

Cross Cultural Management:

Hofstede's Cultural Dimensions & CAGE framework



Hofstede's Cultural Dimensions

Nowadays **cultural diversity** is important because our workplaces, schools and other areas of our lives increasingly consist of various **cultural racial** and **ethnic** groups.

We can **learn** from one another but we must first have a level of **understanding** about each other in order to facilitate **collaboration** and **cooperation**.

Learning about other cultures helps us understand different **perspectives** with the world we live.

It also helps dispel negative **stereotypes** and **personal biases** about different groups.

Additionally cultural diversity makes our world a more **interesting** place to live.

As people from diverse cultures contribute different ways of thinking new **knowledge** and various **experiences** in order to better **understand** different cultures

Hofstede's Cultural Dimensions

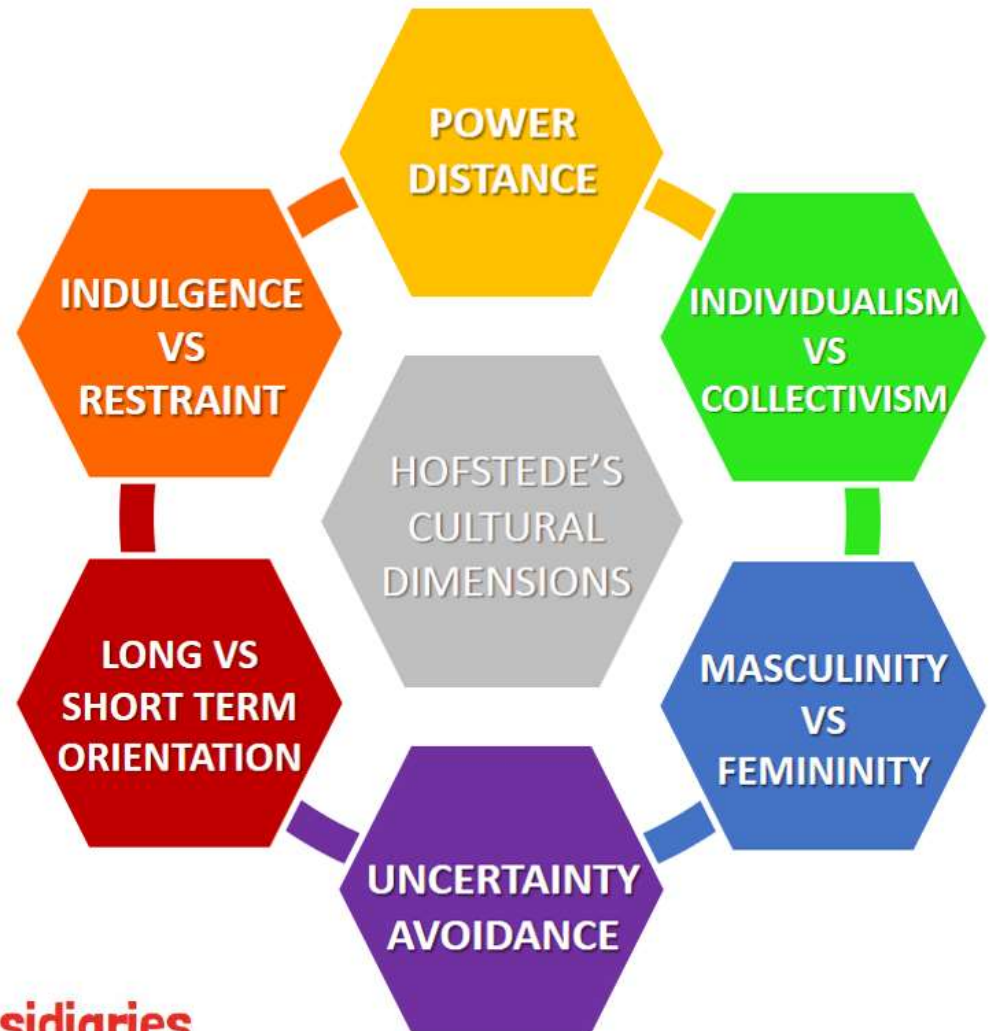


Geert Hofstede

Dutch social psychologist

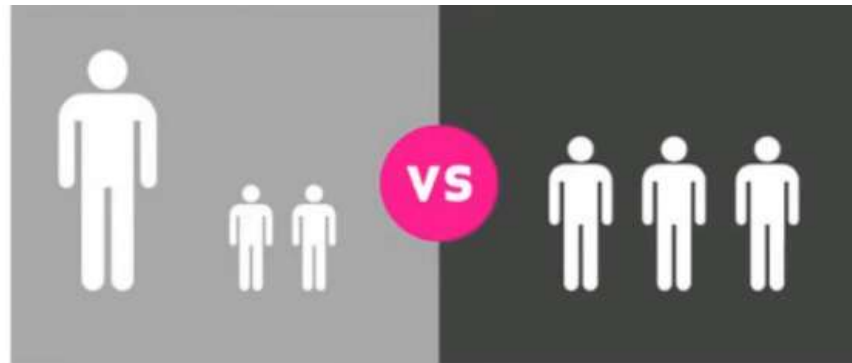


**110,000 employees working in IBM subsidiaries
in 40 different countries**



1. Power Distance index

“Power Distance”, one of Hofstede’s cultural dimension, is the extent to which societies and organizations accept power inequality among their members.



High: openly accept that a boss is “higher” and therefore deserves more formal respect and authority.

Low: superiors and subordinates are more likely to see each other as equals.

1. Power Distance index

Examples of **high Power Distance** cultures are: the Arab world, most Latin American countries, most Asian & African countries, some European countries (e.g. France & Poland)



Examples of **low Power Distance** cultures are English and German speaking countries, Scandinavian countries, some Latin American countries (e.g. Costa Rica)



1. Power Distance index

Societies characterized by high PDI (Power Distance Index) promote:

- Authority is usually centralized & autocratic
- Leaders & followers, both endorse inequality
- Hierarchy is normal and accepted
- People depend to a large extent on 'power holders'
- Subordinates are not empowered and are expected to take orders, not to act or think independently
- Subordinates refrain from expressing disagreement
- Subordinates comply without questioning the situation
- Power holders are entitled to special treatment
