for the best paper exploring the importance of small businesses to the US economy. Professor Peng is a recipient of the Scholarly Contribution Award from the International Association for Chinese Management Research (IACMR). He has also been quoted in Newsweek, The Exporter Magazine, Business Times (Singapore), and Voice of America.

In addition, Professor Peng's high-impact, high-visibility research has also attracted significant external funding, totaling more than half a million dollars from sources such as the (US) National Science Foundation, Hong Kong Research Grants Council, and Chinese National Natural Science Foundation. At present, his research is funded by a five-year, prestigious National Science Foundation CAREER Grant. At \$423,000, this is reportedly the largest grant the NSF has awarded to a business school faculty member.

Part I

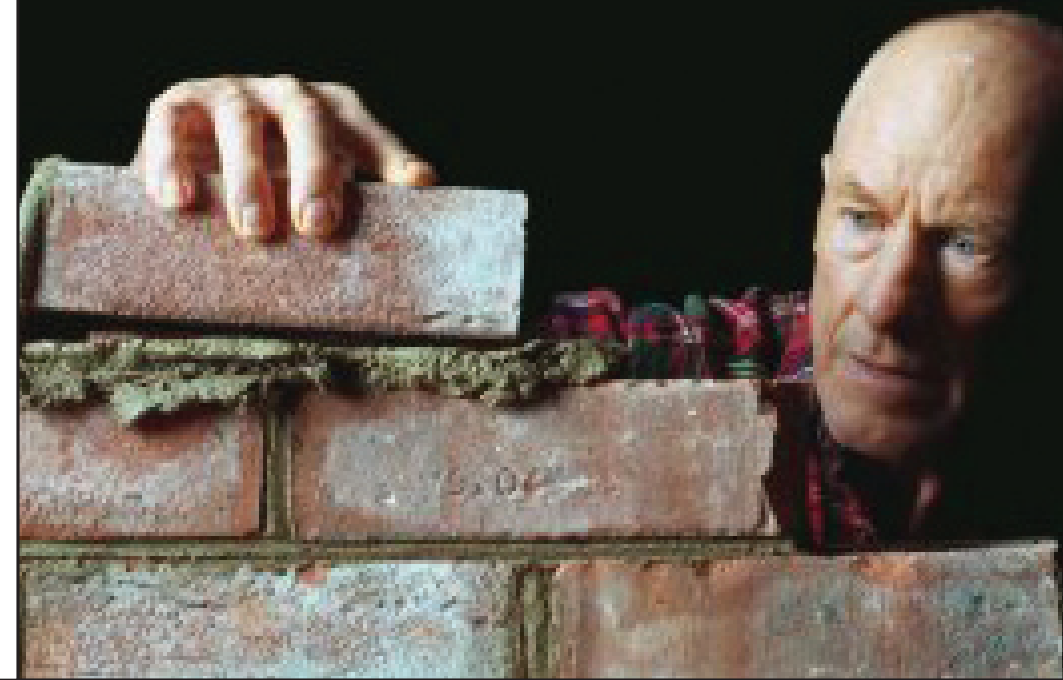
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GLOBALIZING Business

CHAPTER 1

OPENING CASE

Cartoons That Exploded

While acknowledging the importance of freedom of speech, Western governments expressed sympathy to Muslims. French President Jacques Chirac issued a plea for “respect and moderation” in exercising freedom of expression. British Foreign Minister Jack Straw called the cartoons “insensitive.” US President George W. Bush called on world governments to stop the violence and be “respectful.” Carsten Juste, editor of *Jyllands-Posten*, who received death threats, said that the drawings “were not in violation of Danish law but offended many Muslims, for which we would like to apologize.”

While Muslim feelings were hurt, Danish firms active in Muslim countries were devastated. Arla Foods, one of Denmark’s (and Europe’s) largest dairy firms, had been selling to the Middle East for 40 years, had had production in Saudi Arabia for 20 years, and normally had sold approximately \$465 million a year to the region,

including the best-selling butter in the Middle East. Arla’s sales to the region plummeted to zero in a matter of days after the protests began. Arla lost \$1.8 million every day and was forced to send home 170 employees. Other affected firms included Carlsberg (a brewer), Lego (a toy maker), and Novo Nordisk (an insulin maker). In addition, Carrefour, a French supermarket chain active in the region, voluntarily pulled Danish products from shelves in its Middle East stores and boasted about it to customers.

In response, Arla took out full-page advertisements in Saudi newspapers, reprinting the news release from the Danish Embassy in Riyadh saying that Denmark respected all religions. That failed to stop the boycott. Other Danish firms kept a low profile. Some switched “Made in Denmark” labels to “Made in European Union.” Others used foreign

LEARNING OBJECTIVES

After studying this chapter you should be able to

LO1 Define what culture is and articulate its two main manifestations: language and religion

LO2 Discuss how cultures systematically differ from each other

LO3 Understand the importance of ethics and ways to combat corruption

LO4 Identify norms associated with strategic responses when firms deal with ethical challenges

LO5 Participate in three leading debates on cultures, ethics, and norms

LO6 Draw implications for action

LO7 Discuss how cultures systematically differ from each other



Emphasizing Cultures ETHICS, AND Norms

CHAPTER 3

OPENING CASE General Motors and Daewoo: From Alliance to Acquisition

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LEARNING OBJECTIVES

After studying this chapter you should be able to (ch5)

LO1 Use the resource- and institution-based views to explain why nations trade

LO2 Understand classical and modern theories of international trade

LO3 Realize the importance of political and economic realities governing international trade

LO4 Participate in two leading debates on international trade

LO5 Draw implications for action

Strategizing, Structuring, Learning AROUND THE World

CHAPTER 12

OPENING CASE General Motors and Daewoo: From Alliance to Acquisition

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LO5 Draw implications for action

when docking in ports in Muslim countries. Overall, although Muslim countries represented only approximately 3% of all Danish exports, a worst-case scenario would lead to 10,000 job losses, which would be a significant blow to a small country with a population of only 5.4 million.

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Sources: I thank Professor Klaus Meyer (formerly at Copenhagen Business School, now at the University of Bath) for his assistance. Based on (1) A. Browne, 2006, Denmark faces international boycott over Muslim cartoons, Times Online, January 31, <http://www.timesonline.co.uk>; (2) Economist, 2006, Mutual incomprehension, mutual outrage, February 11: 29–31; (3) Economist, 2006, When markets melted away, February 11: 56; (4) E. Pfanner, 2006, Danish companies endure snub by Muslim consumers, New York Times, February 27: 2; (5) P. Reynolds, 2006, A clash of rights and responsibilities, BBC News Website, February 6, <http://news.bbc.co.uk>.

The second proposition—in situations where formal institutions are unclear or fail, informal institutions play a larger role in reducing uncertainty—is more important and relevant in this chapter. Shown in the Opening Case, this chapter is more than about how to present business cards correctly and wine and dine differently (as portrayed by chapters on “cultural differences” in other textbooks). Informal institutions can make or break firms, thus necessitating a great deal of our attention.¹

LO1 Define what culture is and articulate its two main manifestations: language and religion

WHERE DO INFORMAL INSTITUTIONS COME FROM?

Recall that any institutional framework consists of formal and informal institutions. Although formal institutions such as politics, laws, and economics (see Chapter 2) are important, they make up a small (although important) part of “the rules of the game” that govern individual and firm behavior. As pervasive features of every economy, informal institutions can be found almost everywhere.

Informal institutions
Institutions represented by cultures, ethics, and norms.

Ethnocentrism
A self-centered mentality by a group of people who perceive their own culture, ethics, and norms as natural, rational, and morally right.

Culture
The programming of the mind that distinguishes the members of one group or category of people from another. The extent to which members in different cultures accept ambiguous situations and tolerate uncertainty.

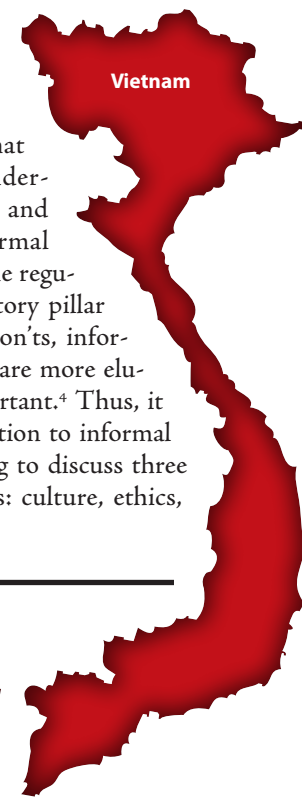
Where do informal institutions come from? They come from socially transmitted information and are part of the heritage that we call cultures, ethics,

and norms. Those within a society tend to perceive their own culture, ethics, and norms as “natural, rational, and morally right.”² This self-centered mentality is known as *ethnocentrism*. For example, many Americans believe in “American exceptionalism”—that is, the United States is exceptionally well endowed to lead the world. The Chinese call China *zhong guo*, which literally means “the country in the middle” or “middle kingdom.” Ancient Scandinavians called their country by a similar name (*midgaard*). Some modern Scandinavians, such as some Danes, believe in their freedom to publish whatever they please. Unfortunately, as shown in the Opening Case, those from other societies may feel differently. In other words, common sense in one society may become uncommon elsewhere.³

Recall from Chapter 2 that informal institutions are underpinned by the two normative and cognitive pillars, whereas formal institutions are supported by the regulatory pillar. While the regulatory pillar clearly specifies the do's and don'ts, informal institutions, by definition, are more elusive. Yet, they are no less important.⁴ Thus, it is imperative that we pay attention to informal institutions. Here, we are going to discuss three aspects of informal institutions: culture, ethics, and norms.

CULTURE

Of many informal institutions, culture probably is most frequently discussed.



Part 1: Laying Foundations

INFOCATS

North Vietnam versus South Vietnam: After Thirty Years

In 2005, Vietnam celebrated 30 years of unification. In 1975, North Vietnam “liberated” South Vietnam and renamed Saigon, capital city of the South, Ho Chi Minh City. With different dialects, food, and weather, the two regions have always been very different. Northerners are considered serious and bookish, whereas Southerners tend to be flexible and flamboyant—similar to the stereotypes of Scandinavians and Mediterraneans in Europe. The Vietnam War (which the Vietnamese call the “American War”) exacerbated these differences. North Vietnam has been under communist rule since 1954. South Vietnam had much more recent experience with capitalism. The diaspora of Southerners, who fled from the northern communists in the 1970s, has become the Viet Kieu (overseas Vietnamese). Viet Kieu have flocked to the South since the beginning of the Doi Moi (market liberalization) policy in 1986. Despite the harsh communist reeducation programs to cleanse the Southerners of capitalist values, the economic center of gravity remains in the South. In 2005, Ho Chi Minh City, with 9% of the nation's population, contributed 17% of national output, 30% of foreign investment, and 40% of exports. Its per capita income was four times the national average.

Three decades after the war, Ho Chi Minh City's skyline is again emblazoned with American brands such as Citigroup and Sheraton. In 2004, when United Airlines resumed flights to Ho Chi

Minh City, it was pleasantly surprised to find out that the city's code name was still SGN. When I taught in the country's first Executive MBA (EMBA) program (consisting of both Northerners and Southerners) in Hanoi in 1997, my South Vietnamese EMBA students advised me: “No need to call that city Ho Chi Minh City. It has too many words. Everybody just calls it Saigon in the South.” It seems that in Vietnam—war or peace—old habits die hard.



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Sources: I thank Yung Hua (University of Texas at Dallas) for her assistance. Based on (1) Author's of the country's first class of EMBA students, Foreign Trade University, Hanoi interviews, Vietnam, November 1997; (2) Economist, 2005, America lost, capitalism won, April 30: 37–38; (3) K. Meyer & H. Nguyen, 2005, Foreign investment strategies and sub-national institutions in emerging markets: Evidence from Vietnam, Journal of Management Studies, 42: 63–93; (4) D. Ralston, V. T. Nguyen, & N. Napier, 1999, A comparative study of the work values of North and South Vietnamese

This section first defines culture and then highlights two major components: language and religion.

Definition of Culture

Although hundreds of definitions of culture have appeared, we will use the definition proposed by the world's foremost cross-cultural expert, Geert Hofstede, a Dutch professor. He defines *culture* as “the collective programming of the mind which distinguishes the members of one group or category of people from another.”⁵ Before proceeding, it is important to make two points to minimize confusion. Lingou, although it is customary to talk about American culture or Brazilian culture, there is no strict one-to-one correspondence between cultures and nation-states. Within many multiethnic countries such as Belgium, China, India, Indonesia, Russia, South Africa, Switzerland, and the United States, many subcultures exist.⁶ In Focus 3.1 shows that North Vietnam and South Vietnam, 30 years after unification, continue to be different. Second, there are many layers of culture, such as regional, ethnic, and

religious cultures. Within a firm, one may find a specific organizational culture (such as the IKEA culture). Having acknowledged the validity of these two points, we will follow Hofstede by using the term culture when discussing national culture—unless otherwise noted. This is a matter of expediency, and it is also a reflection of the institutional realities of the world with about 200 nation-states.

