

BSM 933 - International Business

Lecture 3

Sumon Bhaumik

<http://www.sumonbhaumik.net>

Business environment

- Culture

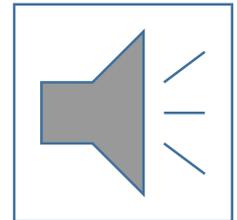
- “Culture is a collective phenomenon that is shared with people who live or lived within the same social environment, which is where it was learned. It is the collective programming of the mind that distinguishes the members of one category of people from another.”

- Approaches

- Context
 - Dimension
 - Cluster

- Institutions

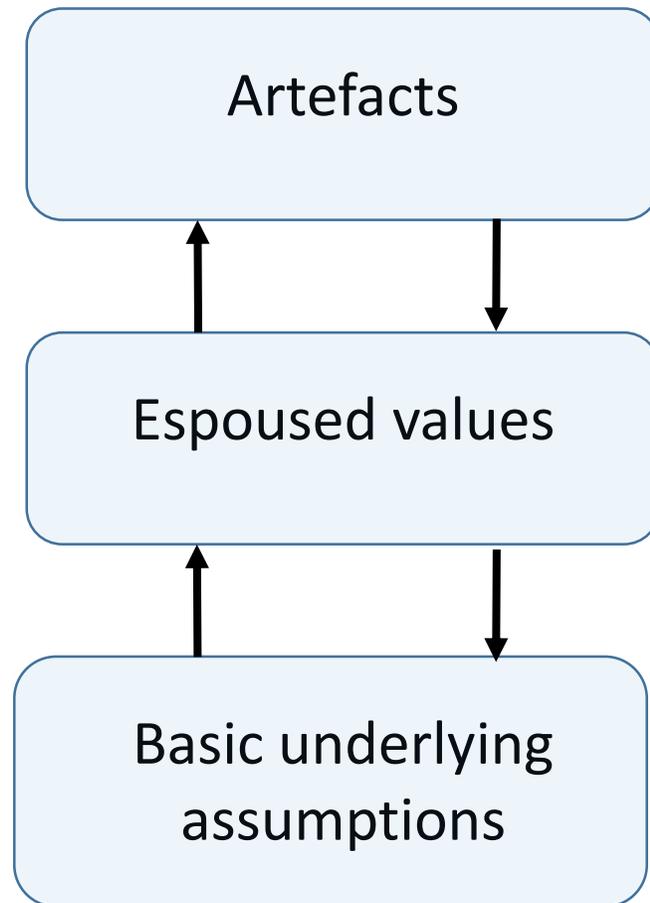
- Rules of the game; may not be formalised and exist instead in norms, values and ethics



<http://econ.st/184uXaN>

Culture

Three levels of culture



Visual organisational structures and processes

Strategies, goals, philosophies (justifications)

Unconscious, taken for granted beliefs, perceptions, thoughts and feelings

Cultural contexts

- “ • Context is the underlying background upon which the interaction takes place.
- In low context cultures, communication usually takes place at face value, without much reliance on the unspoken context.
- In high context cultures, communication relies a lot of the underlying unspoken context, which is as important as the words used.

Cultural dimension

Hofstede's measure

- Power distance
 - “the degree to which people accept the unequal distribution of power inside organizations”
- Uncertainty avoidance
 - “the degree to which people tolerate uncertainty and ambiguity in situations”
- Individualism (as opposed to collectivism)
 - “the preference of people to belong to a loosely versus a highly knit social framework”
- Masculinity
 - “the degree to which people prefer values of success and competition over modesty and concern for others”
- Long-term orientation

Cultural dimension

Application of Hofstede's measure – IJVs – I

- Uncertainty avoidance
 - In countries characterised by high uncertainty avoidance, there exist highly formalised systems and hierarchy, and people turn to these systems and hierarchies in times of uncertainty. In countries where there is greater tolerance for uncertainty, there is a corresponding discomfort with rigid rules and hierarchy. Significant difference in uncertainty avoidance can cause tension between IJV partners
- Power distance and Individualism
 - Since management of IJVs are likely to be left to local partners, differences along these dimensions should not matter a lot.

