

# On Top of the World

## Impact of Culture on Global Trade

(EC LAP 24, EC:045, Specialist Level)

**Objective A** Discuss cultural differences in business.

**Objective B** Describe ways that businesses address cultural issues in international trade.

- What's your world view?
- Suffering from culture shock?
- Where do you fit?

### STUDENT SECTION

For discussion only

Performance Indicator: Discuss the impact of cultural and social environments on global trade (EC:045).

A new family has just moved to Michaela's neighborhood, all the way from China. They have a daughter about Michaela's age, and she wants to make her feel welcome. She goes over to introduce herself, but the girl doesn't seem very friendly. She doesn't look Michaela in the eye and doesn't say very much. Michaela wonders if she's "stuck up" or just not interested in being friends. In reality, Bao Yu would love to get to know Michaela, but she's unsure of her language skills and not used to the amount of direct eye contact that people give in the U.S. Michaela and Bao Yu have cultural differences that they'll need to overcome to get to know each other.

Cultural differences can certainly have an impact on personal relationships, and they influence the way business is conducted as well. Learn more about the cultural differences and social issues that affect business, as well as practical ways that businesses can address these differences to keep things flowing smoothly.



## It's a Cultural Thing

### Business and culture

Whether you realize it or not, culture plays a big role in who you are, how you relate to others, and how you view the world. A simple definition of **culture** is "the customs, habits, and traditions of a particular group of people." Your culture can refer to the country where you live—your customs and traditions as a Canadian, for example. It can also refer to smaller regions of a country, such as New England in the United States or the southern part of India. It can even refer to people groups that exist outside the bounds of geography—there are customs and habits associated with professional athletes, vegetarians, video "gamers"—pretty much any group you can think of!

You probably belong to a number of different cultures. All these cultures blend together in your life to make you who you are. Since culture plays such an important part in the lives of individuals, it makes sense that it also plays an important part in how business is conducted. Even a small business could have dozens, if not hundreds, of different cultures represented within its work force. In addition, the business itself has its own unique **organizational culture** and even **subcultures** (cultures within a culture) that develop under that! These subcultures affect how employees interact with each other and complete their job tasks. For example, there may be a subculture that exists within a business's shipping department. These employees spend all day in the warehouse, and they've created a fun environment, listening to music and enjoying conversation while they work. It's a much different culture than in the accounting department, where the employees prefer to work in quiet so they can concentrate. To supervise and interact effectively with employees, this business's managers must understand these subcultures and how they work.



Looking at the cultures within a business is like looking at a small picture of the cultures within the world. To be successful in both domestic and international trade, businesses must pay attention to all aspects of culture, both organizational and global. Let's take a look at some of the global cultural issues that affect the way businesses operate.

## Dimensions of national cultures

A great resource for businesses engaging in international trade is studying Geert Hofstede's dimensions of national cultures. Hofstede, a well-known cultural researcher, spent part of his career as a traveling employee for a multi-national corporation. He draws his conclusions from his personal experiences as well as his extensive research. The dimensions Hofstede has identified are power distance, uncertainty avoidance, individualism v. collectivism, masculinity v. femininity, and long-term v. short-term orientation. Here is a quick overview of each dimension:

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**Power distance.** **Power distance** refers to inequality in society. All societies are unequal in terms of power and wealth, but some are more unequal than others. This dimension of national culture measures how accepting the less-powerful members of a society are of this inequality. A country with a high (more accepting) power distance score is Malaysia; a country with a low power distance score is Austria.

**Uncertainty avoidance.** **Uncertainty avoidance** refers to a society's tolerance toward uncertainty or insecurity. Members of uncertainty-avoiding cultures like structure, rules, and safety. Members of uncertainty-accepting cultures are open to many different opinions and avoid having too many rules. A country with a high uncertainty avoidance score is Greece; a country with a low uncertainty avoidance score is Singapore.

**Individualism v. collectivism.** This dimension of culture refers to the extent to which people are integrated into groups within a particular society. In an **individualist** society, group ties are loose; everyone is expected to take care of her/himself. In a **collectivist** society, people are integrated into strong, loyal groups, such as extended families. The United States is typically known as the world's most individualist society; Guatemala, on the other hand, is a strongly collectivist culture.