Each one of us is a walking encyclopedia of our own culture. Due to space constraints, we will highlight only two major components of culture: language and religion.

Language

Among approximately 6,000 languages in the world, Chinese is the world's largest in terms of the number of native speakers.⁷ English is a distant second, followed closely by Hindi and Spanish (Figure 3.1). The dominance of English as a global business language, known as the *lingua franca* in the

Lingua franca
The dominance of one language as a global business language.

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LO1 Define what culture is and articulate its two main manifestations: language and religion

WHERE DO INFORMAL INSTITUTIONS COME FROM?

Recall that any institutional framework consists of formal and informal institutions. Although formal institutions such as politics, laws, and economics (see Chapter 2) are important, they make up a small (although important) part of “the rules of the game” that govern individual and firm behavior. As pervasive features of every economy, informal institutions can be found almost everywhere.

Where do informal institutions come from? They come from socially transmitted information and are part of the heritage that we call cultures, ethics, and norms. Those within a society tend to perceive their own culture, ethics, and norms as “natural, rational, and morally right.”² This self-centered mentality is known as *ethnocentrism*. For example, many Americans believe in “American exceptionalism”—that is,

the United States is exceptionally well endowed to lead the world. The Chinese call China *zhong guo*, which literally means “the country in the middle” or “middle kingdom.” Ancient Scandinavians called their country by a similar name (*midgaard*). Some modern Scandinavians, such as some Danes, believe in their freedom to publish whatever they please. Unfortunately, as shown in the Opening Case, those from other societies may feel differently. In other words, common sense in one society may become uncommon elsewhere.³

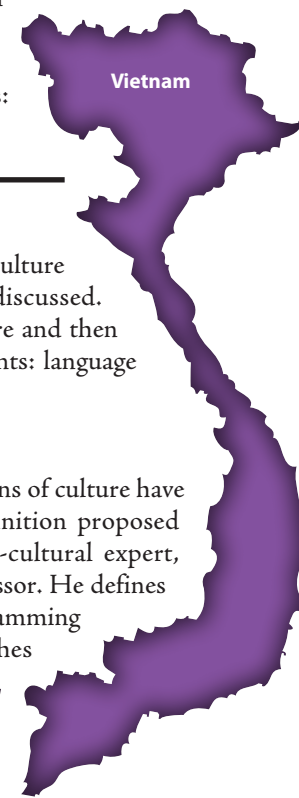
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Part 1: Laying Foundations

INFECTS

Example of a Three Line Subtitle

In 2005, Vietnam celebrated 30 years of unification. In 1975, North Vietnam “liberated” South Vietnam and renamed Saigon, capital city of the South, Ho Chi Minh City. With different dialects, food, and weather, the two regions have always been very different. Northerners are considered serious and bookish, whereas Southerners tend to be flexible and flamboyant—similar to the stereotypes of Scandinavians and Mediterraneans in Europe. The Vietnam War (which the Vietnamese call the “American War”) exacerbated these differences. North Vietnam has been under communist rule since 1954. South Vietnam had much more recent experience with capitalism. The diaspora of Southerners, who fled from the northern communists in the 1970s, has become the Viet Kieu (overseas Vietnamese). Viet Kieu have flocked to the South since the beginning of the Doi Moi (market liberalization) policy in 1986. Despite the harsh communist reeducation programs to cleanse the Southerners of capitalist values, the economic center of gravity remains in the South. In 2005, Ho Chi Minh City, with 9% of the nation's population, contributed 17% of national output, 30% of foreign investment, and 40% of exports. Its per capita income was four times the national average.

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religious cultures. Within a firm, one may find a specific organizational culture (such as the IKEA culture). Having acknowledged the validity of these two points, we will follow Hofstede by using the term culture when discussing national culture—unless otherwise noted. This is a matter of expediency, and it is also a reflection of the institutional realities of the world with about 200 nation-states.

Each one of us is a walking encyclopedia of our own culture. Due to space constraints, we will highlight only two major components of culture: language and religion.

Language

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Informal institutions can make or break firms.

Informal institutions
Institutions represented by cultures, ethics, and norms.

Ethnocentrism
A self-centered mentality by a group of people who perceive their own culture, ethics, and norms as natural, rational, and morally right.

Culture
collectivepro Thegramming of the mind that distinguishes the members of one group or category of people from anotherThe extent to which members in different cultures accept ambiguous situations and tolerate uncertainty.

LO1 Define what culture is and articulate its two main manifestations: language and religion

WHERE DO INFORMAL INSTITUTIONS COME FROM?

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In addition, Carrefour, a French supermarket chain active in the region, voluntarily pulled Danish products from shelves.

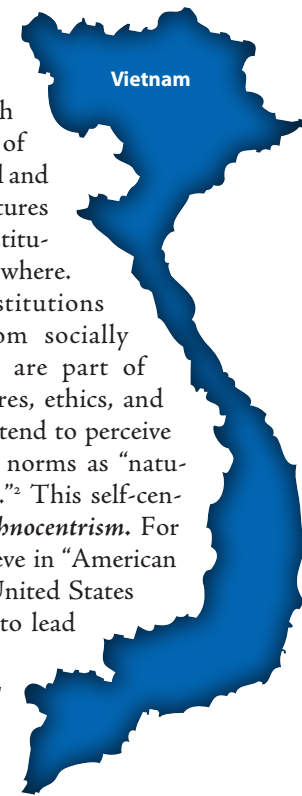
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Part 1: Laying Foundations

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Such economic dominance not only drives trade and investment ties between English-speaking countries and the rest of the world, but also generates a constant stream of products and services marketed in English.

Think about the ubiquitous Hollywood movies, Economist magazines, and Google search engines. [FIG 3.1. FIG 3.2] Second, recent globalization has called for the use of one common language. For firms headquartered in English-speaking countries as well as Scandinavia and the Netherlands, using English to manage operations around the globe poses little difficulty.

However, settling on a global language for the entire firm is problematic for firms headquartered in Latin countries (such as France) or Asian countries (such as Japan). Yet, even in these firms, insisting on a language other than English as the global corporate lingua. On the other hand, the dominance of English, which does give native speakers of English a large advantage in global business, may also lead to a disadvantage. An expatriate manager not knowing the local language misses a lot of cultural subtleties and can only interact with locals fluent in English. Weak

INFOCUS

North Vietnam versus South Vietnam: After Thirty Years

In 2005, Vietnam celebrated 30 years of unification. In 1975, North Vietnam “liberated” South Vietnam and renamed Saigon, capital city of the South, Ho Chi Minh City. With different dialects, food, and weather, the two regions have always been very different. Northerners are considered serious and bookish, whereas Southerners tend to be flexible and flamboyant—similar to the stereotypes of Scandinavians and Mediterraneans in Europe. The Vietnam War (which the Vietnamese call the “American War”) exacerbated these differences. North Vietnam has been under communist rule since 1954. South Vietnam had much more recent experience with capitalism. The diaspora of Southerners, who fled from the northern communists in the 1970s, has become the Viet Kieu (overseas Vietnamese). Viet Kieu have flocked to the South since the beginning of the Doi Moi (market liberalization) policy in 1986. Despite the harsh communist reeducation programs to cleanse the Southerners of capitalist values, the economic center of gravity remains in the South. In 2005, Ho Chi Minh City, with 9% of the nation’s population, contributed 17% of national output, 30% of foreign investment, and 40% of exports. Its per capita income was four times the national average.

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Publishing the offending cartoons is legal in Denmark, but is it ethical? Should the editor of Jyllands-Posten, the Danish prime minister, and managers at Arla have reacted differently? Why should many Da;le East? More fundamentally, what informal institutions govern individual and firm behavior in different countries?

Following Chapter 2, this chapter continues our coverage on the institution-based view with a focus on *informal institutions* represented by cultures, ethics, and norms. Of the two propositions in the institution-based view, the first proposition—managers and firms rationally pursue their interests within a given institutional

framework—deals with both formal and informal institutions. The second proposition—in situations where formal institutions are unclear or fail, informal institutions play a larger role in reducing uncertainty—is more important and relevant in this chapter. Shown in the Opening Case, this chapter is more than about how to present business cards correctly and wine and dine differently (as portrayed by chapters on “cultural differences” in other textbooks). Informal institutions can make or break firms, thus necessitating a great deal of our attention.¹

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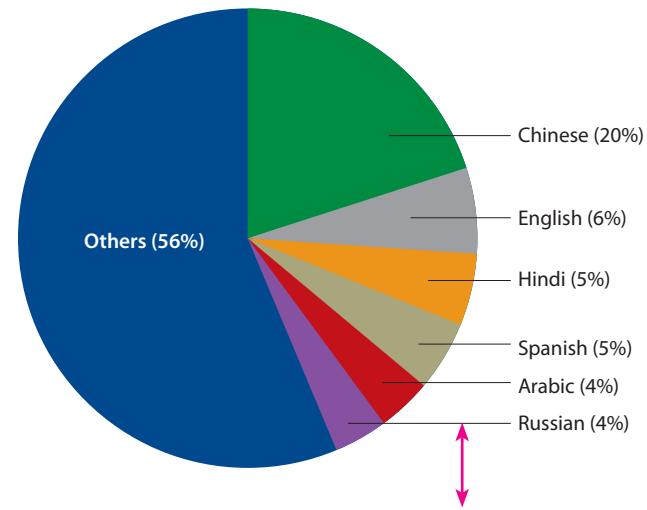
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However, settling on a global language for the entire firm is problematic for firms headquartered in Latin countries (such as France) or Asian countries (such as Japan). Yet, even in these firms, insisting on a language other than English as the global corporate lingua. On the other hand, the dominance of English, which does give native speakers of English a large advantage in global business, may also lead to

Lingua franca
The dominance of one language as a global business language.

FIG 3.1 Native Speakers of Top Six Languages as Percentage of World Population



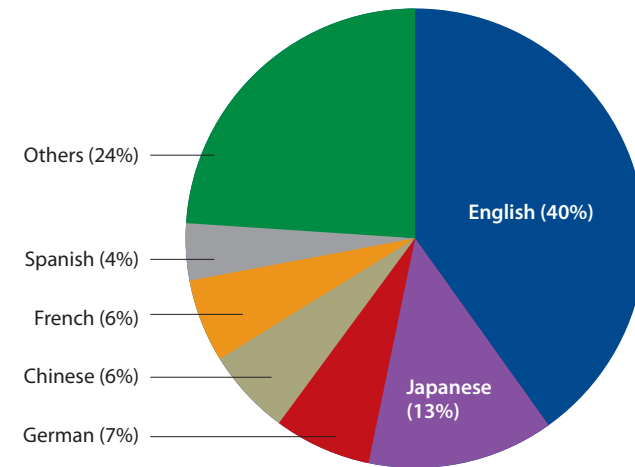
franca is still hard.⁸ Around the world, nonnative speakers of English who can master English, such as the Taiwan-born Hollywood director Ang Lee, Iceland-born singer Björk, and Colombia-born pop star Shakira, increasingly command a premium in jobs and compensation. This fuels the rising interest in English. The European Union (EU) insists that documents in every member country's official language be translated into all other official languages. The expanded set of 23 official languages for 27 member countries

Yes, I sell people things they don't need. I can't, however, sell them something they don't want.

JOHN E. O'TOOLE,
advertising executive

(since 2007) makes this requirement almost impossible to satisfy. For example, nobody can fluently translate Estonian into Portuguese. An Estonian document needs to be translated into English, which then can be translated into

FIG 3.2 Native Speakers of Top Six Languages as Percentage of Contribution to World Output



Portuguese. Thus, translators well versed in English are in great demand.

On the other hand, the dominance of English, which does give native speakers of English a large advantage in global business, may also lead to a disadvantage. An expatriate manager not knowing the local language misses a lot of cultural subtleties and can only interact with locals fluent in English. Weak (or no) ability in foreign languages makes it difficult (or impossible) to detect translation errors, which may result in embarrassments. For example, Rolls-Royce's Silver Mist was translated into German as "Silver Excrement." Coors Beer translated its slogan "Turn it loose!" into Spanish as "Drink Coors and get diarrhea!" Ford marketed its Nova car in Latin America with disastrous results: Nova means "no go" in Spanish.⁹ To avoid such embarrassments, you will be better off if you can pick up at least one foreign language during your university studies.

