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National Cultural Differences and Global Business

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The eminent Dutch psychologist and culture expert Geert Hofstede interviewed unsuccessfully for an engineering job with a U.S. company early in his career. Later, he wrote of the cross-cultural misunderstandings that crop up when U.S. managers interview Dutch recruits and vice versa:

> American applicants, to Dutch eyes, oversell themselves. Their CVs are worded in superlatives…during the interview they try to behave assertively, promising things they are very unlikely to realize…Dutch applicants in American eyes undersell themselves. They write modest and usually short CVs, counting on the interviewer to find out by asking how good they really are…To an uninitiated American interviewer an uninitiated Dutch applicant comes across as a sucker. To an uninitiated Dutch interviewer an uninitiated American applicant comes across as a braggart.[1]

Cultural differences can be important, even in life-and-death situations. Consider Korean Air's high incidence of plane crashes between 1970 and 2000. Analysis of conversations recorded in the black boxes of downed planes showed that even when a crash was likely, Korean Air co-pilots and flight engineers rarely suggested actions that would contradict the judgments of their captains. Challenging one's superior in Korea was considered culturally inappropriate behavior.[2]

The Korean Air example is particularly noteworthy for two reasons. First, if national culture can have significant—not to say existential—consequences among people of the same cultural origin, we need to be very cautious in dealing with national cultural *differences* in cross-border interactions. Second, the cultural predispositions of Korean Air co-pilots and flight engineers persisted in a very highly regulated environment, suggesting that national culture's influence on behavior reaches beyond administrative attributes, such as governmental policies, laws, and institutions. This note focuses on different ways of thinking about culture and how cultural differences affect the operations of firms around the globe.

For the purpose of this note, *culture shall be defined as a set of shared values, assumptions, beliefs, morals, customs, and other habits that are learned through membership in a group and that influence the attitudes and behaviors of group members.* Note three implications of this definition. First, culture is defined as a group-level phenomenon. From this perspective, cultures

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exist at many different levels, including organizational functions or business units, organizations, industries, regions, and nations.[3] This note focuses in particular on national culture and the role of cultural differences across countries rather than other cultural groups because this level of culture is particularly relevant for global businesses. Second, the definition implies that culture is acquired through a process of socialization rather than being innate. Shared values, assumptions, and beliefs are learned through interactions with family, teachers, officials, experiences, and society at large. In this respect, Hofstede speaks of culture as a process of "collective programming of the mind."[4] Third, it is this collective programming that determines what is considered acceptable or attractive behavior. In other words, cultural values provide preferences or priorities for one behavior over another.

Also implicit in this group-level definition of culture is that such attempts to characterize behavior are necessarily approximate, since they abstract away from individual-level factors that also matter. As a result, it is important not to treat cultural characterizations as fully explaining or determining behavior. Rather, the operational criterion for assessing the usefulness of cultural characterizations is whether they offer more insight into behavior than would be obtained if one were to ignore them.

With those caveats, evidence from sources such as the World Values Survey, a study of 65 countries reflecting 75% of the world's population, *does* suggest that national cultural traits have, at a deep level, remained fairly stable over time despite superficial evidence of some convergence in cultural habits, artifacts, and symbols (e.g., the spread of American consumer culture across the globe).[5] And cultural differences remain prominent in a host of different contexts. Consider the following high-stakes example. You are riding in a car with a close friend who hits a pedestrian. "You know that he was going at least 35 miles per hour in an area of the city where the maximum allowed speed is 20 miles per hour but there are no other witnesses. His lawyer says that if you testify under oath that he was only driving 20 miles per hour it may save him from serious consequences." More than 90% of managers in Canada, the United States, Switzerland, Australia, Sweden, Norway, and Western Germany reported that they would *not* testify falsely under oath to help their close friend, while fewer than half of managers in South Korea (26%), Venezuela (34%), Russia (42%), Indonesia (47%), and China (48%) said they would refuse to testify falsely in this hypothetical situation.[6] This exemplified the point that some cultures put more emphasis on *universal* commitments (such as honesty) while others put more weight on loyalty to *particular* people and relationships.

Societies' responses to the COVID-19 pandemic similarly displayed material cultural differences. For example, in Taiwan, a sense of collective prudence shaped by the country's recent history and deep-seated community-oriented values allowed the government to implement far-reaching measures, such as strict border control with community-backed quarantine and a comprehensive tracking system integrating the travel and health data of all citizens. This allowed the country to keep infections low. Contrast this with Spain, where a culture of strong familial ties and high physical proximity in social interactions enabled the virus to spread rapidly in the first months of the pandemic. The government responded with a near-total lockdown to cut social contact, yet its subsequent loosening resulted in a rapid return to pre-COVID cultural habits and a renewed rise in infections.[7] Clearly, crisis situations such as the pandemic give rise to deep-seated—and often unconscious—cultural preferences that determine decision-making and action.

The persistence of cultural value differences is particularly relevant for large global companies that are exposed to *multiple* national cultures in their daily operations. This adds to complexity because it forces companies to adapt their practices and approaches to every culturally distinct

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context in which they operate. So, although the concepts discussed in this note apply more broadly, the primary focus here is on global firms.

Sections 1 and 2 of this note focus, respectively, on frameworks of national cultural value differences and observable indicators of national culture and some of their documented implications for international business. Section 3 provides a broader discussion of how global companies can manage to adapt to cultural (and other) differences.

1. Frameworks of National Cultural Value Differences

Cultural differences at the level of behavior form the basis for many of the casual comparisons that take place in diverse settings, such as business schools, for both serious and humorous purposes. Citizens in the United States maintain a culture around owning guns that most Europeans can't fathom. The Czechs drink far more beer than people in Saudi Arabia, and even more than the Irish, who come in second. India and China are so close geographically that they still have not resolved their territorial disputes, but they could not display more distinct food cultures, particularly around which animals and parts of animals should or shouldn't be eaten. Argentines see psychotherapists more often than other nationalities. Brazilians spend a higher proportion of their income on beauty products than the citizens of any other major economy. Japanese exchange business cards very intensively, and in a highly ritualized way. And so on.

Unless one is focused on a particular country or, at most, a handful, it quickly becomes overwhelming to try to look at the world in terms of countries where business cards are received in particular ways or the local cuisine has particular ingredients. As a result, most frameworks for understanding culture have sought to identify a limited number of cultural value dimensions that underlie behavior and provide a basis for classifying countries. Thus, the Japanese consider it rude not to study a business card carefully because it reflects a person's professional identity, title, and social status. Thus, the ritual of exchanging business cards (a behavior) can only be fully understood by taking into account the underlying importance of respect for seniority and status in that culture (basic values). More broadly, dealing with national cultural differences therefore requires not only knowledge about adequate behaviors but also understanding deeper values and assumptions that explain why certain behaviors are more appropriate than others.

Hofstede's Cultural Dimensions

The most widely used framework for categorizing national cultures is the one developed by Geert Hofstede, a Dutch social psychologist.[8] Based on surveys of more than 100,000 IBM employees in more than 50 countries between 1967 and 1973, Hofstede argued that national cultures differed systematically across four dimensions: *power distance*, *individualism/collectivism*, *uncertainty avoidance*, and *masculinity/femininity*.

Power distance is probably the most important cultural dimension identified by Hofstede: it 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 may reflect organizational hierarchy, but they may also be based on age, social class, or family role. 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 that Korean Air's co-pilots showed towards their captains.

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