

Chapter 9

The Role of Country Culture in 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 provides 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.”

Culture, then, is regarded as multidimensional, consisting of several elements. 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, much like an iceberg: you can easily see the tip; however, most of it is hidden beneath the water (Dablay/Scott 2011, p. 58; see Figure 9.1) (Schein 1992, pp. 15-20):

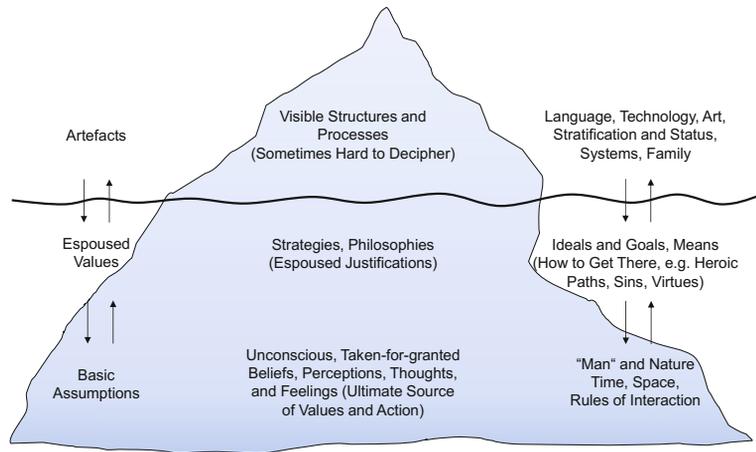
- *Artefacts and creations*: The most external level is the tangible aspects of culture, i.e. visible and audible behaviour and the constructed physical and social environment. In this context, the important expressions of culture are symbols, i.e., objects, words or pictures that carry a specific meaning to those who share a culture, heroes, i.e., (real or imaginary) persons that serve as role models to a culture, and rituals, i.e. specific, socially essential collective activities (De Mooij 2014, pp. 62-63).
- *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.

Levels of Culture

- *Basic assumptions and premises*: The deepest – and least visible – layer of culture consists of the basic assumptions and beliefs about human nature and relationships with the environment.

Figure 9.1

Levels of Culture



Source: Adapted from Schein 1992, pp. 15-20.

Layers and Characteristics of Culture

Main Levels

The individual decision-making process is influenced by different layers of culture. These levels are nested within each other, constituting a system of interrelated cultural aspects of different cultural layers (see Figure 9.2). In international business negotiation settings between companies with origins in different countries, the behaviour of the individual actors is influenced by cultural elements of diverse, interrelated and nested levels. The main levels of this nesting are: *national culture*, which constitutes the overall framework of cultural concepts and legislation for business activities; *industry culture*, which is characterised by specific norms and ethics that in some cases may be similar across borders and *company culture* (organisational culture), which is expressed through the shared values, beliefs, or meaning of the members of an organisation (Hollensen 2014, pp. 245-246).

Layers of Culture



Source: Adapted from Erez/Gati 2004, p. 288.

Figure 9.2

These different cultural layers affect *individual behaviour*, because the individual interacts with the other actors in his or her cultural surroundings. Culture is an outcome of past (and present) actions of a group or its members, and is simultaneously the result and origin of a group's actions. Members of a group *share* cultural values 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 fairy tales are interdependent, i.e. *connected* to each other.

Individual Behaviour

Summing up, a culture is defined as a group of people that share a common set of values and norms. Culture is the ways in which a society understands, decides and communicates, and it is characterised as being *learned*, *shared* and *interrelated* (Hollensen 2014, p. 244). Culture thus serves as an anchoring point to the members of a society and offers a set of *codes of conduct* (Czinkota/Ronkainen 2013, p. 61).

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 (Hill 2013, p. 102). Thus, national borders may define cultures, especially when natural barriers isolate countries, but a nation also may contain *subcultures* that have little in common.

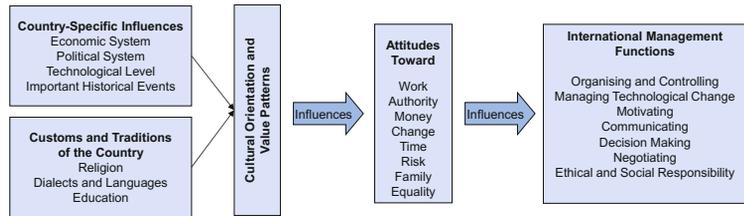
Culture vs. Nation

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 9.3).

