



The Impact of Cultural Distances on the Country Selection Process

Chancellor's Honors Program Thesis

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Introduction

In today's world, business is no longer something that can be contained within one area without the effect of outside forces. Even a small family-owned business has to compete with the multinational retailer for their slice of the consumer market and now there seems to be very few markets that do not have at least a few key global players involved. With companies thirsty to not only stay alive but grow and prosper, an increasing number of companies have begun to look into global expansion as their next move. The process of selecting a country is something that could be decided in a small amount of time by upper-level management without much research at all. Considering the abundance of options in many cases, how does a company decide which country to enter? Culture is the backbone of society and affects almost every decision we make as people. In the country selection process, a company should be mindful of the large impact culture can ultimately have on their success in a new venture. This thesis will cover how to examine the cultures that span the globe and how to use this knowledge in a way that can improve the decision making process for a company's next step into the global economy.

Section I - What is Culture?

Culture is a word that many people use to describe a variety of aspects of human life. The word can be taken as a verb meaning “the act of developing the intellectual and moral faculties especially by education” (Merriam-Webster) or in the biological sense “to grow (microorganisms, tissues, etc.) in or on a controlled or defined medium”(Dictionary.com). Used as a noun with reference to the human social experience, culture is “the arts and other manifestations of human intellectual achievement regarded collectively” (Google.com) or more simply “culture is a way of life of a group of people”(Francesco 18). All of these definitions, although different, all see culture as the idea of examining what life does, whether through a Petri dish in the laboratory or the bustling streets of the metropolis areas that speckle the globe.

Project GLOBE was an independent study carried out in the 1990’s by 170 scholars looking at the cultures of society in order to gain insights into the cultural relationship that occur in the modern world. The study defined culture as “the shared motives, values, beliefs, identities, and interpretations or meanings of significant events that result from common experiences of members of collectives that are transmitted across generations”(House 15). Project GLOBE looked at the elements of culture by examining practices (the way things are done) and values (the way things ought to be done.) The focus of the project was human industry

(financial services, food processing, telecommunications), throughout levels of companies, and across 62 different cultures, most of which were separate countries. In the world of business studies like Project GLOBE and the frameworks of different anthropologists and economists can be used to see the relative distance in between cultures spanning the globe in order to shape their international strategies.

Levels of Culture

A former professor at the Harvard Business School, Vijay Sathe, looked at the level of culture within a people to three levels: manifest culture, expressed values, and basic assumptions.

Manifest Culture	Easily observable traits Behaviors, Language, Music, Food, Technology, Speech, Dress, Possessions
Expressed Values	How the culture describes their manifest culture Culture's explanation of itself to others
Water Line – Point at which it becomes harder to understand the culture from an outsider's perspective.	
Basic Assumptions	Foundations of the culture Shared ideas and beliefs about the outside world. That which guides all actions. A lot to do with history of the people.

This table is often thought of as an iceberg example where the “water line” separates what is easily identifiable through outside examination in possible focus groups and survey’s, to what really lies at the root of a culture’s essence. In doing cultural studies researchers have often concluded that what makes a specific culture unique and different is sometimes unexplainable. Sometimes the notion is given “that’s just the way they do things,” but why? It has largely to do with the basic assumptions of that group of people, which may be something that in order to fully understand you would have to be raised your entire life within that cultural group.

Forming Cultural Distinctions

Now that we have explored what culture itself is and how to look at it within people in society, it is also important to see how these different cultural distinctions form within a person. Seeing how culture forms in people is beneficial to the business world so that product introduction is done at stages in people’s lives where they could possibly hold a brand distinction along with their culture.

In 1966 sociologists Peter L. Berger and Thomas Luckmann came up with three different levels of cultural learning that describe how people learn their culture and adapt their personal culture over time due to travel, social interaction, and work environments.

Primary Socialization – This is the way everyone learns his or her personal culture identity by growing up in a specific culture. Who your parents are, or who raises you from youth to adulthood, have a larger contributing factor in this identity but it also has a lot to do with the location in the world geographically of the person and who those person's friends end up being. Someone who grew up in Japan for instance who lived on a US military base with US parents and with friends all of whom were from families from the US would likely still grow up with a US cultural identity even though being geographically located in Asia. Primary socialization forms the appropriate age, gender, ethnic, and social class behaviors. Besides family and friends other factors that form primary socialization include school, religious institutions and advertising and television programs (Francesco 19).

Subcultures – This level refers to how countries have cultural identities as a whole, but within each country, various subcultures can exist, sometimes being more distinct and impactful than the overall country's cultural identity. Great examples of subcultures are those which exist in the United States between people in the South compared to those in the Northeast or the West, all of which claim to have little in common on the basis of strongly identifying populations of those subcultures. These groups develop when there are differences in the manifest culture of a group in the population from the majority. Immigration, polarizing historical events, generationally developments and many other reasons can cause a smaller group to split off into subculture. In the past, these splits have led to the formation of new

countries, the most recent being the formation of South Sudan from Sudan in 2011 due to tribal wars.

Secondary Socialization – Usually occurring after a person has reached adulthood, secondary socialization has to do with cementation of knowledge and skills for work and other social functions. Secondary socialization is something that continuously occurs throughout adulthood and can shape a person slightly from their primary cultural distinctions, but primarily socialized traits will likely remain noticeable even if a new environment, whether personal or job-related, comes into play. A firm will work to socialize new members of the company into “their way of thinking” and this is an example of the company using secondary socialization in order to get employees to buy in the corporate culture of that firm. This can affect the way that the employee views him or herself within in the organization and how they interact with others.

Cultural Convergence or Divergence

There is a lot of speculation that cultures are converging and people across the world are becoming more and more alike each other every day. Looking at businesses as they entire global marketplaces, you can see a clear goal of getting all people across the world to like their products in the same way. In the case of the McDonalds and Starbucks of the world, their mission on the surface seems to be working. This idea of converging cultural groups means that eventually studying

different cultures would become obsolete because there will one day just be the culture of the entire world. This theory though seems farfetched considering the world's population has passed 7 billion and the United Nations project population to hit 8 billion in the next decade.

