

International Business Economics

10. Cultural Differences and International Business: the Case of Europe



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Culture and international business

- Success of international business requires knowledge and understanding of other cultures
 - **Cultural differences** (i.e., Walmart in Germany: international experience, language, management style, human resources management...)
- Culture can increase or reduce the cost of doing business
- Although culture is not static: it changes, and even multinational companies can be drivers of cultural change (i.e., fast food)

Culture and international business

- **Culture** (Hofstede; Namerworth and Weber): system of values and norms shared by a group
 - **Values:** abstract ideas about what a group considers as correct and desirable
 - Individual freedom, democracy, truth, justice, honesty, loyalty, social obligations, collective responsibility, role of women, families, etc.
 - **Norms:** rules and guidelines which establish the appropriate behaviour in particular situations
 - Daily practices. I.e., clothing, time schedules or punctuality. Different behaviour by foreign people may be understood
 - Social habits (i.e., attitudes towards corruption). May be enforced by law.

Culture and international business

- **Society:** group of persons that share a set of values and norms
 - A **country** may constitute a society; but certain countries embrace several societies (cultures), and vice versa
 - The case of Europe: several countries in the same society, or several societies in a single country?
 - French culture; Welsh culture or Andalusian culture; European culture?

Culture and international business

– Determinants of culture

- Dominant **political and economic ideas**
- **Social structure**
 - Based on the individual (Western societies) or on the group (i.e., Japan).
Consequences: for instance, entrepreneurship vs loyalty
 - Social stratification and social mobility (i.e., social class in the UK)
- **Religion and ethics**
 - I.e., Weber: historical values of Protestantism (hard work, frugality, freedom) and capitalism, vs Catholicism
- **Language**
 - Belgium, Spain or Cyprus, vs Switzerland
 - Misunderstandings
 - Non-verbal communication. I.e., distance in Mediterranean countries, or certain gestures in Greece
- **Education:** capabilities and socialization

Top world languages by number of native speakers

Language	Native speakers in millions (2007)	% of world population (2007)
1. Mandarin	935	14.1%
2. Spanish	390	5.85%
3. English	365	5.52%
4. Hindi	295	4.46%
5. Arabic	280	4.23%
6. Portuguese	205	3.08%
7. Bengali	200	3.05%
8. Russian	160	2.42%
9. Japanese	125	1.92%
10. Punjabi	95	1.44%

Source: Swedish Nationalencyklopedin

- German, 11º; French, 18º; Italian, 23º

Top world languages by number of speakers

Language	Speakers as first or second language, in millions
1. English	1,121
2. Mandarin Chinese	1,107
3. Hindustani	697.4
4. Spanish	512.9
5. Arabic	422
6. French	284.9
7. Malay	281
8. Russian	264.3
9. Bengali	261.8
10. Portuguese	236.5

