Global Business EXPRESS

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To Agnes, Grace, and James
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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 world? 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 is a ExamView® software application that allows instructors to create customized tests 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 Central Florida, Orlando) has provided excellent and timely feedback: Richard Ajayi (University of Central Florida, Orlando), Lawrence A. Beer, JD (Arizona State University), Tefik Dacig (University of Texas at Dallas), Tim R. Davis (Cleveland State University), Ann L. Langlois (Palm Beach Atlantic University), Ted London (University of Michigan), Martin Mezari (Arizona State University, West), Dilip Munchandani (Rowan University), William Piper (Alcorn State University)

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MWP
Mike W Peng is the Provost’s Distinguished Professor of Global Business Strategy at the University of Texas at Dallas. At UT Dallas, he founded the Center for Global Business, where he serves as the Executive Director. He holds a bachelor’s degree from Winona State University, 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 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 (2008) 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.

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.
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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 “mischievous.” US President George W. Bush called on world governments to stop the violence and be “responsible.” 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 $1.3 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...
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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
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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 dchina. Shown in the Opening Case, this chapter is more than about how to present business cards correctly and wine and dine differently (as portrayed on chapters on “cultural differences” in other textbooks). Informal institutions can make or break firms, thus necessitating a great deal of our attention.

WHERE DO INFORMAL INSTITUTIONS COME FROM?

Recall that any institutional system 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.” 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 (midgard). 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.

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 specifically dictates the do’s and don’ts, informal institutions, by definition, are more elusive. Yet, they are no less important. 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 the most frequently discussed.

North Vietnam versus South Vietnam: After the War

In 2005, Vietnam celebrated 30 years of unification. In 1975, North Vietnam “liberated” South Vietnam and renamed the south “Viet Nam.” While Muslim feelings were hurt, Danish firms active in Muslim countries had had production in Saudi Arabia for 20 years, and normally had sold approximately $465 million a year to the region, including the business of butter in the Middle East. Austria’s sales to the region plummeted to zero in a matter of days after the protests began. Austria lost $1.8 million every day and was forced to send home 170 employees. Other affected firms included Carlberg (a brewer), Lego (toy manufacturer), and Hovis Fordik (an insulin maker). In addition, Carrefour, a French supermarket chain active in the region, voluntarily pulled Danish products from shelves.

Defining Culture

Chapter 3: Emphasizing Informal Institutions: Cultures, Ethics, and Norms

In Focus 3.1

Vietnam

The Vietnamese language is a lingua franca. The Vietnamese language is the official language of Vietnam, and it is spoken by the majority of the population. The Vietnamese language is also spoken by people of Vietnamese descent living in other countries, such as the United States, Canada, and France. The Vietnamese language is an official language in several countries, including Vietnam, France, and the United States.

Lingua franca

The Vietnamese language is a lingua franca, which means that it is used as a common language by people who do not speak the same language. This is because the Vietnamese language is easy to learn and is widely used in business and other areas.

In Focus 3.1

Vietnam

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.” Before proceeding, it is important to make two points to minimize confusion. Lingua franca, although customary to talk about American culture or Brazilian culture, there is no strict one-to-one correspondence between cultures and nation-states. Within many multilingual countries such as Belgium, China, India, Indonesia, Russia, South Africa, Switzerland, and the United States, many subcultures exist.

Chapter 3: Emphasizing Informal Institutions: Cultures, Ethics, and Norms
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 about how to present business cards correctly and wine and dine differently (as portrayed elsewhere).3


cut through the noise to informal institutions. Here, we are going to discuss three aspects of informal institutions: culture, ethics, and norms.

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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.

Recall from Chapter 1 that informal institutions are underpinned by the 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.

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

Ethnocentrism

A self-centered mentality by a group of people who perceive themselves as the center of culture, ethics, and norms as natural, rational, and morally right.

Culture Cullumcevory The possession or category of people from another societal sent to which members in different cultures accept ambigous situations and tolerate uncertainty.

