

## **Cultural Differences and Management: A Contemporary Study**

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### **Abstract**

It is common to hear of "globalization" as an engine for bringing diverse cultures in remote parts of the world together and the suggestion has often been that globalization will ultimately minimize cross-cultural differences. While advances in technology have transformed global business activities, it remains an unsettled question as to whether or not increasing globalization of business activities will lead to a reduction in meaningful cultural differences. This article focuses on comments that researchers have made on the effect of globalization on cultural differences. Technology allows people to exchange ideas and information even when they are located thousands of miles apart and it has been an important factor in creating a truly global economy. Cultural differences often pose a major difficulty in international negotiations and management. These cultural differences reflect differences in the assumptions people make about how business is organized and what social strategies should be followed for career success. Managers working in different cultures can identify these strategies by asking the people the types of skills in which they take the most pride and what they regard as the most prevalent causes for career failures. A foreign manager should also look at the ways in which subordinates interact. With whom do people tend to associate in the organization? How do they tend to present themselves? Managers can promote changes in organizational culture by clearly and consistently setting out a framework in which different career strategies would become appropriate. Training should be provided in the new sets of interpersonal and organizational skills. The prospects for successfully changing behaviors in the foreign organization will be enhanced if people are not asked to adopt social strategies under the new rules that have generally been considered as sources of risk and ruin under the traditional patterns.<sup>1</sup>

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### **Introduction**

Many are aware that increasing globalization and internationalization has become of great importance recently. More and more companies start to look abroad to expand their businesses as the world becomes more and more interconnected. To manage business operations across international boundaries has become one of the largest

<sup>1</sup> URL: [https:// www.comparativemanagementstudies.org](https://www.comparativemanagementstudies.org), (accessed on 26.09.2013)

challenges for international business today. According to Root<sup>2</sup> the global economy has formed business environments that require companies to look past the traditional thinking of the home market, and instead start looking at business from an international global perspective. The method a company ventures from their home market to new geographical markets is of great importance for how well the company succeeds with their business. According to Osland et al,<sup>3</sup> small and medium size firms that have taken the decision to internationalize, and multinational companies that want to expand into foreign markets are both faced with the challenge of choosing the best structural arrangements.

Bennett<sup>4</sup> discusses many factors that encourage companies to begin operating internationally. The most obvious reasons are economic scale and scope, and the existence of beneficial markets in foreign countries that are not available at home.

We believe that the development in communication, improvement in travel conditions and lower tariff barriers have made foreign markets to be more accessible and have provided more opportunities for some companies to go international. According to Dunning<sup>5</sup> 'going international' refers to various locations that contribute to value added activities. Root said that manufacturing and service companies enter international markets for several reasons. Some go in a foreign country because markets at home are growing faster. Other companies may basically follow their home customers who are going international.

## **Culture**

Culture is the integrated sum total of learned behavioural traits that are shared by members of a society.<sup>6</sup> We cannot avoid seeing the business environment changing in many ways. As also does the cultural environment that is one of the most challenging areas for most international marketplaces. In order to understand and influence consumers' wants and needs, foreign companies must understand the different cultures. Culture has been defined in many different ways, reflecting the variety of cultural phenomena that can be observed. According to Morrison,<sup>7</sup> cultural symbols include language, religious rituals and art that have shared meanings from the unique fingerprint of a particular society.

<sup>2</sup> URL:<http://smallbusiness.chron.com/examples-cultural-differences-business-21958.html>, (accessed on 26.09.2013)

<sup>3</sup> Osland, G. Taylor, C. Zou, "Selecting International modes of entry and expansion" in *Marketing Intelligence & Planning*, 2001, 153-161.

<sup>4</sup> Brooks B, "The natural selection of organizational and safety culture within a small to medium sized enterprise (SME)" in *Journal of Safety Research*, 2008,73-85.

