

Chapter 7

The Role of Country Culture for International Management

Cultural differences within and between countries affect the way business is practised. The consideration of these cultural differences and sensitivity are crucial factors in cross-cultural management. This Chapter aims to give an overview on the core characteristics that differentiate cultures and their meaning for international business.

The Concept of (Country) Culture

Human thought processes vary between different parts of the world. There is a general understanding that *culture* (and cultural differences) is one of the main reasons for such variation. However, culture as a concept is difficult to define and many different definitions have been given in the past. Perhaps the best known definition in international management is that by Hofstede (1980, p. 21): “Culture is the collective programming of the mind which distinguishes the members of one human group from another. [...] Culture, in this sense, includes systems of values; and values are among the building blocks of culture.”

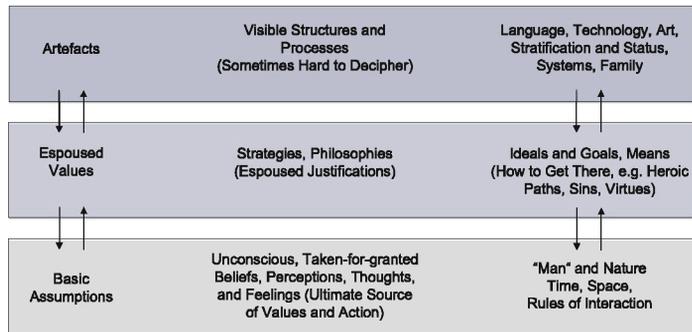
In this connection, it is important to notice that culture includes both *conscious and unconscious* values, ideas, attitudes and symbols that shape human behaviour (Terpstra/David 1991). Additionally, culture can be thought of as consisting of both *visible and invisible* elements (see Figure 7.1) (Schein 1992, pp. 15-20):

- *Artefacts and creations*: The most external level is the tangible aspects of culture, i.e., visible and audible behaviour and the constructed physical and social environment.
- *Values and ideologies*: A deeper level is that of values that reflect convictions about the nature of reality and what should be done to successfully cope with reality.
- *Basic assumptions and premises*: The deepest – and invisible – layer of culture consists of the basic assumptions and beliefs about human nature and relationships to the environment.

Levels of Culture

Figure 7.1

Levels of Culture



Source: Adapted from Schein 1992, pp. 15-20; Schein 1981, p. 64.

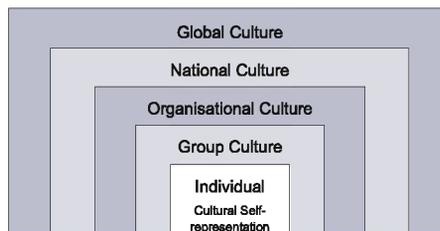
Layers and Characteristics of Culture

The individual decision-making process is influenced by different layers of culture. These levels are nested into each other, constituting a system of interrelated cultural aspects of different cultural layers (see Figure 7.2). The main levels of this nest are: the *national culture*, which constitutes the overall framework of cultural concepts and legislation for business activities, the *industry culture*, which is characterised by specific norms and ethics that in some cases may be similar across borders, and the *company culture* (organisational culture), which is expressed through shared values, beliefs, or meaning of the members of an organisation (Hollensen 2007, pp. 219-220).

Main Levels

Figure 7.2

Layers of Culture



Source: Adapted from Erez/Gati 2004, p. 588.

The *individual behaviour* is affected by these different cultural layers because the individual interacts with the other actors of his or her cultural surroundings. Culture is an outcome of past (and present) actions of a group or its members and it can be considered the result of a group's actions and the origin of its actions at the same time. Cultural values are *shared* by members and they are *transmitted* from one generation to another through social learning processes of modelling and observation or through the effects of individual actions (e.g. eliciting rewards or avoiding punishments) (Bandura 1986). Cultural elements such as daily behaviours, religion or fairytales are interdependent, i.e., *connected* to each other.

Summing up, a culture is defined as a group of people that share a common set of values and norms. It is the ways in which a society understands, decides and communicates, and it is characterised as being *learned*, *shared*, and *interrelated* (Hollensen 2007, p. 217).

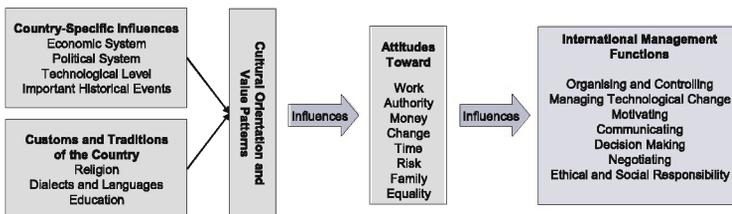
Culture is reinforced by its components such as language, behaviour, and often the "nation". However, it can be below or above the *nation level* because there is not a strict correspondence between a society and a nation-state. Nation-states are political creations that can contain a single culture or several cultures (Hill 2008, p. 91). Thus, cultures may be defined by national borders, especially when countries are isolated by natural barriers, but a nation also may contain *subcultures* that have little in common with one another.

Influence of Culture in Different Business Contexts

A range of business contexts, both within individual firms and between two or more firms, are influenced by the different cultural backgrounds of the individuals involved (see Figure 7.3).

Environmental Influences on International Management Functions

Figure 7.3



Source: Adapted from Phatak/Bhagat/Kashlak 2009, p. 115.