**Masculinity v. femininity.** This dimension of culture doesn't refer to a society's number of males or females. Instead, it measures how much a society values "masculine" qualities—assertiveness and status, for example—versus "feminine" qualities—caring, quality of life, etc. A country with a high masculinity score is Japan; a country with a low masculinity score (valuing feminine qualities more) is Sweden.

**Long-term v. short-term orientation.** Hofstede added this dimension of culture to his original four as way to distinguish the subtle differences in thinking between Eastern and Western societies. Members of long-term oriented societies focus on future rewards and value actions such as persistence and saving money. Members of short-term oriented societies focus more on the past or present and value things such as national pride and fulfilling social obligations. China is known as a long-term oriented nation; Nigeria is known as a short-term oriented nation.

When a business attempts to expand or engage in trade with individuals and companies in another nation or culture, knowing how that country scores in Hofstede's dimensions can be helpful in knowing how to approach the new market.

## Cultural influences on communication

Culture and communication are irrevocably linked. A society's culture influences the way it communicates, and, at the same time, the way a society communicates shapes its culture and how its customs and traditions will be passed down from generation to generation.

Issues of communication are critical for businesses conducting international trade. After all, without proper communication, there's no way to get business done! Communication can influence business in a number of ways. In some cultures, for instance, a business meeting would never begin without employees spending some time chatting about social or personal topics first. In other cultures, however, this would be viewed as an inappropriate waste of time.

**Verbal communication.** The most obvious communication issue for global businesses is language. As more nations become developed, business is being conducted in a greater number of languages than ever. Even domestic businesses often have to deal with multi-lingual suppliers and customers within their own countries. For many businesses, being able to communicate in just one language is simply not enough anymore.

Clearly, verbal communication can become a problem when two people trying to communicate don't speak the same language. But, even when language is understood, different words and symbols can have different meanings in other cultures or contexts. Most people know that "manana" means "tomorrow" in Spanish. However, these two words don't necessarily mean the same thing. In a non-Latino culture, "tomorrow" means literally the next day, while in the Latino culture, "manana" often means "sometime in the near future." You can see how this might cause confusion in business relations.

Even using the *same* word or phrase in the same language can be confusing among different cultures. Consider slang words, jokes, and **idioms** (expressions that can't be taken literally, such as "I'll sleep on it"). Between cultures, even the simple word "yes" can mean anything from "definitely" to "probably" to "maybe."



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Numbers can have as big of an impact as words. In many Asian cultures, the number "4" is considered unlucky. A business would be making a big mistake if it tried to sell its products in "4-packs" in one of these countries.

**Nonverbal communication.** Nonverbal communication is just as important as verbal communication—in some cases, even more so. Body language, eye contact, gestures, the amount of personal space preferred, attitudes toward time, manners of dress—these are all parts of nonverbal communication that have different meanings in different cultures. For example, giving someone the "thumbs-up" sign in the United States or Canada is a positive thing; in Australia, however, it's highly offensive.

Some cultures rely heavily on nonverbal communication to get messages across. These are known as **high-context cultures**. Most Arab cultures are high-context cultures. Other cultures rely more on verbal communication—speaking up and saying exactly what you mean. These are known as **low-context cultures**. Most Western societies fit into this category.



## The impact of religion

Religion is a very important part of culture and can have a significant impact on business. The influence of religion can affect work hours and holidays, delivery schedules, and what types of products are appropriate to sell in a particular culture or country. Global fast-food companies, for instance, may want to reach hundreds of millions of potential customers in India, but they must understand something important about the national culture. It's heavily influenced by the Hindu religion, which considers the cow to be a sacred animal. Therefore, these businesses must adjust their menus to reflect a culture in which beef is not commonly consumed.

Religion has more influence in certain cultures and countries than it does in others. In some Islamic countries, business operations are subject to Sharia, or religious law. Under these rules, it's forbidden to collect interest on loans, trade in financial risk, or invest in companies that are associated with products contrary to Muslim values (alcohol, pork, etc.). International businesses must be very careful to approach these issues in a sensitive way.