Religion

Religion is another major manifestation of culture. Approximately 85% of the world's population reportedly

have some religious belief. Figure 3.3 shows the geographic distribution of different religious heritages. The four leading religions are (1) Christianity (approximately 1.7 billion adherents), (2) Islam (1 billion), (3) Hinduism (750 million), and (4) Buddhism (350 million). Of course, not everybody claiming to be an adherent actively practices a religion. For instance, some Christians may go to church only once every year—on Christmas.

Because religious differences have led to numerous challenges, knowledge about religions is crucial even for nonreligious managers. For example, in Christian countries, the Christmas season represents the peak in shopping and consumption. In the United States, half of the toys are sold in one month before Christmas. Since (spoiled) kids in America consume half of the world's toys and virtually all toys are made outside the United States (mostly in Asia), this means 25% of the world toy output is sold in one country in one month, thus creating severe production, distribution, and coordination challenges. For toy makers and stores, "missing the boat" from Asia, whose transit time is at least two weeks, can literally devastate an entire season (and probably the entire year).

Managers and firms ignorant of religious traditions and differences may end up with embarrassments and, worse, disasters. A US firm blundered in Saudi Arabia by sending a meticulously prepared proposal bound with an expensive pigskin leather cover hoping to impress the clients. The proposal, an excellent one, was never read and soon rejected because Muslims avoid pig products.¹⁰ While this is a relatively minor embarrassment, a similar incident with much graver consequences took place in India in 1857. In those days, bullets were encased in pig wax, and the tops had to be bitten off before firing the bullets. When Muslim soldiers discovered the stuff they bit off was pig wax, they revolted against British officers. Eventually, British insensitivity to religious traditions in India led to hundreds of casualties on both sides.¹¹ Fast forward through 150 years, Danish insensitivity to Muslim traditions sparked riots in many Muslim countries (see Opening Case). Ideally, historically and religiously sensi-

tive managers and firms will avoid such blunders in the future.

LO2 Discuss how cultures systematically differ from each other

CLASSIFYING CULTURAL DIFFERENCES

This section outlines three ways to systematically understand cultural differences: (1) context, (2) cluster, and (3) dimension approaches. Then, culture is linked with different firm behavior.

The Context Approach

Of the three main approaches probing into cultural differences, the context approach is the most straightforward because it relies on a single dimension: context.¹² Context is the underlying background upon which interaction takes place. Figure

3.4 outlines the spectrum of countries along the dimension of low- versus high-context. In *low-context cultures* (such as North American and Western European countries), communication is usually taken at face value without much reliance on unspoken context. In other words, no means no. In contrast, in *high-context cultures* (such as Arab and Asian countries), communication relies a lot on the underlying unspoken context, which is



Cluster

Countries that share similar cultures together.

Civilization

The highest cultural grouping of people and the broadest level of cultural identity people have.

Power distance

The extent to which less powerful members within a country expect and accept that power is distributed unequally.

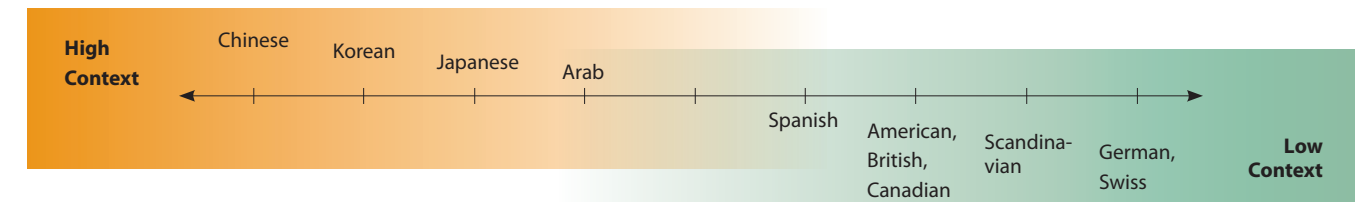
Individualism

The perspective that the identity of an individual is fundamentally his or her own.

Collectivism

The idea that the identity of an individual is primarily based on the identity of his or her collective group.

FIG 3.4 Hi-Content versus Low-Context Cultures



Generic Photo Credit

Ryan McVay

as important as the words used. For example, no does not necessarily mean no.

Why is context important? This is because failure to understand the differences in interaction styles may lead to misunderstandings. For instance, in Japan, a high-context culture, negotiators prefer not to flatly say “no” to a business request. They will say something like “We will study it” and “We will get back to you later.” Their negotiation partners are supposed to understand the context of these responses that lack enthusiasm and figure out that these responses essentially mean no (although the word “no” is never mentioned). In another example, in the United States, a low-context culture, lawyers often participate in negotiations by essentially attempting to remove the “context.” A contract should be as straightforward as possible, and parties are not supposed to “read between the lines.” For this reason, negotiators from high-context countries (such as China) often prefer not to involve lawyers until the very last phase of contract drafting. In high-context countries, initial rounds of negotiations are supposed to create the “context” for mutual trust and friendship. For individuals brought up in high-context cultures, decoding the context and acting accordingly are their second nature. Straightforward communication and confrontation, typical in low-context cultures, often baffle them.

Individualism
The perspective that the identity of an individual is fundamentally his or her own.

Collectivism
The idea that the identity of an individual is primarily based on the identity of his or her collective group.

Masculinity
A relatively strong form of societal-level sex-role differentiation whereby men tend to have occupations that reward assertiveness and women tend to work in caring professions.

Femininity
A relatively weak form of societal-level sex-role differentiation whereby more women occupy positions that reward assertiveness and more men work in caring professions.

Uncertainty avoidance
The extent to which members in different cultures accept ambiguous situations and tolerate uncertainty.

Long-term orientation
A perspective that emphasizes perseverance and savings for future betterment.

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The Cluster Approach

The cluster approach groups countries that share similar cultures together as one *cluster*. There are three influential sets of clusters (Table 3.1). The first is the Ronen and Shenkar clusters, proposed by management professors Simcha Ronen and Oded Shenkar.¹³ In alphabetical order, these clusters are (1) Anglo, (2) Arabic, (3) Far East, (4) Germanic, (5) Latin America, (6) Latin Europe, (7) Near Eastern, and (8) Nordic.



Pic 3.2 Why is it important to understand the context of business communications?

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The second set of clusters is called the GLOBE clusters, named after the Global Leadership and Organizational Behavior Effectiveness project led by management professor Robert House.¹⁴ The GLOBE project identifies ten clusters, five of which use identical labels as the Ronen and Shenkar clusters: (1) Anglo, (2) Germanic Europe, (3) Latin America, (4) Latin Europe, and (5) Nordic Europe. In addition, GLOBE has (6) Confucian Asia, (7) Eastern Europe, (8) Middle East, (9) Southern Asia, and (10) Sub-Sahara Africa, which roughly (but not completely) correspond with the respective Ronen and Shenkar clusters.

The third set of clusters is the Huntington civilizations, popularized by political scientist Samuel Huntington. A *civilization* is “the highest cultural grouping of people and the broadest level of cultural identity people have.”¹⁵ Shown in Table 3.1, Huntington divides the world into eight civilizations: (1) African, (2) Confucian (Sinic), (3) Hindu, (4) Islamic, (5) Japanese, (6) Latin American, (7) Slavic-Orthodox, and (8) Western. Although this classification shares a number of similarities with the Ronen and Shenkar and GLOBE clusters, Huntington’s Western civilization is a very broad cluster that is subdivided into Anglo, Germanic, Latin Europe, and Nordic clusters by Ronen and Shenkar and GLOBE. In addition to such

TABLE 3.5 Cultural Clusters

Ronen and Shenkar Clusters	GLOBE Clusters	Huntington Civilizations
Anglo	Anglo	Western (1) 4
Arabic	Middle East	Islamic
Far East	Confucian Asia	Confucian (Sinic)
Germanic	Germanic Europe	Western (2)
Latin America	Latin America	Latin American
Latin Europe	Latin Europe	Western (3)
Near Eastern	Southern Asia	Hindu
Nordic	Nordic Europe	Western (4)
Central and Eastern Europe	Eastern Europe	Slavic-Orthodox
Sub-Sahara Africa	Sub-Sahara Africa	African
Independents: Brazil, India, Israel, Japan		Japanese

- This table is the first time these three major systems of cultural clusters are compiled side by side. Viewing them together can allow us to see their similarities. However, there are also differences. Across the three systems (columns), even though some clusters share the same labels, there are still differences. For example, Ronen and Shenkar’s Latin America cluster does not include Brazil (which is regarded as an “independent”), whereas GLOBE and Huntington’s Latin America includes Brazil.
- Ronen and Shenkar originally classified eight clusters (in alphabetical order, from Anglo to Nordic), covering 44 countries. They placed Brazil, India, Israel, and Japan as “independents.” Upon consultation with Oded Shenkar, my colleagues and I more recently added Central and Eastern Europe and Sub-Sahara Africa as two new clusters—see Peng, Hill, and Wang, 2000, cited as (3) in the Sources.
- GLOBE includes ten clusters, covering 62 countries.
- NYTimes analyzed them to establish some rough correspondence with the respective Ronen and Shenkar and GLOBE clusters.

Sources: Based on (1) S. Huntington, 1996, *The Clash of Civilizations and the Remaking of World Order*, New York: Simon & Schuster; (2) R. House, P. Hanges, M. Javidan, P. Dorfman, & V. Gupta (eds.), 2004, *Culture, Leadership, and Organizations: The GLOBE Study of 62 Societies*, Thousand Oaks, CA: Sage; (3) M. W. Peng, C. Hill, & D. Wang, 2000, Schumpeterian dynamics versus Williamsonian considerations, *Journal of Management Studies*, 37: 167–184; (4) S. Ronen & O. Shenkar, 1985, Clustering countries on attitudinal dimension, *Academy of Management Review*, 10: 435–454.

An uncontroversial classification scheme, Huntington has advanced a highly controversial idea that the Western civilization will clash with the Islamic and Confucian civilizations in the years to come. Incidents such as 9/11, Iraq, and more recently the Danish cartoons (see Opening Case) have often been cited as evidence of such a clash.

The Dimension Approach

Although both the context and cluster approaches are interesting, the dimension approach is more influential. The reasons for such influence are probably twofold. First, insightful as the context approach is, context only represents one dimension. What about other dimensions? Second, the cluster approach has relatively little to offer regarding differences among countries within one cluster. For example, what are the differences between Italy and Spain, both of which belong to the same Latin Europe cluster according to Ronen and Shenkar and GLOBE? By focusing on multiple dimensions of cultural differences both within and across clusters, the dimension approach has endeavored to overcome these limitations. While there are several competing

frameworks,¹⁶ the work of Hofstede and his colleagues is by far the most influential¹⁷ and thus is our focus here.

Hofstede and his colleagues have proposed five dimensions (Table 3.2). First, *power distance* is the extent to which less powerful members within a country expect and accept that power is distributed unequally. For example, in high power distance

Brazil, the richest 10% of the population receives approximately 50% of the national income, and everybody accepts this as “the way it is.” In low power distance Sweden, the richest 10% only gets 22% of the national income.¹⁸



Ethics
The principles, standards, and norms of conduct governing individual and firm behavior

Ethical Relativism
A perspective that suggests that all ethical standards are relative. The extent to which members in different cultures accept ambiguous situations and tolerate uncertainty

Ethical imperialism
The absolute belief that “there is only one set of Ethics (with the capital E), and we have it.”

Corruption
The abuse of public power for private benefits, usually in the form of bribery.

TABLE 3.2 Hofstede's Dimensions of Culture

	1. Power Distance	2. Individualism	3. Masculinity	4. Uncertainty Avoidance	5. Long-Term Orientation
1	Malaysia (104) ²	USA (91)	Japan (95)	Greece (112)	China (118)
2	Guatemala (95)	Australia (90)	Austria (79)	Portugal (104)	Hong Kong (96)
3	Panama (95)	U.K. (89)	Venezuela (73)	Guatemala (101)	Taiwan (87)
4	Philippines (94)	Canada (80)	Italy (70)	Uruguay (100)	Japan (80)
5	Mexico (81)	Netherlands (80)	Switzerland (70)	Belgium (94)	South Korea (75)
6	Venezuela (81)	New Zealand (79)	Mexico (69)	Salvador (94)	Brazil (65)
7	Arab countries (80)	Italy (76)	Ireland (68)	Japan (92)	India (61)
8	Ecuador (78)	Belgium (75)	Jamaica (68)	Yugoslavia (88)	Thailand (56)
9	Indonesia (78)	Denmark (74)	UK (66)	Peru (87)	Singapore (48)
10	India (77)	Sweden (71)	Germany (66)	France (86)	Netherlands (44)
11	West Africa (77)	France (71)	Philippines (64)	Chile (86)	Bangladesh (40)
12	Yugoslavia (76)	Ireland (70)	Colombia (64)	Spain (86)	Sweden (33)
13	Singapore (74)	Norway (69)	South Africa (63)	Costa Rica (86)	Poland (32)
14	Brazil (69)	Switzerland (68)	Ecuador (63)	Panama (86)	Germany (31)
15	France (68)	Germany (67)	USA (62)	Argentina (86)	Australia (31)
16	Hong Kong (68)	South Africa (65)	Australia (61)	Turkey (85)	New Zealand (30)
17	Colombia (67)	Finland (63)	New Zealand (58)	South Korea (85)	USA (29)
18	El Salvador (66)	Austria (55)	Greece (57)	Mexico (82)	UK (25)
19	Turkey (66)	Israel (54)	Hong Kong (57)	Israel (81)	Zimbabwe (25)
20	Belgium (65)	Spain (51)	Argentina (56)	Colombia (80)	Canada (23)

1. When scores are the same, countries are tied according to their alphabetical order. Arab, East Africa, and West Africa are clusters of multiple countries. Germany and Yugoslavia refer to the former West Germany and the former Yugoslavia.