Figure 9.3

Environmental Influences on International Management Functions



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

Cross-Cultural Business Encounters

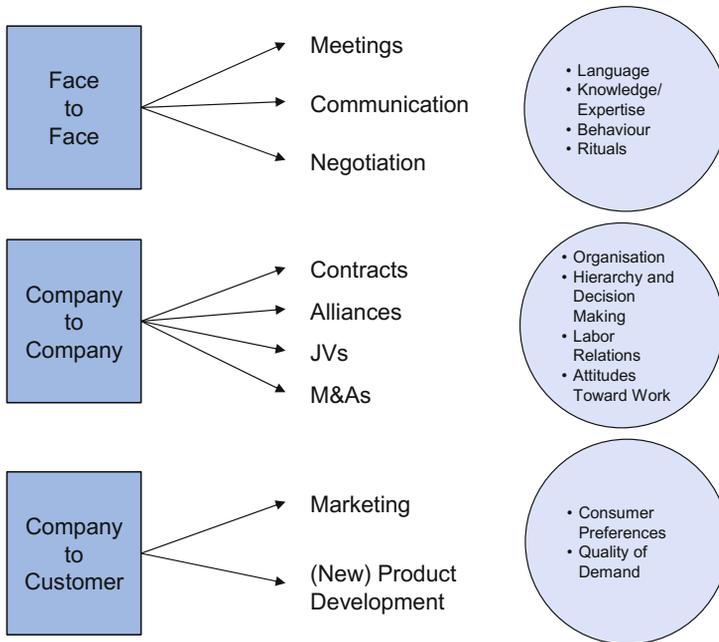
In International Management encounters, a wide array of business contexts raise cross-cultural issues that evolve both within individual companies, e.g. managers and employees from different countries, and between different firms or between the company and its customers, such as in international buyer-seller relationships or cross-border alliances (see Figure 9.4).

Cross-cultural proficiency, therefore, is important in many international business managerial tasks, including (Cavusgil/Knight/Riesenberger 2013, p. 135):

- 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*.

Examples of Cross-Cultural Business Contexts

Figure 9.4



Source: Rugman/Collinson 2012, p. 136.

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 2012, p. 136).

Elements of Culture

There are many components that can be considered integral elements of culture. These components are *interrelated*. The elements of culture most likely to matter in International Management are: language, social structure, religion, 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 languages are important means of communication.

Spoken Language

Spoken language refers to the vocal sounds or written symbols that people use to communicate with one another (Kotabe/Helsen 2014, p. 98). 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 2013, p. 118) by *filtering* observations and perceptions and thus affecting the messages sent when individuals communicate with one another (Griffin/Pustay 2013, p. 114).

Multiple Language Groups

If one *language group* dominates a country, it tends to have a homogeneous culture in which nationhood is important. Conversely, countries with more than one language tend to be heterogeneous. For example, Canada has an English-speaking culture and a French-speaking culture. In Switzerland, three main languages are spoken, along with other (sub-)cultural differences (Hill 2013, pp. 118-119).

Silent Cues

Unspoken or *nonverbal communication* includes gestures, facial expressions, moving, touching and other forms of *body language* that supplement spoken communication. Forms of nonverbal communication include (Griffin/Pustay 2013, p. 118):

- dress styles, e.g. fashionable, conservative
- hand gestures
- facial expressions, e.g. smiles, frowns, nods, eye contact (or lack of it)
- greetings, e.g. hugs, kisses, bows, hand shakes
- physical contact, e.g. hand holding, pats on the back
- time-related aspects, e.g. promptness, early or late arrival
- walking styles, e.g. fast, slow, in a group or single file.

Many of these *silent cues* are culturally bound and can lead to misunderstandings in cross-cultural communication.

Social Structure

The social structure determines individuals' roles within 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 social, cultures differ according to the degree to which they regard groups

as the primary means of social organisation (Hill 2013, p. 104). Cultural value systems, for example, differ in terms of their emphasis on *individual performance*. In many Western societies, the social standing of individuals is mainly a function of their individual performance rather than 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 are categorised into *hierarchies* to a certain extent on the basis of elements such as income, occupation, family background, educational achievement or other attributes. However, the importance of these categories in defining how individuals interact with each other within and between groups differs between cultures. Also *social mobility*, i.e., the extent to which individuals can between strata and change hierarchical status, is distinct between cultures (Griffin/Pustay 2013, p. 112).