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

**Informal Institutions**

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

**Ethnocentrism**

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

**WHO 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 major components of culture, 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?**

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

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.”

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**Language**

Among approximately 6,000 languages in the world, Chinese is the world’s largest in terms of the number of native speakers. English is a distant second, followed closely by Hindi and Spanish (Figure 3.1). Yet, the dominance of English as a global business language, known as the lingua franca of the region, is unmistakable. This is driven by two factors. First, English-speaking countries contribute the largest share of global output (Figure 3.2). Such economic dominance not only drives trade and exchange between English-speaking countries and the rest of the world, but also generates a constant stream of products and services marketed in English. In 2001, for example, 97% of Economist magazines, and Google search engines.

**CULTURE**

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**Definition of Culture**

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Chapter 3: Emphasizing Informal Institutions: Cultures, Ethics, and Norms

Part 1: Laying Foundations

North Vietnam versus South Vietnam: After Thirty Years

In Focus

In 2005, Vietnam celebrated 30 years of unification. In 1975, North Vietnam “liberated” South Vietnam and renamed the capital city of the South, Hanoi, “Saigon.” 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 fumbling—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 Misi (market liberalization) policy in 1986. Despite the harsh communist reeducation programs (overseas Vietnamese). Viet Kieu have flocked to the South since the beginning of the Doi Misi (market liberalization) policy in 1986. In 2004, when United Airlines resumed flights to Ho Chi Minh City, the members of one group—those 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. 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 this 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—or habits the hard way.


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 tradition or belief 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.

In Focus

In Focus

Informal Institutions

Institutions represented by cultures, ethics, and norms.

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 heritages 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.”

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 of the world’s kingdom.” An Indian called India mahan, which means “one’s country by a similar name (midgard). Some modern Scandinavians, such as some Danes, believe in their freedom to publish whatever they please. Unfortunately, as noted in the Opening Case, these fears for specific groups may feel differently. In other words, common sense in one society may become uncommon elsewhere.

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. 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.

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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. English is a distant second, followed closely by Hindi and Spanish (Figure 3.1). Yet, the dominance of English as a global business language, known as the lingua franca, in the region, is uncontestable. This is driven by two factors. First, English-speaking countries contribute the largest share of global output (Figure 3.2). 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. Third, the English language is the tongue of the New York Times, Wall Street Journal, 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 Scandinavians 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
Frau is still hard.1 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 (since 2007) makes this requirement almost impossible to satisfy. For example, nobody can fluently translate Estonian into 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 "Silber 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. To avoid such embarrassment, 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 86% 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 (stupid) 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 bumbled 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.2 While this is a relatively minor embarrassment, a similar incident with much greater consequences took place in India in 1857. In those days, bullets were encased in pig wax, and the top 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.3 Fast forward through 150 years, Danish insensitivity to Muslim traditions sparked riots in many Muslim countries (see Opening Case). Ideally, historically and religiously sensitive managers and firms will avoid such blunders in the future.

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.4 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 with much less reliance on unspoken content. 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

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

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

FIG 3.4
Hi-Content versus Low-Content Cultures

1. John E. O’Toole, advertising executive

2. Taifran is still hard.

3. In 1857, 600 British soldiers were encased in pig wax, and the top 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.

4. 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.

5. 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. To avoid such embarrassment, you will be better off if you can pick up at least one foreign language during your university studies.

6. 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. To avoid such embarrassment, you will be better off if you can pick up at least one foreign language during your university studies.

7. 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. To avoid such embarrassment, you will be better off if you can pick up at least one foreign language during your university studies.

8. 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. To avoid such embarrassment, you will be better off if you can pick up at least one foreign language during your university studies.

9. 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. To avoid such embarrassment, you will be better off if you can pick up at least one foreign language during your university studies.

10. 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. To avoid such embarrassment, you will be better off if you can pick up at least one foreign language during your university studies.
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 cultures, initial rounds of negotiations are supposed to create the “context” for mutual trust and friendship. 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.

