CULTURE AND THE ROLE OF DISTANCE

Multinational Corporations and Corporate Control
Lecture 7

Strategic Leadership and Global Management
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GUIDELINE

"Essentially, international management is management of distance" (Zaheer et al. 2012:19). This is the message of our opening slide (slide 3) and the reason why we devote one session to the analysis of distance and, after some initial considerations on a more general level (slides 4-6), thereby espcially focus on the underlying concept of *culture* since about 80 % of all studies on distance have a focus on *cultural distance*. I start with a broad definition and a few general characteristics of culture (slide 7) and then discuss different spheres in which the application of the culture concept may be useful (chart 8). One of these spheres is the company; I therefore bring at least two concepts to your attention, that had a big impact on the discussion and literature of corporate culture (slides 9-10). Then, I outline a number of additional aspects of the culture concept (slides 11-12) and present an overview of academic work that has attempted to identify relevant *dimensions* of culture (slides 13-14). The most well-known study in this direction goes back to Dutch scholar Geert Hofstede; I will put this study therefore at the center of my lecture. Slide 15 gives an overview and slides 16-21 explain the dimensions that Hofstede has used in his empirical work. Slides 22-24 present the empirical results and slide 25 gives an overview of some criticisms that have been raised against Hofstede's study in the literature. Finally, slide 26 shows some possible avenues for further research on culture-related topics that are relevant also from the international business perspective.

Is culture really an independent phenomenon and how is it related to other institutional aspects? Slide 27 provides a summary of some variables, and slides 28-32 show evidence on the impact of the most important economic variable: wealth or, more precisely, GDP per capita.

After having talkes so much about culture, let's come back to cultural distance! On slide 33, I introduce a widely and often controversially discussed approach to measure cultural—maybe not only cultural—distance that goes back to Kogut and Singh, and against this background I provide a stylized comparison of two countries which may be polar types in a distance spectrum: the U.S. and Japan (chart 34). Of course, the question which should be of interest for us is where Germany lies in this spectrum; I will discuss this with the help of slide 35 (additional slides on this topic can be found in the appendix, slides 39-47). Finally, I give you some examples of how the cultural distance idea has been applied in academic research and how it may matter with regard to the internationalization process of business firms (slide 36)

The Hofstede study also implies that national cultures are quiet homogenous. I believe that this is simply not true anymore—we increasingly live in a multi-cultural world, meaning that also within one country a company has to deal with many different cultures. This opens the case for diversity management, an idea which I will briefly discuss with the help of slide 37. A second outlook then refers to the impact of digitalization on the role and importance of culture (slide 38). (We will come back on the digitalization topic in more detail in lecture 11.)

DISTANCE

ZAHEER et al. (2012: 19)

"Essentially, international management is management of distance."

Source: Zaheer, Srilata & Schomaker, Margaret & Nachum, L.. (2012). Distance without direction. *Journal of International Business Studies* 43. 18-27.

DISTANCE

"**Distance** is a numerical measurement of how far apart objects or points are." (Wikipedia)

In the context of international business studies, there are two basic concepts with three properties:

<table>
<tr><td>1. Geographical (physical) distance between two or more locations</td><td>2. Distance as a metaphor for the kinds and varying degrees of differences in context (≈ psychic distance)</td></tr>
<tr><td>

- Symmetric (i.e., the geographic distance between countries A and B is the same as that between countries B and A)

- Continuous

- Stable over time

</td><td>

- Asymmetrical

- Non-continuous

- Can change over time

</td></tr>
</table>

Source: Beugeldsdijk, S., Ambos, B., Nell, P. C. (2018), Conceptualizing and measuring distance in international business research: Recurring questions and best practice guidelines.
Journal of International Business Studies 49, 1113-1137 (p. 1115-1116)

CONCEPTUALIZING "DISTANCE" – PANKAJ GHEMAWAT'S "CAGE" FRAMEWORK AT THE INDUSTRY LEVEL: CORRELATES OF SENSITIVITY (WITH EXAMPLES IN PARENTHESES)

Cultural distance	Administrative distance	Geographic distance	Economic distance
Cultural differences matter the most when ■ Products have high linguistic content (TV programs) ■ Products matter to cultural or national identity (foods) ■ Product features vary in terms of - Size (cards) - Standards (electrical equipment) ■ Products carry country-specific quality associations (wines)	Government involvement is high in industries that are ■ Producers of staple goods (electricity) ■ Producers of other "entitlements" (drugs) ■ Large employers (farming) ■ Large suppliers to government (mass transportation) ■ National champions (aerospace) ■ Vital to national security (telecommunications) ■ Exploiters of natural resources (oil, mining) ■ Subject to high sunk costs (infrastructure)	Geography plays a more important role when ■ Products have a low value-to-weight or value-to-bulk ratio (cement) ■ Products are fragile or perishable (glass, fruit) ■ Local supervision and operational requirements are high (many services)	Economic differences have the biggest impact when ■ The nature of demand varies with income level (cars) ■ The economics of standardization or scale are limited (cement) ■ Labor and other factor cost differences are salient (garments) ■ Distribution or business systems are different (insurance) ■ Companies need to be responsive and agile (home appliances)