Divergence in a growing world population is actually more likely although certain preferences will become the same as the world globalizes and companies can try to offer everyone the same things and expect them to like it or learn to like it. People will try in some cases to desperately cling to their own cultural identity that was so firmly ingrained into who they are as a person through primary socialization on the level of basic assumptions.

The most likely scenario for the world population is that which we have already seen throughout world history and that is a constantly changing cultural makeup of the world. Once a certain population gets so large, there is the likelihood that subcultures will start to bud off the main culture as generations take over one from the other and new ideas flow through the society. Eventually, these subcultures can become their own dominant culture in the region and gain a more solid place among the world's established cultural identities. This process can take years and generations to form.

Section II – Corporate Culture

Culture has a lot of different implications for companies on both supply and demand sides of their businesses. Within a company however there is a sense of a culture just within in the organization that has its own set of values, goals and missions, and cultural norms and structure. This phenomenon has only come into play with the invention of the modern business structure making the group of people doing business more like a small tribe of people. In the case of companies like Foxconn who make a large portion of the world's iPhones and iPads for Apple, their employee population is over one million, larger than approximately 8 of the state populations in the United States. There is a large advantage for companies to maintain a known and visible corporate culture that can help boost productivity and overall employee satisfaction.

Companies can split their corporate culture into two main areas: internally, how to manage within the organization and get things done, and externally, how to compete in the market against other businesses and within a region (Fatehi 158).

Corporate cultures are important to consider when a firm is looking to expand into another region or country because the way that the company already uses culture to their advantage, or not, can affect how successful they are in the long run. It can also highly affect the decision of where exactly to go because a high level of cultural

integration already internally in the company can affect them externally and therefore determine how aggressive the company can realistically be.

Dutch author Fons Trompenaars and British philosopher Charles Hampden-Turner came up with a way to look at different corporate cultures in four different groups: The Family, The Eiffel Tower, The Guided Missile, and The Incubator (Trompenaars 158).

	Personal/Informal	Task/Formal
Egalitarian/decentralized	Incubator • Person oriented • ex. Sweden • Small 	Guided Missiles • Task/project oriented • ex. USA, UK • Large 
Hierarchical/centralized	Family • Power oriented • ex. France, Spain • Small 	Eiffel Tower • Role oriented • ex. Germany • Large 

Source: Fatehi 161/Trompenaars 159

Incubator Culture

Companies that have incubator cultures have a very personal feeling to their company. The goal is to give the employees the freedom needed to be productive and happy. Also, they tend to be decentralized which means that there is not a strong top to bottom management style. All employees do evaluation for each other and a strong sense of an open community to apparent.

Family Culture

This type of corporate culture is one that reflects the name, family oriented in nature. There is a sense of hierarchy in the power distribution because not everyone is considered on an even playing field. It is, however, a very personal workplace because it is seen as more of a family working together for the common good. Just like a real family, the leader tends to be a male member of high status and usually older. A company could still be considered a Family culture even if the CEO was female, but the idea is that of strong personal connections and a clear chain of command.

Eiffel Tower Culture

In Eiffel Tower cultures there is a very clear power structure to the company with top to bottom roles clearly defined, but different from the Family structure because of the impersonal assignment of the roles. There is a hierarchy without the strong personal connections amongst employees and

to the company itself. Positions are very carefully decided based on qualifications and the roles at each level of the company are deliberately thought through beforehand.

Guided Missile Culture

In this type of company, there is a very strong emphasis on the results of each person and not so much what position they hold. It is impersonal like that of the Eiffel Tower but is more flexible in the roles of each person or team because it is likely that the firm will have to be flexible in their business environment which means having strict jobs planned ahead of time becomes less important as long as the ultimate goals are being attained.

When firm starts to look at the possibility of expanding into a new global market and new territories it is critical to understand what exactly the firm represents within itself. Chances are the new environment will present some great new opportunities or else the venture would not but undertaken, but it is important to think of how the corporate culture will be perceived by foreigners.

Section III - Dimensions of Culture

As previously stated there are many things to consider when one starts to look at the culture of a particular country. Being cognizant of all the various things that make people different can help in determining where a firm would fit well within a foreign environment or what steps it can take in order to understand or adapt better to what sets the business different from its target market.

Differences in cultures can be both physical and nonphysical. Physical means include the functional objects and artistic creations of that culture whereas the nonphysical elements include the mental and emotional frameworks of the people that cannot be expressly seen on the surface. Physical or easily recognizable things include architecture, crafts, music, dance, literature, and poetry. Nonphysical items include the visual perception of objects, relationships and how they are structured in between individuals and family orientation (Francesco 130.)

The biggest three components of culture to consider are:

- Language
- Religion
- Ethnicity

Language

According to Ethnologue.org, there are 6,909 known languages in the world today.

This is only an estimate of course because of the known amount of discernable dialects of languages that could or could not be considered full languages themselves. Looking at it from the literary standpoint of what is read and written around the world, however, the number drops substantially. The Bible of Christianity is translated into 2,197 languages worldwide which could be an easier estimate to deal with, but that really only considers the groups of people that have taken on the Christian faith.

Looking by region, language distribution has a little more meaning. Within Europe, there are said to be about 230 languages in use compared to roughly 2,197 in Asia. A good example of the high variability of languages within a population is Papua-New Guinea. Papua-New Guinea has a population of around 3.9 million people who speak 832 different languages with only an average of 4,500 people per language. Within an island country with a land mass of 178,000 square miles, this means that the culture is highly heterogeneous and may require a lot of thought before any entry into the country is made.

With the globalization of business in the future, it is likely that the world will see a significant decrease in the number of different languages spoken throughout the world due to necessity to communicate effectively. It is projected that nearly half of

the world's languages will go extinct in the next century because of a focus on global languages such as English and Chinese.



Source: <http://www.acclaro.com/translation-localization-blog/world-language-map-14>

Religion

Seven major religions dominate the world today: Buddhism, Christianity, Confucianism, Hinduism, Islam, Judaism, and Shinto. The seven religions developed out of two regions in the world, the Middle East, and Asia. Religion is one of the biggest determinants of how a culture will vary from another because of the fundamental effect it has on so many aspects of a person's life.