Cultural dimension

Application of Hofstede's measure – IJVs – II

- Masculinity
 - Competitive orientation of one partner and relationship orientation of the other may actually complement each other and help the IJV.
- Long-term orientation
 - If one partner “have a sense of urgency and favours quick results” while the other “is more orientated towards investment in financial assets and building up a relationship with the partner” there would be a strain on the IJV.
 - This dimension may be strongly related to individualism. In order to be able to take a long term view of things, people may have to be collectivist, while people taking a short term view may be more individualistic.

Cultural dimension

Application of Hofstede's measure – IJVs – III

| Hofstede's cultural dimensions | Will a MNE choose IJV or a IWOS? | Likelihood of IJV survival |
|----------------------------------|----------------------------------|----------------------------|
| Power distance difference | 0.005 | 0.096 ** |
| Uncertainty avoidance difference | - 0.255 ** | - 0.129 * |
| Individualism difference | 0.068 | 0.137 ** |
| Masculinity difference | - 0.110 ** | 0.074 ** |
| Long-term orientation difference | - 0.310 *** | -0.189 ** |

- *** implies that the p -value is less than 0.01, ** implies that it is less than 0.05 and * implies that it is less than 0.10 (Recapitulate that the p -value should be less than 0.10 in order for that variable to have an impact”
- A positive coefficient in column (2) implies that “the variable enhanced the survival of the ventures”
- A positive coefficient in column (3) implies that the likelihood of a IJV is higher

Cultural dimension

Problems with the Hofstede measures

- The measures are 40 years old, and globalisation may have led to cultural diffusion
- At the time of the formulation of the measures, there was paucity of data/information about markets and countries that have since become important in the context of international business
- The measures are based on survey of a large number of employees at a single company, namely, IBM
- There is an implicit mapping between cultural and national boundaries which is not always the case

Cultural clusters Countries – I



Source: Ronen, S. and Shenkar, O. (1985). Clustering countries on attitudinal dimensions: A review and synthesis. *Academy of Management Review*, 10(3), 435-454, Figure 1.

Figure 1. A synthesis of country clusters.

Cultural clusters

Countries – II

- Geography, religion and language are common within clusters
 - Important exception is the geographical spread of the Anglo countries that are linked by emigration, colonial past etc
- There is prima facie evidence that technological development affects managerial style and attitudes
 - Haire et al. (1966) show that Argentina, Chile and India are clustered together
 - Hofstede (1980) shows that individual index is highly correlated with GNP per capita
- Differences and similarities: Latin Europeans and Latin Americans
 - Both have similar religion (Catholic) and languages (Latin languages)
 - Both characterised by high power distance, high uncertainty avoidance, and high variance in masculinity
 - But individualism index is much lower for Latin American countries (note that Latin European countries have higher GNP per capita)

Cultural clusters

Alternative country arrangements



- Linear active

- Task/process oriented
- Complete action chains by doing one thing at a time
- Honour written contracts
- Speech is for information exchange

- Multi-active/reactive

- Wary of rigid rules and processes
- Deeper relationships
- Mutual help in difficulty