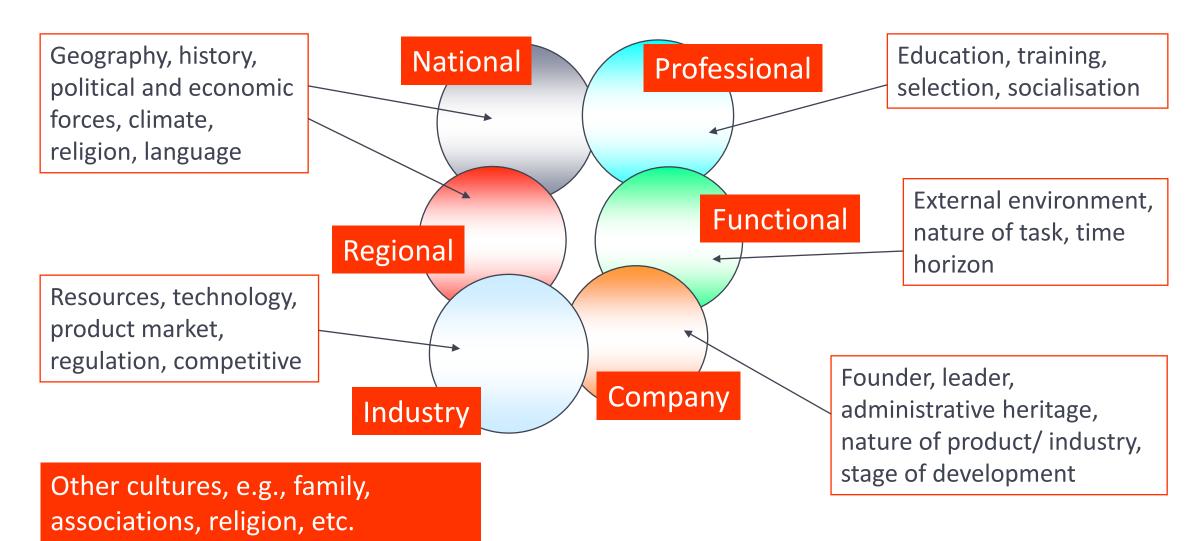**In the following, we will focus on *cultural* distance.**

CULTURE IS "THE COLLECTIVE PROGRAMMING OF THE MIND WHICH DISTINGUISHES MEMBERS OF ONE GROUP OR CATEGORY OF PEOPLE FROM ANOTHER"

- Culture is not innate, it is learned

- Culture is transmissible

- Culture is dynamic

- Facets of culture are interrelated
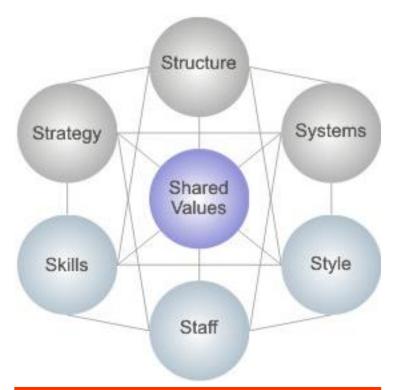
- Culture is ethnocentric

Source: Hofstede, G. (1991/1994) *Cultures and Organizations: Software of the Mind*. London: HarperCollinsBusiness, p. 5

INTERACTING SPHERES OF CULTURE

Geography, history, political and economic forces, climate, religion, language

National

Professional

Education, training, selection, socialisation

Regional

Functional

External environment, nature of task, time horizon

Resources, technology, product market, regulation, competitive

Industry

Company

Founder, leader, administrative heritage, nature of product/ industry, stage of development

Other cultures, e.g., family, associations, religion, etc.

COMPANY CULTURES: WHERE IT ALL BEGAN – THE MCKINSEY 7S MODEL

Preference for "strong cultures"

Source: Peters, T./Watermann, R. (1982) In Search of Excellence. New York: Harper & Row

1. **Strategy**
The integrated vision and direction of the company as well as the manner in which it communicates and implements that vision and direction.

2. **Structure**
The form of the organizational chart and interconnections between positions in the organizational hierarchy.

3. **Systems**
The procedures and routine processes required to perform the work , including the ways information moves through the organization.

4. **Staff**
The personnel categories within the organization, e.g. marketeers, engineers.

5. **Style**
The characterization of the ways key managers set priorities and behave in order to achieve the organization's goals.

6. **Skills**
The distinctive capabilities of the organization as a whole.

7. **Shared Values**
The core beliefs underlying the organization's existence and its expectations of its members. Values act as an organization's conscience and provide guidance in times of crisis.
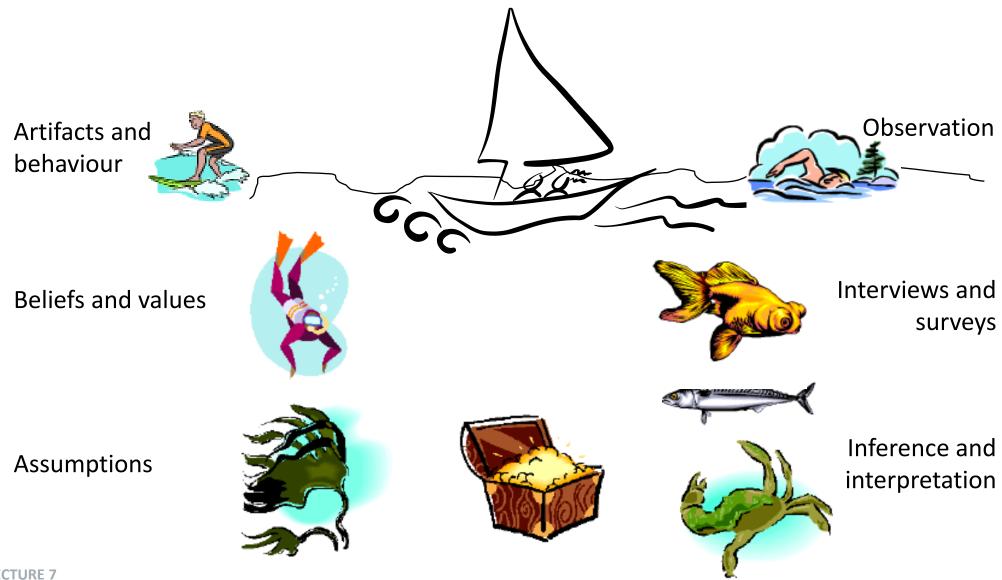
CULTURE TYPES ON THE COMPANY LEVEL

		Risk	
		Low	**High**
Feedback and reward	**Rapid**	**Work-hard, play-hard culture** ▪ Real estate ▪ Computers ▪ Car dealers	**Tough-guy macho culture** ▪ Construction ▪ Entertainment ▪ Management consulting
	Slow	**Process culture** ▪ Banks and insurance companies ▪ Utilities	**Bet-the-company culture** ▪ Oil ▪ Architects ▪ Capital goods

Source: Deal, T./ Kennedy, A. (1982) *Corporate Cultures: Rites and Rituals of Corporate Life.* Boston (Mass.): Addison Wesley

LEVELS OF CULTURE AND METHODS FOR DISCOVERY

Artifacts and behaviour

Observation

Beliefs and values

Interviews and surveys

Assumptions

Inference and interpretation

CAN ORGANIZATIONAL CULTURE BE ALTERED?