Why is context important? This is because failure to understand the context of negotiations is as important as the words used. For example, no does not necessarily mean no.

- Long-term orientation: The extent to which members in different cultures accept ambiguous situations and tolerate uncertainty.

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

The Structure of Clusters

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.

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 Asia, (8) Middle East, (9) Southern Asia, and (10) Sub-Saharan Africa, which roughly (but not completely) correspond with the respective Ronen and Shenkar clusters.

The third set of clusters is the Huntingtonian 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.”

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 broad cluster that is subdivided into Anglo, Germanic, Latin Europe, and Nordic clusters by Ronen and Shenkar and GLOBE. In addition to such frameworks, the work of Hofstede and his colleagues is by far the most influential and thus is our focus here.

Hofstede has also 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.

**TABLE 3.5 Cultural Clusters**

<table>
<thead>
<tr>
<th>Cultural Clusters</th>
<th>GLOBE Clusters</th>
<th>Huntingtonian Civilizations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Anglo</td>
<td>Anglo</td>
<td>Western (1-4)</td>
</tr>
<tr>
<td>Arabic</td>
<td>Middle East</td>
<td>Islamic</td>
</tr>
<tr>
<td>Far East</td>
<td>Confucian Asia</td>
<td>Latin (Simic)</td>
</tr>
<tr>
<td>Germanic</td>
<td>Germanic Europe</td>
<td>Western (2)</td>
</tr>
<tr>
<td>Latin America</td>
<td>Latin America</td>
<td>Latin American</td>
</tr>
<tr>
<td>Latin Europe</td>
<td>Latin Europe</td>
<td>Western (3)</td>
</tr>
<tr>
<td>Near Eastern</td>
<td>Southern Asia</td>
<td>Hindu</td>
</tr>
<tr>
<td>Nordic</td>
<td>Nordic Europe</td>
<td>Western (4)</td>
</tr>
<tr>
<td>Central and Eastern Europe</td>
<td>Eastern Europe</td>
<td>Slavic-Orthodox</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>Sub-Saharan Africa</td>
<td>African</td>
</tr>
</tbody>
</table>

- Ronen and Shenkar originally classified eight clusters in alphabetical order: (1) Anglo (2) Far East, (3) Germanic (4) Latin America (5) Nordic (6) Confucian (7) Eastern Asia (8) Sub-Saharan Africa. These clusters are labeled “Anglo,” “Germanic,” “Latin America,” “Near Eastern,” “Nordic,” “Eastern Asia,” “Confucian,” and “Sub-Saharan Africa.”

- The table of clusters from Ronen and Shenkar Clusters and GLOBE Clusters to Huntingtonian Civilizations corresponds roughly (but not completely) with the countries these clusters represent.

- Ronen and Shenkar Clusters and GLOBE Clusters:
  - (1) Anglo
  - (2) Germanic
  - (3) Latin America
  - (4) Latin Europe
  - (5) Nordic Europe
  - (6) Confucian Asia
  - (7) Eastern Asia
  - (8) Sub-Saharan Africa

- Huntingtonian Civilizations:
  - (1) African
  - (2) Confucian (Sinic)
  - (3) Hindu
  - (4) Islamic
  - (5) Japanese
  - (6) Latin American
  - (7) Slavic–Orthodox
  - (8) Western

- 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.

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

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

- The extent to which members in different cultures accept ambiguous situations and tolerate uncertainty.
Chapter 3: Emphasizing Informal Institutions: Cultures, Ethics, and Norms

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 house husbands.

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 future better-worlds approximately contemporarily than 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.2 It is important to note that Hofstede’s dimensions are not perfect and have attracted some criticisms (see In Focus 1.2).3 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.