*Cross-cultural
Business
Encounters*

Cross-cultural proficiency is important in many managerial tasks in international business, including, among others (Cavusgil/Knight/Riesenberger 2008, p. 131):

- communicating and interacting with *foreign business partners*
- screening and selecting *foreign distributors* and other *partners*
- negotiating and structuring *international business ventures* or *international alliances*
- interacting with *customers* from abroad
- dealing with *national institutions* in host countries
- developing *products* and *services*
- preparing *advertising* and *promotional materials*.

Cross-cultural differences may complicate *communication* within the individual firm, for example, when managers from a foreign parent company communicate with local employees. In *cross-border partnerships*, alliances, or ventures, there needs to be an understanding of the *organisational and cultural differences*. Often, *cultural compromise* is required to establish successful partnerships (Rugman/Collinson 2009, p. 133).

Elements of Culture

There are many components that can be considered integral elements of culture. These components are *interrelated* with one another. The elements of culture that are most likely to matter in international management are: language, social structure, religion, and values and attitudes.

Language

Language is considered a *primary discriminant* of cultural groups as – in an obvious way – countries differ in the languages used within them. Both spoken and unspoken language is an important means for communication.

Spoken Language

Spoken language refers to the vocal sounds or written symbols that people use to communicate with one another (Kotabe/Helsen 2008, pp. 114-115). Spoken language structures the way the members of a society perceive the world. It can direct the attention of its members to certain features of the world rather than others (Hill 2008, p. 108) by *filtering* observations and perceptions and thus affecting the messages that are sent when individuals communicate with one another (Griffin/Pustay 2010, pp. 113-115).

If a country is dominated by one *language group*, it tends to have a homogeneous culture in which nationhood is important to define the culture. Conversely, countries with more than one language tend to be heterogeneous. For example, Canada has an English-speaking culture and a French-speaking culture, or in Switzerland, mainly three languages are spoken, going along with other (sub-)cultural differences (Hill 2008, p. 108).

Unspoken or *nonverbal communication* includes gestures, facial expression, moving, touching, and other forms of *body language* that supplement spoken communication. Many of these “silent” cues are culturally bound and can lead to misunderstandings in cross-cultural communication.

Social Structure

The social structure determines the roles of individuals in a society. Cultures differ in the way they define *groups* and the relative importance they place on the *individual's role* within a group. While human life is generally viewed as group life, cultures differ according to the degree to which they regard groups as the primary means of social organisation (Hill 2008, p. 92). Cultural value systems, for example, differ in terms of their emphasis on *individual performance*. In many Western societies, the social standing of individuals is a function of their individual performance and not so much of which group they belong to. In many other cultures, *social status* is determined by the standing of the group to which an individual belongs, and commitment and attachment to *group membership* is much more important.

Additionally, cultures differ in their degree of *social stratification*. In all cultures, people to some extent are categorised into *hierarchies* on the basis of elements such as income, occupation, family background, educational achievement, or other attributes. However, not only does the importance of these categories in defining how individuals interact with each other within and between groups differ between cultures. Also, the *social mobility*, i.e., the extent to which individuals can move out of the strata and change hierarchical status, is distinct between cultures (Griffin/Pustay 2010, p. 112).

Religion, Values and Attitudes

Most of the world's ethical systems, i.e., sets of moral principles or values that guide and shape individuals' behaviour, are a product of religion. *Religion* shapes the attitudes toward aspects such as work, consumption, or individual responsibility (Hill 2008, p. 98). Religion plays an important role in many societies with its impact differing from country to country. The impact of religion depends on the country's legal system, the *homogeneity* of

religious beliefs, and the *toleration* of other religious viewpoints (Griffin/Pustay 2010, p. 122).

World Religions

Religion does not always contribute to divergence between cultures, however. It can also provide the basis for *trans-cultural similarities*. Approximately 75 % of the world's population adhere to one of the four dominant religions: Christianity (2.1 billion adherents), Islam (1.5 billion adherents), Hinduism (900 million adherents), and Buddhism (376 million adherents) (www.adherents.com 2008).

In addition to religious value systems, all cultures are characterised by secular value systems and attitudes. *Values* are understood as principles and standards that are accepted by the members of a culture. *Attitudes* relate to actions, feelings, and thoughts, as a result of those values (Griffin/Pustay 2010, p. 122).

Value Systems

Value systems are deeply rooted and intrinsic to the individual's identity. They influence people's *attitudes* towards factors such as time, age, status, or education. The underlying *norms*, i.e. accepted rules, standards and models of behaviour, direct the individual's behaviour. Thus, values determine what actions are regarded as appropriate, important, or desirable in a culture.

Dimensions of Culture

Several conceptualisations exist to classify cultures according to the underlying values. The most prominent *cultural frameworks* are the work of Hall, Hofstede, and the GLOBE project (Global Leadership and Organisational Behaviour Effectiveness).

Hall's Low Context and High Context

In this conceptualisation, cultures are classified according to the *context* relatedness of communication. The extent to which communication partners rely on the context for determining the meaning of what is said is relevant for both direct (e.g. face-to-face) communication and indirect communication (Mühlbacher/Leih/Dahringer 2006, p. 212).

High Context – Low Context

"A high context communication or message is one in which most of the information is already in the person, while very little is in the coded, explicit, transmitted part of the message. A low context communication is just the opposite, i.e., the mass of the information is vested in the explicit code" (Hall/Hall 1990, p. 6).