Three different points of view

Culturalist	Realistic	Technocratic
- Culture is seen as something that evolved and is hard to change - Attempts for change will be considered as inappropriate interference with precious traditions	- Culture is to be interpreted by its path dependency - Criticism on culture will lead to attempts for change - Long-winded process with incremental changes	- Assumption of absolute control and the possibility to comprehensively alter business culture - Culture as a company's subsystem, which might be altered like other subsystems

OVERVIEW OF CROSS-CULTURAL FRAMEWORKS (I/II)

	Hofstede framework	Schwartz value survey	Globe	WVS-EVS
Key references	Hofstede (1980, 2001), Hofstede et al. (2010)	Schwartz (1994, 1999, 2006)	House et al. (2004)	Inglehart (1990, 1997), Inglehart & Baker (2000)
Mostly used in	Cross-cultural psychology, Management	Cross cultural psychology, Management	Management	Sociology, Political science, Economics
Respondents	117,000	75,148	7794[a]	495,000
Sample	IBM employees (4 dimensions) and stratified samples of adults (2 dimensions)	Teachers and students	Middle managers	Stratified samples of adults
Country coverage	70 for first 4 dimensions 62 for all 6 dimensions	71	58	110
Year coverage	1968-1972 for IBM data 2000s for 5th and 6th dimensions	1988–2005	1995–1997	1981-2014 with irregular intervals
Availability of individual "raw" data	No	Yes, publicly available from Israeli Science Foundation	No, not made available	Yes, publicly available from the WVS and EVS website
Number of dimensions	4 + 2 Two dimensions were added 40 years later	7[b]	9 (×2) Globe distinguishes between values and practices	Not predefined; Inglehart (1990) defined two
Nature of questions	1–5 scale	1–7 scale	1–7 scale	A mix of 1–10; 0–1; 1–4

Source: Beugeldsdijk et al. (2018), p. 1132

OVERVIEW OF CROSS-CULTURAL FRAMEWORKS (II/II)

	Hofstede framework	Schwartz value survey	Globe	WVS-EVS
Cultural dimensions	1. Collectivism–Individualism	1. Harmony	1. Uncertainty Avoidance	Inglehart defined two:
	2. Power Distance	2. Embeddedness	2. Future Orientation	1. Traditional-secular/ rational
	3. Masculinity	3. Hierarchy	3. Power Distance	2. Survival-self-expression
	4. Uncertainty Avoidance	4. Mastery	4. Institutional Collectivism	
	5. Long-term orientation	5. Affective Autonomy	5. Humane orientation	
	6. Indulgence versus Restraint	6. Intellectual Autonomy	6. Performance Orientation	
	Dimensions 5 and 6 were added later.	7. Egalitarianism	7. In-group Collectivism	
			8. Gender Egalitarianism	
			9. Assertiveness	

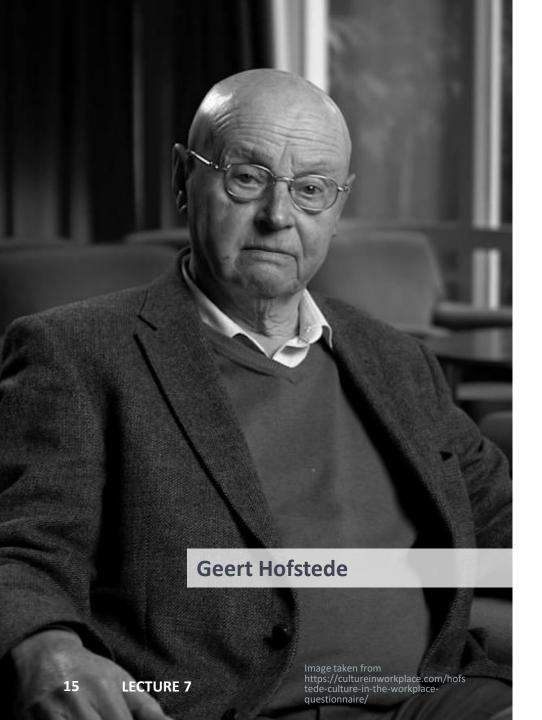[a] House et al. (2004) mention a total of 15,000, but it should be noted that approximately half of this sample has been used to collect data on leadership, and 7794 respondents for the survey on national cultural values. Of these 7794 respondents, Sweden stands out with a total of 895 respondents (based on personal communication from Paul Hanges).

[b] Note that Schwartz (1994, 1999, 2006) distinguishes between personal values and national cultural (societal) orientations. The number of dimensions and the meaning of those dimensions are not the same at the individual and societal level. At the societal level, Schwartz conceptualizes cultural values as "the normative value emphases that underlie societal functioning" (Schwartz, 2011: 314). Here, we refer to the seven national cultural orientations (Schwartz, 2006). For a recent analysis discussing Schwartz' two frameworks in the context of internationalization strategy, see Verbeke, Yuan & Kano (in press). Hofstede has stated explicitly that his framework is a national cultural framework and thus cannot be used at the individual level (Hofstede, 2001).

In the following, we will focus on *Hofstede's* study.

Hofstede's study (1980)

Survey of 116.000 employees in one company (IBM) in 60 (full data-set only for 40) countries

Six dimensions to measure culture:

- Power distance

- Collectivism versus individualism

- Uncertainty avoidance

- Femininity versus masculinity

- Long-term orientation[1]

- Indulgence[2]

Geert Hofstede

1) This dimension was added in a follow-up study (Franke et al., 1991).

2) This dimension was introduced in a book by Michael Milken (2007) and transformed into the scale spectrum by Hofstede in 2010.

