

DOING BUSINESS ACROSS CULTURES

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Final Paper: “Culture Still Matters”

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Abstract:

This final paper intends to analyze and discuss the way the culture variable is addressed regarding the globalization phenomena and the business opportunities inherent of it.

Inspired by Panjak Ghemawat’s article “Distance Still Matters” (in which the author provides a rational approach to evaluating global opportunities), the idea is to stress how complex, subtle and challenging the cultural variable still is.

Finally, a fragment of a short case is discussed.

Introduction:

As mentioned bellow, Ghemawat’s article “Distance Still Matters” is an important source of reflection and light to this final paper. Written in 2001, Ghemawat’s article materializes the effort to show how cautiously the globalization phenomena should be taken into account: “*companies routinely exaggerate the attractiveness of foreign markets and that can lead to expensive mistakes*” he states. To prevent companies of overlooking the negative impacts that an internationalization initiative might represent, Ghemawat designed this “Distance guideline tool” which contemplates four basic dimensions: administrative, geographic, economic, and, finally, cultural.

Since the scope of this paper is to focus on the cultural (distance) dimension, we should start discussing what does it mean and why is still so relevant.

Globalization & Culture:

This analysis should be put into context, which generally speaking is the Globalization scenario. Describing and discussing some of its elements and articulating them with the notion of culture are the main goals of this sector.

The term Globalization reached the mainstream press in the later half of the 1980s to describe the unprecedented phenomena of: *"acceleration and intensification of economic interaction among the people, companies, and governments of different nations"* (Globalization101.org definition).

The relationship between Globalization and the notion of culture is controversial. Some authors may claim the positive impacts of this phenomenon in terms of culture, and others may defend the opposite perspective (as illustrated below):

"The homogenizing influences of globalization that are most often condemned by the new nationalists and by cultural romanticists are actually positive; globalization promotes integration and the removal not only of cultural barriers but of many of the negative dimensions of culture. Globalization is a vital step toward both a more stable world and better lives for the people in it." (David Rothkopf, *"In Praise of Cultural Imperialism," Foreign Policy* June 22, 1997).

"Many societies, particularly indigenous peoples, view culture as their richest heritage, without which they have no roots, history or soul. Its value is other than monetary. To commodify it is to destroy it." (Maude Barlow, *"The Global Monoculture," Earth Island Journal*, 2001).

The aim of this paper is not to adopt a judging approach (defending one or other position), but to signalize this polemic as an evidence of the complexity involved when talking about cultural issues – which are deeply permeated of sensitive and confusing connotations. It must also be said that a realistic approach might be more useful since globalization is part of our day to day reality.

Therefore, the key question those fragments raise are: to what extent globalization means culture commoditization? To what extent a global world means a more equal or more different world culturally speaking?

The answers to those questions are not trivial. According to Ghemawat: *"It has been argued that information technologies and, in particular, global communications are shrinking the world, turning it into a small and relatively homogenous place"*.

The sociologist George Ritzer in his book *"The McDonaldization of Society"* (1993) supports this idea. Statistics show that McDonalds has expanded to over 31.000 restaurants worldwide within the last fifty years. According to Ritzer: *"the principles of the fastfood restaurant are coming to dominate more and more sectors of American society as well as of the rest of the world"*. Basically he states that different cultures converge to possess the characteristics of a fast-food restaurant in terms of rational modes of thought and scientific management. Also the McDonaldization phenomena would lead to global uniformity, influencing local habits and traditions.

Nevertheless, in contrast to these homogenizing effects, globalization could actually result in reinforcing local cultures, in reaffirming the own tradition (struggling to legitimate its uniqueness). It's important to mention that Globalization is considered by many as a synonym of United States supremacy (Powerful symbols spread all over the world such as: McDonalds, Starbucks, Google, Apple, etc. somehow illustrate and reinforce this assumption). In that sense, the "Anti-U.S.A feeling" also takes part of the way people face, answer and read the globalization context.

There is also a further more radical assumption about the role culture will play globally. According to Harvard University Professor Samuel Huntington, culture will be the principal factor that divides the world in the future. In an article titled "The Clash of Civilizations," (which later was transformed into a book) he claims:

"...The fundamental source of conflict in this new world will not be primarily ideological or primarily economic. The great divisions among humankind and the dominating source of conflict will be cultural. Nation states will remain the most powerful actors in world affairs, but the principal conflicts of global politics will occur between nations and groups of different civilizations. The clash of civilizations will dominate global politics." (Foreign Affairs, 1993)

Hence, the way the cultural dimension is addressed can be very different. We would tend to agree with Ghemawat in considering that globalization did not result in a more homogenous place: *"But when it comes to business, that's (a homogenous world) not only an incorrect assumption, it's a dangerous one"*. That's why, after all: Culture Still Matters

Globalization & Business:

Before we describe the short case exploring the culture impacts and underlying variables that also form the rich picture of it, we would like to highlight one of the key contributions Ghemawat's article provide us: the criticism towards the simplified models managers have used to evaluate global opportunities.