Social Stratification

Religion, Values and Attitudes

Most of the world's ethical systems, i.e., set of moral principles or values that guide and shape individuals' behaviour, are a product of religion. *Religion* shapes attitudes toward a huge variety of things such as work, consumption, or individual responsibility (Hill 2013, p. 109). 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 2013, p. 122).

However, religion does not always contribute to divergence between cultures. 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 (2.3 billion adherents), Islam (1.6 billion adherents), Hinduism (943 million adherents), and Buddhism (463 million adherents).

World Religions

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 2013, p. 122).

Value systems are deeply rooted and intrinsic to an 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.

Value Systems

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 how *context laden* their communication is. 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 (Usunier/Lee 2013, pp. 69-70).

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).

Table 9.1

Comparative Characteristics of High Context and Low Context Cultures

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 2014, p. 248.

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 it. In *low context cultures*, on the other hand, clear communication modes dominate. These cultures rely on spoken and written language for meaning (Hollensen 2014, pp. 247-248).

Table 9.1, summaries some areas in which high and low context cultures.

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 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 was 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 2013, p. 126).

The first dimension is labelled *power distance*. It refers to the extent and acceptance of unequal distributions 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 inequalities (Kotabe/Helsen 2014, p. 113). 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 2013, pp. 129-130). These cultures tend to be more egalitarian.

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 prioritising 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 2014, p. 257).

A third dimension is *uncertainty avoidance*, which refers 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

Power Distance

Individualism vs. Collectivism

Uncertainty Avoidance

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 2013, pp. 131-133).

Masculinity vs. Femininity

Masculinity and *femininity* relate 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 2014, p. 257). 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 caring for others, valuing quality of life, maintaining personal relationships and service (Hofstede 1991, pp. 82-83).

Long-Termism

The fifth dimension, *long-termism*, 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/Helsen 2014, p. 114). 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 2014, p. 258).

Table 9.2 gives an overview of how countries differ in terms of these five Hofstede dimensions.

Table 9.2

Hofstede’s Culture Dimensions in Selected Countries

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 1991, pp. 312-313.

As an enhancement of these cultural dimensions, *indulgence vs. restraint* was developed by Minkov (2007) and added to Hofstede's framework as a sixth dimension. *Indulgence* relates to the degree to which a society allows relatively free gratification of basic and natural human drives related to enjoying life and having fun. *Restraint*, on the other hand, implies that a society tends to suppress gratification of needs and regulates this by means of strict social norms (De Mooij 2014, p. 102).

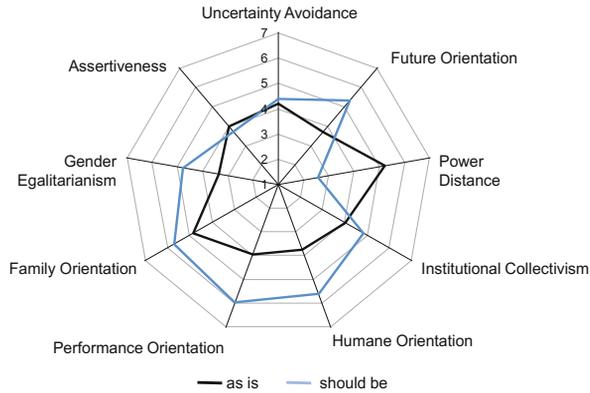
GLOBE - Global Leadership and Organizational Behaviour Effectiveness

Global Leadership and Organizational Behaviour 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) across 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.
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.

Figure 9.4 Latin Europe Cluster's Societal Culture Scores



Source: Jesuino 2002, p. 85.

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 the Hofstede and 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 9.4 displays the societal culture scores of the "Latin Europe cluster", which comprises Italy, Spain, France, Portugal, the French speaking part of Switzerland and Israel.

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 the 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, and 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 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. Conversely, the *emic perspective* 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*.

Based on these diverse *cultural predispositions*, firms can respond with diverse organisation types (see Table 9.3).

Emic vs. Etic

Organisation Types Reflecting Cultural Predispositions

Table 9.3

	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 2012, p. 151.