POWER DISTANCE

The extent to which people accept that power is distributed unequally

- How frequently, in your experience, does the following problem occur: employees being afraid to express their disagreement with their managers?

- Do you feel that your leader's decisions are made autocratic or paternalistic?

- Would you like your leader to make decisions in an autocratic or paternalistic way?

Power distance or tolerance for power differences?

Source: based on Hofstede (1991)

COLLECTIVISM VS. INDIVIDUALISM

The degree to which individuals are integrated into groups

- How important is it to you to have a job that leaves you sufficient time for your personal or family life?

- How important is it to you to have considerable freedom to adapt your own approach to the job?

- How important is it to you to be confronted with challenging tasks whose fulfilment give you the feeling of achievement?

Source: based on Hofstede (1991)

FEMININITY VS. MASCULINITY

... refers to the distribution of roles between the sexes

Femininity	Masculinity
▪ How important is it to you to have a good working relationship with your manager? ▪ How important is it to you to work with people who cooperate well with one another? ▪ How important is it to you and your family to live in a nice and friendly environment? ▪ How important is it to you to feel safe about your job and to keep this job as long as you want it?	▪ How important is it to you to have an opportunity for high earnings? ▪ How important is it to you to get the recognition you deserve when you do a good job? ▪ How important is it to you to achieve higher positions in the company's hierarchy? ▪ How important is it to you to be challenged by your work and to have a satisfying job?

Source: based on Hofstede (1991)

UNCERTAINTY AVOIDANCE

**The society's tolerance
for uncertainty or ambiguity**

- How often do you feel nervous or under stress at the workplace?

- Company rules should not be broken, even if the employee thinks it is in the company's best interest?

- How long do you think you will continue working for this company?

Source: based on Hofstede (1991)

LONG-TERM ORIENTATION

= time horizon people have in mind when they think about the future

- Quarterly results are more important than long-term development of the company?

- Responsibility for future generations?

This dimension has different interpretations. Michael Bond, who was involved in the follow-up study that included this fifth dimension, termed it "Confucian dimension".

Source: Frank, R./ Hofstede, G./ Bond, M., Cultural Roots of Economic Performance: A Research Note. *Strategic Management Journal* 12 (1991), Special Issue (Summer), S. 165-173

INDULGENCE

In an indulgent culture it is good to be free. Doing what your impulses want you to do, is good. Friends are important and life makes sense.

In a restrained culture, the feeling is that life is hard, and duty, not freedom, is the normal state of being.

CULTURES CAN BE VERY DIFFERENT – RESULTS OF THE HOFSTEDE'S STUDY
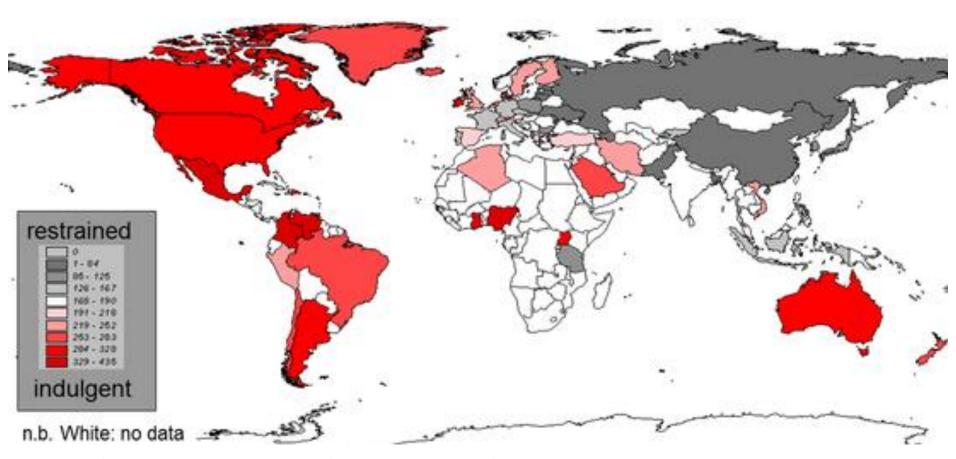
		PD	IND	UA	MAS	LTO
USA		40	91	46	62	29
Europe						
	Germany	35	67	65	66	31
	France	68	71	86	43	30
	England	35	89	35	66	25
	Sweden	31	71	29	5	33
Asia						
	Japan	54	46	92	95	80
	Taiwan	58	17	69	45	87
	South Korea	60	18	85	39	75

PD = Power Distance, IND = Individualisms, UA = Uncertainty Avoidance, MAS = Masculinity, LTO = Long-term Orientation

INGULDENCE: DATA
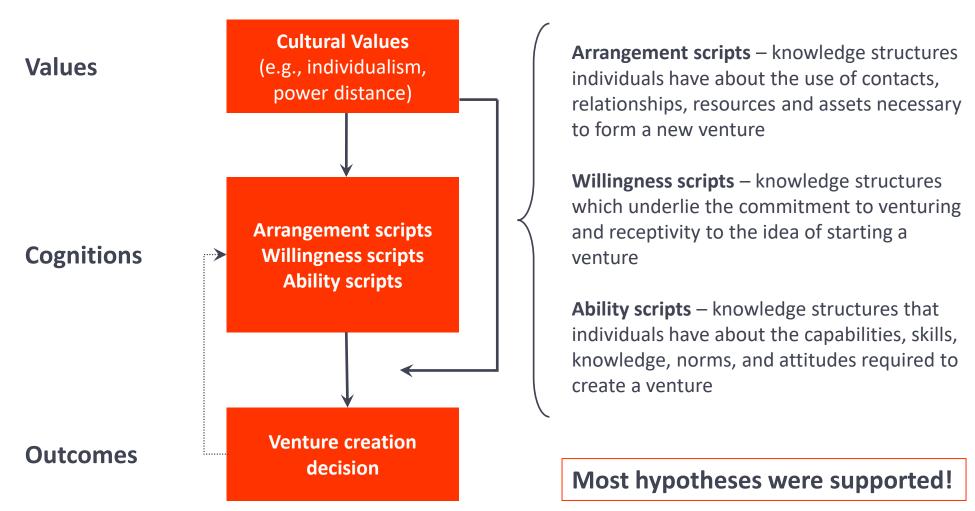
Indulgence – Restraint World map (based on WVS)

