



Global Business 3e
Chapter 3
*Emphasizing Informal
Institutions: Cultures, Ethics,
and Norms*

LEARNING OBJECTIVES

After studying this chapter, you should be able to:

3-1 define what culture is and articulate its four main manifestations: language, religion, social structure, and education.

3-2 discuss how cultures systematically differ from each other.

3-3 understand the importance of ethics and ways to combat corruption.

3-4 identify norms associated with strategic responses when firms deal with ethical challenges.

3-5 participate in three leading debates concerning cultures, ethics, and norms.

3-6 draw implications for action.

INFORMAL INSTITUTIONS

Come from:

- Culture
- Ethics
- Norms

Ethnocentrism

To perceive one's own culture, ethics, and norms as
“natural, rational, and morally right.”

? Can you give an example of an ethnocentric statement?

CULTURE

Culture

The collective programming of the mind which distinguishes the members of one group or category of people from another.

? How would you describe the culture in your home country?

LANGUAGE

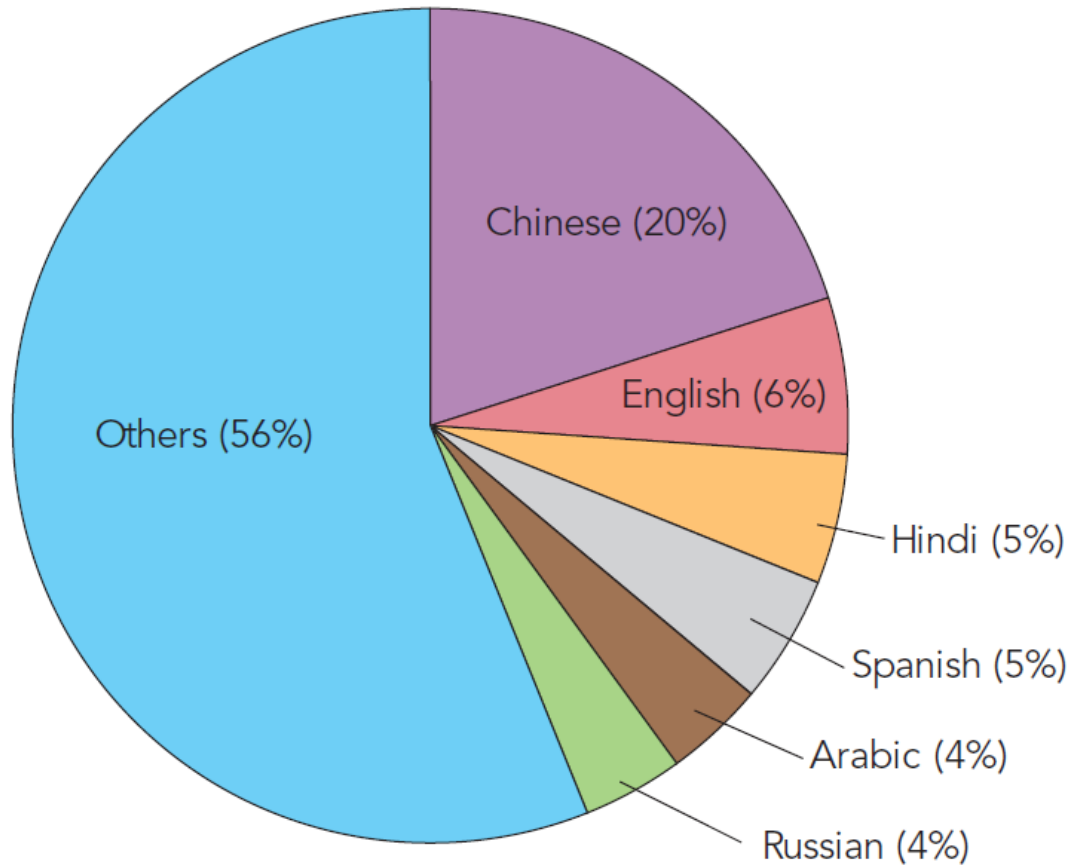
English is the dominant language in global business