<sup>5</sup> URL: <http://lnu.diva-portal.org/smash/get/diva2:206119/FULLTEXT01.pdf>, (accessed on 26.09.2013)

<sup>6</sup> URL: <http://www.emeraldinsight.com/doi/pdf/10.1108/00251749410071577>, (accessed on 26.09.2013)

<sup>7</sup> URL: <http://lnu.diva-portal.org/smash/get/diva2:206119/FULLTEXT01.pdf>,(accessed on 26.09.2013)

According to Czinkota,<sup>8</sup> cultural factors have an important impact on the flow of business. Each society has its elements of culture such as language, communication, religion, values, material elements, aesthetics, education and social institutions. Adaptation of these elements for an international company depends on its level in the market participation –for example, licensing versus direct investment and the product or service marketed. The most important issue for a foreign company is cultural analysis, which includes information that helps the company management to take planning decisions. The most widely used framework for categorizing national cultures is the one developed by Geert Hofstede, a Dutch social psychologist and management scholar.

The data used to derive relevant cultural value dimensions came from IBM employee surveys conducted between 1967 and 1973 in more than 50 cultures. Analysis of responses from over 116,000 IBM employees to questions about their job and work settings revealed systematic cultural differences across four dimensions: power distance, individualism/collectivism, uncertainty avoidance, and masculinity/femininity.

Probably the most important cultural dimension identified in Hofstede's research is power distance, which concerns the degree to which a culture accepts and reinforces the fact that power is distributed unevenly in society. Members of high power distance cultures such as Malaysia accept status differences and are expected to show proper respect to their superiors. Status differences exist within the organizational hierarchy but they may also be based on age, social class, or family role. It is important to note that although these differences in rank will always be evident, a superior in a high power distance culture will treat those at lower levels with dignity. Low power distance cultures such as Denmark are less comfortable with differences in organizational rank or social class and are characterized by more participation in decision-making and a frequent disregard of hierarchical level. The concept of power distance helps to explain the importance of deference Korean Air's co-pilots showed towards their captains. It is important to note, however, that a culture's position along a certain cultural dimension (e.g., the higher level of power distance in Korea) is not an evaluation of whether members of that culture approach situations better or worse than in other cultures. Instead, the cultural dimensions simply demonstrate different preferences or priorities as to how issues should be approached.

Individualist cultures show a relative preference for the individual in contrast to the group. Members of individualist cultures such as the UK maintain loose social structures that are characterized by independence, the importance of individuals' rights and the recognition of personal initiative and achievement. In contrast, collectivist cultures such as Venezuela value the overall good of and loyalty to the group. Members of collectivist societies clearly distinguish between in-groups and out-groups and are expected to subordinate their individual interests for the benefit of their in-groups (e.g., family, organization). In Hofstede's research, this cultural dimension was shown to strongly

<sup>8</sup> URL: <http://lnu.diva-portal.org/smash/get/diva2:206119/FULLTEXT01.pdf>,(accessed on 26.09.2013)

correlate with power distance, which means that individualist cultures tend to have a preference for lower power distance. A notable exception is France where a preference for status differences (relatively high power distance) goes hand-in-hand with a focus on individual rights and personal achievement.

Uncertainty avoidance concerns the degree to which cultural members are willing to accept and deal with ambiguous or risky situations. Cultures with high levels of uncertainty avoidance such as Greece prefer structure and predictability, which results in explicit rules of behavior and strict laws. Members of these cultures tend to be risk averse towards changing employers, embracing new approaches, or engaging in entrepreneurial activities. In societies with low uncertainty avoidance such as Singapore there is a preference for unstructured situations and ambiguity, which favors risk taking, innovation and the acceptance of different views.

The fourth dimension Hofstede identified is Masculinity/Femininity. Masculine cultures such as Japan are thought to reflect a dominance of tough values such as achievement, assertiveness, competition and material success, which are almost universally associated with male roles. In contrast, feminine cultures focus on tender values such as personal relationships, care for others, and quality of life. In addition, feminine cultures such as Sweden are also characterized by less distinct gender roles. Compared to masculine cultures, firms in feminine cultures place a relatively stronger emphasis on overall employee well-being rather than bottom-line performance.