restrained

	0
	1 - 84
	85 - 125
	126 - 167
	168 - 190
	191 - 218
	219 - 262
	263 - 283
	284 - 328
	329 - 435

indulgent

n.b. White: no data

AN EXAMPLE OF HOW CULTURES INFLUENCE BEHAVIOR AND OUTCOMES
Culture and entrepreneurship – a study by Mitchell et al. (2000)
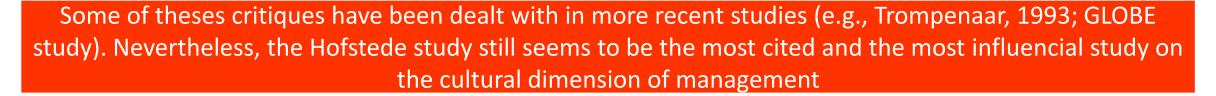
Values

Cultural Values
(e.g., individualism, power distance)

Cognitions

Arrangement scripts
Willingness scripts
Ability scripts

Outcomes

Venture creation decision

Arrangement scripts – knowledge structures individuals have about the use of contacts, relationships, resources and assets necessary to form a new venture

Willingness scripts – knowledge structures which underlie the commitment to venturing and receptivity to the idea of starting a venture

Ability scripts – knowledge structures that individuals have about the capabilities, skills, knowledge, norms, and attitudes required to create a venture

Most hypotheses were supported!

Source: Mitchell, R.K., Smith, J.B., Seawright, K.W., Morse, E.A. (2000), Cross-cultural cognitions and the venture creation decision. Academy of Management Journal 43, pp. 974-993.

CRITICAL POINTS REGARDING HOFSTEDE'S STUDY

- Results may be biased due to focusing only on one company which, in addition, may have a particularly strong company culture (IBM)

- Dimensions may be biased by western culture

- Hofstede is interested in cultural values, but his questionaires are mainly focused on behavioral aspects

- The managerial context is not necessarily generalizable to the overall country culture

- Dimensions are not clearly defined and have overlaps

- It may be questionable whether cultural phenomena can be identified by pure statistical measures. Hofstede offers no "thick descriptions"

- Countries = Cultures??

Some of theses critiques have been dealt with in more recent studies (e.g., Trompenaar, 1993; GLOBE study). Nevertheless, the Hofstede study still seems to be the most cited and the most influencial study on the cultural dimension of management

POSSIBLE FUTURE RESEARCH DIRECTIONS: SUGGESTIONS BY KIRKMAN ET AL. (2017)

Updated future research directions for the next decade	Examples
1. Broaden the conceptualization and operationalization of culture	Researchers should include non-value aspects of culture, such as beliefs and norms; the Situated Dynamics Framework (Leung & Morris, 2015) can be used to move beyond values
2. Explore other "containers" of culture besides country	Researchers should not assume that culture equals country; Taras et al. (2016) found that of 17 potential containers, country was only the 15th best container of culture
3. Consider and incorporate multiculturalism	Most individuals cannot be characterized as belonging to only one culture; individuals may simultaneously identify with multiple cultural affiliations that can create tension or serve as a source of advantage
4. Investigate cultural change	Culture cannot be assumed to be a static, stable phenomenon; rapid economic changes and large-scale migration patterns have resulted in many changes in cultural composition
5. Move beyond self-report, survey-based assessments of culture and isolating only one or two values	Alternatives include: discrete choice, experimental economics, policy capturing, and vignettes; cultural assessments should complement, not supplement, one another
6. Expand the focus on cultural value effects at the group/organization level	With global virtual teamwork ever-increasing, researchers should try to understand how members of these teams navigate their cultural differences to build highly effective teams
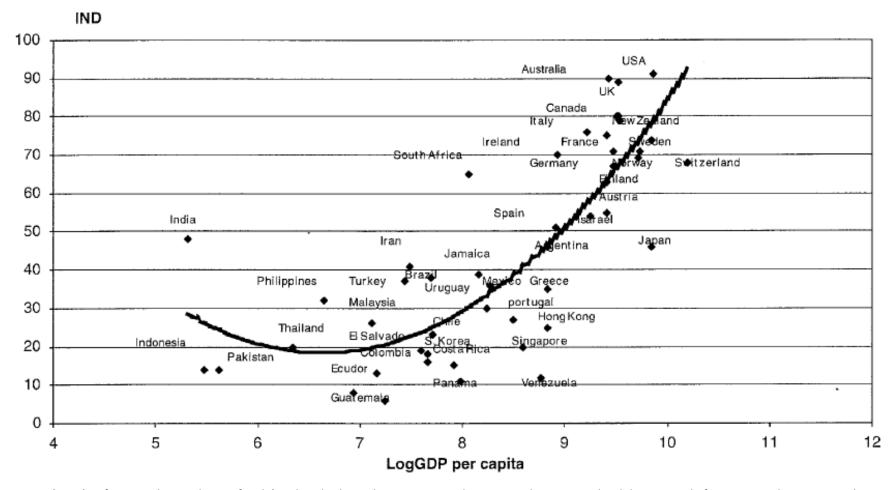
THE CRITICAL QUESTION: WHAT DETERMINES THE INDICES? A SUMMARY OF INSTITUTIONAL VARIABLES