Middle East Origin - Occident

Christianity – Protestant, Roman Catholic, and Eastern Orthodox

Judaism

Islam – Sunni and Shia

- One God
- Omnipotent
- Omnipresent
- Omniscient
- Life after Death
- Judgment Day
- Good vs. Evil
- Capacity for Guilt
- Fearfully motivated
- Individually accountable
- Self-centeredness/ egotism

Asian Origin - Orient

Hinduism

Buddhism

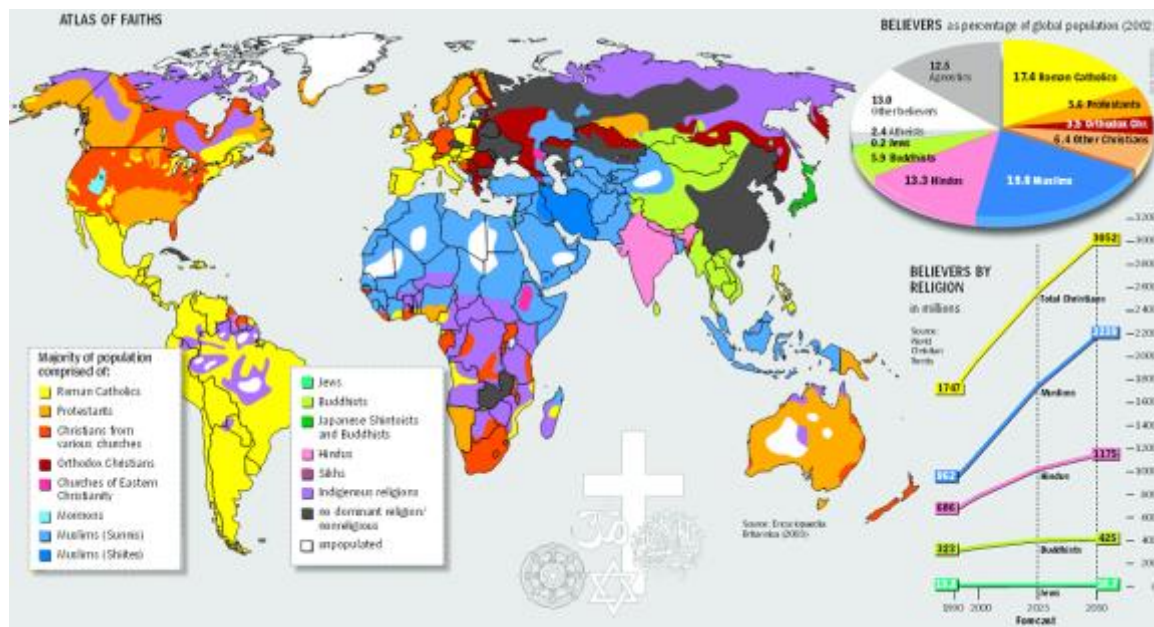
Confucianism

Shinto – Japan

- Multiple Gods or deities

- Oriental Philosophers
- Concentrate on developing strong personal and family relations
- No immaculate conceptions or resurrections
- Harmony
- Manifestation of the creation
- Elements
- Realistic
- Fatalistic
- Humble and innocent

Also, it is important to note that large portions of Africa are dominated by small local and tribal religions and that there are significant portions of the population that do not prescribe to a religion at all, Agnostic, or claim to be against religion, Atheist.



Source: <http://www.jorgecancela.es/blog/2011/09/16/brief-atlas-of-the-religion/>

Ethnicity

Ethnic groups are largely defined by common heritage and family lineages, which takes into account language and religion, but can also be considered in the genetic makeup of different people. Just because someone is a part of a different religion they may still be part of larger ethnic group that is part of different religion. A lot of ethnic groups are divided by current or past country lines, making a previous citizenship a factor in the identification as part of that ethnic group. Within New York City there are various ethnic groups that stick together based on where they or their family immigrated from. Famous examples of this are the large Jewish and Chinese immigrant populations that are seen as separate ethnic groups from the larger surrounding ethnic group of people from the Northeastern United States.

Cultural Complexity in Countries

There are two factors that largely affect how complex a given culture is, the context of the culture and the heterogeneity.

The context of the culture means how difficult it is for an outsider to understand the culture and the expectations within the culture. It also shows how deep relationships tend to run especially in a business sense. In low context countries you have very direct conversations and relationships tend to come and go easily. This transactional, temporary feel can seem superficial to people from higher context

countries. Examples of low context countries are the United States, Germany, and Switzerland.

In high context countries, you have a lot of physical contact and gestures to convey meaning and closeness. Relationships tend to be longer and deeper with a value in maintaining lifelong friendships more so than low context countries. There are many implicit social rules that are learned throughout a person's lifetime. Also, social hierarchies are very important and followed with respect.

Heterogeneity is diversity within the country and references how many religions and languages as well as general differences there are amongst people. Low levels of heterogeneity can be found in countries like Saudi Arabia and Japan where pretty much all people speak the same language, practice the same religion and even look alike and like a lot of the same things.