### **Business Implications of Cultural Differences**

We have seen, differences in national culture are reflected in business decisions, such as choices about foreign entry modes. How can we use our understanding of national culture to make better decisions? The basic answer is improving the alignment or congruence between management practices and cultural contexts which yields tangible business benefits. Firstly, participative management can improve profitability in low power distance cultures but worsen it in high power distance cultures. Secondly, quick fixes can improve profitability in more short-term oriented cultures but worsen it in more long-term oriented cultures. Then, merit-based pay and promotion policies can improve profitability in more masculine cultures and reduce it in more feminine cultures. Lastly, emphasizing individual contributions can improve profitability in more individualistic cultures and worsen it in more collectivistic cultures.

Based on such findings, this section proceeds to highlight key points that can help align business practices to national culture. It often makes sense to structure such analyses around the intersection of specific dimensions of cultural distance and business functions or activities in order to arrive at a meaningful level of specificity.

### **Power Distance across Functions and Activities**

This review of the implications of Hofstede's power distance begins at the company's external boundary (marketing) and progressively moves to more internally oriented functions (organization and human resources). The endpoints of this article are areas where human culture is of particular importance in the sense that marketing requires a deep understanding of customers and organization requires a deep understanding of employees; hence more extended treatments are provided in these areas. Begin with humor as an introduction to the impact of national culture and power distance in marketing. Humor is widely employed in marketing communications and particularly apt to fall flat if not well tailored to national culture. In fact the use of humor itself in advertising is more prevalent in countries with lower power distance as well as low uncertainty avoidance. Indeed, cultural differences are one of the main impediments to globally standardized advertising campaigns. High power distance also correlates with consumers making purchase decisions based on emotion rather than information, which has clear implications for advertising as well as other aspects of marketing communications. Shifting to public relations, research indicates that in countries with high power distance and collectivism, public relations focuses more on building and maintaining relationships whereas in low power distance and individualistic cultures, it entails more explicit dissemination of information. Looking at the aspect of online marketing, "high power distance explains less consumer-marketer interactivity because of a larger gap between marketers and consumers."<sup>9</sup> There also tend to be higher service expectations in high power distance cultures, and even the organization of products in retail stores has been shown to vary based on this dimension of culture. Power distance may also impact adoption patterns of some products, as in the case of a negative impact found in the adoption of Enterprise Resource Planning (ERP) software. The link between marketing and innovation/new product development seems to work better when managed in a centralized way in cultures with high power distance. While looking at innovation more broadly, it's found that countries with low power distance tend to have stronger innovation capabilities, which might impact a company's thinking about alternative locations for work requiring high levels of innovation. Low uncertainty avoidance and high individualism also correlate with innovation capability. Marketing and product development both need to account for the impact of national culture on consumers' product preferences. In cultures with high power distance, consumers are more likely to want products that help them demonstrate their status, but there are also less obvious correlates. Consumption of mineral water and newspapers both correlate with power distance, along with more obvious dimensions (such as mineral water consumption fitting with higher levels of uncertainty avoidance).

Finally, there are important organizational or human resources implications of national culture. In countries with high (versus low) power distance, employee selection tends to give more emphasis to social class (over education), training tends to emphasize

<sup>9</sup> URL: <http://smallbusiness.chron.com/examples-cultural-differences-business-21958.html> (accessed on 26.09.2013)

conformity (versus autonomy), evaluations focus on compliance or trustworthiness (over performance), wage differences between managers and workers are larger, leadership is more authoritarian (instead of participative), motivation is based on the assumption that subordinates dislike work and hence is more coercive (rather than assuming employees like work and trying to strengthen their motivation through intrinsic and extrinsic rewards), and organizations are more hierarchical (versus flat). Managers who wish to achieve significant change in high power distance cultures are advised to put senior staff front and center in communication efforts, use legitimate authority, and “tell subordinates what to do.” In contrast, in lower power distance cultures, it is more important to explain the reasons for change “allow for questions and challenges” and involve employees in figuring out how to implement the desired change.

### **Adaptation to Cultural Differences**

We have seen that operating in ways that are congruent with their cultural contexts can improve business performance. So, it’s clearly a bad idea to simply ignore cultural differences. For multinational companies, some variation in operating practices across locations is normally required. And as companies push further with variation across locations, complementary moves such as decentralization of decision making and indigenization of in-country management teams can support a company’s ability to be responsive to local conditions. But simply varying practices everywhere to maximize congruence and pushing all important decision-making authority down to the country level or below isn’t a very good idea either, because the result is likely to be a tremendous amount of costly complexity. At the extreme, a multinational becomes so localized that it gives up all of its potential international synergies and performs no better (and perhaps even worse) than a series of separate local firms would. Hence, managing adaptation (to cultural as well as other types of differences) entails finding ways to limit the need for and/or cost of variation.