- Power holders are not usually approachable to their subordinates.

1. Power Distance index

From a **business** perspective, employees members of a **high power distance** culture are unlikely to do something unless **explicit** and **detailed instructions** are provided.

Communication (vertical/downward) is **cautious** and **ineffective**, subordinates do not often have the **chance** to approach their managers and when they do, they **fear** raising issues that might put the **power holder** in a difficult position with **consequent** unpleasant **repercussions**.

Leaders spend most of their time **micro-managing** and **controlling** and they can not **focus** on the “**big picture**”. This factor, coupled with the usually poor quality of **decisions** deriving from a lack of meaningful **contribution** from the workforce, is, in the long run, bound to **damage** the organization.

Unethical behavior is likely to go **undetected** or **unreported**.

1. Power Distance index

Societies characterized by a **low PDI** promote:

- **Independence** & individual **empowerment**
- Authority is usually **decentralized** and **democratic**
- **Unfairness** is not tolerated
- Efforts to achieve **social harmony** & **cohesion**
- High level of personal **accountability** is expected
- Juniors **question** and **challenge** authority
- **Critical thinking** is **encouraged**
- Leaders **consult** and **guide** than **impose**
- Emphasis on **equal rights** & **opportunities**

1. Power Distance index

From a **business perspective**, employees members of a **low power distance** culture are unlikely to be **submissive** towards their superiors and the '**open door**' policy is a rather common eventuality.

They **value** and take **pride** in **problem solving** abilities and they **openly** discuss **issues** and **potential resolutions** with their managers.

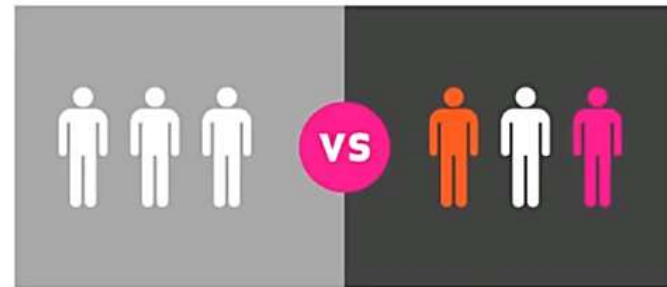
Upward mobility is the norm, both **information** and important **resources** are **shared** and **accessible** to most people.

Employee **involvement** and **participation** are important: Supervisors **encourage** workers to take **initiative**, to act **autonomously**, to **share** their **experiences** and their **views**.

People tend to **address power holders** on a first name basis and to **socialize** with them during **informal** gatherings.