2. Scores reflect relative standing among countries, not absolute positions. They are measures of differences only.

Sources: Adapted from G. Hofstede, 1997, *Cultures and Organizations: Software of the Mind* (pp. 25, 26, 53, 84, 113, 166), New York: McGraw-Hill.

Brazil, the richest 10% of the population receives approximately 50% of the national income, and everybody accepts this as “the way it is.” In low power distance Sweden, the richest 10% only gets 22% of the national income.¹⁸ Even within the same cluster, there are major differences. For instance, in the United States, subordinates often address their bosses on a first-name basis, which reflects a relatively low power distance. While this boss, Mary or Joe, still has the power to fire you, the distance appears to be shorter than if you have to address this person as Mrs. Y or Dr. Z. In low power distance American

universities, all faculty members, including the lowest ranked assistant professors, are commonly addressed as “Professor A.” In high power distance British universities, only full professors are allowed to be called “Professor B” (everybody else is called “Dr. C” or “Ms. D” if D does not have a PhD). German universities are perhaps most extreme: Full professors with PhDs need to be honored as “Prof. Dr. X”; your author would be “Prof. Dr. Peng” if I worked at a German university. [TABLE 3.2.]

Second, *individualism* refers to the perspective that the identity of an individual is fundamentally his or her own, whereas *collectivism* refers to the idea that the identity of an individual is primarily based on the identity of his or her collective group (such as family, village, or company).

own, whereas *collectivism* refers to the idea that the identity of an individual is primarily based on the identity of his or her collective group (such as family, village, or company). In individualist societies (led by the United States), ties between individuals are relatively loose, and individual achievement and freedom are highly valued. In contrast, in collectivist societies (such as many countries in Africa, Asia, and Latin America), ties between individuals are relatively close, and collective accomplishments are often sought after.

term-orientation societies (led by Pakistan) prefer quick results and instant gratification.

Overall, Hofstede’s dimensions are interesting and informative. They are also largely supported by subsequent work.¹⁹ It is important to note that Hofstede’s dimensions are not perfect and have attracted some criticisms (see In Focus 3.2).²⁰ However, it is fair to suggest that these dimensions represent a starting point for trying to figure out the role of culture in global business.

There are two kinds of fools in any market. One doesn't charge enough. The other charges too much.

RUSSIAN PROVERB



Third, the *masculinity* versus *femininity* dimension refers to sex-role differentiation. In every traditional society, men tend to have occupations that reward assertiveness, such as politicians, soldiers, and executives. Women, on the other hand, usually work in caring professions, such as teachers and nurses, in addition to being homemakers. High masculinity societies (led by Japan) continue to maintain such a sharp role differentiation along gender lines. In low masculinity societies (led by Sweden), women increasingly become politicians, scientists, and soldiers (think about the movie *GI Jane*), and men frequently assume the role of nurses, teachers, and househusbands.

Fourth, *uncertainty avoidance* refers to the extent to which members in different cultures accept ambiguous situations and tolerate uncertainty. Members of high uncertainty avoidance cultures (led by Greece) place a premium on job security and retirement benefits. They also tend to resist change, which, by definition, is uncertain. Low uncertainty avoidance cultures (led by Singapore) are characterized by a greater willingness to take risk and less resistance to change.

Finally, *long-term orientation* emphasizes perseverance and savings for future betterment. China, which has the continuous written history of 4,000 years and the highest savings rate, leads the pack. On the other hand, members of short-

Culture and Global Business

A great deal of global business activities is consistent with the context, cluster, and dimension approaches to cultural differences.²¹ For instance, the average length of contracts is longer in low-context countries (such as Germany) than in high-context countries (such as Vietnam). This is because in high-context countries a lot of agreements are unspoken and not necessarily put in a legal contract.

Also, as pointed out by the cluster approach, firms are a lot more serious in preparation when doing business with countries in other clusters, compared with how they deal with countries within the same cluster. Recently, countless new books have been published on how to do business in China. Two decades ago, gurus wrote about how to do business in Japan. Evidently, there is a huge demand for English-speaking business people to read such books before heading to China and Japan. But has anyone ever seen a book on how to do business in Canada in English?

bottom: Generic Photo Credit; top: Ryan McVay



Foreign Corrupt Practices Act (FCPA)
A US law enacted in 1977 that bans bribery to foreign officials.



PIC 3.3 What do you think a company's code of conduct should say about respect?

Hofstede's dimension approach is also often supported in the real world. For instance, managers in high power distance countries such as France and Italy have a greater penchant for centralized authority.²² Solicitation of subordinate feedback and participation, widely practiced in low power distance Western countries (known as empowerment), is often regarded as a sign of weak leadership and low integrity in high power distance countries such as Egypt, Russia, and Turkey.²³

Individualism and collectivism also affect business activities. Individualist US firms may often try to differentiate themselves, whereas collectivist Japanese firms tend to follow each other.²⁴ Because entrepreneurs "stick their neck out" by founding new firms, individualist societies tend to foster a relatively higher level of entrepreneurship.²⁵

LO3 Understand the importance of ethics and ways to combat corruption

ETHICS

Definition and Impact of Ethics

Ethics refers to the principles, standards, and norms of conduct governing individual and firm behavior.²⁷ Ethics is not only an important part of informal institutions but is also deeply reflected in formal laws and regulations. To the extent that laws reflect a society's minimum standards of conduct, there is a substantial overlap between what is ethical and legal and between what is unethical and illegal. However, there is a gray area because what is legal may be unethical

Cultural intelligence
An individual's ability to understand and adjust to new cultures.

(see Opening Case). Recent scandals (such as those at Citigroup discussed in Closing Case) have pushed ethics to the forefront of global business discussions. Numerous firms have introduced a *code of conduct*—a set of guidelines for making ethical decisions.²⁸ There is a debate on firms' ethical motivations. A negative view suggests that firms may simply jump onto the ethics "bandwagon" under social pressures to appear more legitimate without necessarily becoming better. A positive view maintains that some (although not all) firms may be self-motivated to "do it right" regardless of pressures. An instrumental view believes that good ethics may simply be a useful instrument to help make money.²⁹

Managing Ethics Overseas

Managing ethics overseas is challenging because what is ethical in one country may be unethical elsewhere.³⁰ There are two schools of thought.³¹ First, *ethical relativism* follows the cliché, "When in Rome, do as the Romans do." If women in Muslim countries are discriminated against, so what? Likewise, if industry rivals in China can fix prices, who cares? Isn't that what the "Romans" do in "Rome"? Second, *ethical imperialism* refers to the absolute belief that "There is only one set of Ethics (with the capital E), and we have it." Americans are especially renowned for believing

TABLE 3.3 Managing Ethics Overseas: Three "Middle-of-the-Road" Approaches

- Respect for human dignity and basic rights
- Respect for local traditions
- Respect for institutional context

Sources: Based on text in (1) T. Donaldson, 1996, Values in tension: Ethics away from home, Harvard Business Review, September–October: 4–11; (2) J. Weiss, 2006, Business Ethics, 4th ed., Cincinnati, OH: Thomson South-Western.

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TABLE 3.4 Transparency International Ranking of Corruption Perceptions

Rank	Top-twenty least corrupt countries among 163 countries	Index: 10 (highly clean) – 0 (highly corrupt)	Rank	Top-twenty most corrupt countries among 163 countries	Index: 10 (highly clean) – 0 (highly corrupt)
1	Finland	9.6	163	Haiti	1.8
	Iceland	9.6	160	Guinea	1.9
	New Zealand	9.6		Iraq	1.9
4	Denmark	9.5		Myanmar	1.9
5	Singapore	9.4	156	Bangladesh	2.0
6	Sweden	9.2		Chad	2.0
7	Switzerland	9.1		Democratic Republic of Congo	2.0
8	Norway	8.8		Sudan	2.0
9	Australia	8.7	151	Belarus	2.1
	Netherlands	8.7		Cambodia	2.1
11	Austria	8.6		Côte d'Ivoire	2.1
	Luxembourg	8.6		Equatorial Guinea	2.1
	UK	8.6		Uzbekistan	2.1
14	Canada	8.5	142	Angola	2.2
15	Hong Kong	8.3		Republic of Congo	2.2
16	Germany	8.0		Kenya	2.2
17	Japan	7.6		Kyrgyzstan	2.2
18	France	7.4		Nigeria	2.2
	Ireland	7.4		Pakistan	2.2
20	Belgium	7.3		Sierra Leone	2.2
	Chile	7.3		Tajikistan	2.2
	USA	7.3		Turkmenistan	2.2

Source: Adapted from Transparency International Corruption Perceptions Index 2006, <http://www.transparency.org> (accessed June 16, 2007)

follows the cliché, "When in Rome, do as the Romans do." If women in Muslim countries are discriminated against, so what? Likewise, if industry rivals in China can fix prices, who cares? Isn't that what the "Romans" do in "Rome"? Second, *ethical imperialism* refers to the absolute belief that "There is only one set of Ethics (with the capital E), and we have it." Americans are especially renowned for believing that their ethical values should be applied universally.³² For example, since sexual discrimination and price fixing are wrong in the United States, they must be wrong everywhere else. In practice, however, neither of these schools

of thought is realistic. At the extreme, ethical relativism would have to accept any local practice, whereas ethical imperialism may cause resentment and backlash among locals. [Pic 3.3]

Three "middle-of-the-road" guiding principles have been proposed by Thomas Donaldson, a business ethicist (Table 3.3). First, respect for human dignity and basic rights (such as those concerning health, safety, and the need for education instead of working at a young age) should determine the absolute minimal ethical thresholds for all operations around the world. [TABLE 3.3.]

Second, respect for local traditions suggests cultural sensitivity. If gifts are banned, foreign firms can forget about doing business in China and Japan, where gift giving is part of the business norm. Although hiring employees' children and relatives instead of more qualified applicants is illegal according to US equal opportunity laws, Indian companies routinely practice such nepotism, which would strengthen employee loyalty. What should US companies setting up subsidiaries in India do? Donaldson advises that such nepotism is not necessarily wrong, at least in India.

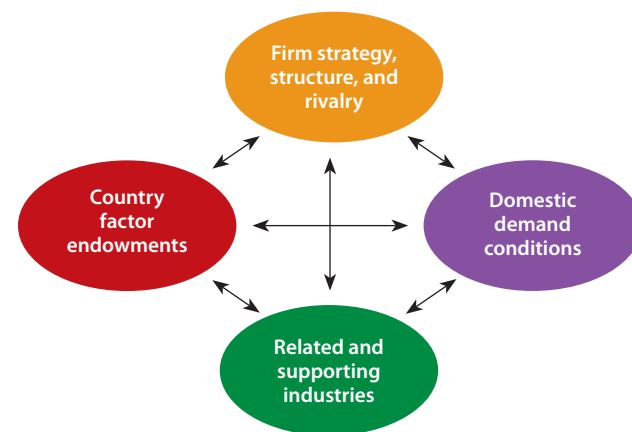
Finally, respect for institutional context calls for a careful understanding of local institutions. Codes of conduct banning bribery are not very useful unless accompanied by guidelines for the scale and scope of appropriate gift giving and receiving. Citigroup allows employees to accept noncash gifts whose nominal value is less than \$100. The Economist allows its journalists to accept any gift that can be consumed in a single day—a bottle of wine is acceptable, but a case of wine is not.³³ Rhone-Poulenc

Rorer, a French pharmaceutical firm, has invited foreign subsidiaries to add locally appropriate supplements to its corporate-wide code of conduct. Overall, these three principles, although far from perfect, can help managers make decisions about which they may feel relatively comfortable.