Thus, the interpretation of messages in *high context cultures* rests heavily on the context. It is important to use and interpret the elements surrounding the

message to be able to understand the message. In *low context cultures*, on the other hand, clear communication modes dominate. These cultures rely on spoken and written language for meaning (Hollensen 2007, pp. 220-221). In Table 7.1, some aspects in which high and low context cultures differ are summarised.

Comparative Characteristics of High Context and Low Context Cultures

Table 7.1

Characteristic	Low Context/Individualistic (e.g. Western Europe, US)	High Context/Collectivistic (e.g. Japan, China, Saudi Arabia)
Communication and Language	explicit, direct	implicit, indirect
Sense of Self and Space	informal handshakes	formal hugs, bows and handshakes
Dress and Appearance	dress for individual success, wide variety	indication of position in society, religious rule
Food and Eating Habits	eating is a necessity, fast food	eating is social event
Time Consciousness	linear, exact, promptness is valued, time = money	elastic, relative, time spent on enjoyment, time=relationships
Family and Friends	nuclear family, self-oriented, value youth	extended family, other oriented, loyalty and responsibility, respect for old age
Values and Norms	independence, confrontation of conflict	group conformity, harmony
Beliefs and Attitudes	egalitarian, challenge authority, individuals control destiny, gender equity	hierarchical, respect for authority, individuals accept destiny, gender roles
Mental Process and Learning	linear, logical sequential, problem solving	lateral, holistic, simultaneous, accepting life's difficulties
Business/Work Habits	deal oriented ('quickly getting down to business'), rewards based in achievement, work has value	relationship oriented ('first you make a friend, then you make a deal'), rewards based on seniority, work is a necessity

Source: Hollensen 2007, p. 220.

Hofstede's Five Dimensions

One of the most influential schemes of cultural classification is the work of Geert Hofstede. Hofstede's findings are based on a study of 116,000 people working for IBM in about 40 countries that was carried out in the late 1960s and early 1970s. Although this work has been criticised for several methodological weaknesses and cultural biases resulting from the fact that only one company with a strong organisational culture has been analysed, it remains the largest and most comprehensive work of its kind. Hofstede identified five important *dimensions* along which people differ across cultures (Griffin/Pustay 2010, p. 126).

The first dimension is labelled *power distance*. It refers to the extent and acceptance of unequal distribution of power. *Power respect* means that people in a culture tend to accept power and authority on the basis of positions in the hierarchy. Thus, societies that are high in *power distance* believe that everyone has a rightful place in society and they tolerate relatively high social

Power Distance

inequalities (Kotabe/Helsen 2008, p. 128). Conversely, cultures with low power distance are characterised by *power tolerance*. They attach less significance to a person's position in the hierarchy and tend to question decisions or mandates from someone at a higher level (Griffin/Pustay 2010, p. 130). These cultures tend to be more egalitarian.

Individualism vs. Collectivism

The second dimension is the *social orientation* in a culture. This relates to the beliefs about the relative importance of the individual and the groups to which an individual belongs. *Individualism* describes the degree to which individuals view themselves as independent of groups and are motivated by their own preferences, needs, or rights (Phatak/Bhagat/Kashlak 2009, p. 120). *Individual independence* plays an important role. The opposite of individualism is *collectivism*. Collectivistic cultures are characterised by people giving priority to the goals of the group to which they belong over their own personal goals. Identity is based in the *group* to which the individual belongs and he or she shows long-term loyalty to that group (Hollensen 2007, p. 229).

Uncertainty Avoidance

A third dimension is *uncertainty avoidance* which relates to the *risk taking attitude* in a culture. It thus relates to the feelings people have regarding uncertain and ambiguous situations. In a culture which is characterised by uncertainty avoidance, people dislike change and ambiguity and try to avoid it. On the other hand, in cultures with high levels of *uncertainty acceptance*, people are stimulated by change (Griffin/Pustay 2010, pp. 131-135).

Masculinity vs. Femininity

Masculinity and *femininity* relates to the degree to which "masculine" values or "feminine" values dominate. In *masculine cultures*, masculine values, such as achievement, performance, competition, success and money, are important (Hollensen 2007, p. 229). Additionally, in these cultures, social gender roles are clearly distinct. In *feminine societies*, gender roles tend to overlap. Thus, both men and women are supposed to follow feminine values, such as care for others, the quality of life, maintaining personal relationships, and service (Hofstede 1991, pp. 82-83).

Time Orientation

The fifth dimension, *time orientation*, was identified in a follow-up study to Hofstede's original work. It refers to the distinction between cultures with a long-term orientation and those with a short-term focus (Kotabe/Helson 2008, p. 129). Cultures with a *long-term orientation* are characterised by values such as perseverance and thrift. In *short-term oriented* cultures, personal steadiness and stability are important (Hollensen 2007, p. 229).

Table 7.2 gives an overview of how countries differ in terms of these five Hofstede dimensions.

Hofstede's Culture Dimensions in Selected Countries

Table 7.2

Country	Power Distance	Individualism	Masculinity	Uncertainty Avoidance	Long-Term Orientation
France	68	71	43	86	-
Germany	35	67	66	65	31
Hong Kong	68	25	57	29	96
India	77	48	56	40	61
Japan	54	46	95	92	80
Malaysia	104	26	50	36	-
Netherlands	38	80	14	53	44
Singapore	74	20	48	8	48
South Korea	60	18	39	85	75
Sweden	31	71	5	29	33
Switzerland	34	68	70	58	-
United Kingdom	35	89	66	35	25
United States	40	91	62	46	29

Source: Hofstede 1992, pp. 312-313.