An *imperialist firm* employs 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 creating a *federalist structure*. Both of these extremes have associated problems, resulting from either an etic cultural perspective that involves unsuita-

Organisation Types

ble standardisation across all subsidiaries or the complexity of differentiated, polycentric systems. Therefore, firms often try to strike a balance between *standardisation* and *differentiation*. Some elements are centralised across the whole organisation while others are adapted to the local cultural context (Rugman/Collinson 2012, pp. 147-151).

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 of whether *cultural convergence* is occurring or not. The starting point of this debate was Levitt's *Globalisation Thesis* (Levitt 1983), which argued that factors such as increased and better communications worldwide, including international media consumption, consumer travel patterns and the spread of multinational companies lead to cultural convergence. However, even though the cross-border operations of multinational companies integrate the world's economies, there are many counterarguments against there being a homogenisation of cultures. Even within most countries, a great *diversity* of behaviours and tastes co-exists. The internationalisation of companies widens the options available to local people. *Cultural homogeneity* and *heterogeneity* do not seem to be mutually exclusive alternatives or substitutes; instead they can co-exist simultaneously in a semi-globalised context (Ghemawat 2007; Cavusgil/Knight/Riesenberger 2013, p. 134).

Cultural Convergence

Cultural Clash

Cross-cultural management involves cultural differences between groups of people in different business situations, both inside a single firm and between several firms, e.g. suppliers, partners in strategic alliances or M&As, or with 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 a *cultural clash*, which is where differences in values, beliefs and styles of communication or behaviour lead to miscommunications and misunderstandings, antagonism or other problems (Rugman/Collinson 2012, pp. 147-151).

Acculturation

Companies need to respond to these challenges of managing across cultural boundaries. In this context, *acculturation* plays an important role. Acculturation is the process of understanding foreign cultures and modifying and adapting the company or the manager's behaviour to make it compatible with other cultures (Cavusgil/Knight/Riesenberger 2013, p. 120).

Further Reading

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Case Study: Russia

History and political system

To understand Russian culture, it is important to take into account Russian history. From the Kievan Rus, the Tsarist Empire and the Soviet Union to today's Russian Federation, Russian history has significantly impacted global developments and the history of two continents.

Consequences of the *First World War*, economic weakness and the lack of societal provision, among other reasons, fomented the February Revolution of 1917. The prevailing *tsardom* was an absolutist and centralised state based on the French model and was replaced by a parliament (*Duma*) and workers' and soldiers' councils (*Russian Soviet*). However, the proposed election of a *Constituent Assembly*, which would decide on Russia's future form of government, did not take place and the *Bolsheviks*, a faction of the Russian Social Democratic Labour Party, came violently into power in the October Revolution under the leadership of Lenin. The new regime, the socialist *Soviet Union*, controlled the people of the Russian Empire and led them on a path to modernity which differed in many respects from that of countries in Western and Central Europe.

*First World War
Stardom*

Lenin and Stalin

The *Bolsheviks* defended their position of power and implemented a sustenance dictatorship. Industrial production fell to a minimum, the black market flourished and they lost their entire social base. After Lenin's death, fierce leadership battles started that were ultimately won by Stalin. He knew how to exploit the emotional reaction to the death of Lenin, by organising a "*cult of Lenin*" which was accompanied by the development of a bureaucratic organisation. Like Lenin, Stalin became the object of cultic worship, and was thus able to gain great power.

Second World War

In 1941, during the Second World War, German forces attacked without declaring war on the USSR. This was the outbreak of the "Great Patriotic War" between the Soviet Union and Nazi Germany and its allies, which lasted until the 9th of May 1945 when the USSR prevailed over *Hitlerite fascism*.

With the death of Stalin his cult of personality collapsed and the democratisation and liberalisation of the judiciary began. Based on the break with the People's Republic of China (1960) due to ideological disputes, Russia started the industrialisation and development of the Siberian region. Over the following years, various authorities took the helm and tried to reform the country. Thus, Gorbachev managed to introduce the democratic freedoms. Despite popular vote for the continued existence of the USSR, the Soviet Union was dissolved in 1991. However, many of the former Soviet republics soon founded the *Commonwealth of Independent States* (CIS). In the same year, Yeltsin became Russia's first democratically elected president. He implemented the system of *free market economy* and *presidential democracy*. His presidential term was characterised by liberalisation, institutional development, privatisation and stabilisation.