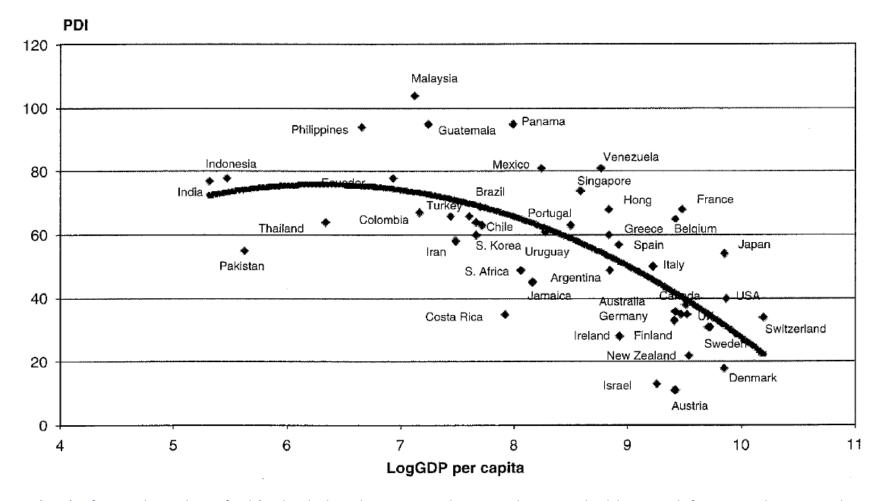| Institutional variable	Relations to Hostede's indices
Religion	Roman Catholicism, Islam, and Hinduism tend to have high power distance whereas Protestantism prefers low power distance. Catholicism has high uncertainty avoidance whereas Protestantism, Buddhism and Islam have low uncertainty avoidance. Catholic traditions are more masculine than Protestant traditions. Religion can affect individualism through the belief of individual relationship with God.
Language	Language is an important element to define cultural clusters. In particular, countries that use pronoun drop languages (Arabic, Spanish, and most Asian languages) have lower individualism and higher power distance scores. The languages with more than two second-person singular pronouns (Arabic, German, and Spanish) have higher uncertainty avoidance measures.
Climate	Warm climate favors masculine culture and high power distance.
Ethnic heterogeneity	Ethnic diversity matters for cultural dimensions. Collectivism is associated with homogenous cultures. Countries with more immigrants have lower power distance.
Legal system	High uncertainty avoidance is associated with many and precise laws and regulations in a country.
Female labor participation	Masculinity reflects gender difference in work-related values.
Confucianism	The philosophy of Confucius has significant impact on the long-term orientation of East Asian countries.

Source: adapted from Tang, L. & Koveos, P. E. (2008), A framework to update Hofstede's cultural value indices: economic dynamics and institutional stability. *Journal of International Business Studies* 39, pp. 1045-1063 (p. 1049)

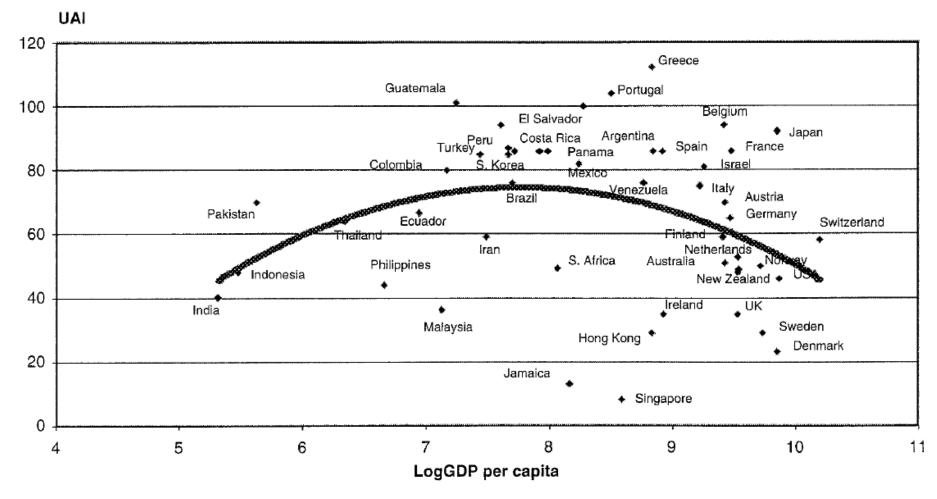# DO ECONOMIC VARIABLES (GDP PER CAPITA) ALSO HAVE AN IMPACT? 1—INDIVIDUALISM AND LOG GDP PER CAPITA

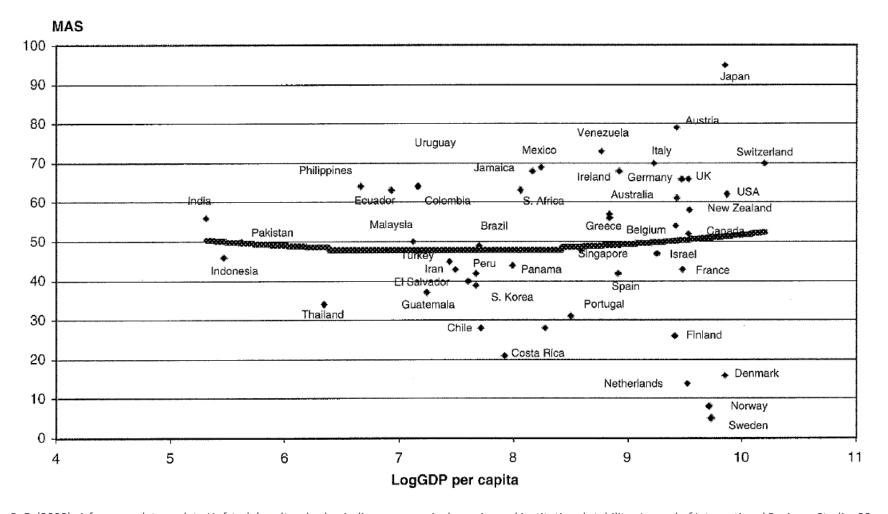# DO ECONOMIC VARIABLES (GDP PER CAPITA) ALSO HAVE AN IMPACT? 2—POWER DISTANCE AND LOG GDP PER CAPITA