Profiles of cultural intelligence

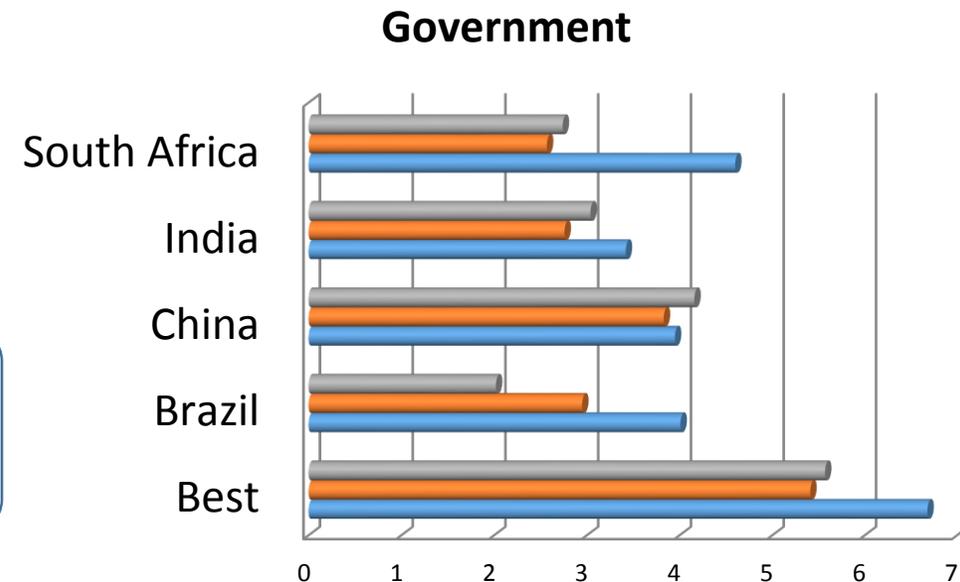
| Profiles | Characteristics |
|---------------|---|
| The local | A person who works well with people from similar backgrounds but does not work effectively with people from different backgrounds. |
| The analyst | A person who observes and learns from others and plans a strategy for interacting with 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. |
| 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. |

Linking culture to institutions

| Degree of formality | Examples | Supportive pillars |
|-----------------------|--|--|
| Formal institutions | <ul style="list-style-type: none"> • Laws • Regulations • Rules | <ul style="list-style-type: none"> • Regulatory (coercive) |
| Informal institutions | <ul style="list-style-type: none"> • Norms • Cultures • Ethics | <ul style="list-style-type: none"> • Normative • Cognitive |

“Although formal and informal institutions combine to govern firm behaviour, in situations where formal constraints are unclear or fail, informal constraints will play a larger role in reducing uncertainty and providing consistency to managers and firms.”

Source: Peng and Meyer (Chapter 2, Tables 2.1 and 2.2)