Putin

Since 2000, Putin has held an important position in Russian politics, first as president, then as prime minister and finally again as president. Since 2008, he has worked in tandem with Medvedev. The security of one's power is a core point of Putin's policies.

Russia at a Glance

Russia is the world's largest country, approximately 1.8 times the size of the United States, with an area of 17.1 million km². This is about 11% of the whole land area of the world. But it is only the ninth largest country by population, with 144 million inhabitants in 2012. The country's capital is Moscow (11.6 million inhabitants in 2012) and Saint Petersburg (4.9 million inhabitants in 2012) is another important centre (The World Bank 2014; UN Data 2014).

Russian *business culture* differs from that of most members of the European Union. Russia has risen from a decade of post-Soviet disorder and disintegration to reassert itself as a major player on the world stage, both politically and economically. The Russians missed the three great cultural revolutions: the Reformation, the Renaissance and the Enlightenment. These revolutions characterise much of modern Western European behaviour, while in Russia the *totalitarian party rule* lasted until 1989. Doing business in Russia therefore involves many challenges and barriers caused by political chaos, crime and corruption, but it is of great importance, since Russia is now one of the most important economic regions of the world due to its size and population. Nowadays, the Russian Government has the ambitious goal of improving in the World Bank's Doing Business ranking from position 120 in 2011 to 20 by 2018. This is why the Russian authorities consider the improvement of the *investment climate* a top priority (PWC 2008).

Russia is therefore one of the largest and fastest growing *emerging markets* in the world. It is an influential great power with *strong national interests*. In 2013, the Russian Federation was the eighth largest economy with a GDP of 2.015 trillion USD (see Figure 9.5) (The World Bank 2014; UN Data 2014). With the fall of the Soviet Union, Russia has gone through a remarkable transformation from a globally isolated, centrally planned economy to a more market-based and globally integrated economy.

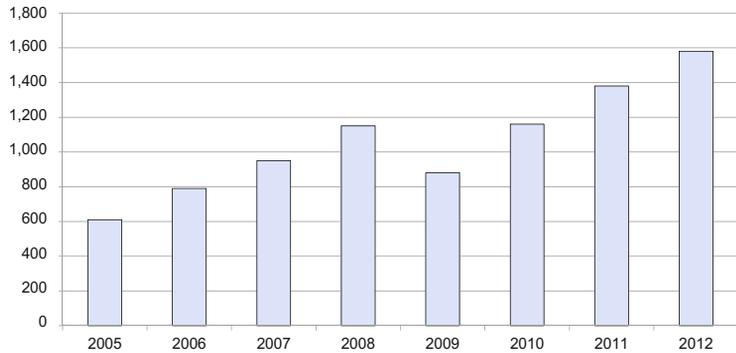
Compared to the other countries of the CIS, Russia is characterised by the strongest *reformation* in recent years and has both high growth rates and the highest level of investment. However, it should be noted that Russia has lost its wide industrial production base. Today, Russia is labelled as an emerging economy and its economic strength is based on its wealth of *natural resources*. Russia's oil and gas resources are particularly significant for the global economy. In recent years there has been steady increase of exports of oil due to rising oil prices. In 2011, Russia became the world's leading oil producer, surpassing Saudi Arabia. Russia is also the second-largest producer of natural gas and it holds the world's largest natural gas reserves, the second-largest coal reserves and the eighth-largest crude oil reserves. Russia is also a top exporter of metals such as steel and primary aluminium.

*Geographic
Profile*

*Russian Business
Culture*

Figure 9.5

Development of GDP from 2005 to 2012 (in billion USD)



Source: The World Bank 2014, p. 4.