GLOBE - Global Leadership and Organizational Behavior Effectiveness

Global Leadership and Organizational Behavior Effectiveness (GLOBE) is a large-scale research programme which comprised a network of 170 social scientists and management scholars. The study is based on a survey of 17,000 managers from three industries (banking, food processing, and telecommunications) in 62 cultures. The GLOBE researchers identified nine dimensions of culture (House et al. 2002; Magnussen et al. 2008, p. 186):

1. *Uncertainty avoidance*: The extent to which a society tries to avoid the unpredictability of future events, e.g. by relying on rituals, or bureaucratic practices.
2. *Power Distance*: The degree to which members of a culture expect and accept power to be distributed unequally.
3. *Collectivism I (Societal Collectivism)*: The degree to which organisational and societal institutional practices encourage collective distribution of resources and collective action.
4. *Collectivism II (In-Group Collectivism)*: The degree to which individuals express loyalty and cohesiveness in their organisations or families.
5. *Gender Egalitarianism*: The extent to which a society minimises gender role differences and discrimination.

GLOBE Dimensions

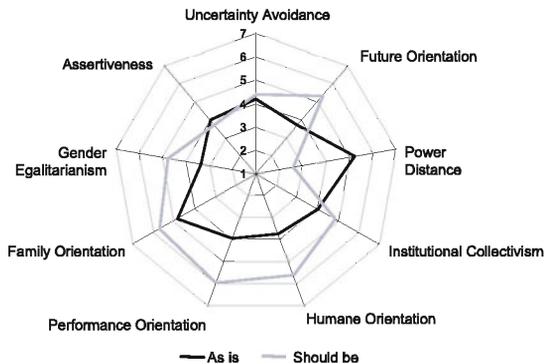
6. *Assertiveness*: The degree to which individuals are assertive, confrontational, and aggressive in social relationships.
7. *Future Orientation*: The degree to which individuals engage in future-oriented behaviours such as delaying gratification, planning, and investing in the future.
8. *Performance Orientation*: The extent to which a society encourages and rewards group members for performance improvement and excellence.
9. *Humane Orientation*: The degree to which individuals encourage and reward individuals for being fair, altruistic, friendly, generous, caring, or kind.

The purpose of the project was to find out which *leadership behaviours* are universally accepted and which are culturally contingent. While there is some overlap between Hofstede's and the GLOBE dimensions, the GLOBE study goes beyond Hofstede's approach, assessing culture from two angles: *cultural practices* (culture "as is") and *cultural values* ("what should be").

Figure 7.4 displays the societal culture scores of the "Latin Europe cluster" which comprises Italy, Spain, France, Portugal, the French speaking part of Switzerland and Israel.

Figure 7.4

Latin Europe Cluster's Societal Culture Scores



Source: Jesuino 2002, p. 85.

Cultural Sensitivity

Cultural sensitivity refers to the state of *awareness* of the values and frames of reference of host country cultures. In this context, the extent of a manager's cultural parochialism, ethnocentrism, polycentrism, or geocentrism is crucial (Phatak/Bhagat/Kashlak 2009, pp. 116):

- *Cultural parochialism*: The belief that there is no alternative to doing things the way they are done in one's own culture.
- *Cultural ethnocentrism*: Ethnocentrism is related to parochialism, but it reflects a sense of superiority. Thus, ethnocentricity involves the attitude that one's own way of doing things is the best, no matter in which cultural environment.
- *Cultural polycentrism*: Polycentric managers tend to adapt to local cultural norms. They accept the need for differentiation, for example, in terms of procedural norms, reward systems, organisation design. Thus, polycentrism involves adaptation to each local cultural context.
- *Cultural geocentrism*: Geocentrism reflects the belief that responsiveness to local cultures is necessary but that there is the need to develop courses of action that can be employed in most (or all) cultural environments.

This understanding of cultural sensitivity is related to the emic and the etic views of culture. The *etic perspective* assumes that business practices can be applied universally and thus are relevant in all cultures and not specific to the context in which they were developed. Contrarily, the *emic approach* to international business argues that each culture has specific requirements (Sue/Sue 2007). Therefore business practices need to be adapted to each cultural context. Typically, the etic approach to international business is anchored in the domestic market context and thus reflects either *cultural parochialism* or *ethnocentrism*.

According to these diverse *cultural predispositions*, firms can respond with diverse organisation types (see Table 7.3). The *imperialist firm* corresponds to cultural parochialism and involves a common organisational culture wherever the company is present. The *independent company* is associated with the polycentric orientation. In this structure, each national subsidiary bases its own culture on local norms and values, thus constituting a *federalist structure*. Both of these extremes are associated with problems, resulting from either an etic cultural perspective that involves standardisation in all subsidiaries or the complexity of differentiated, polycentric systems. Therefore, often firms try to strike a balance between *standardisation* and *differentiation*. Some elements are centralised across the whole organisation while others

Emic vs. Etic

Organisation Types

are adapted to the local cultural context (Rugman/Collinson 2009, pp. 147-148).