2. Individualism versus Collectivism

It considers the degree to which societies are integrated into groups as well as their perceived obligations and dependence on groups.



Individualism: people's tendency to take care of themselves and their immediate circle of family and friends, perhaps at the expense of the overall society.

Collectivism: individual members render loyalty to the group, and the group takes care of its individual members.



2. Individualism versus Collectivism

Collective Cultures

Include (but are not limited to) most Latin American, South European, Middle-Easterner, Asian, African countries, tribal communities around the World.



Individualistic Cultures

Include (but are not limited to) most Western societies: English-, German speaking countries, Scandinavian countries, other central and northern European countries.



2. Individualism versus Collectivism

Collectivist Cultures: “WE”

- Group oriented (family, extended family, tribe, organization, etc).
- The group takes care of the individuals.
- Individuals are loyal to the group they belong to.
- Collective interest is more important than personal interest.
- Focus is on preserving harmony & respecting hierarchy within the community.
- One's identity & reputation is defined in terms of social roles (“I am a good son”).
- Members of collective culture practice extreme self-control
- Relationships usually within the group, often inaccessible to outsiders.
- Non-verbal communication is common. “I” is not commonly used.

2. Individualism versus Collectivism

Individualistic Cultures: “I”

- Self concepts are based on personal **traits** rather than **social roles**.
- Focus is on personal **priorities** and **self-realization**.
- People **emphasize** individual **freedom** & **achievements**.
- Private life is important and unlikely to be “**intruded**” by others.
- **Independence** & **self-reliance** are highly **valued**.
- People are expected to take **care** of themselves and a few loved ones.
- **Confrontation** is accepted. People are **encouraged** to express their opinions

3. Uncertainty Avoidance index

Uncertainty Avoidance, one of Hofstede's cultural dimensions, is the **degree** to which members of a specific culture are **comfortable** with **uncertainty** and **unpredictability**.

High UA Cultures

Include most of the countries in the Latin-, Eastern-, Germanic-European clusters, Latin-American and , Middle-Easterner clusters, some countries in the Confucian-Asian cluster (Japan, Taiwan, South Korea)



Low UA Cultures

Include most of the countries in the Southern-Asian, Nordic-European, Anglo clusters



3. Uncertainty Avoidance index

High UA (Uncertainty Avoidance) cultures:

- Members of high UA Cultures tend to plan everything meticulously and to rely on rules, laws and regulations in order to avoid uncertainty and unpredictability
- Levels of stress and socially anxiety are usually high, life is perceived as stressful and often hectic
- Tradition matters, social interactions are often formal and conservative, decisions are based on consensus (high UA societies are generally low in diversity)
- While in some high UA cultures (e.g., those in the Latin-European cluster) the display of emotions is acceptable, some other societies (e.g., those in the Confucian-Asian cluster) value emotional control and self restraint

3. Uncertainty Avoidance index

Low UA cultures:

- Members of low UA cultures tend to rely on informal rules and norms and feel relatively comfortable in unstructured situations. Some risks are somewhat expected in all areas of life
- Life is not perceived as intrinsically stressful, emotional balance and composed behavior are considered the norm
- In low UA societies there's generally little resistance to change, people are more open to innovation and novelty and highly likely to adopt a flexible approach to the "truth" (seen as relative)
- Unclear or different scenarios are not a source of anxiety (low UA societies are usually high in diversity): people are unlikely to be excluded for holding unconventional beliefs
- Low UA societies generally accept diversity