Recent globalization has called for the use of one common language

Lingua franca

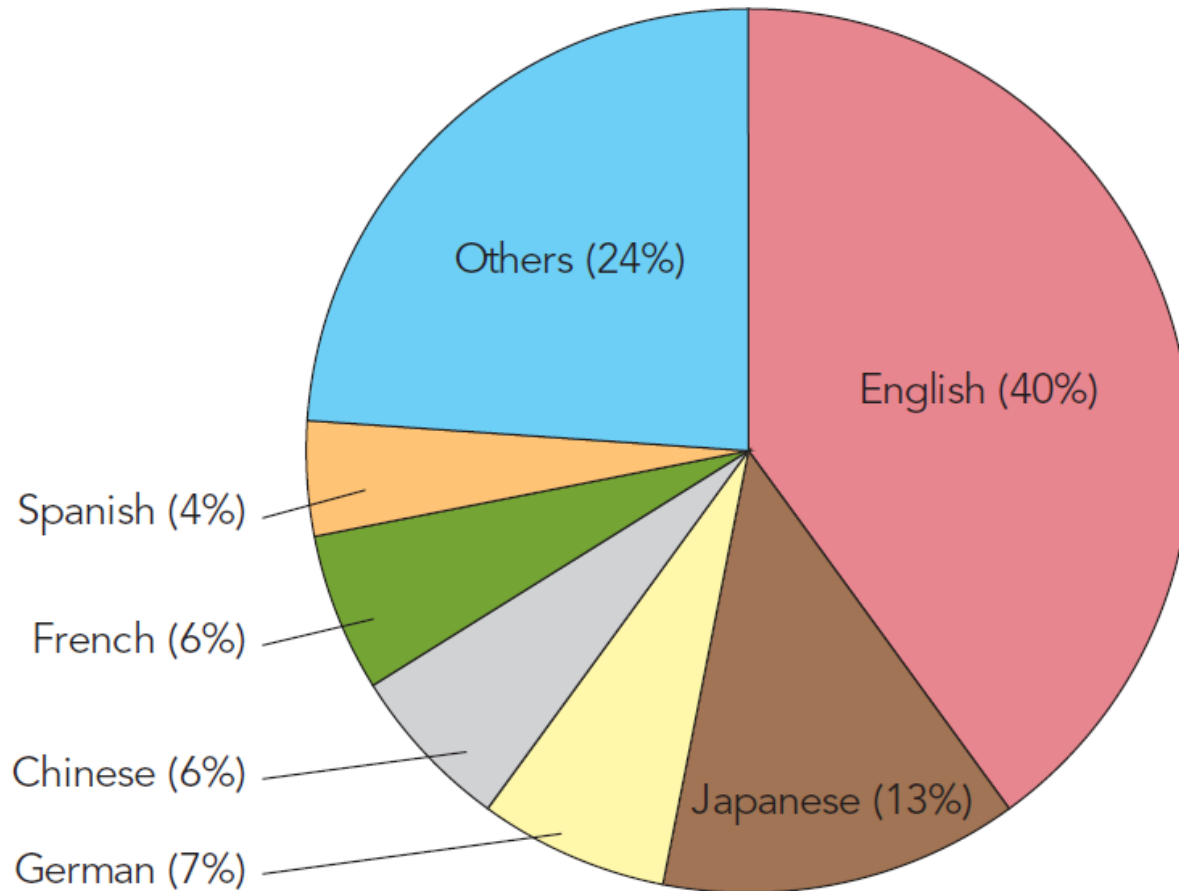
A global business language

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



Sources: Author's estimates based on data in (1) *The Economist Atlas*, 2005, London: The Economist Books; (2) D. Graddol, 2004, The future of language, *Science*, 303: 1329–1331; (3) S. Huntington, 1996, *The Clash of Civilizations and the Remaking of World Order*, New York: Simon & Schuster. Only native speakers (people who speak a language as a first language/mother tongue) are included in our calculations.

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



Sources: Author's estimates based on data in World Bank, 2009, World Development Indicators database (www.worldbank.org).

RELIGION

Religion is another major manifestation of culture

Knowledge about religions is crucial even for nonreligious managers

Largest religions:

Christianity - 1.7 billion

Islam - 1 billion

Hinduism - 750 million

Buddhism - 350 million

SOCIAL STRUCTURE AND EDUCATION

Social stratification

The hierarchical arrangement of individuals into social categories (strata) such as classes castes, or divisions within a society

Education can be used to maintain social stratification or to break down social barriers

Social mobility

The degree to which members from a lower social category can rise to a higher status

CULTURAL DIFFERENCES

Three ways to understand:

- Context
- Cluster
- Dimensions

THE CONTEXT APPROACH

Context

The underlying background upon which social interaction takes place

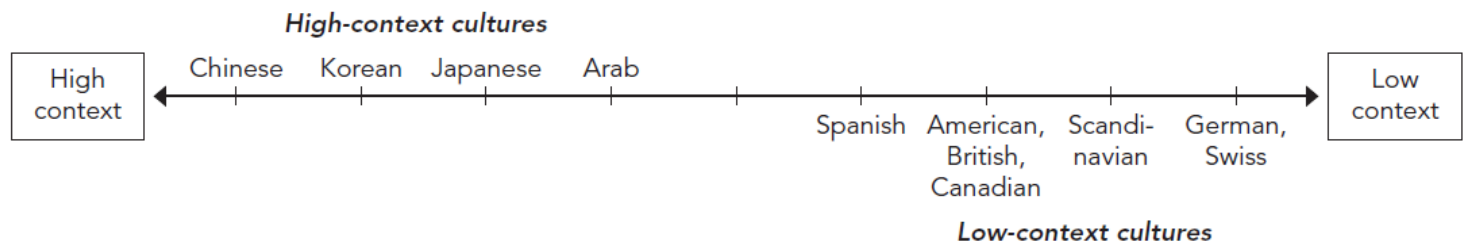
Low-context cultures

Communication is usually taken at face value without much reliance on unspoken context

High-context cultures

Communication relies a lot on the underlying unspoken context, which is as important as the words used

Figure 3.3 High-Context versus Low-Context Cultures



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THE CLUSTER APPROACH

Cluster

Countries that share similar cultures

Ronen and Shenkar clusters

Influential set of clusters proposed by management Professors Simcha Ronen and Oded Shenkar

GLOBE clusters

Influential set of clusters named after the Global Leadership and Organizational Behavior Effectiveness project led by management professor Robert House

Table 3.1 Cultural Clusters¹

Ronen and Shenkar Clusters ²	GLOBE Clusters ³	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-Saharan Africa	Sub-Saharan Africa	African
Independents: Brazil, India, Israel, Japan		Japanese

¹ This table is the *first* time these three major systems of cultural clusters have been 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 clusters sometimes 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.

² 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-Saharan Africa as two new clusters—see Peng, Hill, and Wang (2000) cited as (3) below.

³ GLOBE includes ten clusters, covering 62 countries.

⁴ Huntington includes eight civilizations, in theory covering *every* country. For the Western civilization, he does not use such labels as Western 1, 2, 3, and 4 as in the table. They are added by the present author 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.

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HUNTINGTON'S CLUSTER APPROACH

Huntington civilizations

Influential set of clusters popularized by political scientist Samuel Huntington

Civilization

Highest cultural grouping of people and the broadest level of cultural identity people have

DIMENSION APPROACH

Power distance

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

Individualism

Idea that an individual's identity is fundamentally his or her own

Collectivism

Idea that an individual's identity is fundamentally tied to the identity of his or her collective group