Employment and Workforce

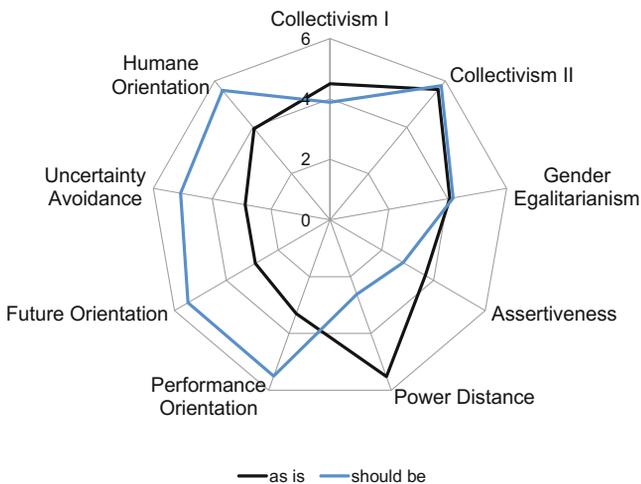
Workers fared rather poorly during Russia's transition from a planned economy to a market economy. Surveys have shown that the average unemployment rate is 8.07% (1993-2014) (The World Bank 2014; UN Data 2014). 33% of the unemployed were not able to find a new job within one year or longer. The Russians work on a daily basis, characterised by *networking* and using contacts, especially when hiring people. Entrepreneurs recruit a person rather than someone to fulfil a specific function. This typical Russian behaviour is especially noticeable in small and medium sized enterprises (Welter/Slonimski/Smallbounne 2006, pp. 33-50). In general, Russia has highly qualified workers, but pays comparatively low wages. However, Russians people believed to be happier to have a job than to be in love or respected by the state. These low wages lead to a high susceptibility to bribery and corruption. Often, it is "normal" to pay bribes in the form of presents, for example to speed up processes. To understand this typical Russian behaviour, it is necessary to take a closer look at Russian culture and its characteristics.

Russian Culture According to GLOBE

Russian governance is influenced by the time of the Tatar-Mongol rule, the time of the Tsars, the time of Communist Party rule until the current presidency's autocratic leader. A *strong hierarchical thinking* still prevails in economy and politics, but the Russian populace has adjusted to live a life independent from the state. The state is something abstract for the people, formal and far away from the daily problems which influence their lives.

Parameter-Values for the Culture-Dimensions of Russia

Figure 9.6



Source: House/Javidan 2004.

The rulers enjoy a privileged life and do not need to follow general legal rules and regulations. The findings for the different culture dimensions by the GLOBE study are presented in Figure 9.6.

Collectivism had a great importance in the Soviet Union and was taught everywhere. The tradition of collectivistic thought and action was made into a societal ideology by the government during Soviet times (Löwe 2002, p. 99). In Soviet times, the state expropriated, divided private property and became a *classless society* where everyone was equal. The idea of *equality* for everyone reinforced the tendency of today's Russian society toward collectivism. People who satisfied the rules of collectivism were accepted. Those that acted

Collectivism

differently and had different opinions from the ruling Communist Party were labelled public enemies in the Stalin era, and many of them lost their freedom or lives. For this reason, it was important to integrate well into group life and to join the majority just to avoid being different. This way of thinking had such a strong influence on the Russian mentality that it is perceptible even today (Yoosefi/Thomas 2003, p. 46). The establishment of a small or medium-sized private enterprise is not the pragmatism of a more or less dominated capitalist company crucial to success, but primarily about giving the impression of active social responsibility.

Accordingly, the collectivism (collectivism I) and family collectivism (collectivism II) dimensions are highly distinctive.

Gender Egalitarianism

Gender equality (gender egalitarianism) was common and taught even before *Perestroika*. The relationship and gender roles of Russian men and women are incomprehensible to many Western people. In the Soviet Union, women took part in building a socialist society. They were often forced to work more than men, as they had to be mothers and maintain their households at the same time, often without their husbands' support. Women were also responsible for earning their family's living, to a certain extent. Therefore the traditional role of women in Russia is strong (Yoosefi/Thomas 2003, p. 128). Men still have a dominant role in political and economic life. Nevertheless, this gender equality must be considered carefully, because an equal distribution of jobs is not enough to make an assertion about the actual equality. There are also, depending on the social level, quite *patriarchal* and *matriarchal* tendencies.

Masculinity

In terms of work ethic and style, Russia has a slight tendency to a "*masculine*" society. Russians pursue success in their professional lives, but at the same time they try not to lose quality of life. In Russia it is necessary to focus on maintaining friendly relations. Colleagues regard each other as a big family or community. They often spend their leisure time together. Supervisors and staff avoid confrontations and direct criticism, as good relationships and a harmonious atmosphere are important to the collective (Yoosefi/Thomas 2003, p. 70).