Focusing on cultural similarities is one way to reduce the need for variation. The simplest way to do this is by focusing operations on locations with more similar cultures. Focusing on serving members of a company’s home country’s diaspora can ease entry into new markets by reducing the cultural distance that has to be crossed to reach local customers. Internally, using expatriates (typically from the company’s home country) in particular roles also represents a type of focus. Employing an expatriate as country finance chief reduces the scope for potential culture-related misunderstandings around sensitive financial matters, and reflects the patterns of trust we have reviewed. Externalization, for example, via joint ventures, is a way that companies can reduce the cost of adapting to local cultures. Partnering with a local firm can provide access to local cultural understanding, business network that would be costly and time-consuming for a foreign company to develop on its own. As long as the partners can set up an effective interface to address cultural differences in managing the partnership, broader cultural congruence can be improved. Moving beyond joint ventures, companies can

acquire foreign firms, gaining access to local knowledge and networks as well as direct managerial control.

Another approach to reducing the need for variation is to promote a strong corporate culture. By attracting and cultivating employees and customers who are drawn to a particular corporate culture, the need to respond to national cultural differences might be reduced. However, it's important not to place too much confidence in a typical corporate culture overpowering national cultural differences. Recall that Hofstede's original research took place within a single company – IBM – and still revealed large cultural differences.

More broadly, an organization can also improve its capabilities for bridging cultural differences. Hiring for adaptability and investing in cross-cultural training can improve workforce capabilities and flexibility. Exposure to and deeper experience with foreign locations and cultures via participation in international teams, travel, and expatriation can inform and grow these kinds of capabilities. For many companies with high growth targets in foreign markets, increasing the diversity of their management teams should also be a priority. However, firms currently make only little use of this source of cultural capability.

In thinking through decisions about how far to push efforts to adapt to local cultural conditions, it's also important to account for industry characteristics that increase or decrease sensitivity to cultural differences. Generally, businesses that sell directly to consumers (rather than to other businesses) are less sensitive to cultural differences. Service industries are generally more sensitive to cultural differences than industries focused on selling physical products. Thus, while they sell to other businesses, most kinds of IT services are highly sensitive to language differences. In contrast, industrial machinery (sold to other companies for use in their factories) tends to be relatively insensitive to cultural distance. This is one factor that helps explain the global success of Germany's relatively small *mittelstand* firms in many such sectors even though they have fewer resources for cultural adaptation than larger firms.

## **Conclusion**

Cultural differences play a crucial role in drawing FDI in India. Though cultural differences are present but after 'Glo-calization' all the foreign companies comes under same umbrella in 'glo-local' manner. FDI flows though there is a presence of cultural differences. MNCs play a great role in Indian economy so its quite natural that cultural differences will be present in its full form but it's the concern of organization to minimize the difference and maintain the parity to draw as much FDI as it can. Current economic imbalances in India also suggest that if foreign investment comes it can again start breathing in its normal way. Event management industry is the industry which faces maximum cultural differences. As various Events take place in different parts of the

country so it also fetches a lot of Cross Cultural implications. Therefore, with growing popularity of these kinds of companies – the society may observe a better integration of different cultures across different ranks of the society.

Cultural differences remain persistent and present an array of challenges for multinational companies. As business grows, one may develop a diverse group of employees. While diversity often enriches the workplace, it can bring a host of complications. Various cultural differences can interfere with productivity or cause conflict among employees. Stereotype and ignorance about different traditions and mannerisms can lead to disruptions and the inability of certain workers to work effectively as a team. While cultural differences are often underappreciated, it's equally important to take note of cultural similarities. High and low power distance cultures, for example, both reflect responses to common challenges around how human beings should properly interact with each other in the face of inevitable differences in the power they hold in particular contexts. In managing adaptation, there's also a great deal to be gained by focusing on what unites us rather than what divides us.