Source: Ethnologue, 2018

- German, 11º; Italian, 25º

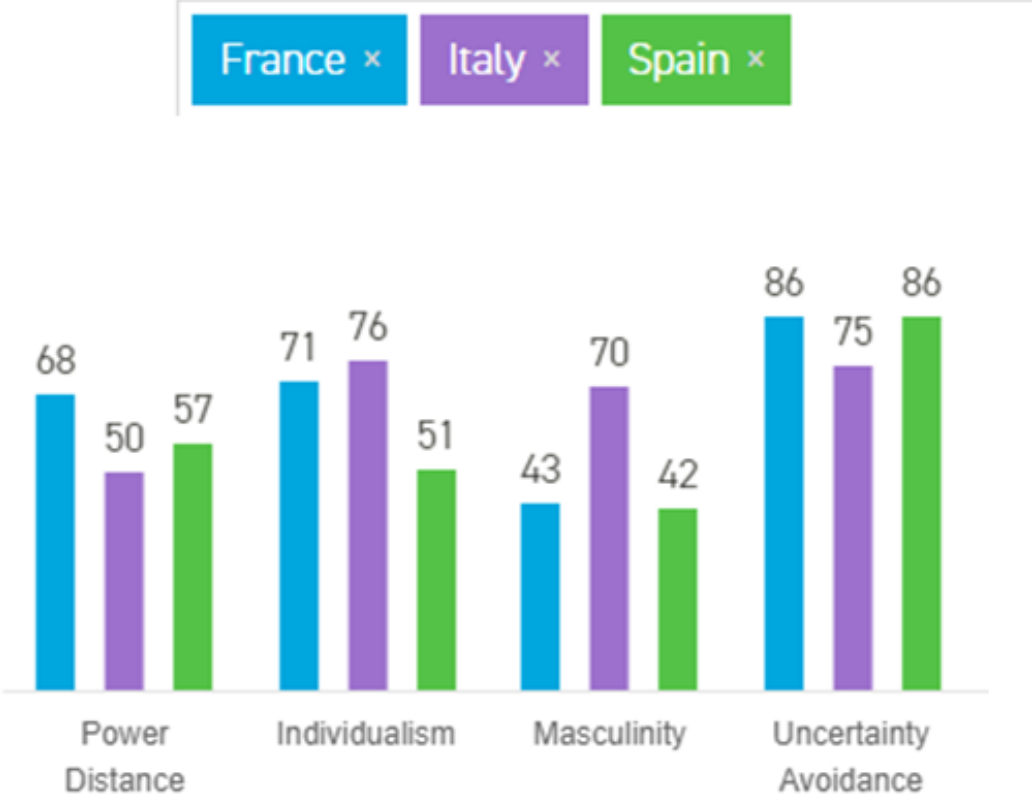
Culture and international business

– Culture and work. Hofstede:

- **Power distance:** tolerance to inequalities of power and wealth
- **Individualism** (freedom and individual success) vs collectivism (group)
- **Uncertainty avoidance:** tolerance to ambiguity and uncertainty
- **Masculinity** vs femininity: gender differences and importance of traditional “male values” (success, power, etc.)

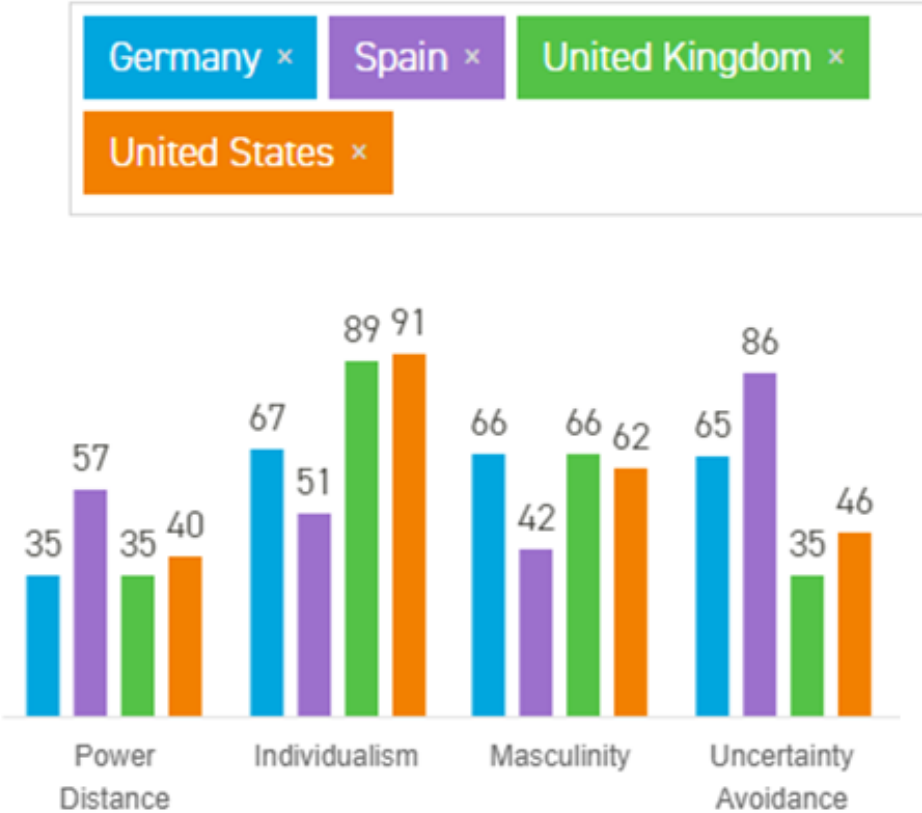
<https://www.hofstede-insights.com/product/compare-countries/>