Assertiveness

In the Soviet Union, comrades had to bend to the politics of totalitarianism. Equality and collectivism were propagated. Accordingly, *self-enforcement* (assertiveness) was less pronounced. Today, many people need to fight with certainty for their goals, whether in society or a company.

Power Distance

Power distance was highly distinct in the days of the Soviet Union, and today the distance between a manager and their staff is still high. But in the GLOBE study there is a huge gap between "what is" and "what should be". Managers strive for a lower power distance. The consequences of a high power distance structure are passivity, little initiative and low acceptance of

responsibility. Russian employees try to get “protection” from the top. Hence, before performing any task, they ask their line manager for the right approach.

Under communism, efficiency in the working world was of little importance, because there were no rewards for achieving high results that did not fit into the state-designed economic plans. There was thus limited *performance orientation*. Today, however, these ethical principles have been lost and people often work for a wage that is just enough to live on. The average monthly salary per capita in 2011 was 580 EUR (24,000 RUB). Quite often results are achieved by ignoring ethical standards and morality, making the performance orientation a contradictory weapon in competition (Grachev/Rogovsky/Rakitski 2001, p. 8). The findings show that a decrease in this orientation is demanded overall.

Before Perestroika, during decades of strong beliefs in better life through communism and national long-term planning systems, there were no negative comments about the *future orientation* (Grachev/Rogovsky/Rakitski 2001, p. 9). The Soviet Union produced propaganda to make the population feel content. Since Perestroika, the future is more uncertain than ever. People and businesses in the mid-1990s did not rely on savings, quickly transferring inflated roubles into hard currencies and/or spending money beyond any sensible limits (Grachev/Rogovsky/Rakitski 2001, p. 9). The economy, managers and employees are all focused on the short term. While managers are beginning to aim for a more secure future; the *short-term orientation* still seems strongly anchored in the general Russian population.

Uncertainty avoidance, which indicates a moderate level of tolerance for uncertainty and ambiguity, for example unstructured situations, is low within Russian society. In Russian history, there have been many global changes in society, state-transformations and political turbulences. People are confronted by the uncertainty of life nearly every day. Life in Russia is full of risks, as demonstrated by the popular saying: “He who does not risk anything, does not drink champagne” (Yoosefi/Thomas 2003, p. 128). In recent years, life has become more stable.

Russian business partners sometimes need a long time for decision-making processes. Employees do not like to take responsibility and they divert decisions to their supervisors. However, some things are changing: “Younger managers apparently perceive much higher level of uncertainty avoidance in perestroika days than their older counter-parts [...] Clearly, the business climate under communism made uncertainty avoidance a cornerstone of living in general and particularly in managing Soviet enterprises” (Veiga/Ynouzas/Buchholz 1995, p. 23).

*Performance
Orientation*

*Future
Orientation*

*Uncertainty
Avoidance*

Humane Orientation

The humane orientation plays little role in Russia. Ethical principles are not respected and morality is questionable. In Russia competition is often unfair and beyond the law. This is aggravated by violence and a growing *shadow economy* (illegal sector or legal business by illegal means) (Grachev/Rogovsky/Rakitski 2001, p. 10). The struggle for survival is increasingly important. This is reflected in high and even growing corruption. Interestingly, family life shows the opposite of this “outside-ignorance” as evidenced by high collectivism. In addition, the Russian hospitality should not be underestimated.

Paternalism

Russia has a social system based on high power distance, which leads people to believe in *paternalism*, especially for those who have lived a significant portion of their lives in a society where paternalism is particularly widespread. During a crisis, weak and incapacitated people often defer to powerful and stronger stakeholders, such as the state, an institution or a work superior. Centuries of near-continuous social and economic crises brought about by a succession of Russian governments have given the state practically unlimited power over the whole of society in the industrial, agricultural and social spheres. This happened during the early years when Russia's city states were ruled by princes, then in Tsarist times, during the time of the Russian empire and finally under communism (Bollinger 1994; Veiga/Ynouzas/Buchholz 1995; Naumov/Puffer 2002, p. 716).