Ethics and Corruption

Ethics helps combat *corruption*, often defined as the abuse of public power for private benefits usually in the form of bribery (in cash or in kind).³⁴ Corruption distorts the basis

FIG 5.6 National Competitive Advantage of Industries: The Porter Diamond



Source: M. Porter, 1990, The competitive advantage of nations (p. 77), Harvard Business Review, March-April: 73-93.

for competition that should be based on products and services, thus causing misallocation of resources and slowing economic development.³⁵ According to Transparency International, which is headquartered in Berlin, Germany and is probably the most influential anticorruption non-government organization (NGO), the correlation between a high level of corruption and a low level of economic development is strong (Table 3.4). In other words, corruption and poverty go together. There is some evidence that corruption discourages foreign direct investment (FDI).³⁶ If the level of corruption in Singapore. However, there are exceptions. China is an obvious case, where corruption is often reported. Another exception seems to be Indonesia, whose former President Suharto was known as “Mr. Ten Percent,” which refers to the well-known (and transparent!) amount of bribes foreign firms were expected to pay him or members of his family. Why are these two countries popular FDI destinations?³⁸

LO4 Identify norms associated with strategic responses when firms deal with ethical challenges

NORMS AND ETHICAL CHALLENGES

As an important informal institution, norms are the prevailing practices of relevant players—the proverbial “everybody else”—that affect the focal individuals and firms. How firms strategically respond to ethical challenges is often driven, at least in part, by norms. Four broad strategic responses are (1) reactive, (2) defensive, (3) accommodative, and (4) proactive strategies (see Table 3.5). A reactive

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strategy is passive. Even when problems arise, firms do not feel compelled to act, and denial is usually the first line of defense. In the absence of formal regulation, the need to take necessary action is neither internalized through cognitive beliefs, nor does it become any norm in practice.

For example, Ford marketed the Pinto car in the early 1970s knowing that its gas tank had a fatal design flaw that could make the car susceptible to exploding in rear-end collisions. Citing high costs, Ford decided not to add an \$11 per car improvement. Sure enough, accidents happened and people were killed and burned in Pintos. Still, for several years, Ford refused to recall the Pinto, and more lives were lost. Only in 1978, under intense formal pressures from the government and informal pressures from the media and consumer groups, did Ford belatedly recall all 1.5 million Pintos.⁴⁰

A defensive strategy focuses on regulatory compliance. In the absence of regulatory pressures, firms often fight informal pressures coming from the media and activists. In the early 1990s, Nike was charged for running “sweatshops,” while these incidents took place in its contractors’ factories in Indonesia and Vietnam. Although Nike did not own or manage these factories, its initial statement, “We

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don’t make shoes,” failed to convey any ethical responsibility. Only when several senators began to suggest legislative solutions did Nike become more serious.

Finally, proactive firms anticipate institutional changes and do more than is required. In 1990, BMW anticipated its emerging responsibility associated with the German government’s proposed “take-back” policy, requiring automakers to design cars whose components can be taken back by the same manufacturers for recycling. BMW not only designed easier-to-disassemble cars but also signed up the few high-quality dismantler firms as part of an exclusive recycling infrastructure. Further, BMW actively participated in public discussions and succeeded in establishing its approach as the German national standard for automobile disassembly. Other automakers were thus required to follow BMW’s lead. However, they had to fight over smaller, lower quality dismantlers or develop in-house dismantling infrastructure from scratch.⁴¹ Through such a proactive strategy, BMW has set a new industry standard, facilitating the emergence of new environmentally friendly norms in both car design and recycling. Overall, while there is probably a certain element of “window dressing,” the fact that proactive firms are going beyond the current regulatory requirements is indicative of the normative and cognitive beliefs held by many managers at these firms on the importance of doing the “right thing.”⁴²

LO5 Participate in three leading debates

DEBATES AND EXTENSIONS

Informal institutions such as cultures, ethics, and norms provoke a series of significant debates. In this section, we focus on three: values versus Eastern values.

Cluster

Countries that share similar cultures together.

Civilization

The highest cultural grouping of people and the broadest level of cultural identity people have.

Power distance

The extent to which less powerful members within a country expect and accept that power is distributed unequally.

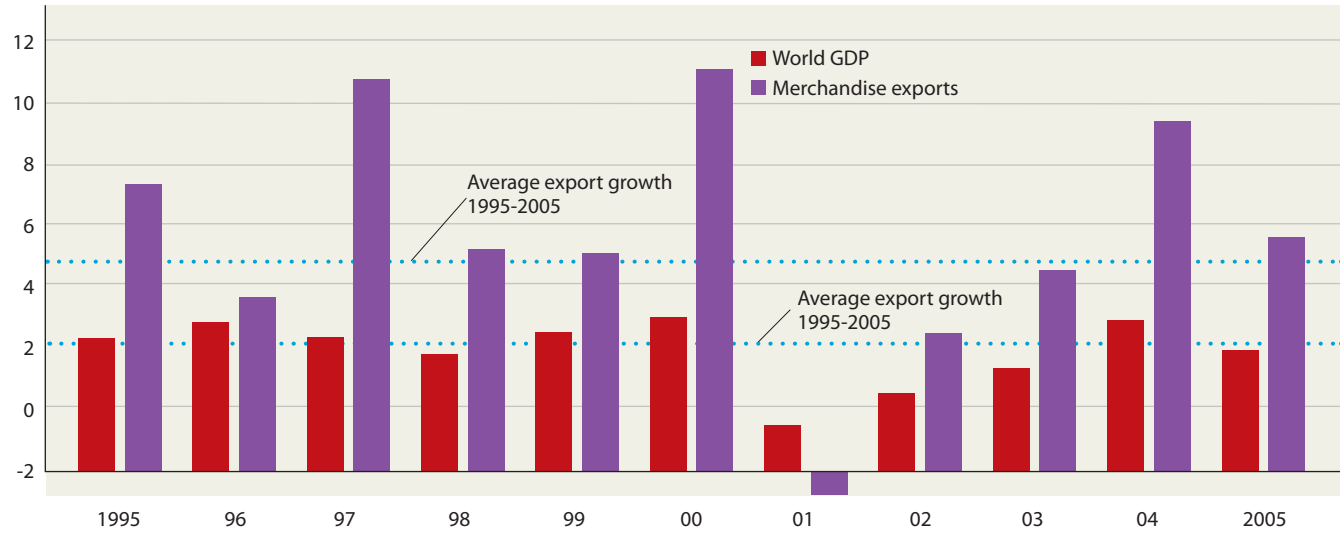
Individualism

The perspective that the identity of an individual is fundamentally his or her own.

TABLE 3.5 Strategic Responses to Ethical Challenges

Strategic responses	Strategic behaviors	Examples in the text
Reactive	Deny responsibility; do less than required	Ford Pinto fire (the 1970s)
Defensive	Admit responsibility but fight it; do the least that is required	Nike (the early 1990s)
Accommodative	Accept responsibility; do all that is required	Ford Explorer rollovers (the 2000s)
Proactive	Anticipate responsibility; do more than is required	BMW (the 1990s)

FIG 5.1 Growth in World Trade Outpaces Growth in World GDP (Annual % Change) pg 126



Source World Trade Organization, 2007, World Trade 2006, Prospects for 2007, press release, April 12, <http://www.wto.org>

gence versus divergence, and (3) opportunism versus individualism/collectivism.

Economic Development: Western Values versus Eastern Values

This is another component of the debate on the drivers of economic development first discussed in Chapter 2. Here, our focus is on the role of informal cultural values. About 100 years ago, at the apex of Western power (which ruled the majority of Africans and Asians in colonies), German sociologist Max Weber argued that it was the Protestant work ethic that led to the “spirit of capitalism” and strong economic development. As a branch of Christianity (the other two branches are Catholic and Orthodox), Protestantism is widely practiced in English-speaking countries, Germany, the Netherlands, and Scandinavia. This is where the Industrial Revolution (and modern capitalism) took off. Weber suggested that the Protestant emphasis on hard work and frugality is necessary for capital accumulation—hence the term capitalism. Adherents of other religious



beliefs, including Catholicism, are believed to lack such traits. At that time, Weber’s view was widely accepted.

LO6 Draw implications for action

MANAGEMENT SAVVY

A contribution of the institution-based view is to emphasize the importance of informal institutions—cultures, ethics, and norms—as the bedrock propelling or constraining business around the world. How does this perspective answer our fundamental question: What determines the success and failure of firms around the globe? The institution-based view argues that firm performance is, at least in part, determined by the informal cultures, ethics, and norms governing firm behavior.

For managers around the globe, this emphasis on informal institutions suggests two broad implications. First, enhancing *cultural intelligence*, defined as an individual’s ability to understand and adjust to new cultures, is necessary.⁴⁶

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TABLE 3.6 Five Profiles of Cultural Intelligence

Profiles	Characteristics
The Local	A person who works well with people from similar backgrounds but does not work effectively with people from different cultural backgrounds.
The Analyst	A person who observes and learns from others and plans a strategy for interacting with people from different cultural backgrounds.
The Natural	A person who relies on intuition rather than on a systematic learning style when interacting with people from different cultural backgrounds.
The Mimic	A person who creates a comfort zone for people from different cultural backgrounds by adopting their general posture and communication style. This is not pure imitation, which may be regarded as mocking.
The Chameleon	A person who may be mistaken for a native of the foreign country. He/she may achieve results that natives cannot, due to his/her insider’s skills and outsider’s perspective. This is very rare.

Sources: Based on (1) P. C. Earley & S. Ang, 2003, *Cultural Intelligence: Individual Interactions across Cultures*, Palo Alto, CA: Stanford University Press; (2) P. C. Earley & E. Mosakowski, 2004, *Cultural intelligence*, Harvard Business Review, October: 139–146; (3) P. C. Earley & E. Mosakowski, 2004, *Toward culture intelligence: Turning cultural differences into a workplace advantage*, Academy of Management Executive, 18 (3): 151–157.

For managers around the globe, this emphasis on informal institutions suggests two broad implications. First, enhancing *cultural intelligence*, defined as an individual’s ability to understand and adjust to new cultures, is necessary.⁴⁶ Nobody can become an expert, the chameleon in Table 3.6, in all cultures. However, a genuine interest in foreign cultures will open your eyes. Acquisition of cultural intelligence passes through three phases: (1) awareness, (2) knowledge, and (3) skills.⁴⁷ Awareness refers to the recognition of both the pros and cons of your “mental software” and the appreciation of people from other cultures.

Knowledge refers to ability to identify the symbols, rituals, and taboos in other cultures—also known as cross-cultural literacy. Although you may not share (or may disagree) with their values, you will at least obtain a road map of the informal institutions governing their behavior. Finally, skills are based on awareness and knowledge, plus good practice (Table 3.7). Of course, culture is not everything. It is advisable not to read too much into culture, which is one of many variables affecting global business.⁴⁸ However, it is imprudent to ignore culture. [TABLE 3.6] [TABLE 3.7.]

While skills can be taught, the most effective way is total immersion within a foreign culture. Even for gifted individuals, learning a new language and culture to function well at a managerial level will take at least several months of full-time studies. Most employers do not give their managers that much time to learn before sending them abroad. Thus, most expat managers are inadequately prepared, and the costs for firms, individuals, and families are tremendous (see Chapter 15). This means that you, a student studying this book, are advised to invest in your own career by picking up at least one foreign language, spending one semester (or year) abroad, and reaching out to make some international friends. Such an investment during university studies

FIG 5.1 Absolute Advantage page 128

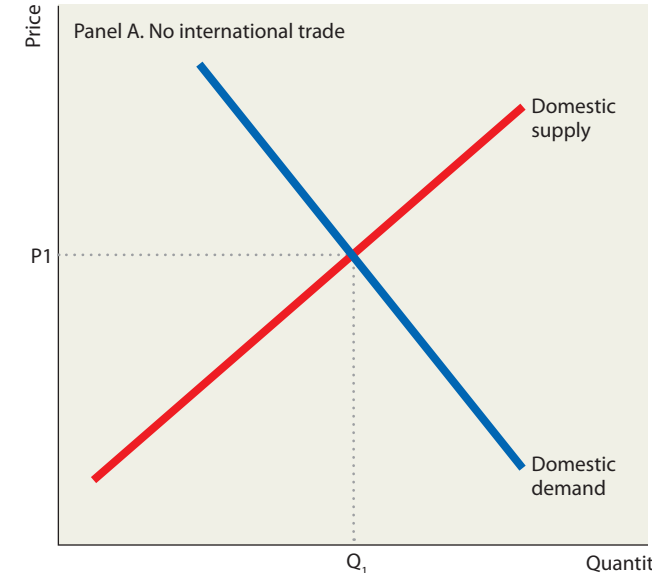


TABLE 3.6 Implications for Action: Six Rules of Thumb When Venturing Overseas

- Be prepared
- Slow down
- Establish trust
- Understand the importance of language
- Respect cultural differences
- Understand that no culture is inherently superior in all aspects

and fail to adapt accordingly are likely to fall behind or even go out of business.