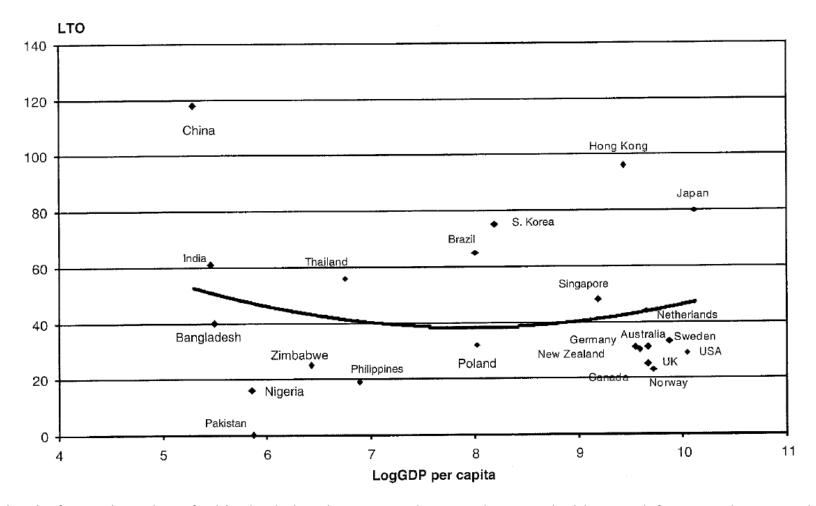# DO ECONOMIC VARIABLES (GDP PER CAPITA) ALSO HAVE AN IMPACT? 3—UNCERTAINTY AVOIDANCE AND LOG GDP PER CAPITA

Source: Tang, L. & Koveos, P. E. (2008), A framework to update Hofstede's cultural value indices: economic dynamics and institutional stability. *Journal of International Business Studies* 39, pp. 1045-1063

DO ECONOMIC VARIABLES (GDP PER CAPITA) ALSO HAVE AN IMPACT? 4—MASCULINITY AND LOG GDP PER CAPITA

DO ECONOMIC VARIABLES (GDP PER CAPITA) ALSO HAVE AN IMPACT? 5—LONG TERM ORIENTATION AND LOG GDP PER CAPITA

COMING BACK TO THE "DISTANCE" ISSUE: CULTURAL DISTANCE—TOWARDS AN INDEX*

$$CD_j = \sum \{(I_{ij} - I_{iu})^2 / V_i\} / n$$

Where CD_j is the cultural differences of the jth country from the country of interest (e.g., Germany), I_{ij} represents the index of the ith cultural dimension and the jth country, u stands for the country of interest, V_i is the variance of the index of the ith dimension, and denotes the number of dimensions that are integrated.

Cultural distance = psychic distance = geographic distance?

* This index originally goes back to Kogut, B. & Singh, H. (1988), The effect of national culture on the choice of entry mode. *Journal of International Business Studies* 19, pp. 411-432, and his still highly disputed, as three articles in *Journal of International Business Studies* 49 (2018) show.

THE U.S AND JAPAN—AND GERMANY IN-BETWEEN?

Recall, for example, Hofstede's dimensions!

THE U.S AND JAPAN – AND GERMANY IN-BETWEEN?

Contextual factor	Sequence: USA-GER-JPN		Other sequence		Total		GER closer to USA		GER closer to JPN	
1.1 General cultural characteristics	33	0,80	8	0,20	41	1,00	35	0.85	6	0,15
1.2 Geert Hofstede dimensions	3	0,75	1	0,25	4	1,00	3	0,75	1	0,25
1.3 F. Trompenaars dimensions	4	0,80	1	0,20	5	1,00	2	0,40	3	0,60
2.1 Economic system	31	0,88	4	0,12	35	1,00	9	0,26	26	0,74
2.2 Socio-demographic factors	11	1,00	0	0,00	11	1,00	6	0,55	5	0,45
2.3 Educational system	**17**	**0,50**	**17**	**0,50**	**34**	**1,00**	**16**	**0,47**	**18**	**0,53**
3.1 Macroeconomic factors	15	0,71	6	0,29	21	1,00	6	0,29	15	0,71
3.2 Market characteristics	24	0,83	5	0,17	29	1,00	8	0,28	21	0,72
3.3 Industrial relations	**10**	**0,35**	**19**	**0,65**	**29**	**1,00**	**14**	**0,48**	**15**	**0,52**
4.1 Management principles	39	0,95	2	0,05	41	1,00	15	0,37	26	0,63
4.2 Organisational structure	15	0,79	4	0,21	19	1,00	12	0,63	7	0,37
4.3 Significance of HRM for management	**6**	**0,40**	**9**	**0,60**	**15**	**1,00**	**11**	**0,73**	**4**	**0,27**
Total		**0,73**	**76**	**0,27**	**284**	**1,00**	**137**	**0,48**	**147**	**0,52**

Source: Pudelko (2005)

TYPICAL HYPOTHESES THAT STEM FROM THE (CULTURAL) DISTANCE IDEA

Cultural distance and the launch/sequence of foreign investments

1. Firms are less likely to invest in culturally distant markets.

2. Firms tend to progressively expand from their home base into countries with greater cultural/psychic distance.

Cultural distance and entry mode

1. Firms tend to incrementally increase in investment commitment from exports into FDI. This evolution may occur in tandem with the increase in cultural/psychic distance.

2. The higher the cultural/psychic distance, the more control the MNE is likely to maintain over its foreign operations.

3. Multinationals prefer to enter culturally distant countries through greenfields rather than through acquisitions.

Cultural distance and affiliate performance/knowledge transfer & interrelationships
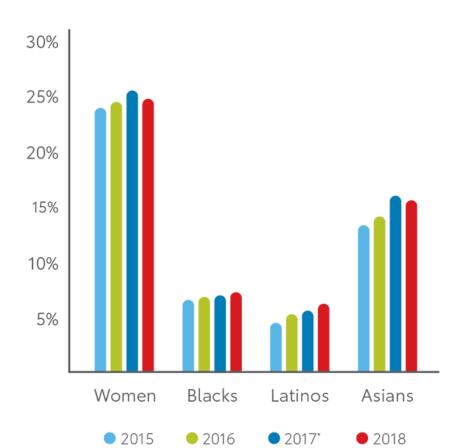
1. The higher the psychic/cultural distance, the more limited the ability of a MNE to generate rent when entering new domains.