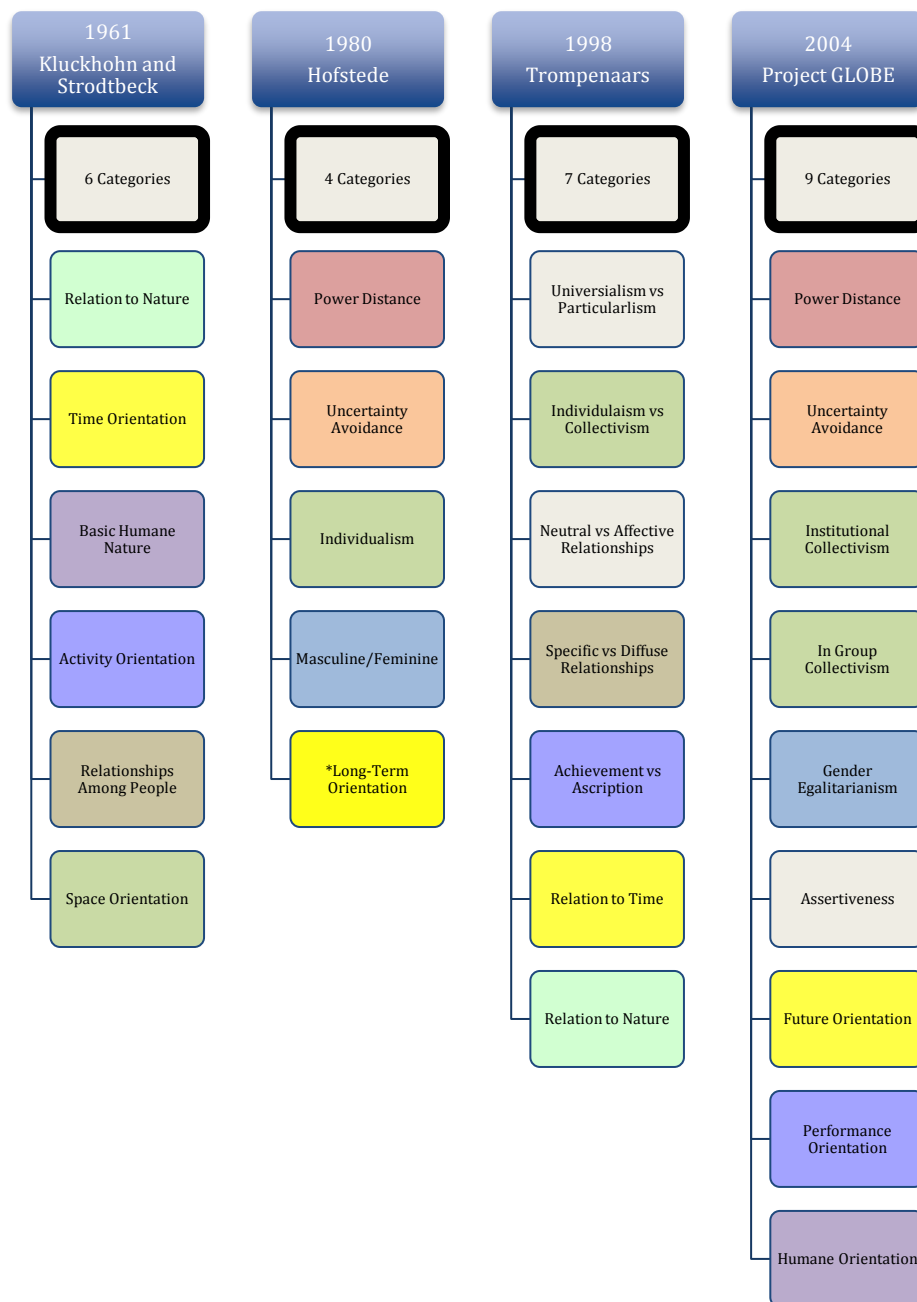
Countries with high levels of heterogeneity include the United States, Canada, and India where within the country there are many different religions and languages and people have lots of varying and distinct preferences. These countries tend to be known for their amount of different subcultures as is true within lots of large metropolitan areas.

Sometimes heterogeneity is thought of in terms of the land area of the country in question. Japan and Saudi Arabia are relatively small in land mass compared to the

US and India so it stands to reason that possibly the amount of area influences the amount of heterogeneity in the country. However remembering back to the example of Papua New Guinea that has a relatively similar landmass to Japan, Papua New Guinea has over 800 languages and Japan has one, Japanese. Probably one of the biggest influences of heterogeneity is history of the region. In countries that have seen a high turnover of leadership throughout the decades, higher levels of diversity can be seen. Countries who have generally maintained their own forms of government, for instance, Japan, typically have little diversity from the founding culture.

Section IV - Cultural Frameworks

Throughout the 1900's, globalization has taken worldwide commerce to new levels and the inevitable interactions between the various cultures of the world began to happen at an increasing rate. Because of this increased interaction philosophers, sociologists, and academics began to research and try to make some sense of what the differences are between cultures and how it impacts the relationships between people of different cultures.



Kluckhohn and Strodtbeck 1961 – Variations in Value Orientation

The six dimensions of culture examined by American anthropologists Florence Kluckhohn and Fred Strodtbeck in 1961 looked at the value orientation of different cultures and showed how different people across the world will view and solve problems or issues.

1. Relation to Nature – considers the relation a culture has to its natural environment. The three categories are subjugation, harmony, and mastery.

- Subjugation – take nature as is, don't change it
- Harmony – live with nature and find a balancing living as one
- Mastery – tame nature and use technology and industry to control

2. Time Orientation – considers the relation people have towards time and comes as either past, present or future.

- Past – based on traditions and honors time
- Present – short-term focused, what affects them now
- Future – long term emphasis, what will affect generations to come

3. Basic Human Nature – considers how people see the human race as a whole as inherently good, evil or mixed/neutral.

- Good – trusting of other people, willing to see the positive in life
- Evil – not trusting of others, meet people with skepticism and doubt
- Mixed/ Neutral – people are good but may do bad things, use caution

4. Activity Orientation – considers how a society will live, work and use their leisure time and are described as either doing, being, or containing/controlling cultures.

- Doing – emphasis on working, and achieving, high activity
- Being – work to live rather than live to work, enjoying life most important
- Containing/Controlling – balanced approach, restrain desires to achieve mind and body balance, logical

5. Relationships Among People – considers how people in the culture will relate to each other in light of authority in an individualistic, group or hierarchical manner.

- Individualistic – people define themselves by achievements and personal characteristics
- Group – collective more important than self, defined by group and harmony within the group
- Hierarchical – value group, but in a ranking system where some people are more important than others, class conscious

6. Space Orientation – considers how people value space in a variety of settings and how space is owned and can be a public, private or mixed view.