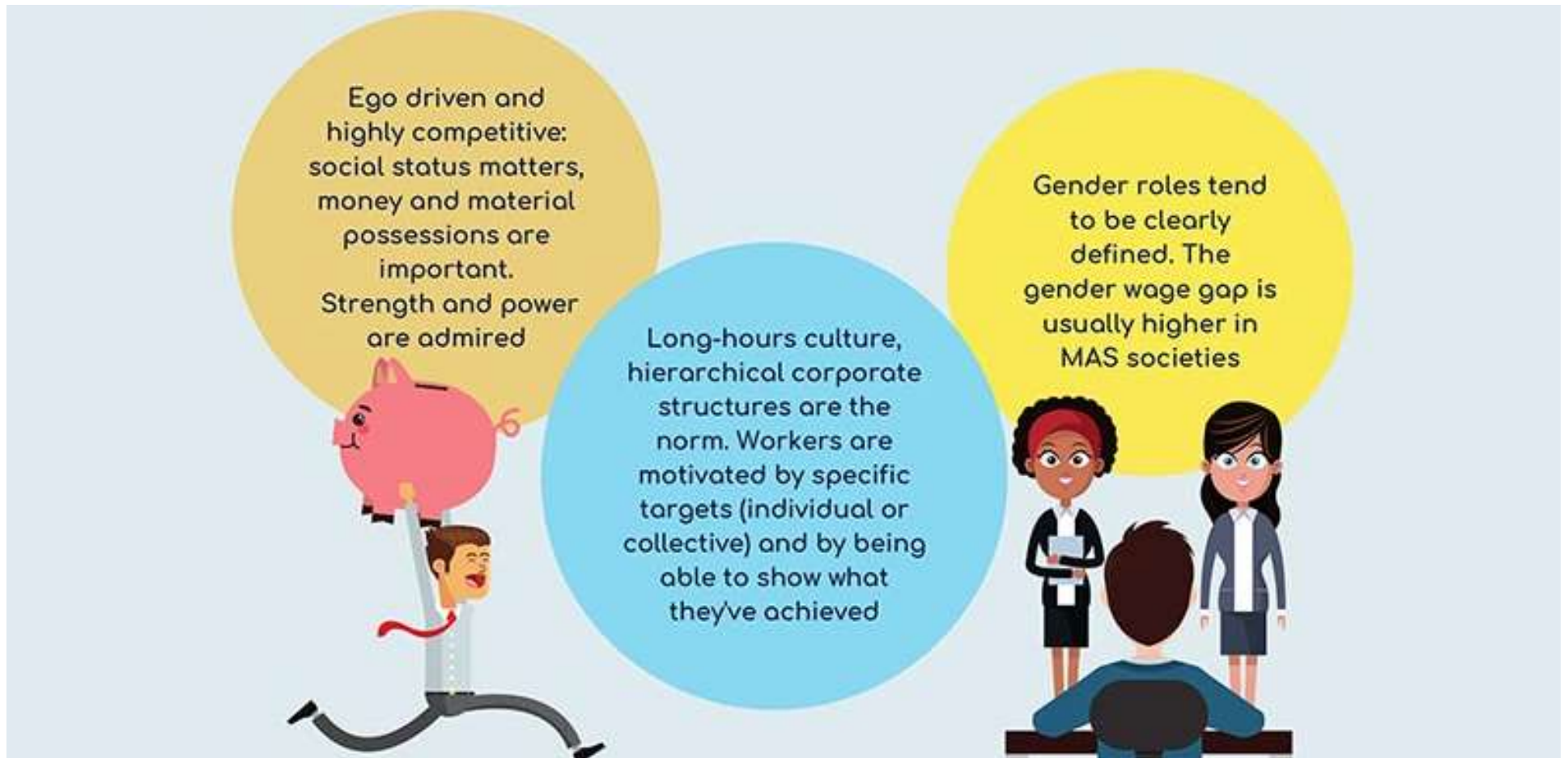
4. Masculinity versus Femininity.

The **Masculinity versus Femininity** dimension is also referred to as **tough versus tender** and it considers the **preference** of society for **achievement, behavior, attitude** towards **gender equality** etc.

In **masculine oriented cultures**, **gender roles** are usually **crisply defined**. Men tend to be more focused on **performance, ambition and material success**. They maintain **tough** and **independent personas**, while women **cultivate modesty** and **quality of life**. Areas like Japan and Latin America are examples of Masculine oriented cultures

By contrast **Feminine oriented cultures** are thought to highlight **Feminine values** such as **concern** for all, emphasis on the **quality of life** and a focus on **relationships**. In these cultures, both genders **swap roles** with the focus on quality of life, service and independence. The Scandinavian cultures rank as feminine as do cultures in Switzerland and New Zealand. The United States is actually more moderate its score is ranked in the middle between Masculine and Feminine classifications