## Corruption

Another cultural issue that affects international trade is the level of corruption present. The most common form of corruption affecting global organizations is **bribery**. Bribery refers to giving money to someone in return for some kind of favor. In business, bribery usually involves making payments to a government or government official in a certain country to allow the company to expand, to receive a particular contract, to obtain certain paperwork or permits, etc. Corruption of this type tends to be more prevalent the poorer a country is.

Corruption can be a sticky subject, culturally—certain actions may be considered unethical or even illegal in some countries, whereas in other countries, the same actions are perfectly acceptable. Giving a gift to a business associate, for example, is considered proper in some cultures but is considered bribery in others. It's certainly an issue that businesses must think through before engaging in international trade.



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## Level of government involvement

The level of government involvement in regulating business has an enormous impact on international trade. A country's culture often influences its government and the degree of control government is given over businesses. Some governments have more control than others.

In some countries, the government creates laws to regulate international trade. These laws might include:

- **Quotas**—limits on the number of products foreign companies can sell in the country
- **Tariffs**—taxes placed on imported products to increase their selling prices
- **Price controls**—government determination of what price a product can be sold for

Before doing business in a certain country, an organization must gain a thorough knowledge of its relevant business laws.

Different cultures and countries also have different levels of security and varying customs procedures that businesses must deal with when shipping and delivering products. It's important for businesses to be familiar with all these procedures. For instance, many Middle Eastern nations won't accept products that have been shipped through Israel.

## It's negotiable

Business negotiations are essential for many types of organizations. When you boil it down, negotiating is *communicating*, and just as cultural issues influence communication, they influence negotiations as well. Here's a quick look at cultural influences on business negotiations:

- Different cultures have different *styles* of negotiating. Some cultures approach it informally/indirectly, while others approach it formally/directly. Some cultures consider it an emotional process, while others think of it as "just business." Some cultures enter negotiations with a team mindset, while other cultures prefer to have a clear leader making the important calls.
- Different cultures have different *goals* in negotiating. For some, creating a relationship is key. For others, nothing less than a signed contract will do.
- Different cultures have different *attitudes* in negotiating. Some cultures look for "win-win" solutions, while others are fine with "win-lose" conclusions. Some cultures tend to avoid risks in negotiation, while others are not averse to it.

- Different cultures have different *schedules* in negotiating. Some cultures are more laid-back and open-ended with their needs, while others are time-sensitive and want to conclude negotiations as quickly as possible.

Before entering negotiations with a business or customer from a different culture, a firm must be well aware of the negotiating style, goals, attitude, and schedule of the other party.

### In general...

So, what do all these cultural differences mean? How does knowing about them help businesses to become more successful in international trade? The truth is that simply recognizing cultural differences is only half the battle—organizations must take *action* and address issues appropriately if they want to overcome these potential obstacles. Even countries with very different cultures can build successful trading partnerships if they respect each other's customs and habits. It's important for businesses to consider individual cultures as they set goals and objectives for international trade.

### Summary

Culture is the customs, habits, and traditions of a particular group of people. Businesses have their own organizational cultures and subcultures. They must also deal with different cultures around the world. A good resource for understanding culture is Hofstede's dimensions of national culture—power distance, uncertainty avoidance, individualism v. collectivism, masculinity v. femininity, and long-term v. short-term orientation. Culture heavily influences communication, both verbal and nonverbal. Other cultural issues businesses must address include religion, corruption, government involvement, and negotiation tactics.



### Total Recall

1. What is culture?
2. What are organizational cultures and subcultures?
3. Briefly describe Hofstede's dimensions of national culture.
4. How does culture affect verbal communication?
5. How does culture affect nonverbal communication?
6. How does the religious aspect of culture influence businesses?
7. Describe the relationship between culture and corruption.
8. How does the level of government involvement affect international trade?
9. How does culture affect business negotiations?

## The Gray Zone

Bribery is a common practice in many poorer and developing nations. Often, government officials are living in poverty, and they try to leverage their positions to better provide for their families. Many businesses know that paying bribes will give them a competitive advantage for trading in these countries. Within these countries, making "grease" payments is not illegal, and almost every company does it. But, is it ethical? What do you think?

## Do It Right

By now, you understand how important it is for businesses to address cultural issues appropriately when engaging in international trade. But, how can they do so practically? Let's take a look at some of the ways businesses can prepare for success when dealing with other cultures.