- Public – space belongs to everyone, communal spaces common
- Private – personal space is coveted, private space is not to be invaded
- Mixed – different views based on the situation, some levels may deserve private space while others may be expected to share

Hofstede 1980 – Dimensions of Cultural Values

Geert Hofstede's Dimensions of Cultural Values deals with many of the same dynamics as Kluckhohn and Strodtbeck but with more a work-related value system that is directed at how people interact differently within the workplace. Although not the most recent of these types of frameworks, Hofstede's original 4 dimensions, adding the 5th dimension of Time Orientation later, are popularly used in many texts to look at the most pertinent aspects of culture that influence business interactions across industries.

1. Individualism/Collectivism – looks at how people interact with others outside their families and is either seen as individualistic or collectivistic.

- Individualistic – People care more about themselves and those close rather than strangers, personal rights are highly valued and the ability to decide protected. Individual achievements recognized.
- Collectivistic – Group decisions are most important and harmony within a group is key. Group performance is valued and individual achievements are seen as group victories.

2. Power Distance – considers how different levels of power within a company interact with each other and how easily or not the flow of communication and ideas is exchanged between each level.

- Small Power Distance – Subordinates feel like they need a voice within the organization. Upper-level managers will treat those with less power in the company as equals and listen to ideas from all levels.

- Large Power Distance – bosses and employees have clear rankings and or social class distinctions and these differences are accepted and respected. Decisions are made at top and filtered through the ranks

3. Uncertainty Avoidance – considers the amount of structure seen in the society as it pertains to rules, regulations and penalties. Also looks at how things are seen as having been done a declarative right or wrong way or if things are open to interpretation.

- Strong uncertainty avoidance – There is preference for structure in these countries. Rules and regulations are specific with clear penalties. People expect things to be done correctly in a prescribed manner.
- Weak uncertainty avoidance – These countries prefer flexibility, and creativity is encouraged in problem-solving. Individuals are given more freedom and unstructured situations are preferred.

4. Masculinity/Femininity – examines how a culture's gender roles are viewed and whether the values lean more towards male or female ideals.

- Masculine – Tough values of success, competition, assertiveness, goal attainment are key. Male and female roles are defined and each is supposed to act in their assigned gender roles.
- Feminine – Softer more nurturing values like caring, relationships, feelings, equality and emotions are important. Male and female roles are less defined and cooperation and understanding are dominant themes.

5. Time Orientation – the “new” dimension of culture influenced by Kluckhohn and Strodtbeck and Michael Bond from Hong Kong, this dimension focuses on how people relate to the time they have to do things and how valuable time is in general to them.

- Long term orientation – focus on the future and the view that time is plentiful. The idea that things are circumstantial is prevalent. Thriftiness is valued.
- Short term orientation – focus on the present and the adage that time is money. Things are seen as definitive; good or bad. Spending is valued and enjoying the moment is important.

Trompenaars 1998 – Seven Dimensions of Culture

Dutch culturalist Fons Trompenaars along with British business philosopher Charles Hampden-Turner came up with 7 dimensions of culture as they pertain to all aspects of life in their book “Riding the Waves of Culture.” They divided their search into three different areas of how people interact in their relations with other people, their relations to nature, and their relation to the passage of time. They then divided their relationships with people section into five categories that dealt with universalism versus particularism, individualism versus communitarianism, neutral versus emotional, specific versus diffuse, and achievement versus ascription.

1. Universalism versus Particularism – deals with how people see things in general in relationships and how the rules are defined in dealing with people.

- Universalist – there are definite and definable right and wrong ways to do things
- Particularist – claim that there are no set rules to life and that it depends on particular situations and relationships to determine what is acceptable

2. Individualism versus Communitarianism – considers how people feel towards either valuing individuals more than a group or groups over the individuals that make up the group. Same as previous frameworks.

3. Neutral versus Emotional – this aspect of culture examines whether a culture is emotionally charged or not. Neutral cultures try to check emotions at the door in business situations where emotional cultures tend to use emotions in all situations because dealing with humans is seen as requiring emotions.

4. Specific versus Diffuse – examines the depth of relationships that happen within the society and have two different paths either specific or diffuse.

- Specific – Countries that are specific in nature with relationships mean that things tend to be transactional and in business that means the best ideas win over personal relations.
- Diffuse – In these cultures personal relationship are extremely important and are often trusted over any type of transactional scenario. The tendency is to base decisions more on feelings about the person.

5. Achievement versus ascription – this is how people give credibility to others and how people are seen as more or less important than another person.

- Achievement – what a person has done recently and accomplished is what their record is (ex. What did you study in school?)
- Ascription – status is attributed to a person based on their birth, gender, age, who they know, and where they come from (ex. Where did you study for school?)

6. Relation to Nature – Nature here means more generally the environment surrounding individuals but also deals with the natural environment. The two viewpoints here are that either the most powerful force comes within each individual and is the most important or that the world as a whole has a greater effect on the individual. Values and virtues come from either within the person or are shaped by the environment and surrounding people.

7. Relation to Time – This is very similar to the Time Orientation of the previous two frameworks and basically looks at people and how they view the passage of time. Cultures are seen as either being past focused or present and future focused. It divides people based on if they see time as a straight line where the past is past and future is future or as people who see time as circular and things that have been will be once more again.

Project GLOBE 2004 – The GLOBE Study of 62 Societies

Project GLOBE was a cultural research project conducted over the greater part of a decade that used the talent of 170 researchers to investigate people from 62 cultures across the world across different industries including financial services, food processing, telecommunications. The interviews covered over 17,300 managers from 951 organizations to compile their report. The researchers of GLOBE took many of their metrics from Hofstede but with a little variation.

1. Power Distance - from Hofstede.

2. Uncertainty Avoidance – from Hofstede.

3. Institutional Collectivism – based on the Individualism vs. Collectivism of Hofstede, this assessed the degree that institutions in the culture rewarded and encouraged collective action and collective distribution of resources

4. In Group Collectivism – also based on the Individualism vs. Collectivism of Hofstede, this assessed the degree that individuals expressed pride, loyalty, and group cohesion in an organization.

5. Gender Egalitarianism – from Masculinity/Femininity of Hofstede.

6. Assertiveness – this aspect of societies is basically the support and encouragement of assertiveness, aggressiveness, and toughness or unassertiveness, ingressiveness and tenderness.