Chapter SUMMARY

- Define what culture is and articulate its two main manifestations: language and religion
 - Culture is the collective programming of the mind that distinguishes one group from another.
 - Managers and firms ignorant of foreign languages and religious traditions may end up with embarrassments and, worse, disasters when doing business around the globe.
- Discuss how cultures systematically differ from each other
 - The context approach differentiates cultures based on the high- versus low-context dimension.
 - The cluster approach groups similar cultures together as clusters and civilizations.
 - Hofstede and colleagues have identified five cultural dimensions: (1) power distance, (2) individualism/collectivism, (3) masculinity/femininity, (4) uncertainty avoidance, and (5) long-term orientation.
- Understand the importance of ethics and ways to combat corruption
 - When managing ethics overseas, two schools of thought are ethical relativism and ethical imperialism.
 - Three “middle-of-the-road” principles help guide managers to make ethical decisions.
 - The fight against corruption around the world is a long-term, global battle.
- Identify norms associated with strategic responses when firms deal with ethical challenges
 - When confronting ethical challenges, individual firms have four strategic choices: (1) reactive, (2) defensive, (3) accommodative, and (4) proactive strategies.
- Participate in three leading debates on cultures, ethics, and norms
 - These are (1) Western values versus Eastern values, (2) cultural convergence versus divergence, and (3) opportunism versus individualism/collectivism.
- Draw implications for action
 - It is important to enhance cultural intelligence, leading to cross-cultural literacy.
 - It is crucial to understand and adapt to changing norms globally.
- Understand the importance of ethics and ways to combat corruption
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Key TERMS

Civilization Cluster	Foreign Corrupt Practices Act (FCPA)
Code of conduct	High-context cultures
Collectivism	Individualism
Context	Informal institutions
Corruption	In-group
Cultural intelligence	Lingua franca
Culture	Long-term orientation
Ethical imperialism	Low-context cultures
Ethical relativism	Masculinity
Ethics	Norm
Ethnocentrism	Out-group
Femininity	Power distance

REVIEW Questions

- Where do informal institutions come from, and how do they lead to ethnocentrism?
- What language is considered the lingua franca of the modern business world? Why?
- Using Figure 3.3, identify the four major religions in the world and where they are distributed geographically.
- Name two major components and three minor components of a country’s culture.
- What is the difference between a low-context culture and a high-context culture? How would you classify your home country’s culture?
- Name and describe the three systems for classifying cultures by clusters.
- Describe the differences among the five dimensions of Hofstede’s system for classifying cultures.
- Give three examples of how your own personal ethics might be reflected in a firm’s code of conduct.
- What is the difference between ethical relativism and ethical imperialism?
- Name and describe Thomas Donaldson’s three guiding ethical principles.
- How would you define corruption in a business setting?
- Explain the difference between a reactive strategy and a defensive strategy when dealing with an ethical challenge.
- What might be the outcome if several firms within an industry decide to adopt the same accommodative strategy to a shared ethical challenge?

Critical Discussion Questions

- When you take an airline flight, the passenger sitting next to you tries to strike up a conversation. He or she asks: “What do

- you do?” You would like to be nice but don’t want to disclose too much information about yourself (such as your name). How would you answer this question?
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Then, within about a half hour, Citigroup’s bond traders bought back a third of the bonds they just sold, raking in a \$24 million profit. The traders were jubilant. Their actions were legal, but they broke an unwritten norm of the industry not to stimulate major turbulence of the thin summer trading. When a puzzled rival trader called to ask what was up, the Citigroup crew laughed and hung up. Nobody was laughing now. The profits were not worth the damage to its reputation. Citigroup angered governments in countries such as Belgium and Italy that relied on the international bond markets and offered Citigroup lucrative contracts to handle their deals. Overall, European regulators would no longer tolerate such behavior.

In Japan, a worse disaster struck. In September 2004, regulators ordered Citigroup to shut down its private bank in Japan because of a series of abuses in selling securities at “unfair” prices to clients. Citigroup sales force pushed sales to many Japanese clients without

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The ramifications were profound. On the first page of the 2004 annual report, Chuck Prince, Citigroup’s CEO, apologized to shareholders. Around the world, Prince met with employees and stressed the importance of ethical integrity. Prince, a lawyer by training, had assumed his position to deal with the legal and ethical

turbulence in the United States. Now, he had his hands full around the world. In response to the European and Japanese scandals, a new code of conduct was implemented and a Global Compliance unit was established. Every employee would receive ethics training, and a toll-free ethics hotline was aggressively marketed to employees. Prince wrote in his letter to shareholders in the 2004 annual report:

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Talk is cheap, according to critics. Many critics are suspicious of whether the transformation pushed by Prince will be successful. It is not an accident that Citigroup has become a global industry leader in sales and profits. The competitive instinct permeates the corporate DNA. Job number one for Prince—and indeed for the entire organization—is how to become a more ethical firm without losing its competitive edge. The competitive instinct



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Notes

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Notes

Journal acronyms: **AME** – Academy of Management Executive; **AMJ** – Academy of Management Journal; **AMR** – Academy of Management Review; **APJM** – Asia Pacific Journal of Management; **CMR** – California Management Review; **HBR** – Harvard Business Review; **IJHRM** – International Journal of Human Resource Management; **JIBS** – Journal of International Business Studies; **JIM** – Journal of International Management; **JM** – Journal of Management; **JMS** – Journal of Management Studies; **JWB** – Journal of World Business; **MIR** – Management International Review; **OD** – Organizational Dynamics; **OST** – Organization Studies; **PB** – Psychological Bulletin; **RES** – Review of Economics and Statistics; **SMJ** – Strategic Management Journal.