Table 7.3

Organisation Types Reflecting Cultural Predispositions

	Imperialist	Interventionist	Interactive	Independent
Organisation	ethnocentric	ethnocentric	geocentric	polycentric
Structure	steep hierarchy	flat hierarchy	network	federation
Strategy	dictated	centrally decided	jointly specified	locally specified
Decision making	centralised	distributed	shared	devolved

Source: Rugman/Collinson 2009, p. 147.

Conclusion and Outlook

While culture is considered to be *relatively stable* and cultural differences are important in international management, there is an ongoing debate on the question whether *cultural convergence* is taking place or not. The starting point of this debate was Levitt's "*Globalisation Thesis*" (Levitt 1983), which argued that issues such as increased and better communications worldwide, including international media consumption, travel patterns of consumers and the spread of multinational companies lead to a cultural convergence. This is beneficial for international operations because it offers the potential to standardise global operations: "The global corporation operates with resolute constancy – at low relative cost – as if the entire world (or major regions of it) were a single entity; it sells the same things in the same way everywhere" (Levitt 1983, pp. 92-93). With *standardisation*, producers obtain global scale economies and experience curve benefits in production, distribution, marketing and management.

However, even though cross-border operations of multinational companies integrate the world's economies, there are many counterarguments against the assumption that a homogenisation of cultures is happening. Even within most countries, *great diversity* of behaviours and tastes co-exist. The internationalisation of companies widens the options available to local people.

Nevertheless, *cross-border segments* exist. They include consumers with homogeneous consumption patterns across cultures. Typically, these cross-border segments are younger, richer and more urban than the rest of the population (Quelch 1999, p. 2). Thus, *cultural homogeneity* and *heterogeneity*

*Cultural
Convergence*

*Cultural
Diversity*

*Cross-Border
Segments*

are not mutually exclusive alternatives or substitutes, but they may co-exist, simultaneously (Cavusgil/Knight/Riesenberger 2008, p. 148).

Cross-cultural management involves cultural differences between groups of people in different business situations both inside one firm and between several firms, e.g. suppliers, partners in strategic alliances or M&As, or with the customers. Such cultural differences are not necessarily a problem. However, they can create *difficulties* in terms of communication, motivation, coordination, or teamwork. They can lead to *cultural clash*, which means that differences in values, beliefs, and styles of communication or behaviour can lead to miscommunications and misunderstandings, antagonism or other problems (Rugman/Collinson 2009, pp. 148-151).

Companies need to respond to these challenges of managing across cultural boundaries. In this context, acculturation plays an important role. *Acculturation* involves the process of understanding foreign cultures and modifying and adapting the company's or the manager's behaviour to make it compatible with other cultures (Cavusgil/Knight/Riesenberger 2008, p. 130).

Cultural Clash

Acculturation

Further Reading

HOFSTEDE, G. (2001): *Culture's Consequences: Comparing Values, Behaviors, Institutions and Organizations Across Nations*, Thousand Oaks, Sage Publications, pp. 1-36.

DERESKY, H. (2008): *International Management, Managing Across Borders and Cultures*, 6th ed., Upper Saddle River, Prentice Hall, pp. 102-216.

Case Study: China¹

History and political system

On 1 October 1949, Mao Zedong, chairman of the Central People's Government, proclaimed the foundation of the People's Republic of China (PRC). During the period of the first five-year plan (1953–1957) the average annual *increase in national income surpassed 8.9 %* and, with a time delay compared with already industrialised countries, basic industries such as aviation and

¹ Sources used for this case study include the web sites, <http://www.bmz.de>, <http://www.itim.org>, <http://ec.europa.eu/eurostat>, <http://www.chinability.com>, www.china-embassy.org.eng, <http://www.china.org.cn>, <http://www.un.org> as well as explicitly cited sources.

motor vehicle production, indispensable for full industrialisation, were finally initiated. Between 1956 and 1966 the nation's total industrial fixed assets quadrupled and the national income increased by 58 % in constant prices.

Cultural Revolution

The ensuing “*cultural revolution*” (1966–1976), initiated by Mao himself in order to consolidate his power, caused the state and its people to relapse. The time of the Cultural Revolution is strongly connected to the term “*Maoism*”. Maoism refers to Mao's theories about how China and the world should be transformed in revolutionary ways. Mao thereby embraced the teachings of Marx and Lenin and made additional contributions (Chai 2003, p. 164), as, for instance, he emphasised the agrarian countryside. As a result of the Cultural Revolution, millions of people were forced into manual labour, and thousands were executed.

End of Maoism

The death of Mao in 1976 marked the end of “*Maoism*” and the beginning of a new area in Chinese history under the guidance of the CPC (Communist Party of China). The CPC, under the leadership of General Secretary Deng Xiaoping “turned its attention to ‘righting the wrongs’ it had experienced during the cultural revolution” (Chai 2003, p. 167). As a consequence, the CPC instituted a policy of “*reform and opening*” to the outside world in 1979, and China followed a path of socialist modernisation.

China Today

Succeeding Jiang Zemin, Hu Jintao took over the position as general secretary of the CPC Central Committee in 2002 as well as president of the state in 2003. In 2008, the CPC had more than 67 million members.