7. Future Orientation – based on the Time Orientation of Kluckhohn and Strodtbeck and subsequently Hofstede.

8. Performance Orientation – one of the lesser-used metrics in cultural frameworks, this looks at the degree that a culture values innovation, high

standards and performance improvement, similar to the Activity Orientation of Kluckhohn and Strodtbeck

9. Humane Orientation – this dimension is the degree to which a society supports and encourages individuals to be fair, altruistic, friendly, generous, caring and kind to others. Based on how people treat each other and the use of public institutionalized social programs.

There are many more frameworks that go over the differences between cultures with these being four of the more commonly used ones. As you can see with these frameworks there are many overlapping themes between each because they all look at how cultures value things differently. Through the years though several of the characteristics examined by each study have stayed the same or similar in meaning. Of the 14 unique dimensions used across the 4 frameworks 8 of them were used more than once, with the most popular being Individualism versus Collectivism, which was used in all four. Some of the most used metrics included individualism versus collectivism, relations to time, relation to nature, human nature, gender roles and power distance. This could be because of the more recent studies looking back to what had already been done, but likely it is because the studies and the sociologists saw these as the metrics that had the most distinct variability between people of different cultures. The purpose behind each of these studies is slightly different but most of them have some orientation to use in a business setting, which means that they can be very useful in studying countries of interest for business expansion.

Section V - International Strategy

When a company decides to go global it is important for management to look internally first in order to see where they stand as a company. H.V. Perlmutter created a four-level system of classifying firms on how globalized they are. Understanding where the company currently stands in the globalization process can help management see how much work will have to be done to make them mentally ready to make such a move. This can also influence the recommended degree of investment that should be pursued by the company. The four levels of globalization, as described by Perlmutter, are ethnocentric mentality, polycentric mentality, centocentric mentality, and geocentric mentality. The classification of the companies is usually characterized by the actions of management, which can speak for the overall mentality of the company and the decisions it would make in relation to international activities.

Ethnocentric Mentality

This level is the starting point for most firms and is the closest to being a completely domestic firm (think like ethnocentric as stage 1 in globalization and a domestic only firm as stage 0). Ethnocentric firms see any foreign part of the business as an extension of the home market and therefore impose the domestic policies abroad, without looking at the implications such policies have in other places. A company identified as ethnocentric should consider reevaluating their company approach to global issues, markets, and supply chains before entering into a new foreign country.

Polycentric Mentality

With a polycentric mindset in a company the understanding is that foreign markets are different and should be treated accordingly. The difference between this and more integrated levels of global mentalities is that a polycentric firm believes that the management of these foreign extensions should be left to people that are local. This causes a separation from the domestic branch and the foreign subsidiaries. Separating the foreign parts almost deems them as inferior to the home location and could cause resentment because overall company-wide decisions are still made from the home country that affects foreign branches.

Centocentric Mentality

In companies that have a centocentric mentality, there is the idea that the world is one market. This still leads to local management but the home market now makes products and decisions for the whole one world market and tries incorporate global ideals. Overall management of the global market is done by members of the home country which means it is not as integrated as the next step of geocentric mentality. Many researchers do not consider centocentric one of the steps to being a global firm usually just having three levels. However, this step shows the progression a firm can go through to realize the final stage of global integration.

Geocentric Mentality

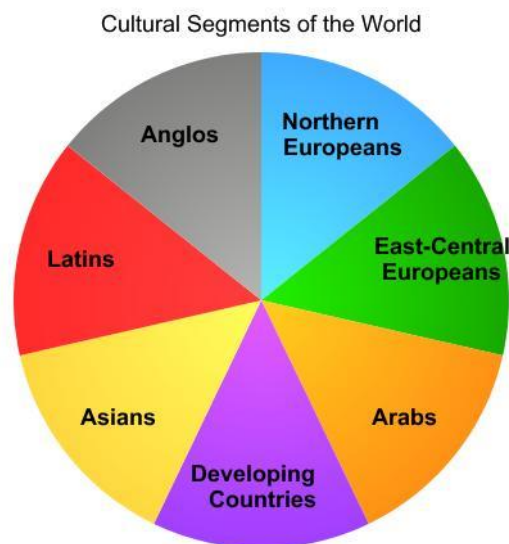
This is the most advanced global mentality that a firm can have and does not happen overnight. Geocentric minded companies have the same view as centocentric companies of a one-world market, but instead of making all decision from the home market perspective. The company actively seeks the input from all areas where the company is involved and looks at ideas from any branch of the company as equal and relevant. Some geocentrically minded companies even try to claim a “no home country” presence in the world claiming that their headquarters is only a physical location and that the company has no true “home base.”

Section VI - Cultural Segmentation of the World

When company executives get ready to look out into the world for new growth opportunities it brings up the question, what exactly is out there in the world today? Country borders have been in constant fluctuation throughout history and even today the total count of countries in the world is up for debate. According to the United Nations, there are 193 member states that recognize each other as independent sovereign nations, however, there are 206 total states in the world, some of which are separate but not full countries like Vatican City and Kosovo. The United States recognizes 195 states and with the inclusion of Taiwan as a separately recognized state (although China claims them as a province) this brings the total to 196. So for firms based outside the US, this is the best number to use because that is

what the government of home country recognizes. The number of countries doesn't tell you anything about where a firm should go, but it does tell you how many options there are and how many different strategies a company could possibly need to come up with because after all, every country is different than the next. For simplicity sake, however, looking at 196 different markets seems a little bit unfeasible and a market segmentation approach could help in deciding regions and then to specific countries.

In their book "Management Worldwide: Distinctive Styles Amid Globalization," British professor David J. Hickson along with American professor Derek S. Pugh came up with a 7-segment approach to looking at the countries of the world based on the studies of cultural similarities in the workplace by people like Hofstede and American academic Simcha Ronen and Israeli Oded Shenkar. Hickson and Pugh derived their diagram from the 5 created by Ronen and Shenkar adding East-Central Europe and the Developing Countries of the world as segments. The following is a diagram similar to the original created for this report.