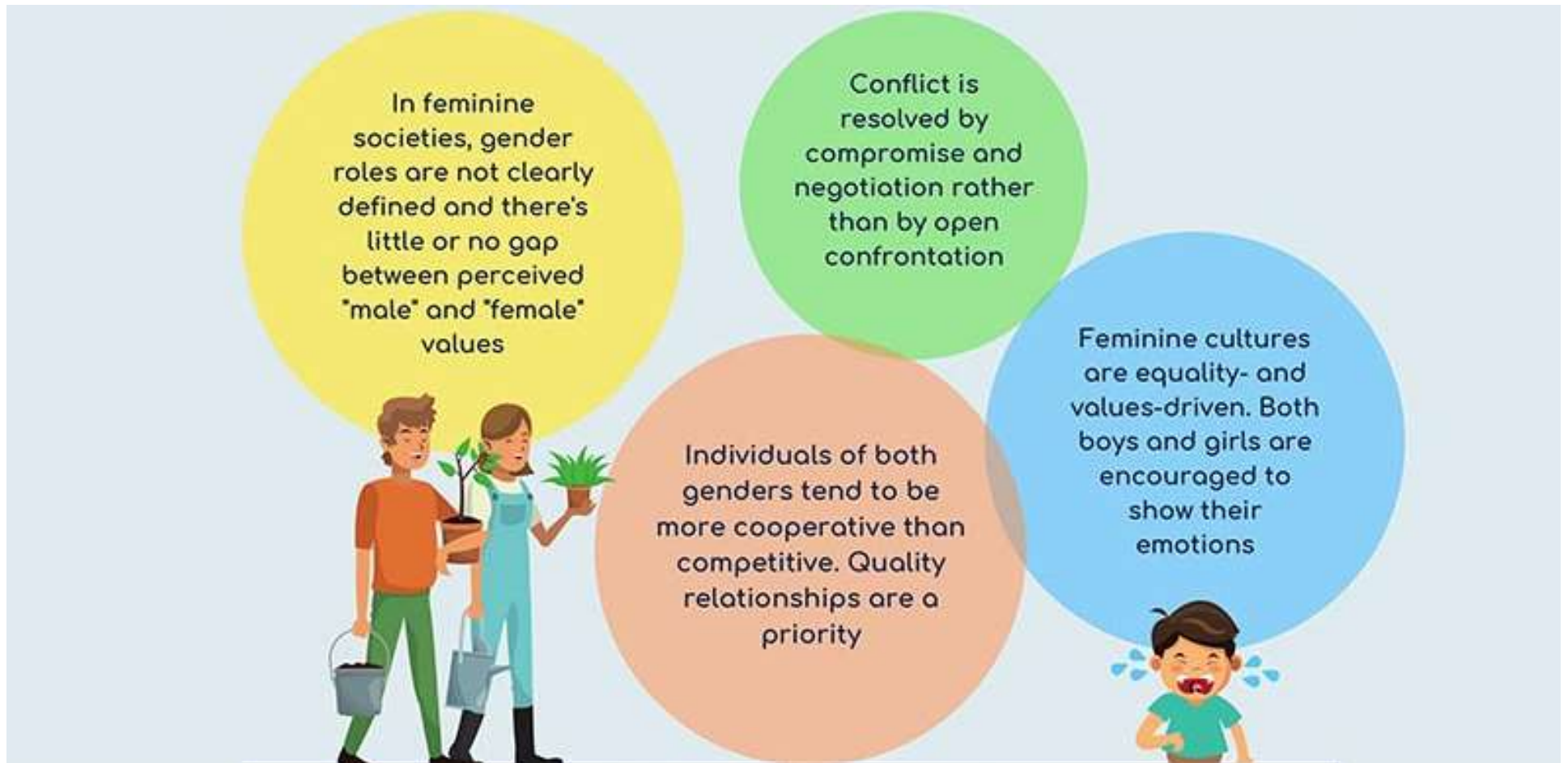
4. Masculinity versus Femininity (Tough/Tender)



4. Masculinity versus Femininity (Tough/Tender)



4. Masculinity versus Femininity (Tough/Tender)



4. Masculinity versus Femininity (Tough/Tender)



5. Long-Term Orientation vs. Short-Term Orientation

This dimension focuses on the connection between a country's association with its past and its current activity and the challenges it faces.

A national culture with a lower LTO rating on this index maintains its connectedness with its past traditions and holds steadfastness in high regard. These cultures tend to view change with suspicion, and to choose the normative instead. A country with a higher LTO rating in this index tends to encourage pragmatic innovation and adaptation. These cultures see modern education as a necessity for future success.

For a developing nation, a lower LTO, with more connectedness to its past than looking forward to its future growth, tends to lead to economic stagnation. Most developing countries with a high LTO rating show fast economic growth up to a level of prosperity. The emphasis on time-honored traditions and norms in lower LTO cultures often shows itself through a more religious society.