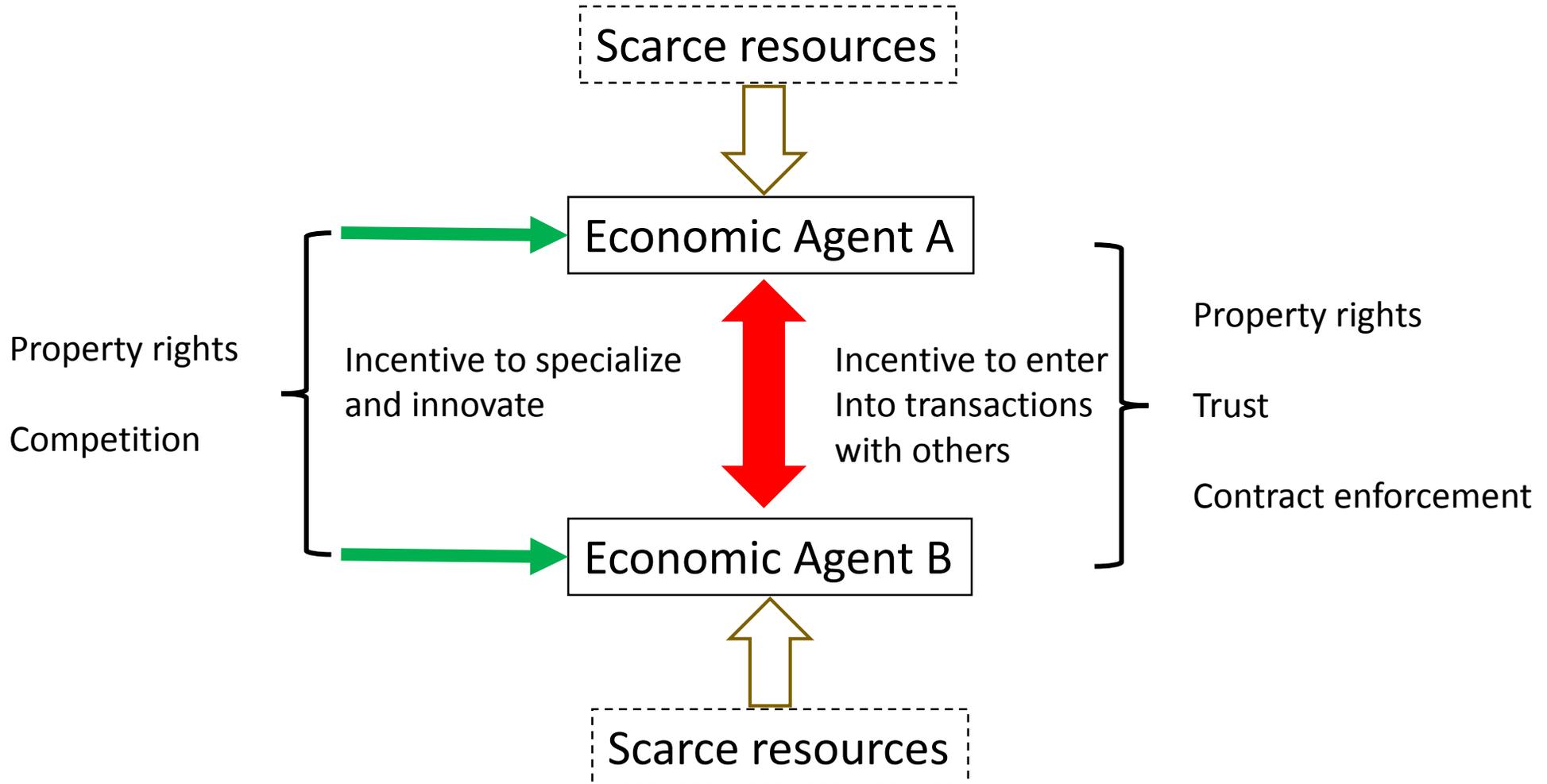
■ Burden of government regulations (1-7)

■ Favouritism in decisions of government officials (1-7)

■ Irregular payments and bribes (1-7)