### TABLE 3.2 Hofstede’s Dimensions of Culture

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Malaysia (104)</td>
<td>USA (91)</td>
<td>Japan (95)</td>
<td>Greece (112)</td>
<td>China (118)</td>
</tr>
<tr>
<td>2. Guatemala (95)</td>
<td>Australia (90)</td>
<td>Austria (79)</td>
<td>Portugal (104)</td>
<td>Hong Kong (96)</td>
</tr>
<tr>
<td>3. Panama (95)</td>
<td>U.K. (89)</td>
<td>Venezuela (73)</td>
<td>Guatemala (101)</td>
<td>Taiwan (87)</td>
</tr>
<tr>
<td>4. Philippines (94)</td>
<td>Canada (80)</td>
<td>Italy (78)</td>
<td>Uruguay (100)</td>
<td>Japan (80)</td>
</tr>
<tr>
<td>5. Mexico (81)</td>
<td>Netherlands (86)</td>
<td>Switzerland (70)</td>
<td>Belgium (94)</td>
<td>South Korea (75)</td>
</tr>
<tr>
<td>6. Venezuela (81)</td>
<td>New Zealand (79)</td>
<td>Mexico (69)</td>
<td>Salvador (94)</td>
<td>Brazil (65)</td>
</tr>
<tr>
<td>7. Arab countries (88)</td>
<td>Italy (76)</td>
<td>Iran (68)</td>
<td>Japan (92)</td>
<td>India (61)</td>
</tr>
<tr>
<td>8. Ecuador (78)</td>
<td>Belgium (75)</td>
<td>Jamaica (68)</td>
<td>Yugoslavia (88)</td>
<td>Thailand (56)</td>
</tr>
<tr>
<td>9. Indonesia (78)</td>
<td>Denmark (74)</td>
<td>UK (66)</td>
<td>Peru (87)</td>
<td>Singapore (46)</td>
</tr>
<tr>
<td>10. India (77)</td>
<td>Sweden (71)</td>
<td>Germany (66)</td>
<td>France (86)</td>
<td>Netherlands (44)</td>
</tr>
<tr>
<td>11. West Africa (77)</td>
<td>France (71)</td>
<td>Philippines (64)</td>
<td>Chile (86)</td>
<td>Bangladesh (40)</td>
</tr>
<tr>
<td>12. Yugoslavia (76)</td>
<td>Ireland (70)</td>
<td>Colombia (64)</td>
<td>Spain (86)</td>
<td>Sweden (33)</td>
</tr>
<tr>
<td>13. Singapore (74)</td>
<td>Norway (69)</td>
<td>South Africa (63)</td>
<td>Costa Rica (86)</td>
<td>Poland (32)</td>
</tr>
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<td>14. Brazil (69)</td>
<td>Switzerland (68)</td>
<td>Ecuador (63)</td>
<td>Panama (86)</td>
<td>Germany (31)</td>
</tr>
<tr>
<td>15. France (68)</td>
<td>Germany (67)</td>
<td>USA (62)</td>
<td>Argentina (86)</td>
<td>Australia (31)</td>
</tr>
<tr>
<td>16. Hong Kong (68)</td>
<td>South Africa (65)</td>
<td>Australia (61)</td>
<td>Turkey (85)</td>
<td>New Zealand (10)</td>
</tr>
<tr>
<td>17. Colombia (67)</td>
<td>Finland (63)</td>
<td>New Zealand (58)</td>
<td>South Korea (85)</td>
<td>USA (29)</td>
</tr>
<tr>
<td>18. El Salvador (66)</td>
<td>Austria (55)</td>
<td>Greece (57)</td>
<td>Mexico (57)</td>
<td>UK (25)</td>
</tr>
<tr>
<td>19. Turkey (96)</td>
<td>Israel (54)</td>
<td>Hong Kong (57)</td>
<td>Israel (81)</td>
<td>Zimbabwe (25)</td>
</tr>
<tr>
<td>20. Belgium (65)</td>
<td>Spain (51)</td>
<td>Argentina (56)</td>
<td>Colombia (90)</td>
<td>Canada (23)</td>
</tr>
</tbody>
</table>

1. Scores are in 106 Grade, Countries are ranked from highest to lowest. For example, Arab, East Africa, and West Africa are clusters of multiple countries. Central and Eastern Europe refer to the former Eastern Germany and the former Eastern Europe.
2. Scores refer to 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.