The Impact of Russian Culture on Human Resource Management and Marketing

Human Resource Management

Recruitment activities in Russia are comparable to those in Western countries. The most frequently used *recruitment* methods are employment advertisements in mass media, e.g. newspapers and magazines. Most businesses and organisations recruit employees through direct recruitment and recruitment agencies. Genuine recruitment agencies began working in Russia comparatively recently, at the beginning of the 1990s. Foreign recruitment agencies which came to Russia at this time in order to find personnel for their customers opening affiliates in Russia were the pioneers in this sphere. These recruitment agencies can be divided into three main types: traditional recruitment agencies, executive search companies, colloquially known as headhunters, and state employment centres. Russia is an important developing global market, one that is seen as key to global development over the next years. Therefore some large agencies united and formed the Association of Recruitment Consultants to build a collective *think tank* and share their

knowledge. The most popular globally active companies provide recruitment and human resources services, e.g. *Hays*. But there is another recruitment method which epitomises the Soviet way of life: the tried and tested “*Soviet Method*”, which always begins with the phrase “on my friend’s recommendation” (Grachev/Rogovsky/Rakitski 2007, pp. 803).

Marketing and Sales

Russian Special Economic Areas

The last few years have seen much investment in key projects in the fields of infrastructure, communication technology, power efficiency, medical engineering, nano and nuclear technology and space technologies. Russia’s aim is to improve its competitiveness and diversification. Therefore, Russia established several special economic areas: (1) *industrial* special economic areas like Jelabuga and Lipezk, (2) *technological* special economic areas like Moscow, St. Petersburg, Dubna and Tomsk, (3) special economic areas for *tourism and recreation*, e.g. Kaliningrad, Stavropol, and (4) special economic areas for *innovation* like Skolkowo.

The Luxury Goods Sector in Russia

The Russian *luxury goods sector* is rapidly expanding thanks to sophisticated and mature consumers, growing faster than any other luxury market in the world. Small leather goods, timepieces and jewellery are showing particularly strong growth rates, while designer clothes, beauty and personal care products are gradually returning to their pre-crisis growth rates. Despite the fact that the Russian luxury market is considered to be relatively mature, the potential for further growth and the adoption of new brands are expected. With an improving economic situation, middle class consumers will reconsider their expenditure and pay more attention to luxuries (PWC 2008).

Russian consumers want to enjoy and experience their wealth, and especially show it to the rest of the world. Being in Moscow, it is essential to go to “Rublijowka”, the “it place to be” when there is luxury to show. “Rublijowka” is a symbol for success, wealth, satisfaction and the elite when you are wealthy and able to afford luxury. For everybody else, it is just a shopping street: nice to visit and window-shop. The recently increase in the number of high net worth individuals in Russia, the wide presence of global brands and Russians’ strong aspirations to luxury will ensure healthy performance.

From the outset, the luxury goods market in Russia was driven by several local companies, which owned exclusive distribution rights to globally known fashion brands. Within a few years, the portfolios of *Bosco di Ciliegi*, *Mercury*, *JamilCo* and *Crocus Group* became impressive enough to represent a

*Conspicuous
Consumption*

full range of global luxury brands (Euromonitor International 2013). Popular luxury brands (*Gucci, Prada, Hermès*, etc.) established their representative offices in Russia to strengthen their positions and improve their sales results.

Summary and Outlook

Russia is one of the largest and fastest growing emerging markets, not least because it is the world's leading oil producer, the second-largest producer of natural gas and it holds the world's largest natural gas reserves, the second-largest coal reserves, the eighth-largest crude oil reserves as well as considerable metal reserves. It is also one of the fastest growing consumer markets, especially in the luxury sector. The Russian *way of life* differs from the European one, although they are slowly beginning to converge. The competitive environment is hard to penetrate if foreign companies and specialists are not familiar with the typical Russian features and specifics. Hence, it is mandatory for Western companies to not only be aware of these characteristics, but to also adjust their management systems and procedures accordingly.

Questions

1. Imagine that the import tariff and ban of imports may lead to a compartmentalisation of the Russian economy, even though Russia is a member of the World Trade Organization. What consequences may be seen in the relationship between Russia and the other countries of the WTO?
2. Surveys show that foreign companies identify corruption and costs of bureaucracy as the main barriers for business in Russia. How do the Russian culture and mentality influence these barriers and how can this problem be solved?
3. Although the Russian political system has undergone a lot of changes, especially in the balance of power, the Russian population is satisfied as never before with their social, political and financial situation. Why is it so important for the Russian population to show their wealth and experience luxury? What consequences are there foreign brands and companies trying to satisfy this demand?

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