Source: Global Competitiveness Index 2012-2013, World Economic Forum

Importance of institutions



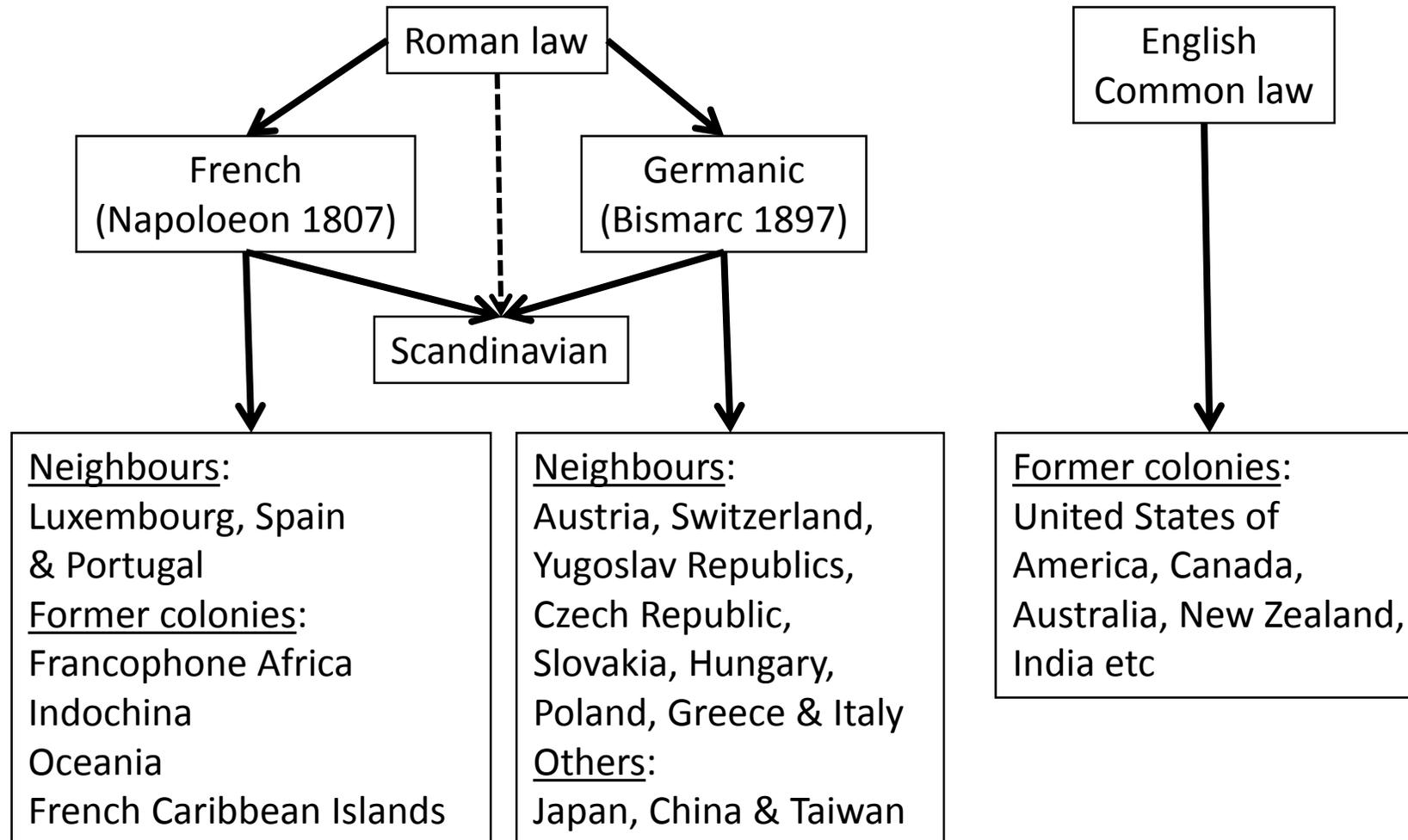
Formal institutions

Property rights

- Importance of property rights
 - Less investment in wealth creation on account of uncertainty
 - Greater investment in easily protected assets such as gold that are unproductive
 - Greater investment in unproductive activities to become predators and/or to prevent predators from expropriating wealth
- Implications for legal structure
 - Clearly defined property rights
 - Well defined contract law to facilitate transfer of property
 - Tort and criminal law to protect property rights

Formal institutions

Legal origin – typology



Formal institutions

Legal origin – implications for corporate governance

- Dimensions of shareholder rights
 - Relationship between cash flow rights and voting rights (one share-one vote)
 - Ability to vote by mail
 - Requirement to deposit shares with company or financial intermediary before shareholder meeting
 - Mechanisms such as proportional representation on board that favour minority shareholders
 - Right to challenge decisions of directors in court
 - Pre-emptive right for existing shareholders to purchase new issues of shares
 - Percentage of share capital required to call an extraordinary shareholders' meeting
- Common law countries provide much greater shareholder rights than those governed by laws of French, German and Scandinavian origin; the remedial measure in French law countries is mandatory dividend

Where does that leave us?

- We have discussed the following:
 - The phenomenon of globalisation
 - The key components of globalisation: trade, FDI and portfolio capital flows
 - The factors that determine or influence bilateral trade between countries
 - The factors that influence success and failure of companies in overseas markets: culture and institutions
- Where do we go from here?
 - The source of competitiveness of nations and firms
 - The decision to internationalise
 - In case of overseas direct investment, the decision about choice of entry mode