China at a Glance

Geographic Profile

China is the world's most populous country with a total population of about 1.35 billion people in 2010. After Russia, Canada and the USA of America, China is the fourth largest country in the world. Governmentally, China is divided into 22 provinces (China considers Taiwan its 23rd province), five autonomous regions (Guangxi, Nei Mongol, Ningxia, Xinjiang Uygur, Xizang) and four municipalities (Beijing, Chongqing, Shanghai, Tianjin) which are directly supervised by the central government as well as the special administrative regions of Hong Kong and Macao. The capital of China is Beijing.

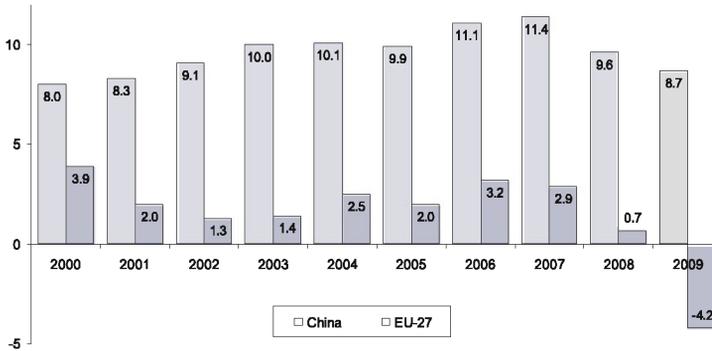
Economic Profile

Immediately after the end of “*Maoism*”, as Deng Xiaoping focused on market-oriented economic development, China started to catch up economically with the industrialised Western World. The pace of China's economic development in recent years is outstanding, as China's GDP growth rates, for instance, by far exceeded the average GDP growth rate of the EU-27 coun-

tries (see Figure 7.5). In 2009, China passed Germany to become the world's largest exporter.

Annual GDP Growth Rates of China and the EU-27 (in %)

Figure 7.5



Source: www.chinability.com, <http://ec.europa.eu/eurostat>.

However, the rapid industrialisation also caused serious problems for the largest market in the world. Problems include widespread poverty, as China is economically a very heterogeneous country (Holtbrügge/Puck 2005, p. 31), corruption and a very high level of environmental pollution.

China's Culture According to the GLOBE Study

As described in this Chapter, the GLOBE study identified nine dimensions of culture. By comparing the respective scores to the mean value of all 62 cultures examined in the GLOBE study, Figure 7.6 displays the results of the study for China (referring to *cultural practices*, i.e. culture "as is").

China's scores are very heterogeneous regarding numerous dimensions of the Globe study. The results indicate that inhabitants of China score heavily on performance orientation, collectivism (institutional and organisational), humane orientation, and especially on uncertainty avoidance, all of which are above the mean of all countries. Scores on future orientation and power distance are close to the mean, scores on assertiveness and gender egalitarianism are below the mean.

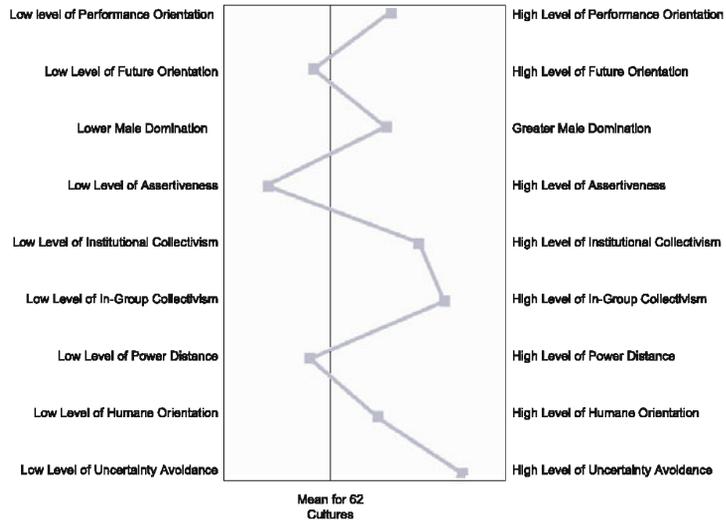
Collectivism

Across all the GLOBE dimensions, China exhibited the highest scores on the *collective dimensions*. Chinese people are influenced by a collective culture that deemphasises the self in deference to the group (Neubert/Wu 2006, p. 362). The collectivistic attitude of Chinese people is happily accompanied by a high level of humane orientation, as well as low level of assertiveness. As Chinese people tend to be strongly group oriented, they do not strive to be assertive, confrontational or aggressive in social relationships. Research outlines the importance of *interpersonal harmony* in collectivistic cultures (Ling/Chia/Fang 2000, p. 737).

Another reason for the low level of assertiveness is that Chinese are influenced by their concerns for notions such as *guanxi* (social relationships) (Fu et al. 2007, p. 889).

Figure 7.6

Results of the GLOBE Study: China

**Collectivistic
Performance
Orientation**

Although Chinese people are highly collectivistic, they are also characterised by a *high performance orientation*. However, Chinese employees are likely to focus on the performance of the group over concerns about individual performance. Hence, in collectivist cultures, achievement motivation is generally socially oriented (Neubert/Wu 2006, p. 362). This feature becomes evident, for instance, in a comparison between Chinese and US employees in the information technology sector. In contrast to the US employees, Chinese

employees place less value on rapid career advancement and having a motivating boss, but place greater emphasis on receiving project milestone bonuses (King/Bu 2005, p. 46).