5. Long-Term Orientation vs. Short-Term Orientation

When countries with high and low LTO ratings interact in a business context, it is important to consider these differences:

High LTO cultures value prosperity, effort, and responsibility to obligations, while low LTO cultures instead have strong convictions and emphasize rights and values.

People in high LTO cultures are more likely to ask “What” and “How” than to ask “Why.”

Individuals from a high LTO culture may be more willing to compromise, even if it is not easy for an outsider to read the culture and see that willingness. Individuals from a low LTO culture are less willing to compromise, as it may be seen as a sign of weakness.

People in low LTO cultures tend to oversell themselves and their abilities, whereas high LTO cultures tend toward modesty. This may cause conflict when people from lower LTO cultures inadvertently set expectations higher than they are able to meet.

5. Long-Term Orientation vs. Short-Term Orientation

Low long-term orientation culture	High long-term orientation culture
■ Quick results expected	■ Perseverance, persistence
■ Leisure time important	■ Leisure time not so important
■ Small share of additional income saved	■ Large share of additional income saved
■ In business, short-term results — 'the bottom line'	■ In business, building of relationships and a strong market position
■ Lower performance in basic mathematics tasks	■ Higher performance in basic mathematics tasks
■ Meritocracy — economic and social life to be ordered by abilities	■ People should live more equally
■ Old age is seen as coming later	■ Old age seen as coming sooner but as a satisfying life period

6. Indulgence versus Restraint

indulgence vs.
restraint



This dimension looks at a culture's tendencies regarding the fulfillment of desires. Countries with a high IND rating are more likely to allow or encourage free gratification of simple pleasures, whereas countries with a low IND rating tend toward restraint and often pessimism. Low IND cultures tend to be more likely to regulate behavior and adhere to strict social norms. Cultures with a high IND rating are more likely to focus on enjoying life and having fun.

6. Indulgence versus Restraint

Countries with a **high IND** (**IND**ulgence) rating have a higher percentage of people who would call themselves **happy** and most of their citizens feel they have **control** over their own lives.

In a country with a **low IND** rating, citizens are more likely to **feel powerless**, as if their **experiences** are not determined by their own **actions**, but rather **situations** happen to them.

In a high IND country, **freedom of speech** is highly valued and people are more likely to remember **positive emotions**. The opposite is true in a low IND culture. In a low IND country, there is often a more **visible police force**, and maintaining **national order** is a high priority.

Countries in Eastern Europe, including Russia, and some Asian countries have **low IND ratings**, indicating a **restrained culture**. Often, in these countries, there is a pervading idea that indulgence is somewhat wrong.

While much of Western Europe falls in the median, most Anglo-Western nations have a **high IND rating**, indicating that individuals in these cultures tend to place a higher **importance** on **leisure** and tend to **act** and **spend** money as they **please**.

6. Indulgence versus Restraint

Example – A Chinese company (China's IND rating is 24) working in Australia or the United States, which has an IND rating of 68, might struggle to find employees whose work ethic meets their standards of professionalism. It is important that a company from a country with a low IND rating, when working in a high IND country, aim for the following in a professional setting:

- Allow for **work/life balance**, as this is a value in high IND cultures.
- **Encourage debate** and **feedback** to help employees feel they are **contributing** to the life of the company.
- **Prioritize mentoring** and **coaching** employees to allow movement up the chain of command.