**Foreign Corrupt Practices Act (FCPA)**

A US law enacted in 1977 that bans bribery to foreign officials.

**TABLE 3.3**

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>Asia</td>
<td>126.3 m</td>
<td>5.1 trln</td>
<td>4.8 trln</td>
</tr>
<tr>
<td>Germany</td>
<td>Europe</td>
<td>82.7 m</td>
<td>3.9 trln</td>
<td>3.3 trln</td>
</tr>
<tr>
<td>China</td>
<td>Asia</td>
<td>1.4 b</td>
<td>14.3 trln</td>
<td>12.9 trln</td>
</tr>
</tbody>
</table>

**Venn Diagram**

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

**Russian Proverb**

Culture and Global Business

A great deal of global business activities is consistent with the context, cluster, and dimension approaches to cultural differences. 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 or anywhere else.

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Part 1: Laying Foundations

Chapter 3: Emphasizing Informal Institutions: Cultures, Ethics, and Norms
Chapter 3: Emphasizing Informal Institutions: Cultures, Ethics, and Norms

Part 1: Laying Foundations

Definition and Impact of Ethics

Ethics refers to the principles, standards, and norms of conduct governing individual and firm behavior. 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 what is unethical and illegal. However, there is a gray area because what is legal may be unethical.

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. 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.

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

Managing Ethics Overseas

Managing ethics overseas is challenging because what is ethical in one country may be unethical elsewhere. There are two schools of thought. 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 that their ethical values should be applied universally.

Managing Ethics Overseas: Three “Middle-of-the-Road” Approaches

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

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

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.

For example, since sexual discrimination and price fixing are illegal 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 3.4).
for competition that should be based on products and services, thus causing misallocation of resources and slowing economic development.32 According to Transparency International, which is headquartered in Berlin, Germany and is probably the most influential anticorruption nongovernment 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).33 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?34

Table 3.5 shows that the top five cases of bribery (in cash or in kind) are (1) automobile makers, thus causing misallocation of resources and slow-

Figure 5.6 National Competitive Advantage of Industries: The Porter Diamond

Table 3.5 Strategic Responses to Ethical Challenges

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

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 employers’ 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.35 Rhone-Poulenc, 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).36 Corruption distorts the basis for competition that should be based on products and services, thus causing misallocation of resources and slowing economic development.37 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).38 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?39

Table 3.5 shows that the top five cases of bribery (in cash or in kind) are (1) automobile makers, thus causing misallocation of resources and slow-

Figure 5.6 National Competitive Advantage of Industries: The Porter Diamond

Table 3.5 Strategic Responses to Ethical Challenges

<table>
<thead>
<tr>
<th>Strategic responses</th>
<th>Strategic behaviors</th>
<th>Examples in the text</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reactive</td>
<td>Deny responsibility; do less than required</td>
<td>Ford Pinto fire (the 1970s)</td>
</tr>
<tr>
<td>Defensive</td>
<td>Admit responsibility but fight it; do the least that is required</td>
<td>Nike (the early 1990s)</td>
</tr>
<tr>
<td>Accommodative</td>
<td>Accept responsibility; do all that is required</td>
<td>Ford Explorer rollovers (the 2000s)</td>
</tr>
<tr>
<td>Proactive</td>
<td>Anticipate responsibility; do more than is required</td>
<td>BMW (the 1990s)</td>
</tr>
</tbody>
</table>
CHAPTER 3: EMPLASIZING INFORMAL INSTITUTIONS: CULTURES, ETHICS, AND NORMS

10

The Protestant ethic that led to the “spirit of capitalism” took off. Weber argued that it was the Protestant work ethic, including Catholicism, that lacked such traits. At that time, Weber’s view was widely accepted.