Culture and international business



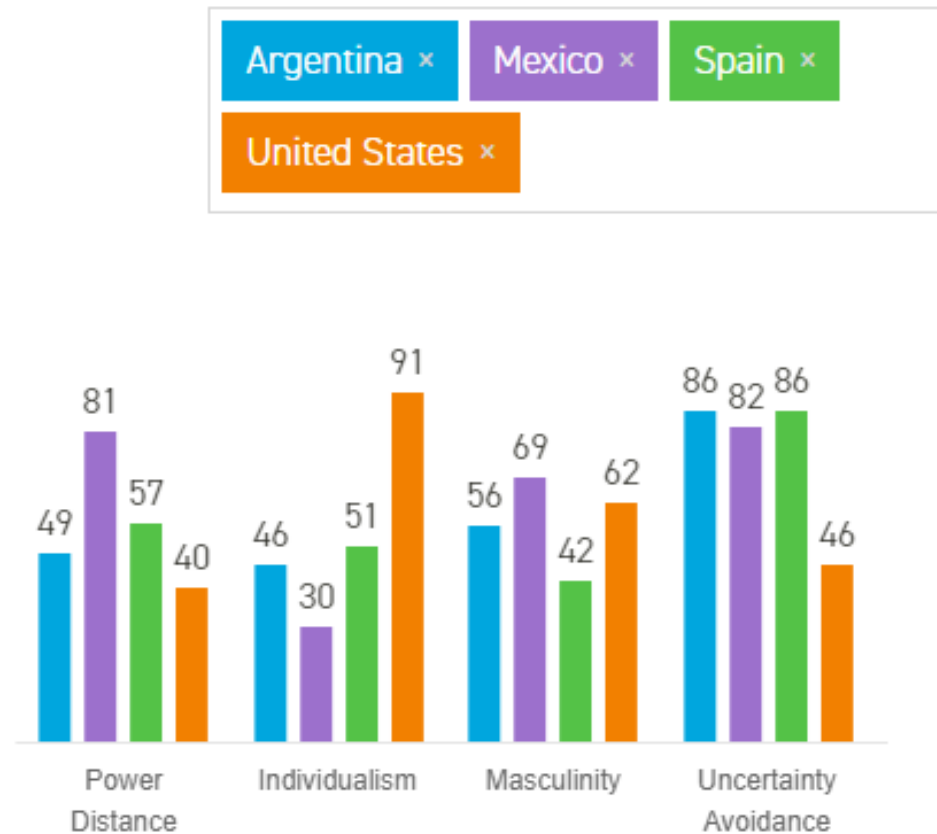
Source: Hofstede Insights

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Source: Hofstede Insights

Culture and international business



Source: Hofstede Insights

Culture and international business

- Implications: need of knowledge about cultural differences and influence on international business
- Inadequate information about other cultures and lack of adaptation to them tend to provoke failure in international business
- Solutions:
 - Collaboration with local partners
 - Executives with a global mindset
 - To avoid **ethnocentrism**: belief in the superiority of the own culture

Culture and human resource management

Human resource management (HRM) is key for these purposes.