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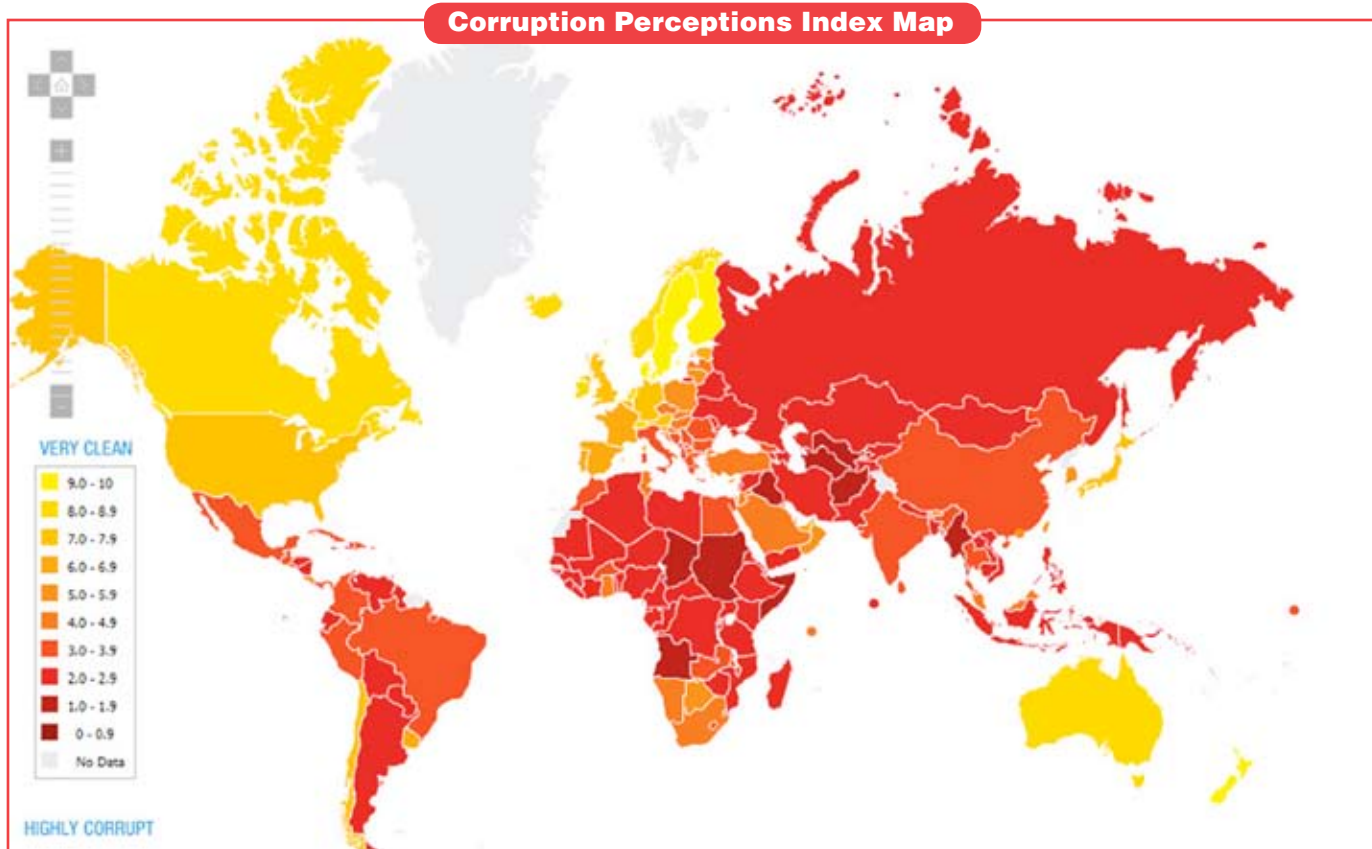
### Research, research, research

Before doing business in a new country, a business should learn all it can about that country's culture and subcultures. What are the people like? What do they value? How do they spend their time? What about the government—is the political situation stable? Knowledge is power, and the more cultural knowledge a business has, the better chance it has of being successful in international trade.