Management Worldwide - Hickson and Pugh

Northern Europeans

- Example Countries: Germany, Denmark, Sweden, Finland , Norway, Switzerland, Austria, the Netherlands and Israel
- Location: Northern Europe, the Scandinavian Peninsula, the northern islands and Israel in Central Europe
- History: the Roman Empire of the barbarians and the sixteenth-century Reformation of the Roman Catholic Church
- Language: German, English, and Germanic Languages like Danish, Dutch, Finnish (exception of Israel with Arabic and Hebrew)
- Religion: Christianity mainly Protestant
- Characteristics: low power distance in between managers and subordinates, individualistic tendencies with private life and property as strong values. Stability and longevity are encouraged.

East-Central Europeans

- Example Countries: Russia, Hungary, Poland, Ukraine, Bulgaria
- Location: Eastern half of Europe, North and Northwest Asia
- History: Unstable country borders that have seen the traffic of many empires and wars, with ties back to Communist occupations
- Language: Russian, Germanic and Slavic Languages usually by country or former country/cultural lines.
- Religion: Roman Catholic and Orthodox

- Characteristics: Team orientation is high in most of these countries, with high uncertainty avoidance because of past economic problems and high power distance. Lots of variability between each country.

Arabs

- Example Countries: Saudi Arabia, Egypt, Bahrein, Kuwait
- Location: North Africa, the Middle East, and Arabian Peninsula
- History: originating in the deserts of Arabia with nomadic tribes and civilizations around the great rivers, strong connection in many ways to Islam and the Ottoman Turkish Empire
- Language: Arabic
- Religion: Islam
- Characteristics: High context culture with strong patriarchal family systems. The importance of honor is obvious and can shift friends to enemies easily. Many governments base the laws on the religious document of Islam, the Quran.

Developing Countries

- Example Countries: Ethiopia, Kenya, Tanzania, Uganda, India
- Location: all over the world, but primarily in Central and Southern Africa and parts of Asia
- History: known as the areas of the world that do not have developed infrastructures or economies and in the present still have large portion of their populations living in poverty with inadequate resources and education
- Language: local languages and tribal dialects, Hindi in India

- Religion: Christianity from missionaries, Hinduism in India, and tribal religions across Africa.
- Characteristics: Struggling to find economic and political identities taking much from the expatriates that move to the area, collectivism is common and personal relations often shape the way business is done.

Asians

- Example Countries: Japan, China (Hong Kong), South Korea, Indonesia, Taiwan
- Location: Western rim of the Pacific Ocean in and around mainland Asia
- History: oldest prevailing empires of China and Japan with some intrusion by European and American cultures, also has the largest population country in the world under communism, China
- Language: forms of Chinese, Japanese and other Asian languages
- Religion: Buddhism, Shinto (Japan), Confucianism, with Islam in Indonesia and Christianity in the Philippines
- Characteristics: About half the population of the planet. Asian cultures are based on oriental religions where respect to elders is upheld, harmony with the environment is important and conflict between people is minimized.

Latins

- Example Countries: France, Italy, Portugal, Brazil, Argentina, Mexico, Peru
- Location: Spread between Southern Europe and the American continents.
- History: Connected through the Roman Empire and the subsequent Spanish and Portuguese Empires.

- Language: French, Italian, Spanish, and Portuguese are spoken all of which are relatively similar.
- Religion: Christianity, mostly Roman Catholic
- Characteristics: Very personal people where personal relationships are important and respect to hierarchal levels is apparent and can lead to dealing with a lot of bureaucracy in procedures and regulations.

Anglos

- Example Countries: United States, United Kingdom, Canada, Australia, New Zealand
- Location: located throughout the world in Europe, North America, and Australasia
- History: ties to the old British Empire.
- Language: English
- Religion: Christianity
- Characteristics: one-quarter of the world population, they are low –context cultures where things are expressed directly and personal achievement is an important part of life.

This segmentation is based on cultural similarities in the way business is done in these countries and in many cases is connected to things like colonial ties, language, religion and geographic closeness or isolation. Geography, even as influential as it is, has not completely defined what cultures dominate in a region and therefore simple geographic segmentation of the world is not advisable. With supply chain decisions

it might be easy to make a country selection based on geographic closeness but ignoring the cultural differences could negate any positive gains.

Section VII - Country Selection Process and Conclusions

The cultural differences between people and the distance that these differences create can affect the interactions between people. In the world of business, these distances can affect many decisions and can determine ultimate success or failure for a company looking to expand. The country selection process is something that can be overlooked by simply searching for where the biggest markets are and where can make the company make a profit or save money in sourcing from that region. The fact of the matter is that culture is a variable that should be considered heavily in order to match the company with the best entry points in the global economy.

The following are the steps a company should take in order to help them make the best selection of a country based on what their company does, how integrated they are already in the global economy, and how intensive they want their investment to be in the long run.

1. Think about the need for expansion

The company should first think about their ultimate reasoning for wanting to expand their business globally. For companies that are already located in more than one country this decision has already been made, but for companies that have yet to make their first international move should make sure it is something the entire company wants to pursue. Clear goals should be laid out for the expansion and not just because competitors are doing it. The worst thing would be to start doing business in another country without being sure why are there in the first place.

2. Figure out what part of the company should go abroad.

It basically boils down to being a supply-side, demand-side, support or management business function to move or start up in another country. Research should be done to analyze what that part of the business currently looks like and how it might change once put into another country, if at all. Making sure you know what you are moving and what the requirements are will keep all team members focused during the transition. The focus should first be internal before the selection process starts for countries of interest.

3. Pick dimensions of culture that relate to the business functions.

A company could go through on use one of the four cultural frameworks mentioned in this report or they could come up with a composite of different dimensions on how they relate to the specific part of the business being considered. For example for supply-side decision negotiation is key and looking at how big the power distance is in a company can help the firm determine how to train their

employees to obtain preferred negotiation results without making a cultural mistake in the process.

4. Compare home country culture and corporate culture.

Once a company has decided what they might want to take into another country they need to examine what their home culture is like and which of the 7 culture segments it fits within. Corporate culture should be examined (refer to the four corporate culture types from section II) and determined to see what the company behaves like with comparison to others. The company should also take polls within from within the company to see how their own employees would react in different situations and how that compares to the home culture and the home culture's segment.