Until modern times, men in China were always superior to women and being a woman in China meant being a servant to the men in one's life: first father, then husband, then son (Fu et al. 2007, pp. 889-890). That is because the majority of the population was, and is still, poor and heavily dependent on farming. In these places, women still have major disadvantages in terms of education or employment. Hence, *gender egalitarianism* many not happen until China becomes more economically developed across the whole country (Fu et al. 2007, pp. 890).

The high score for the *uncertainty avoidance* dimension is consistent with the traditional Chinese value of order. The Chinese seek peace and security by clinging to the past and for centuries, Chinese people felt secure only when they "played it safe" (Fu et al. 2007, p. 891). Especially during the Cultural Revolution, people in China were led to seek "unity and order" to such a degree that they would run their businesses in the same way year after year without change, "maintaining the same structure, the same products, the same everything" (Fu et al. 2007, p. 891). The long tradition of order may serve as an explanation for the high intolerance of uncertainty.

Subcultures

Although the Chinese culture emphasises collectivism, one can observe subcultures within the country (King/Bu 2005, p. 46). Such subcultures are not surprising, in a country with 1.3 billion inhabitants that is heavily segmented in terms of income and consumer behaviour. The strongest regional disparities in China exist between the rural areas in the North and South of the country and the rich and well developed coastal regions around Shanghai (Holtbrügge/Puck 2005, p. 9).

Roots and Rationale of Chinese (Business) Culture

Of all the ideologies that have influenced the thinking and life of traditional and agricultural China, *Confucianism* should account for the most influence (Fu et al. 2007, p. 878). Even today, 2,500 years after the time of Confucius, his traditional ethics continue to have a tremendous impact on Chinese people (Ling/Chia/Fang 2000, p. 736). Hence, in order to understand Chinese culture, one must first understand *Confucianism*.

*Gender
Egalitarianism*

*Uncertainty
Avoidance*

Confucianism

*The Confucian
Understanding of
Intellectual
Property*

Confucius assumed the existence of a proper way for humans to behave and for society to be organised (Langenfeld 2007, p. 32). Confucian teachings include the emphasis on learning through a hierarchical, family-modelled institution, which teaches principles such as diligence, self-sacrifice, and delayed gratification. The *Confucian* model of a family includes the strong but compassionate father, the loyal child who can never fully repay a deep debt to the parents, and the ancestors who are to be respected and worshipped (Gupta/Hanges 2004, p. 189). The *Confucian* philosophy is a helpful tool to decode the Chinese understanding of immaterial goods and intellectual property. The copying of foreign products and technologies, for instance, is an expression of appreciation for the intellectual performance of somebody else. Products and innovations of limited quality are not worth copying. To use the intellectual performance of somebody else is considered a smart move and desirable, according to the Confucian philosophy. The belief that an immaterial value is solely the property of a single person or group is contradictory to the *Confucian* idea that everyone should strive for education. As long as it serves the community, knowledge is considered common property (Fuchs et al. 2006, p. 65). The *Far Eastern Economic Review*, a business newspaper from Hong Kong, therefore relabelled the People's Republic of China the "People's Republic of Cheats" (Fuchs et al. 2006, p. 22). However, *Confucianism* is not only suited to illustrate the Chinese attitude towards intellectual property, but to explain the basic rationale and "life-blood" (Davies et al 1995, p. 209) of Chinese business: "*guanxi*".

Guanxi

In contrast to the more fact-based Western business culture, Chinese business culture relies much more on relationships and personal networks (Holtbrügge/Puck 2005, p. 20). Best translated by the term "relationship", *guanxi* basically describes a friendship between two persons that rests on a continued exchange of favours (Pye 1992, p. 101). Hence, "the currency of *guanxi* is normally favours, not cash" (Seligman 1999, p. 65).

A key component in a *guanxi* system is the Chinese interpretation of face ("*mianzi*"). As an intangible form of personal identity, *mianzi* is closely linked with dignity, self-esteem, vanity, and is therefore comparable to the Western concept of prestige (Langenfeld 2007, p. 92). Individuals in China have a strong interest in keeping their face because it is a major source of intrinsic satisfaction. It is the worth that people claim for themselves based on their position in the social network. Hence, threats to one's *mianzi* constitute threats to one's identity (Langenfeld 2007, p. 92).

When dealing with Chinese managers or officials, it is important to consider that good *guanxi* depends on a strict system of reciprocity and that the Chinese generally expect foreigners to speak and understand *guanxi* and to act according to its rules (Seligman 1999, p. 65; Graham/Lam 2003, p. 86).

The Impact of China's Culture on Human Resource Management and Marketing

Human Resource Management

Recruitment activities in China are comparable to those in Western countries. The most frequently used recruitment methods are employment advertisements in newspapers and magazines. However, in general, specialised staffs are found through *guanxi* rather than advertisements in newspapers or professional headhunters (Holtbrügge/Puck 2005, p. 131). Moreover, employees that have been recruited through *guanxi* often have an additional motivation to perform well, as they do not want to disappoint the intermediary who vouched for them. Further benefits may be derived from coordinated salary and non-labour benefits paid to specialists (Langenfeld 2007, p. 140). One major problem that comes along with this recruiting technique becomes evident in case of redundancies. The layoff of an employee who has been recruited through a *guanxi* network might result in conflicts with the remaining workforce (Holtbrügge et al. 2003, pp. 15-21).