0 ← ----- HOFSTEDE'S CULTURAL DIMENSIONS ----- → 100

LOW POWER
DISTANCE

PDI

HIGH POWER
DISTANCE

COLLECTIVISTIC

INV

INDIVIDUALISTIC

FEMININE

MAS

MASCULINE

LOW UNCERTAINTY
AVOIDANCE

UAI

HIGH UNCERTAINTY
AVOIDANCE

SHORT TERM
ORIENTATION

LTO

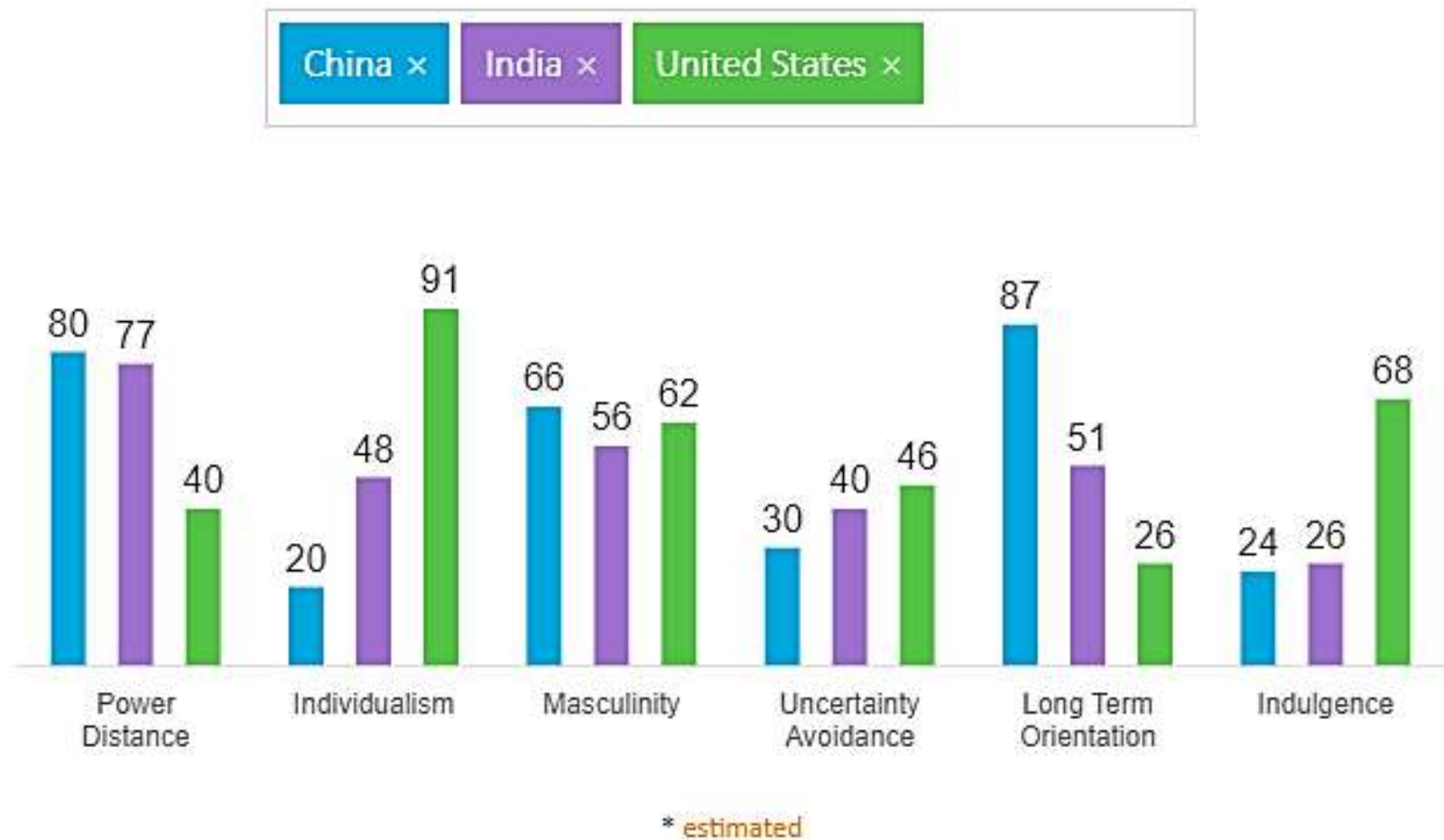
LONG TERM
ORIENTATION

RESTRAINT

IND

INDULGENCE

Hofstede's Cultural Dimension Comparison

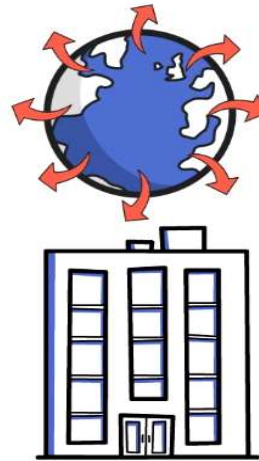


<https://www.hofstede-insights.com/country-comparison/china,india,the-usa/>

Hofstede's Cultural Dimension model - Limitations

1. Nations are not the best units to study.
2. Survey sample data is small.
3. Survey data is old and outdated.
4. Data drawn from only one company that cannot provide information about entire national cultures.
5. Four or five dimensions limits insight into cultures.

Why is it **easier** to expand a business into certain countries and **difficult** to do so in others?