**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 performance. 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. Nobody can become an expert, the chameleon can fit into any environment, and the natural is an individual who relies on intuition rather than a systematic learning style when interacting with people from different cultural backgrounds. 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. Second, being prepared to adjust to new cultures is necessary.

**FIVE PROFILES OF CULTURAL INTELLIGENCE**

**Profiles**

- **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 Chameleon**
  
  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.

**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

**FIG 5.1: ABSOLUTE ADVANTAGE**

<table>
<thead>
<tr>
<th>Price</th>
<th>Domestic supply</th>
<th>Domestic demand</th>
</tr>
</thead>
<tbody>
<tr>
<td>P1</td>
<td>Qs1</td>
<td>Qd1</td>
</tr>
</tbody>
</table>

**FIG 5.1: GROWTH IN WORLD TRADE OUTLINES GROWTH IN WORLD GDP (ANNUAL % CHANGE)**


**TABLE 3.6: FIVE PROFILES OF CULTURAL INTELLIGENCE**

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

2. Discuss how cultures systematically differ from each other.

3. Understand the importance of ethics and ways to combat corruption.

4. Explain the difference between a reactive strategy and a defensive strategy.

5. Name and describe the three systems for classifying cultures by context culture.

6. Name two major components and three minor components of a country’s culture.

7. What is the difference between a low-context culture and a high-context culture? How would you classify your home country’s culture?

8. Name and describe the systems for classifying cultures by clusters.

9. Describe the differences among the five cultural dimensions of Hofstede.

10. Using Figure 3.3, identify the four major religions in the world.

11. How would you define corruption in a business setting?

12. Explain the difference between a reactive strategy and a defensive strategy when dealing with an ethical challenge.

1. 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?

2. Based on Table 3.6, which best describes your cultural intelligence profile: a Local, Analyst, Natural, Mimic, or Chameleon?

3. OR ETHICS: Assume you work for a New Zealand company exporting a container of kiwis to Azerbaijan or Haiti. The customs official informs you that there is a delay in clearing your container through customs because it may last up to a month. However, if you are willing to pay an “expediting fee” of $1,000, he will try to make it happen in one day. What are you going to do?

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the industry not to stimulate major turbulence of the thin summer
market. Such a huge volume caused immediate
chaos in the market and resulted in lower prices. Then, within about
a half hour, Citigroup’s bond traders bought back a third of the
bonds onto the market. Such a huge volume caused immediate

1. Are some of Citigroup’s employees “bad apples” or is Citigroup a “bad barrel”?

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Citigroup is the world’s largest financial services company. Its history dates back to 1919 when it was founded as the nation’s 100th company. In many countries, Citigroup has been active for more than 100 years. Citigroup’s 2005 annual report proudly claimed that it had “the broadest international footprint of any U.S. financial services company and the best U.S. presence of any international financial services company.” Yet, Citigroup found itself embroiled in a number of ethical crises around the globe. Most alarmingly, these crises emerged after it was criticized for its failure to have a “fire wall” separating analysts and investment bankers and for its involvement in the Enron bankruptcy in the United States in the early 2000s. In London, on the morning of August 2, 2004, Citigroup’s bond trading unit dumped $13.3 billion worth of European government bonds onto the market. Such a huge volume caused immediate chaos in the market and resulted in lower prices. Then, within a short period, Citigroup’s bond traders bought back a third of the bonds they just sold, raking in a $24 million profit. The traders were junior. Their actions were weak, but they were an unwarranted norm of the industry not to stir major turbulence in the thin summer trading.

**Case Discussion Questions:***

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2. What lessons does Citigroup’s top management undertake? Is it adequate?
3. Is Citigroup’s employees’ “bad apples” or is Citigroup a “bad barrel”?
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Chapter 3: Emphasizing Informal Institutions: Cultures, Ethics, and Norms
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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 11.3 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

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**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

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Emphasizing Cultures, ETHICS, and Norms

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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

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