By criticizing the analytic tools that managers rely on in making judgments about international investments, Ghemawat elucidates how far away more complex is the global scenario. The most prominent measure tool to make decisions in that sense has been the Country Portfolio Analysis (CPA). The CPA takes into account national GPD (country's wealth and size), levels of consumer wealth, and people's propensity to consume, allocating all the emphasis in terms of potential sales.

CPA ignores completely costs and risks of doing business in a new market. It neglects completely what does represent doing business across cultures. And doing business across cultures cannot be defined as an "exact- quantitative- expertise". Doing business across cultures is more likely to be defined as an art: an art of interpretation, an art of qualitative skills. It has to do with reading properly the explicit and implicit patterns that compose a culture. It has to do with dominating the complementary emic and etic approaches that consist in one of the precious subsidies to analyze a culture.

Emics correspond to ideas, items, behaviors and concepts that are culture-specific. They are not useful for cross-cultural comparisons since they are unique to the particular culture. They are related to those elements that can be visually captured, roughly speaking (Language, Flag, Clothes, etc.). In the other hand, Etics are useful for cross- cultural comparisons, since they derivate from studies outside the system, in more than one culture. Their structure is theoretical and correspond to elements such as ideas, behaviors, item and concepts that are culture general (Some examples of etics value dimensions are the well-known Hofstede's dimensions : Individualism X Collectivism; High Power Distance X Low Power Distance; Masculinity X Femininity; High Uncertainty Avoidance X Low Uncertainty Avoidance; Long-term X Short-term Orientation).

The art of contemplating such nuances and subtleties is fundamental. In Russian language for instance the word "red" also means beautiful. Cultural attributes do represent a strong influence on the choice of consumers: this example shows how color tastes are closely linked to cultural prejudices and how decisive it is to read properly the emics and etics dimensions of a culture.

In the book *"Riding the Waves of Culture"* Trompenaars & Turner provide a different contribution to the issue. The first one is to face how utopian is the idea of being able to actually understand completely a different culture: *"It is our belief that you can never understand other cultures. Those who are married know that it is impossible ever completely to understand even people of our own culture"*.

Moreover, the book also designs a different approach to access culture: *"Culture is the way in which a group of people solves problems and reconciles dilemmas"*. Those problems refer to three different categories: Relationships with people; Attitudes to time and Attitudes to the environment. In terms of Relationships with people, the authors identified five orientations covering the ways in which human beings deal with each other (that also correspond to Etic value dimensions): Universalism versus Particularism; Individualism versus Communitarism; Neutral versus Emotional; Specific versus diffuse; Achievement versus ascription.

The other contribution of the book is to highlight the importance of the meaning:

*"There are, indeed, many products and services becoming common to world markets. What it is important to consider, however, is not what they are and where they are found physically, but **what they mean to people in each culture**"*.

This is important not only in terms of understanding customer's demands and experiences, but also in being able to design an adequate global organizational structure (systems, procedures, HR policies, etc.) balancing wisely what should be standard and what should be adapted: *" This balance between consistency and adaptation is essential for corporate success"* Trompenaars & Turner state. An elucidative example they present is the following one:

"We cannot understand why individuals and organizations act as they do without considering the meanings they attribute to their environment.(...) Feedback sessions where people explore their mistakes can be `useful feedback` according to American

management culture and 'enforced admissions of failure' in a German management culture. One culture may be inspired by the very thing that depresses another".

That means that going globally also means being able to reinvent internally the company itself (an aspect overlooked on Ghemawat's article when he describes the challenges involved in the culture distance dimension). As the example illustrates, a feedback practice that has been extraordinarily productive in a determinate context, may be catastrophic in another one. If the company is not flexible enough in order to consider that imposing in another culture the previous successful model might not be strategically the best idea, there will be losses – of time, money, opportunities – not to mention motivation damages.

Brief Case & Reflections:

These short fragments describing Star TV case will be espoused in this section. Unfortunately the amount of information available about it is quite limited. In spite of that, the ("mini") case give us the chance to propose some hypothesis and reflections that are pertinent to the objectives of this paper.

The Star TV Project

This case is presented on Ghemawat's article as emblematic of a mistaken internationalization strategy.