Which factors can you use, as a consultant, to determine the **difficulty** of growing a business in **foreign markets**?



international
markets

**similarities &
differences**

home
market



CAGE DISTANCE FRAMEWORK

CAGE Distance Framework

- Success in implementing an international expansion strategy starts with selecting the right country to enter
- Framework created by Pankaj Ghemawat
- Origins: profit margins are correlated with proximity
- Key feature: takes into account both bilateral and unilateral factors
- The CAGE framework helps a firm gauge the distance that the target country is from the firm's home country on four dimensions. The greater the distance or difference, the more risk exists and the less opportunity there is for success.
- The four CAGE dimensions are:
 - C – Cultural distance
 - A – Administrative distance
 - G – Geographic distance
 - E – Economic distance

Video on CAGE framework

Link: <https://youtu.be/7FpUJaG7uMk>

What is the CAGE framework and how can businesses use it to evaluate international trade opportunities?



1. Cultural Distance

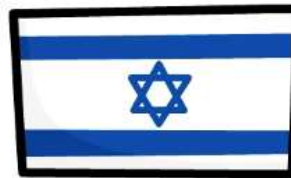
- The difference in beliefs, behaviors, language, values, and norms between two countries
- Typical Culture differences include:
 - Different languages
 - Different belief systems
 - Different attitudes
 - Insular (not open to new ideas) vs. open
- Industries impacted:
 - High language content products
 - Food industry
 - Car industry

CAGE FRAMEWORK: CULTURAL DISTANCE

CASE IN POINT



expansion
into



Israel

- religious country
- Judaism



didn't taste
as good as
the original



JEWISH DIETARY LAW:

contain



2. Administrative Distance

- Political and legal differences between two countries.
- Administrative differences to consider include:
 - Lack of common currency
 - Lack of shared trading block
 - Different legal systems
 - Political hostility
 - Corruption
- Industries impacted:
 - Producers of staple goods
 - Drug companies
 - Farming
 - Aerospace
 - Sectors vital to National security

CAGE FRAMEWORK: ADMINISTRATIVE DISTANCE

CASE IN POINT

Walmart 



leave in 2006
after incurring
a \$1 billion **loss**

known for



suffering

3. Geographic Distance

- The physical distance between two countries.
- Factors to consider:
 - Physical distance
 - Lack of shared border
 - Size
 - Distance between cities
 - Transportation links
 - Differences in climate
- Industries impacted include:
 - Low value-to-weight products
 - Fragile products
 - Perishable products
 - Service businesses

4. Economic Distance

- The financial distance between two countries' wealth, income, and labor costs.
- Factors to consider:
 - Wealth difference
 - Cost/quality of natural resources
 - Knowledge differences
 - GDP differences
- Industries impacted include:
 - Products where demand changes with income
 - Industries where cost differences are important

CAGE Distance Framework - Example

Suppose US based Mexican food chain believes there are great opportunities if they go international. Executives have narrowed the countries down to two—Canada and Spain. Canada made the list because they are close and more like the US. But Spain has 10 million more inhabitants, is not spread out like Canada is, and Spaniards should have a great attraction to Company's menu, since it's Mexican cuisine. The CAGE framework can be used to help make a decision. The four dimensions for each country are measured on a 10 point scale, with the higher numbers indicating greater distance. Therefore, the country with the lower score is the better choice.

	C Cultural	A Administrative	G Geographic	E Economic	Total
Canada	3 Oh, there is the French speaking part of Canada	2 Parliamentary with Prime Minister vs US	2 Very close, but cities very spread out	2 About the same except for currency	9
Spain	7 Language difference, and they don't eat much Mexican food	5 Member of EU, similar to US, some laws different	5 Easy 6 hour plane flight, 6 hour time difference.	6 US GDP per capita twice Spain's.	23

Advantages & Disadvantages

- Advantages
 - The impacts of CAGE distances have been shown quantitatively using gravity trade models.
 - The model considers bilateral and unilateral factors.
 - It enable you to identify factors that might handicap you
- Disadvantages
 - Doesn't help you determine the size of the opportunity.
 - Requires a lot of research.

GROUP DISCUSSION



Topic: Understanding and countering Country's Social & Culture risks is more critical to be successful in International Business than Country's Economical risks.

Finance B–HR–Operations : 3rd Dec 2022

Marketing : 8th Dec 2022

Finance A : 9th Dec 2022



*"It is not our differences
that divide us. It is our
inability to Recognize,
Accept, and Celebrate
those differences."*

*thank
you!*