It includes:

- Human resource strategy
- Staffing
- Management training and development
- Performance evaluation
- Compensation
- Labour relations

Staffing policy

- **Staffing policy:** the selection of employees
- **Three main approaches**
 1. The **ethnocentric approach:** parent-country nationals
 2. The **polycentric approach:** host country nationals to manage subsidiaries,
and parent country nationals for positions at headquarters
 3. The **geocentric approach** seek the best people, regardless of nationality

An ethnocentric staffing policy

- Reasons:
 - Lack of qualified individuals in the host country
 - Unified corporate culture
 - Transferring core competencies

International strategy

- But
 - It limits opportunities for host country nationals
 - “Cultural myopia”: failure to understand host-country cultural differences

A polycentric staffing policy

- Reasons
 - To minimize cultural myopia
 - Less expensive (no expatriate managers)

Localization strategy

- But
 - Host country nationals have limited opportunities
 - A gap between host country managers and parent country managers
(language, loyalties, cultural differences,... and lack of integration)

A geocentric staffing policy

- **Reasons**
 - Best use of human resources
 - International executives
 - Strong unifying culture and informal management network
- **Global or transnational strategy.** Actual trend
- **But**
 - Immigration laws (i.e., the U.S.)
 - Costs (i.e., training and relocation costs)

Expatriate failure

- Firms using an ethnocentric or geocentric staffing strategy will have expatriate managers
- Expatriate failure** is the premature return of an expatriate manager to the home country
- The main **reason for European expatriate failure** is the inability of the manager's family to adjust

Expatriate Failure Rates

Recall Rate Percent	Percent of Companies
U.S. multinationals	
20–40%	7%
10–20	69
<10	24
European multinationals	
11–15%	3%
6–10	38
<5	59
Japanese multinationals	
11–19%	14%
6–10	10
<5	76

Source: Hill (2014), based in Tung (1982)

Expatriate failure

- **Four dimensions** (usually not considered) that predict expatriate success are (Mendenhall and Oddou):
 1. **Self-orientation**: self-esteem, self-confidence, and mental well-being.
Essential for adaptation outside work
 2. **Others-orientation** (relationship development and willingness to communicate): the ability to interact effectively with host-country nationals
 3. **Perceptual ability**: the ability to understand why people of other countries behave the way they do (i.e., punctuality)
 4. **Cultural toughness**: the ability to adjust to the posting (culture, climate, housing, healthcare, etc.)

Overseas performance can differ from domestic performance

Expatriate failure

- A **global mindset** may be the fundamental attribute of a global manager
 - Cognitive complexity
 - Cosmopolitan view
- A global mindset is often acquired early in life from
 - A family that is bicultural
 - Living in foreign countries
 - Learning foreign languages as a regular part of family life

Mendenhall and Oddou: formal procedures and psychological tests for these issues

Training and management development

- **Training:** preparing the manager for a specific job
 - **Management development:** developing the skills of the manager over time
 - Historically, most firms focus more on training than on management development, and specifically on preparing home-country nationals to foreign posts
- But this is changing

Training and expatriate managers

Training (including the whole family) can reduce expatriate failure

- **Cultural training**
- **Language training**
- **Practical training**

Activity 1

ALCATEL-LUCENT AND TALENT MANAGEMENT

- Which are the key issues for human resources management in a company?
- Which were the objectives of Alcatel when contracting a company specialized in talent management (Taleo Corporation)
- Explain the action of the company and their objectives in its human resources strategy as regards senior managers

Activity 2

BRINGING IN TOP GLOBAL TALENT AT SAMSUNG

- In your view, Samsung's staffing policy has turn to a _____ approach
- Which are the main difficulties for expatriate managers in Korea?
- Is the managers' turnover rate in Korea high? Which issues can explain this?
- Which recommendations as regards human resources management, according to the text, may be useful for achieving the company's aims? Do you have additional recommendations from your experience?

Activity 3

MONSANTO'S REPATRIATION PROGRAMME

- Which actions does Monsanto do for repatriated managers? Which are the objectives of these actions?
- “The personal matters obviously affect and employee’s on-the-job performance”. Which actions does Monsanto conduct to address this concern as regards repatriated managers?
- Which main differences have you found between working/studying/living in Spain and in your country?
- Which of them suppose a difficulty?
- Which lessons will you obtain when you return to your country?

Reference

- Hill, Charles W. L. (2014): *International Business. Competing in the global marketplace, 10th edition*. Emerald Group Publishing Limited.