# Purpose and Perspective of the Chapter

The purpose of this chapter is to continue coverage of the institution-based view, which began with formal institutions in Chapter 2. Here, we focus on informal institutions represented by cultures, ethics, and norms, which play an important part in shaping the success and failure of firms around the globe. Remember that the institution-based view suggests two propositions. First, managers and firms rationally pursue their interests within a given institutional framework. Second, in situations where formal institutions are unclear or fail, informal institutions play a larger role in reducing uncertainty. The first proposition deals with both formal and informal institutions. The second proposition hinges on the informal institutions we are about to discuss. As the Opening Case shows, even for countries such as Sweden and the United States that presumably come from the same (Western) cultural group, informal institutions vary tremendously. That is why informal institutions deserve a great deal of our attention.

1. CULTURE (LO 3-1, PPT Slides 3–8)
   1. **Key Concepts**
      * Informal institutions are related to cultures, ethics, and norms.
   2. **Key Terms**
      * **Informal institutions**: Institution represented by cultures, ethics, and norms
      * **Ethnocentrism**: A self-centered mentality by a group of people who perceive their own culture, ethics, and norms as natural, rational, and morally right
      * **Culture**: The collective programming of the mind that distinguishes the members of one group or category of people from another
      * **Lingua franca**: A global business language
      * **Social structure**: The way a society broadly organizes its members
      * **Social stratification**: The hierarchical arrangement of individuals into social categories (strata) such as classes, castes, and divisions within a society
      * **Social mobility**: The degree to which members from a lower social category can rise to a higher status
2. CULTURAL DIFFERENCES (LO 3-2, PPT Slides 9–17)
   1. **Key Concepts**
      * Cultural differences can be understood by using three approaches: context, cluster, and dimension.
      * The context approach differentiates cultures based on the underlying background upon which social interaction takes place.
      * The cluster approach groups similar cultures together as clusters and civilizations.
      * Five cultural dimensions have been identified: (1) power distance, (2) individualism/collectivism, (3) masculinity/femininity, (4) uncertainty avoidance, and (5) long-term orientation.
   2. **Key Terms**
      * **Context**: The underlying background upon which social interaction takes place
      * **Low-context culture**: A culture in which communication is usually taken at face value without much reliance on unspoken context
      * **High-context culture**: A culture in which communication relies a lot on the underlying unspoken context, which is as important as the words used
      * **Cluster**: Countries that share similar cultures
      * **Civilization**: The highest cultural grouping of people and the broadest level of cultural identity people have
      * **Power distance**: The extent to which less powerful members within a culture expect and accept that power is distributed unequally
      * **Individualism**: The idea that an individual’s identity is fundamentally their own
      * **Collectivism**: The idea that an individual’s identity is fundamentally tied to the identity of their collective group
      * **Masculinity**: A relatively strong form of societal-level gender role differentiation whereby men tend to have occupations that reward assertiveness and women tend to work in caring professions
      * **Femininity**: A relatively weak form of societal-level gender role differentiation whereby more women occupy positions that reward assertiveness and more men work in caring professions
      * **Uncertainty avoidance**: The extent to which members in a culture accept or avoid ambiguous situations and uncertainty
      * **Long-term orientation**: Dimension of how much emphasis is placed on perseverance and savings for future betterment
   3. **Knowledge Check Activity: 5 minutes total. (PPT Slide 15)**Ask students to complete this short knowledge check.
      * Identify whether each country is considered to exhibit *high* power distance or *low* power distance.
        1. LOW: Croatia—the richest 10% obtains 24% of the national income
        2. HIGH: Botswana—the richest 10% obtains 50% of the national income
3. ETHICS (LO 3-3, PPT Slides 18–23)
   1. **Key Concepts**
      * Ethics is not only an important part of informal institutions but is also deeply reflected in formal laws and regulations. When managing ethics overseas, what is ethical in one country may be unethical in another country. Ethics fights corruption around the world. Three “middle-of-the-road” principles guide managers to make ethical decisions.
   2. **Key Terms**
      * **Ethics**: The principles, standards, and norms of conduct that govern individual and firm behavior
      * **Code of conduct (code of ethics)**: A set of guidelines for making ethical decisions
      * **Ethical relativism**: A perspective that suggests that all ethical standards are relative
      * **Ethical imperialism**: A perspective that suggests that “there is one set of Ethics (with a capital E) and we have it”
      * **Corruption**: The abuse of public power for private benefits, usually in the form of bribery
      * **Foreign Corrupt Practices Act (FCPA)**: A US law enacted in 1977 that bans bribery of foreign officials
      * **Extraterritoriality**: The reach of one country’s laws to other countries
4. NORMS AND ETHICAL CHALLENGES (LO 3-4, PPT Slides 24–25)
   1. **Key Concepts**
      * When confronting ethical challenges, individual firms have four strategic choices: (1) reactive, (2) defensive, (3) accommodative, and (4) proactive strategies.
   2. **Key Terms**

None

1. DEBATES AND EXTENSIONS (LO 3-5, PPT Slides 26–30)
   1. **Key Concepts**

Four debates are examined: (1) Western values versus Eastern values, (2) cultural convergence versus divergence, (3) opportunism versus individualism/collectivism, and (4) cultural distance versus institutional distance

* 1. **Key Terms**
     + **In-group**: Individuals and firms regarded as a part of “us”
     + **Out-group**: Individuals and firms not regarded as a part of “us”
     + **Cultural distance**: The difference between two cultures along identifiable dimensions (such as individualism)
     + **Institutional distance**: The extent of similarity or dissimilarity between the regulator, normative, and cognitive institutions of two countries

1. MANAGEMENT SAVVY (LO 3-6, PPT Slides 31–33)
   1. **Key Concepts**
      * It is important to enhance cultural intelligence.
      * It is crucial to understand and adapt to changing norms globally.
   2. **Key Terms**
      * **Cultural intelligence**: An individual’s ability to understand and adjust to new cultures