5. Identify country possibilities and compare the home to host cultures.

Ultimately there will be limited options of where certain processes can go based on available natural resources and expertise of countries in certain business processes. Coming up with an initial list of possible locations will be important to be able to make the comparison based on cultural distances. At this point, the culture specific to the home country and the corporate culture of the company should be considered and how well the particular business process would do based on the cultural dimensions deemed appropriate within the target countries.

6. Do country and situation specific research.

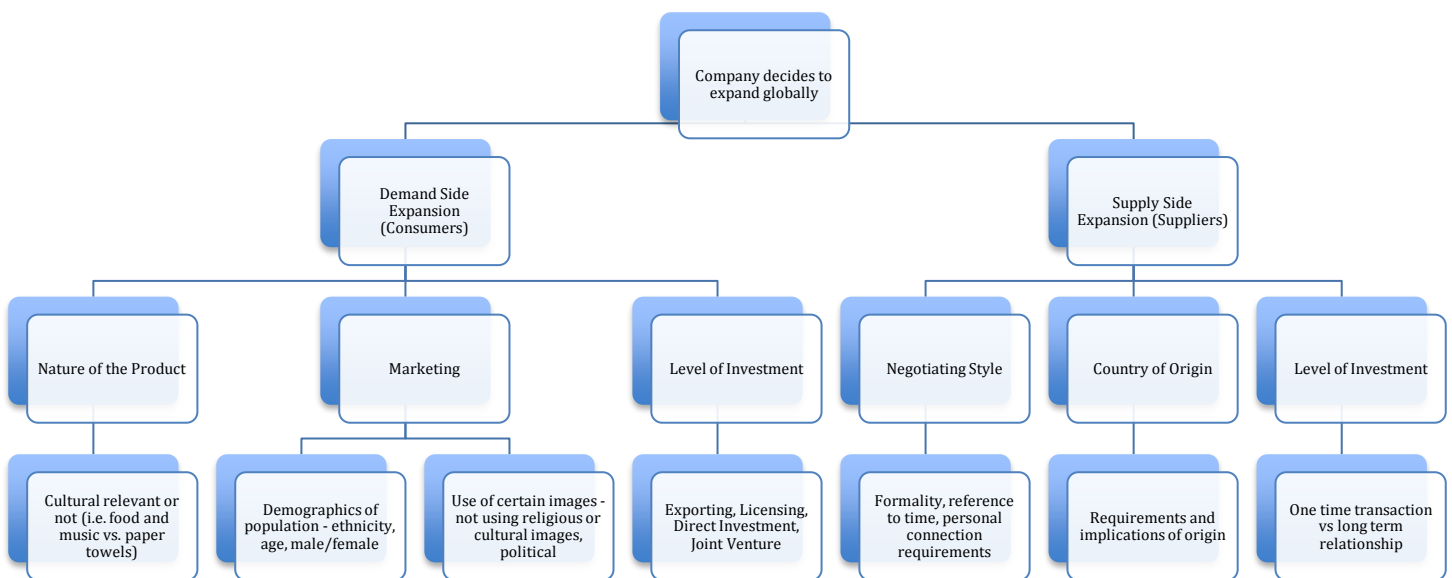
Once the comparison of cultures based on the dimensions previously chosen has been done, a company should make a short list of 3-5 countries that fit the needs from a business point of view and compare them from a cultural point of view. The hiring of a consultant familiar in the region, preferably someone from that country, can help give more insight into how exactly the transition would go given the circumstances. The purpose of doing situation specific cultural studies of countries is because many of these frameworks have inherent variability in their results (not everyone in the country can be interviewed and asked their opinion on their own culture.) Also, many of these cultural framework studies were done decades ago and their facts cannot necessarily be seen as certain in the present day but can give a good starting point to help guide firms in the right direction.

7. Analyze the results and reevaluate.

Once the research has been done the company will know more about the culture into which they are about to enter. At the beginning, a company has an idea of how aggressively they want to enter the new market, but hopefully after the internal and external research has been done that they can take a step back and predict how smoothly the process will go. If there seems to be a large cultural distance between the home and host cultures then a less aggressive market entry style might be preferred until the new culture is more fully understood or the company as a whole makes it to a more geocentric state where the company can make global decisions with input from their international members.

8. Make the Country Selection

Based on the right combination of resources, expertise, and cultural compatibility a company can select a country to enter. They should be at all times mindful of the cultural differences between people and should use them to their advantage by embracing culture instead of trying to control it. Many times companies will go in with initial idea of respecting the established cultures but then try to change the thoughts and actions of the people. Culture is something that takes generations to change so a company should not be as bold as to think that their interaction in people's lives will change their basic cultural natures.



This diagram goes through the thought process differences between the demand and supply side of businesses going through the country selection process. The implications are different because of the different ways that culture enters into each situation. Buyers on the consumer side see their purchases affecting them in their

personal lives, whereas buyers on the business side in the supply chain see purchases as a part of their job function and may view their job as distant from their personal lives or interconnected with as part of their personal lives.

Conclusions

In a perfect world, a company would have both the time and the resources to do the research internally and externally to match cultures or see how the cultural matching will work out. Unfortunately, other factors play a large part in the selection of countries. A CAGE analysis (which stands for Culture, Administrative, Geographical and Economic) done by Indian professor Pankaj Ghemawat of the Harvard Business School includes cultural as one of the biggest obstacles in global expansion but other factors such as political instability, the administrative aspect of CAGE, could have a much more definitive impact on the country selection process. In an ever increasingly fast-paced world, the timeliness of these decisions can often be rushed in search of reduced prices or new markets. Culture is at the root of each of us and apart from secondary forms of culturalization it is rooted in each of us at a very early age. Seeing the world as a diverse melting pot of ideas and viewpoints will lead companies to more success if they respect and tailor their approaches in entering new countries. Reckless global expansion is financially dangerous and can tarnish the image of both companies and their home countries if cultural differences are not respected. The country selection process should be thought of as unique to each company, for each country and for each situation because careful selection can

create the most value-added results that go beyond economic benefits and can make future global integration a possibility.

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