Chinese companies are characterised by a hierarchical and patriarchic leadership style with the top leader of a company is being regarded as the head of a family. Employees are consequently regarded as part of the family and they expect to be taken care of. Chinese leadership is thus modelled on the father's role as household head. This leadership concept is well in line with the Chinese societal cultural perceptions and values of low gender egalitarianism, as observed in the GLOBE study (Fu et al. 2007, p. 903). In reverse, employees expect that important decisions are made by the management. There is no delegation of responsibility. Chinese employees are used to the fact that decisions are made by their supervisor and therefore they hardly take any initiative (Holtbrügge/Puck 2005, p. 139).

Research shows that social groups that differ in age, occupation or education level (e.g. urban Eastern China vs. rural Southern China) differ in their perceptions of implicit leadership traits. For instance, people with more education in China, tend to be more idealistic and want their leader to have a higher standard (Ling/Chia/Fang 2000, p. 737).

Marketing & Sales

The vast segmentation of the country does not only have an impact on leadership and human resource management, but also on marketing issues. Marketing content and messages cannot be standardised for the whole country, but have to be tailored to the respective market segments. At this point, especially, foreign companies face the problem that detailed and reliable

Leadership in Subcultures

Guanxi in Marketing and Sales

market information is relatively rare (Holtbrügge/Puck 2005, pp. 100-102). Being confronted with this scenario, a *guanxi* network might serve as a company's primary source of in-depth information.

Apart from the possibility of gathering information through the network, *guanxi* also has important implications for quality and price related issues. *Guanxi*-based selling can produce impressive results if products are of poor quality or the level of service is bad, because unexpected drops in quality are less difficult to accept from a *guanxi* partner than from a stranger. Even fake goods are sold through *guanxi* bribes (Langenfeld 2007, p. 136). *Guanxi* can also be required when it comes to obtaining after-sales service (Langenfeld 2007, p. 138).

Guanxi in marketing & sales is most applicable when serving a few customers like, for instance, in the investment goods industry. However, *guanxi*-based selling cannot be used when serving millions of customers in the fast moving customer goods (FMCG) industry. That is because the number of personal relationships is limited (Langenfeld 2007, p. 137). In order to prevail in such industries the responsible marketing department has to emphasise other topics, such as the outstanding status of children in China and advertising.

Children

In order to reduce the rate of population growth, the PRC has – since 1979 – put into effect the one-child policy, which prescribes that each family should only have one child. The only child in China is thereby frequently regarded as a “*little emperor*” or a “*little sun*” (Zhang et al. 2000, p. 726). Wang Ying, the director of a kindergarten, reports about little emperors: “They’re attended to hand and foot by adults so protective that if the child as much as stumbles, the whole family will curse the ground”. Consequently, the little emperor has an enormous impact on buying decisions. Especially young families in the urban areas of China undertake remarkable efforts to ensure their only child a beautiful life. The wishes of the child are therefore on top of the agenda. That is not only true for FMCG but for a wide range of goods including products like computers or mobile phones (Holtbrügge/Puck 2005, pp. 103-104).

In general, there are strong differences between the preferences of Chinese consumers born before 1980, who are more likely to seek out products that help them arrange their lives in a more secure and orderly way, and those born after the one-child policy, who are striving to project themselves, establish their uniqueness, and make a positive impression on others. In order to win over young consumers, marketing consultancies advise foreign firms to stress values of individuality, freedom and physical attraction (Chandler et al. 2004, pp. 138-150).

Rather than emphasising individuality and exclusivity, as German or American advertising frequently does, Chinese advertising messages generally focus more on group and collectivistic values. One can thereby identify “mouth-to-mouth” propaganda as the primary advertising medium in China, as personal relationships, family and friends have a huge impact on the buying decisions of Chinese customers. Apart from relationships, TV advertising is the most important advertising tool. This is not only because of the wide availability of television, but also because TV spots fit the Chinese habit of *pictorial thinking* (Holtbrügge/Puck 2005, p. 113).

Summary and Outlook

With more than 1.3 billion inhabitants, China is the largest market in the world. However, as huge as is the market, equally huge is the challenge to prevail in China’s competitive environment. Some weird characteristics of the Chinese culture, at least for Westerners, like, for instance, *guanxi*, constitute numerous pitfalls that can seriously handicap a company’s engagement in China. As a result, “Western theories of leadership cannot be very effective when directly transposed to Chinese people” (Ling/Chia/Fang 2000, p. 738). Hence, it is mandatory for Western companies, not only to be aware of these characteristics, but also to adjust their management systems and procedures accordingly.

Questions

1. The case study discussed the influence of China’s culture on two management functions: “marketing & sales” and “human resource management” and especially emphasised the role of *guanxi*. How can *guanxi* further influence R&D as well as procurement operations?
2. Consider an English company that plans and arranges weddings. The advertising slogan of the company is: “We make your wedding a truly unique experience”. Should this company adapt or change this slogan for an advertising campaign in China? If yes, what are your suggestions?
3. A Western European manufacturer of the highest quality motor cars plans to set up a production facility in China and consequently to shift major parts of its production to China. What are the potential problems and challenges for the company?

Hints

1. See, for instance, Langenfeld 2007, pp. 131-145.
2. Refer to the GLOBE study results for China and England for the “In-Group Collectivism” dimension. See Gelfand et al. 2004, p. 469.
3. Think not only in terms of culture, but also consider issues regarding product quality, technology, marketing and human resource management, as well as inherent geographical and political problems.