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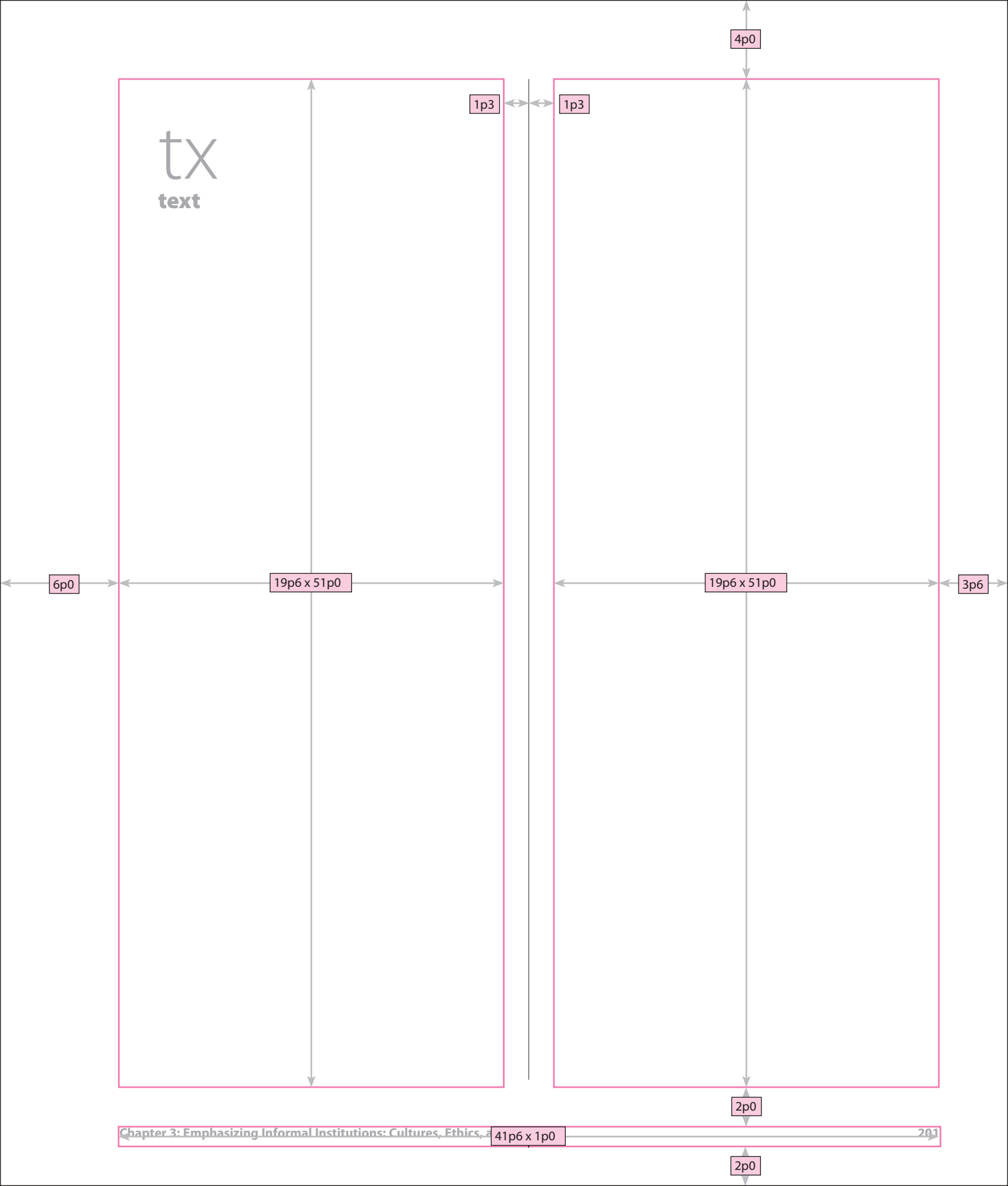
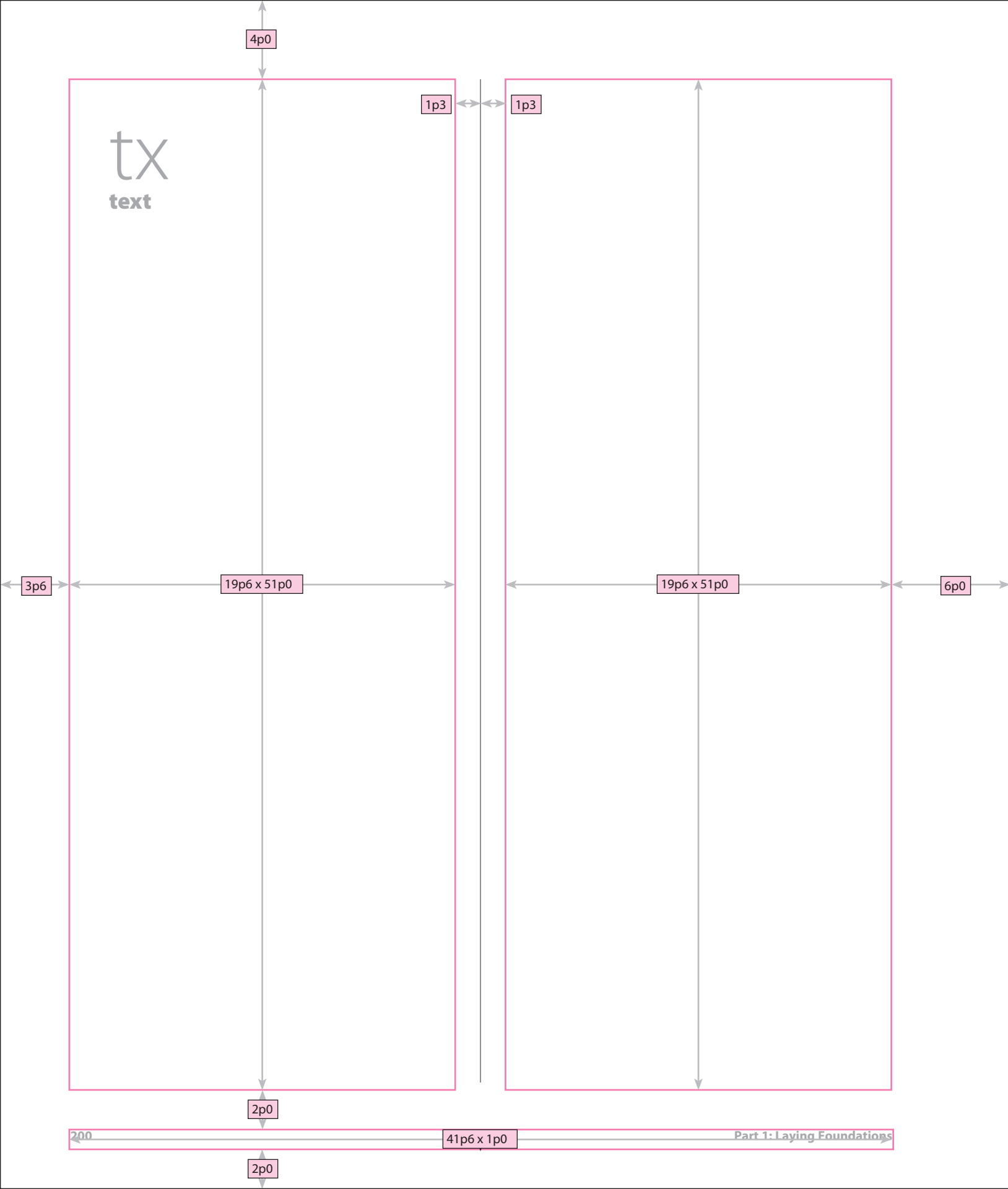
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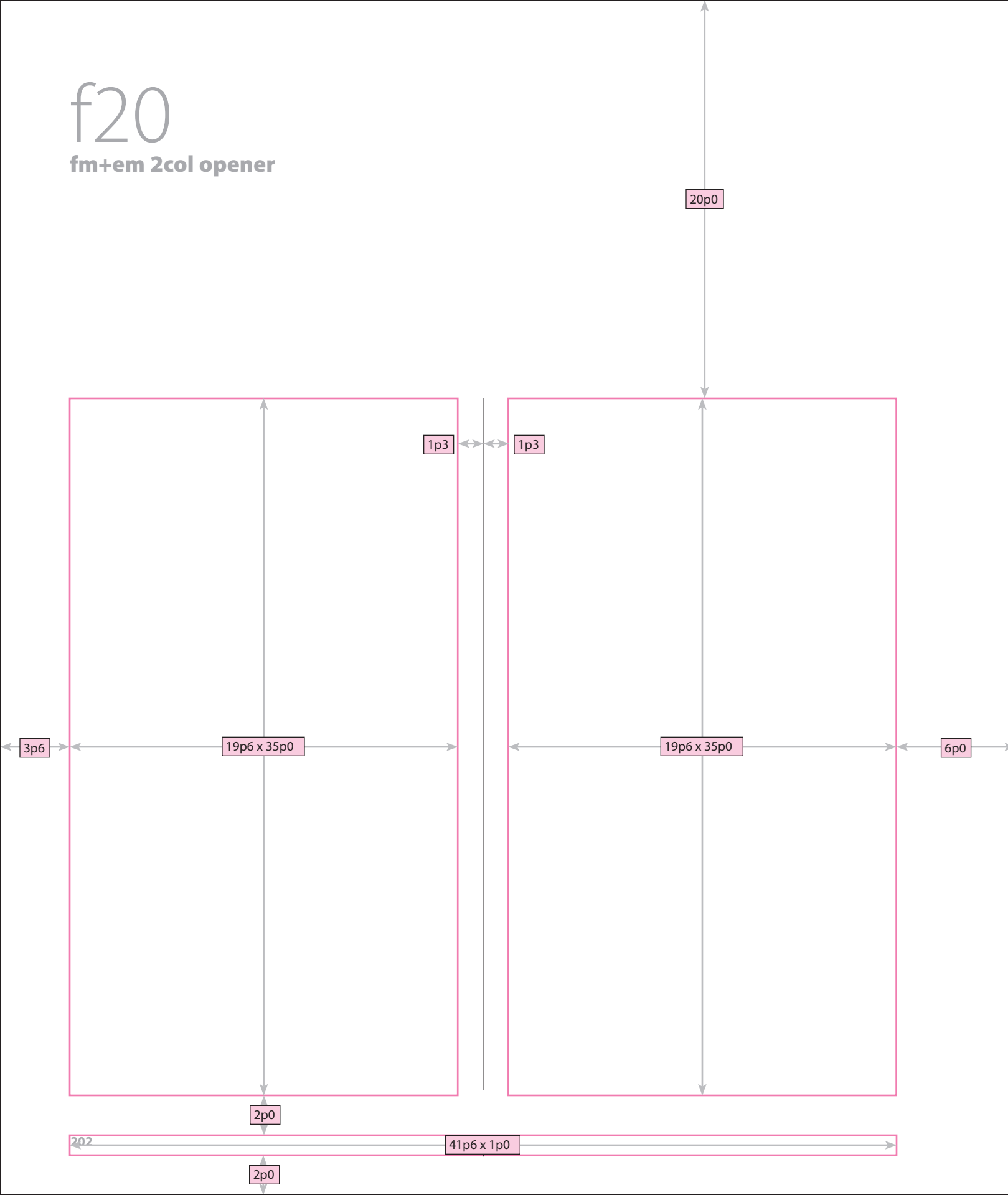
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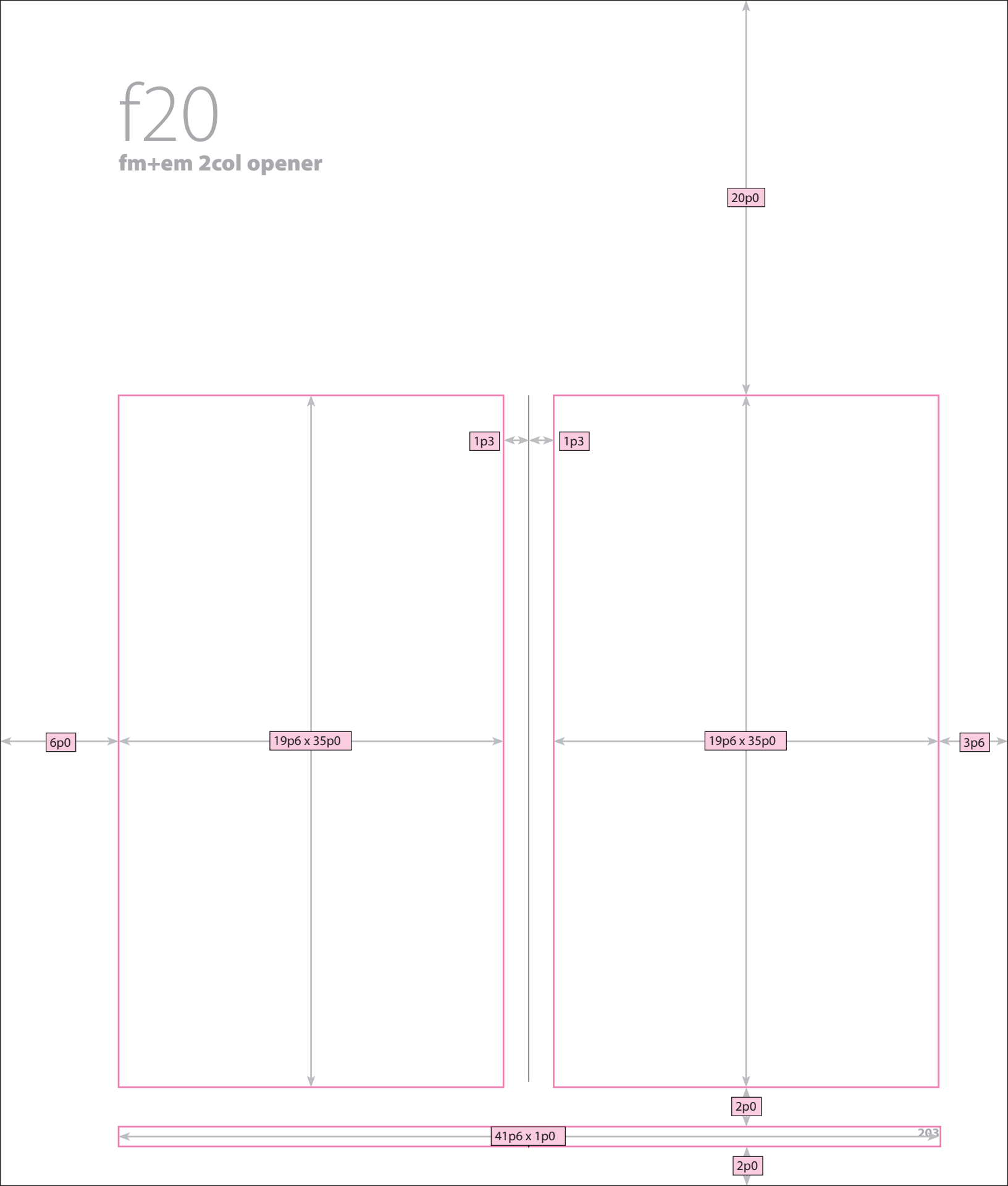
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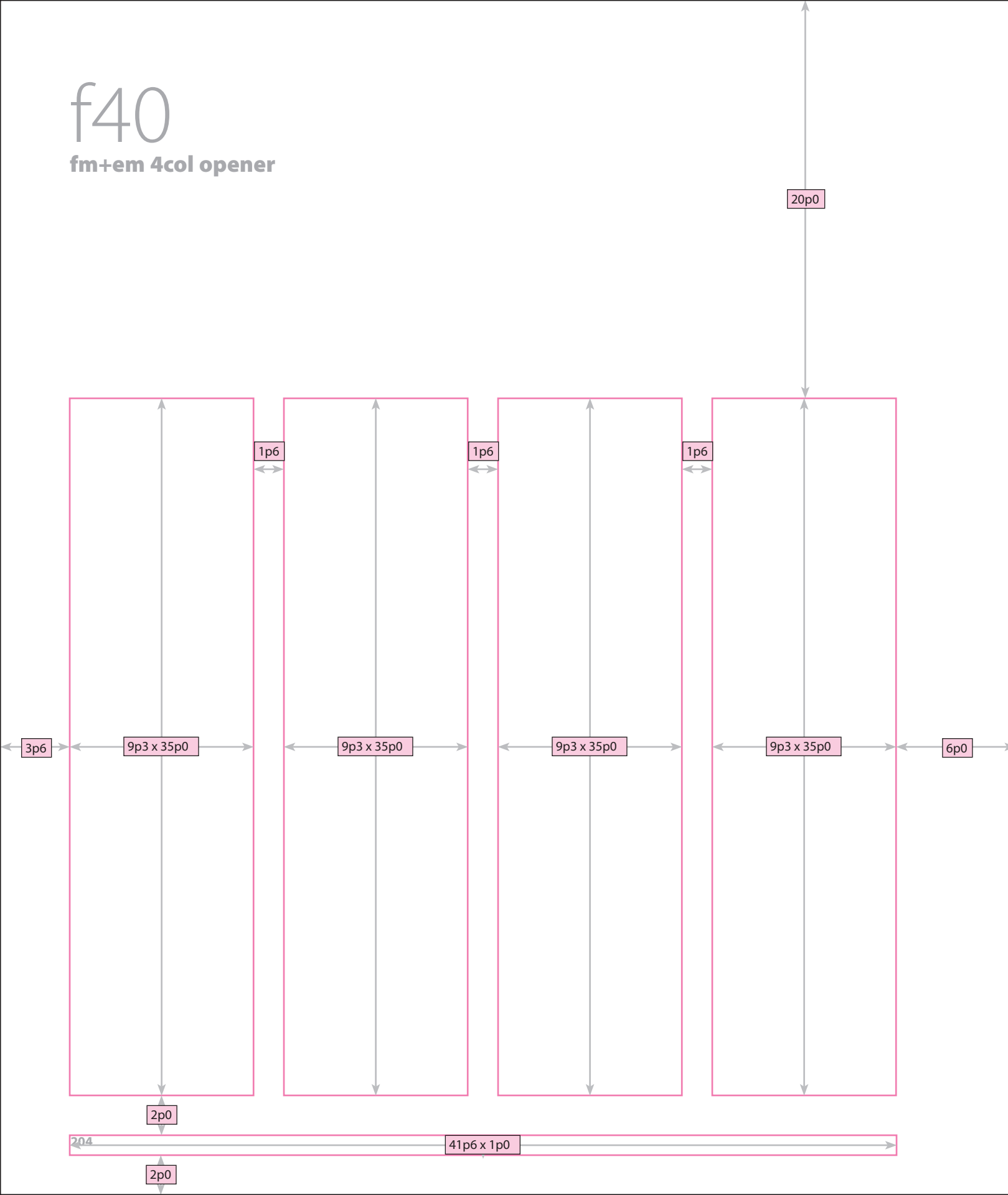
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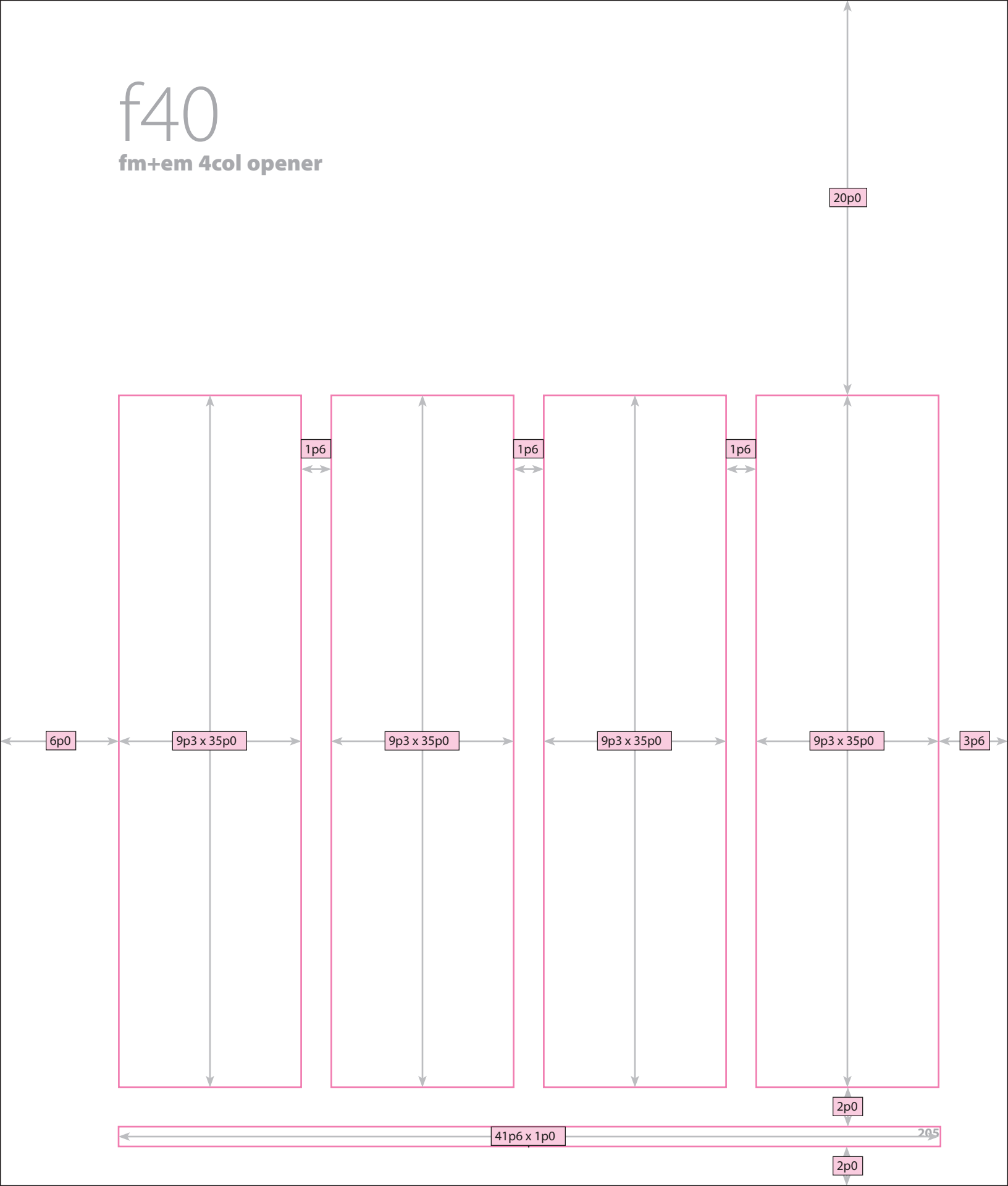
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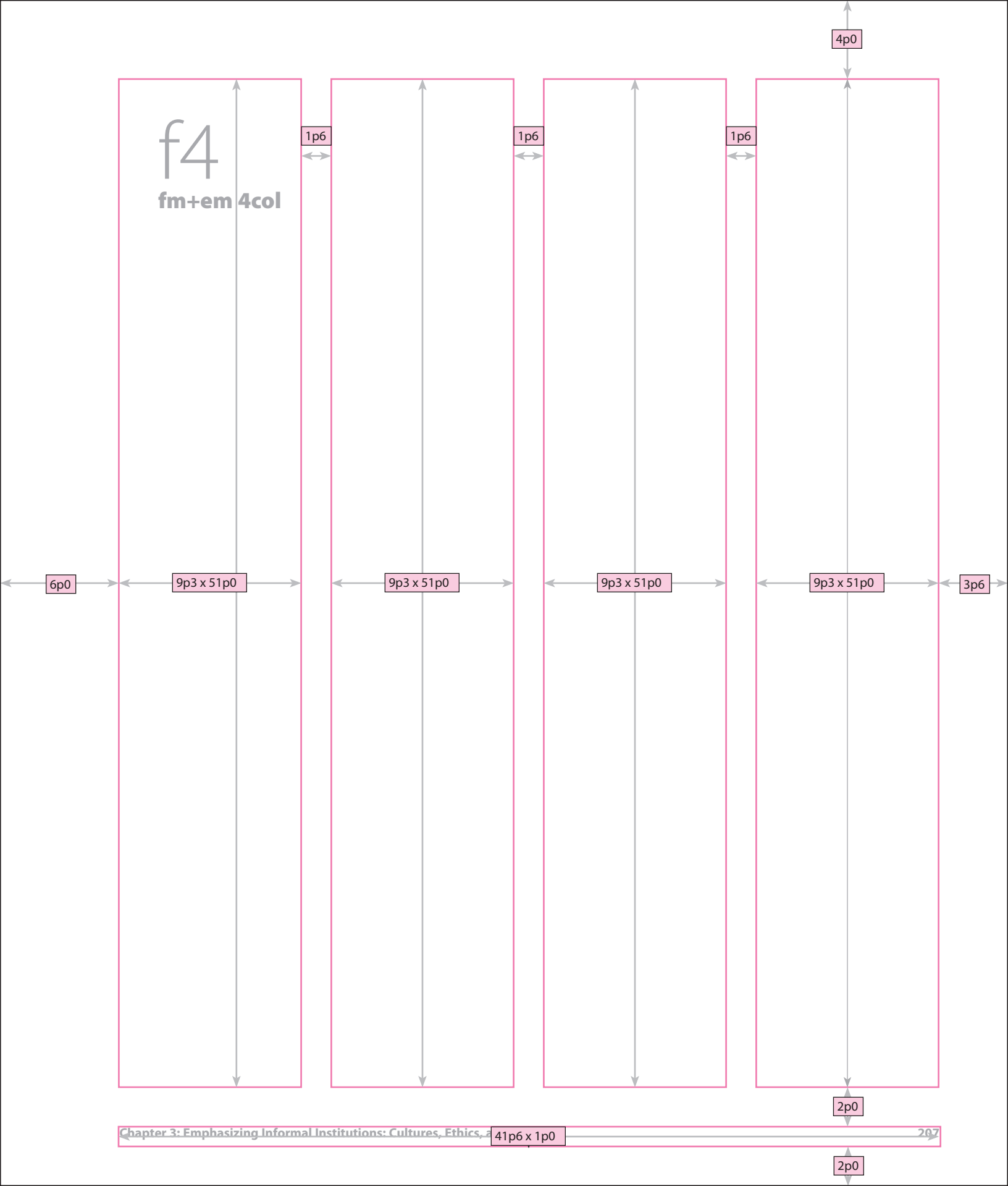
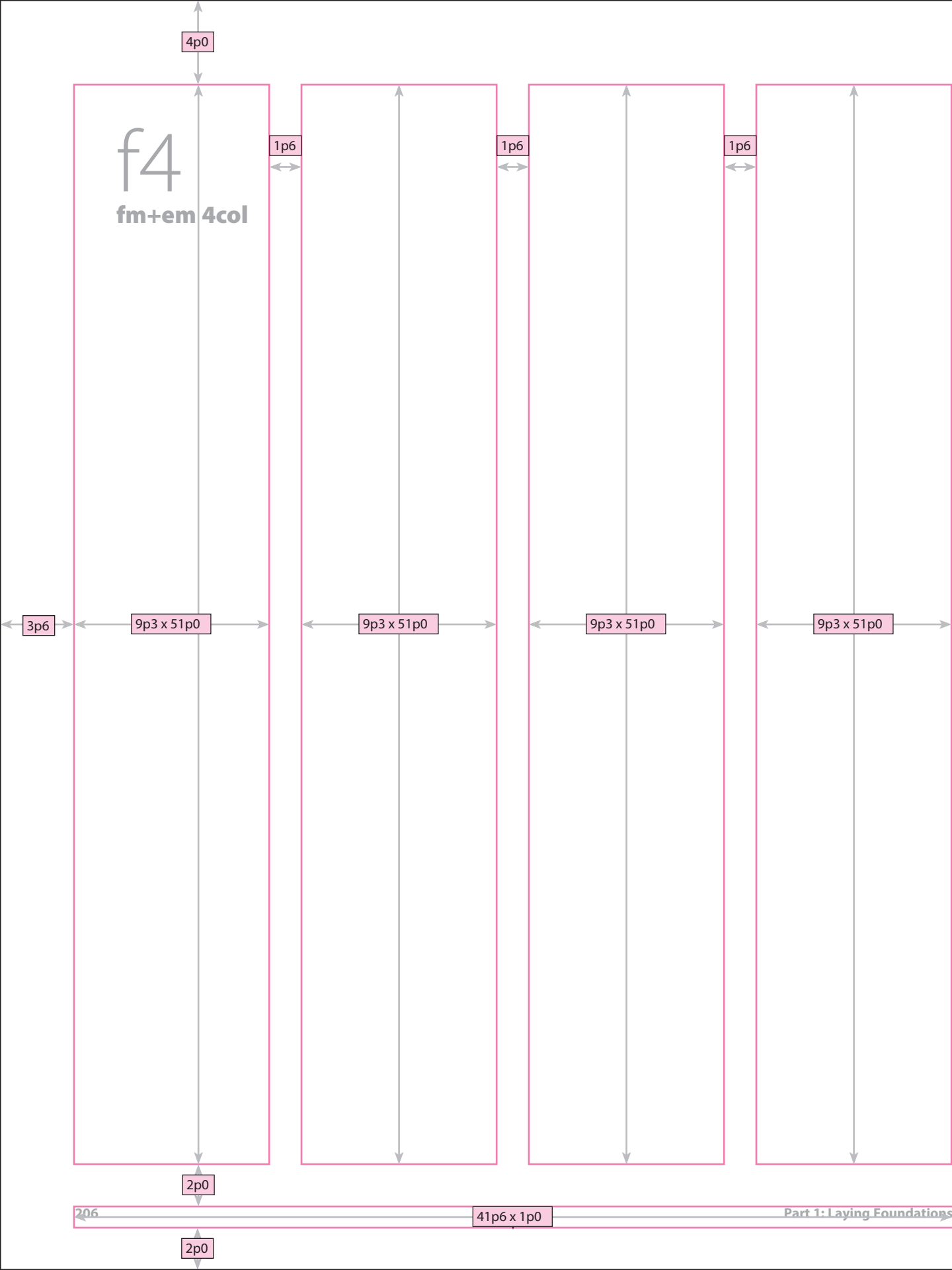
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GLOBALIZING Business