In 1991 Star TV was launched with the intention of delivering television programming to a media-starved Asian audience. It would target the top 5% of Asia's socioeconomic pyramid – a rich elite who could not only afford the services, but also who represented an attractive advertising market. Given that English was the second language for the most of the targets consumers, Star TV would be able to use available and fairly cheap English-language programming rather than having to invest heavily in creating new local programs. And by using satellites to offer programs into people's homes it would overcome the constraints of geographic distance that had kept traditional broadcasters out of Asia. The project sounded so appealing that Rupert Murdoch (especially driven by the idea of leveraging his Twentieth Century Fox Film Library across the Asian market) throughout his company (News Corporation) bought out Star's founders for \$ 825 million between 1993 and 1995. However, the results have not been satisfactory. In its fiscal year ending June 30, 1999, Star reportedly lost \$141 million, pretax, on revenues of \$ 111million. Losses in fiscal years 1996 through 1999 came to about \$500 million all told, not including losses on joint ventures such as Phoenix TV in China.

Although no further information was found on websites (or complementary sources) the reason this case was chosen was the primary mistake represented on it. The fact Murdoch – a men considered to be bright on the business field- was so taken by the Star TV plan is also interesting to differentiate what other competencies are relevant

when talking about cross- cultural business. The plan went wrong basically because the Asian viewers were not happy with English-language programming – in other words, the company assumed that the TV business was insensitive to culture. *“Managers either dismissed or were unaware of evidence from Europe that mass audiences in countries large enough to support the development of local content generally prefer local TV programming”*.

Another hypothesis may be the one that managers incorrectly assumed the idea that the Asian consumers of the top 5% socioeconomic pyramid would be happy to consume Star TV as a symbol of status, of being distinct, unique (which represents an underlying individualistic oriented western rooted mindset).

Trompenaars & Turner framework may be useful to analyze this case. The Individualism versus Communitarianism sub-category describes the conflict between what each of us wants as an individual and the interests of the group we belong to. The authors alert: *“Most of our received wisdom on this subject derives from the individualistic West, especially from theorists writing in English. The capital letter “I” is one of the most used capitals in the English language. So the idea that rising individualism is a part of the rise of civilization itself needs to be treated as a cultural belief rather than a fact beyond dispute”*.

That means that supposing Star Tv was considered to be appealing to the Asiatic market as a symbol of status and distinctiveness, is a myopic reading that derives from taking for granted that all societies are driven by individualistic aspirations. That also can be observed when companies replicate models that are based on practices such as promotion for recognized achievements and pay-for-performance in more communitarian communities. The underlying meaning that those practices assume is that individuals seek to be distinguished within the group and that their colleagues approve of this happening – what, in fact is not a universal true.

Recalling historical aspects could also be pertinent to discuss Star TV’s failure. If we think about China- for instance – we must think about its recent communist past. The fact the country is struggling to find out a new identity (especially culturally speaking) could influence and shape consumer’s aspirations. In other words, Chinese people could be just “starving” to consume, watch and admire the manifestations of all sorts representing this new country “soul” and identity - which obviously involve TV programs; and which obviously involve legitimating Chinese language as the fair interface code. (We should stress that’s just another hypothesis – we do not have absolute truths).

Another element that should be mentioned is related to the “Guanxi”. “Guanxi” is a term that describes the basic dynamic in personalized networks of influence that is dominant in Confucian cultures. The term evokes as well concepts as “ganqing” (a measure which reflects the depth of feeling within an interpersonal relationship) and “renqing” (the moral obligation to maintain the relationship and the idea of preserving face). If we take into account the High Context characteristic that also permeate many of the Asiatic Cultures, complexity is added to dealing with this mindset-pattern. Because “Guanxi” philosophy also requires reciprocity – but this will always remain implicit.

To follow the Tompenaar's framework that has been used, we could adventure to relate "Guanxi" with the Diffuse category (that is opposite to the Specific one). The diffuse category expresses that separate aspects of life are interconnected: there is not a rigid separation between the different areas of life. Since Guanxi seems to mean that there must be a sort of "friendship" involved in doing business, the Diffuse category may portrait this mindset adequately.

Hence, another Hypothesis is that Star TV business plan perhaps failed to assimilate and incorporate these rooted way of doing business related to the "Guanxi" philosophy.

Star Tv case is not an isolated case. The difficult to read and comprehend Chinese culture scenario may be one of the reasons why many multinationals are unsatisfied with the outcomes originated in this country. Ghemawat's article mention a recent survey of nearly 100 multinationals, in which 54% admitted that their total business performance in China had been worse than planned. When asked: "Why was the failure rate so high?" 62% of respondents reported that they have overestimated market potential for their products or services.

Conclusion:

The many hypothesis and reflections that this short fragment have originated illustrate how multifaceted and complex is to think about the cultural variable. It must be said, that besides the cultural variable there are many other elements that compose and determine the success or failure of an international business operation. To alert that many assumptions are taken as naturals when are truly imbued of cultural connotations was one of the intentions of this paper. To stress that doing business across cultures is a subtle, complex and challenging science was the other one.

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