Conducting research can prepare a business to deal with potential corruption in a new market. An organization called Transparency International publishes a Corruption Perceptions Index each year (visit [http://www.transparency.org/policy\\_research/surveys\\_indices/cpi/2010/results](http://www.transparency.org/policy_research/surveys_indices/cpi/2010/results)). Using this index along with other relevant research can help a business answer important questions, such as:

- How much room should we include in our budget to deal with corruption in this country?
- What are the legal bounds of bribery in this country?
- How will dealing with corruption in this country affect our accounting records?
- If we refuse to make certain payments, will it affect our competitiveness in this market?

Businesses should also obtain a clear understanding of religious issues before undertaking operations in a particular country or culture. Consider the Sharia law that applies in many Islamic countries. A business may need to make sure it isn't charging interest on invoices within those countries. If the business is associated with any products or practices that are questionable by Muslim standards, it may be wise to create a separate, independent company.



## Be prepared

A business must prepare its employees for dealing with people from other cultures. This applies not only to employees who will be traveling and visiting other countries, but to domestic employees as well. After all, it's just as important to treat customers and contacts from other cultures appropriately on your own "turf"—whether they are visiting your country, talking with you on the phone, communicating over e-mail or video chat, etc.

In some cases, businesses hire employees who speak certain languages or even pay for current employees to take language training. It's not always a requirement to speak the same language as the customer or contact you're dealing with, but it certainly helps! Many companies also provide cultural training for employees who will be dealing with those in other countries. Cultural training can educate employees on the customs and traditions of the people they may encounter and can provide some practical "do's" and "don'ts" for interacting with them.

## Tips and guidelines

Every culture is unique, but there are some general tips and guidelines that can help employees approach almost any cultural issue correctly:

- Understand that you're not dealing with "culture"—you're dealing with real, live people! Approach everyone as a unique individual, not simply a representative of a certain culture. Realize that even one person may represent a variety of different cultural backgrounds. Strive to develop personal relationships with others and to truly get to know them.
- Expect differences to arise. Don't be surprised when you encounter difficulty understanding, communicating with, or relating to a person from another culture. This is natural. By researching and learning about other cultures, you can be as prepared as possible to deal with these issues when they come up.
- Avoid these common mistakes:
  - **Stereotyping**—This means generalizing people based on their cultural backgrounds—thinking that all Mexicans or all Jewish people or all Asians think and act the same way. This is simply not true. Your personal experiences with people from certain cultures may be positive or negative—but don't let those experiences influence your thinking about an entire group of people. Treating people as individuals should help you avoid this problem.
  - **Ethnocentrism**—This means believing that your own culture has it "right." Remember that "different" doesn't necessarily mean "wrong." Just because someone from another culture thinks or acts unlike you, it doesn't mean his/her culture is inferior to yours.

- Strive to communicate as clearly as you can. Avoid using slang and **jargon** that may be difficult for those from other cultures to understand. Use examples to clarify your point. Ask questions when you don't understand something, and listen carefully to others. Observe the other person's communication style and adapt to it as much as you can.
- Show respect. Learn how respect is shown in the culture you're dealing with so you can demonstrate it the right way. For example, in some countries, a respectful greeting might include a kiss on both cheeks, but in other countries, this would be considered too forward.
- Be flexible. When dealing with people in other countries or cultures, you won't always be able to have things "your way." Learn to compromise and adapt to changing situations and circumstances.
- Be patient. Sometimes, communicating or doing business with people from other cultures can take a little longer or even cause some initial frustration. Don't become overwhelmed. Just stick with it and continue working to build good international partnerships for your business.

## Summary

There are a number of ways that businesses can successfully interact with other cultures while engaging in global trade. They can prepare for this interaction by learning as much as they can about other cultures and training their employees appropriately. Other guidelines for successful cultural interaction include dealing with people as individuals; expecting differences to arise; avoiding stereotyping and ethnocentrism; communicating clearly; showing respect; being flexible; and being patient.

## Total Recall

1. How can businesses prepare to deal with other cultures?
2. How can employees prepare to deal with other cultures?
3. Describe four tips or guidelines for relating to people from different cultures.

# Make It Pay!

What kind of "organizational culture" exists at your school? What kinds of subcultures have developed? How do these cultures affect different people at your school—administrators, teachers, students? What does your school do to accommodate these subcultures? What does it need to do?