DIMENSION APPROACH

Masculinity

Dimension of sex role differentiation

Femininity

Dimension of sex role differentiation

DIMENSION APPROACH

Uncertainty avoidance

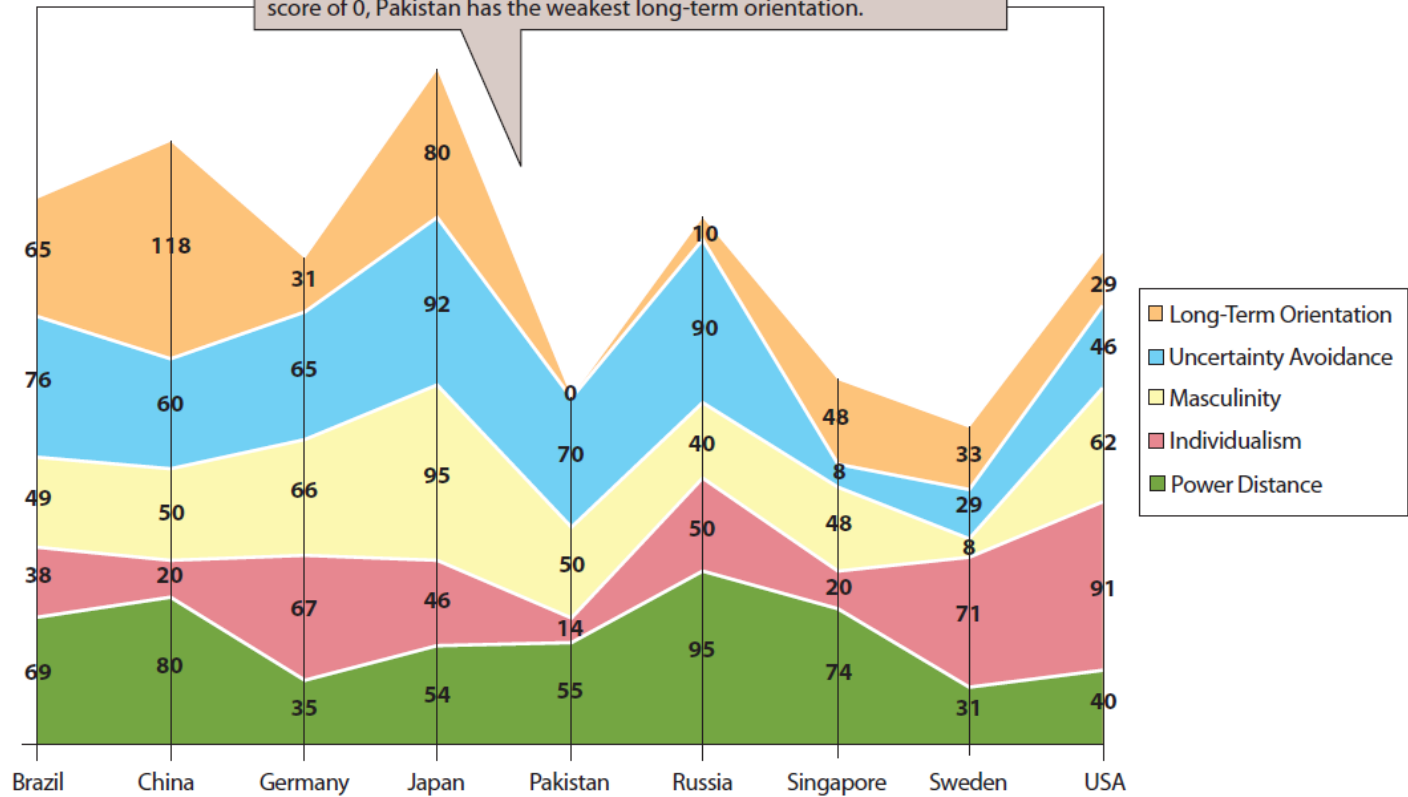
Extent to which members in a culture accept or avoid ambiguous situations and uncertainty

Long-term orientation

How much emphasis is placed on perseverance and savings for future betterment

Figure 3.4 Hofstede Dimensions of Culture

To determine the cultural characteristics of a country, compare the number and vertical distance (higher means more) of that country on a particular cultural dimension (color coded and labeled on the right side of the exhibit) with those of other countries. For example, with a score of 80, Japan has the second highest long-term orientation; it is exceeded only by China, which has a score of 118. By contrast, with a score of 0, Pakistan has the weakest long-term orientation.



Sources: Based on (1) G. Hofstede, 1993, Cultural constraints in management theories, *Academy of Management Executive*, 7: 81–94; (2) G. Hofstede, 1997, *Cultures and Organizations: Software of the Mind* (pp. 25, 26, 53, 84, 113, 166), New York: McGraw-Hill. For newest update, see www.geerthofstede.com.

Ethics

Ethics

The principles, standards, and norms of conduct that govern Individual and firm behavior

Code of conduct

A set of guidelines for making ethical decision

Ethical relativism

Follows the cliché, “When in Rome, do as the Romans.”

? Can you think of a recent example of a firm that engaged in unethical behavior? What happened?

ETHICS KEY TERMS

Ethical imperialism

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

Corruption

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

Table 3.2 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: South-Western Cengage Learning.

ETHICS AND CORRUPTION

Foreign Corrupt Practices Act (FCPA)

A US law enacted in 1977 that bans bribery of foreign officials

Table 3.3 Strategic Responses to Ethical Challenges

Strategic responses	Strategic Behaviors	Examples in the text
Reactive	Deny responsibility, do less than required	<i>Ford Pinto fire (the 1970s)</i>
Defensive	Admit responsibility but fight it, do the least that is required	<i>Nike (the 1990s)</i>
Accommodative	Accept responsibility, do all that is required	<i>Ford Explorer roll-overs (the 2000s)</i>
Proactive	Anticipate responsibility, do more than is required	<i>BMW (the 1990s)</i>

NORMS AND ETHICAL CHALLENGES

Norms

The prevailing practices of relevant players

In-group

Individuals and firms regarded as a part of their own collective

Out-group

Individuals and firms not regarded as a part of “us”



INFORMAL INSTITUTIONS

Cultural intelligence

An individual's ability to understand and adjust to new cultures

Table 3.4 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 or she may achieve results that natives cannot, due to his or 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.

Table 3.5 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