CHAPTER 1

OPENING CASE

Cartoons That Exploded

While acknowledging the importance of freedom of speech, Western governments expressed sympathy to Muslims. French President Jacques Chirac issued a plea for “respect and moderation” in exercising freedom of expression. British Foreign Minister Jack Straw called the cartoons “insensitive.” US President George W. Bush called on world governments to stop the violence and be “respectful.” Carsten Juste, editor of *Jyllands-Posten*, who received death threats, said that the drawings “were not in violation of Danish law but offended many Muslims, for which we would like to apologize.”

While Muslim feelings were hurt, Danish firms active in Muslim countries were devastated. Arla Foods, one of Denmark’s (and Europe’s) largest dairy firms, had been selling to the Middle East for 40 years, had had production in Saudi Arabia for 20 years, and normally had sold approximately \$465 million a year to the region,

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LO5 Participate in three leading debates on cultures, ethics, and norms

LO6 Draw implications for action

LO7 Discuss how cultures systematically differ from each other

Understanding Politics **LAWS, &** Economics

CHAPTER 2

OPENING CASE

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Emphasizing Cultures ETHICS, AND Norms

CHAPTER 3

OPENING CASE

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Leveraging Resources & CAPABILITIES

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CHAPTER

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TRADING Internationally

CHAPTER 5

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Investing Abroad DIRECTLY

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CHAPTER

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Dealing WITH Foreign EXCHANGE

CHAPTER 7

OPENING CASE

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Capitalizing ON Global Regional AND INTEGRATION

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CHAPTER

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GROWING & Internationalizing

CHAPTER 9

OPENING CASE

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Entering Foreign MARKETS

CHAPTER 10

OPENING CASE

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Making Alliances & ACQUISITIONS Work

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OPENING CASE

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Strategizing, Structuring, & Learning AROUND THE World

CHAPTER 12

OPENING CASE

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Managing Human Resources GLOBALLY

OPENING CASE

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Managing Corporate SOCIAL Responsibility Globally

CHAPTER 14

OPENING CASE

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Chapter
SUMMARY

Key
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REVIEW
Questions

Critical
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Questions

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