2. The higher the cultural/psychic distance, the more difficult it is to develop trust and productive relationships, which in turn reduce the amount of knowledge transfer

Empirical insights?

Sources: Based on Shenkar, O. (2001), Cultural distance revisited: Towards a more rigorous conceptualization and measurement of cultural differences. *Journal of International Business Studies* 32, pp. 519-535; Hutzschenreuter, T., Kleindienst, I., & Lange, S. (2016) The Concept of Distance in International Business Research: A Review and Research Agenda. *International Journal of Management Reviews* 18, pp. 160-179

FINAL THOUGHTS (1):
DIVERSITY AT TOYOTA—EMPLOYMENT

30%
25%
20%
15%
10%
5%

Women Blacks Latinos Asians

● 2015 ● 2016 ● 2017* ● 2018

"**Our commitment to diversity and inclusion isn't purely an internal or talent initiative—it's part of our DNA as a company.**"

Sandra Phillips Rogers, chief diversity officer

Diversity creates opportunities for new partnerships and gives Toyota access to the best and the brightest…

We recognize the need to continue expanding the diversification of our management ranks. To locate minority candidates for employment, we use several search firms, and we also make diversity a significant part of our college recruiting strategies.

Source: https://toyotadiversityreport.com/; https://pressroom.toyota.com/top-reasons-why-toyota-leading-company-diversity/.
For the 2023 Diversity & Inclusion Report, see https://toyotaeffect.com/assets/Documents/TOY_2023DIAnnualReport.pdf

FINAL THOUGHTS (2): CULTURE AND "BORN DIGITAL GLOBALS"

"... a quick reflection on the field of cross-cultural management, and the importance of cultural differences to the activities of born-digital firms. It goes without saying that 'culture matters,' still but based on what I have seen it matters very little in these types of organizations. They have no legacy employees to worry about. They hire mostly from WEIRD (western educated, industrialized, rich developed; Henrich, Heine, & Norenzayan, 2010) countries, they assume English language proficiency, they prefer MBA-educated people in their senior roles, all of whom have been educated in similar ways, and they also have strong organizational cultures of their own. All of which enables them largely to transcend national cultural differences. Those born-digital firms based in North America and Europe tend to be cosmopolitan in their outlook, very sensitive to equality, diversity, and inclusion issues, but at the same time, they make very few concessions to the sensitivities of any particular national culture."

MULTINATIONAL CORPORATIONS AND CORPORATE CONTROL
LECTURE 6

APPENDIX
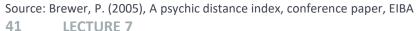
LITERATURE ON PSYCHIC DISTANCE—AN OVERVIEW (1)

Authors	Research objective	Psychic distance conceptualisation	Psychic distance operationalisation	Research results
Chetty and Campbell-Hunt (2004) JIM	To examine the differences between traditional and born global internationalisation processes	**Differences** from the home country in terms of language, culture, political system, business practice, industrial development and education systems.	Qualitative case studies, psychic distance measures are assumed, eg New Zealand, UK, USA, Australia are close.	Psychic distance theory applies to born global firms
Pedersen and Petersen (2004) JIM	To test the changes in perceived market familiarity by firms over time	The extent to which the particular market of the foreign operation **differs** from existing, well known markets	Survey of 485 managers of companies in Denmark, Sweden and New Zealand.	Supports the existence of psychic distance paradox.
Hassel and Cunningham (2004) JIAR	To investigate the impact of psychic distance on management control of MNE's	A combination of geographic distance and cultural **differences**	Adaptation of Nordstrom (1991) measures which were based on a survey of 100 Swedish managers.	Greater psychic distance generates greater budgetary control in MNE's
Evans & Mavondo (2002) JIBS	Investigate the relationship between psychic distance and organizational performance in the retail industry	The distance between the home market and a foreign market, resulting from the perception of both **cultural and business differences**	Survey of 103 managers in non-food retailers in US, EU and Asia/Pacific.	Supports the existence of a psychic distance paradox. Performance and psychic distance are inversely related.
Child, Ng and Wong (2002) ISMO	Re-examine the concept of psychic distance using Hong Kong based case studies	**Differences** in languages, culture, political systems, level of education and level of development	Perceptions of managers in 5 Hong Kong based firm case studies.	Supports the role of psychic distance in FDI but suggest that national culture has been over-emphasized as a determinant.
Kim and Rhee (2001) IJM	Investigate the link between psychic distance and FDI decisions	The degree to which a firm is uncertain about a foreign market resulting from **cultural differences** that present barriers to learning about the market	Survey of perceptions of Korea from managers in 25 Japanese firms, 36 American firms and 74 continental European firms.	The greater the cultural (psychic) distance the greater the probability the firm will select FDI entry mode
Evans, Treadgold and Mavondo (2000b) IMR	Explain the variations in the performance of international retail operations	The distance between the home market and a foreign market, resulting from the perception of both **cultural and business differences**	Conceptual paper.	Identifies a number of factors including psychic distance are associated with performance.
Stottinger & Schlegelmilch (2000) IMR	Empirical testing of the effect of psychic distance on exporter behaviour	The **perceived foreignness** of international markets, **cultural proximity**	Interviews/questionnaires with 104 US managers to determine perceptions.	Questions the empirical usefulness of the psychic distance concept.

Source: Brewer, P. (2005), A psychic distance index, conference paper, EIBA

LITERATURE ON PSYCHIC DISTANCE—AN OVERVIEW (2)

Evans, Treadgold and Mavondo (2000a) IMR	Operationalisation of psychic distance	Measure the distance between home and the foreign market resulting from the perception of **cultural and business differences**	Conceptual paper.	Argues for the inclusion of managers' perceptions as well as actual differences
Conway and Swift (2000) EJM	Examine the role of psychic distance in relationship marketing	The extent to which the norms and values of the two companies **differ** because of their separate national identities	Conceptual paper.	The higher the level of psychic distance the greater the effort required in relationship marketing
Dow (2000) JIM	Psychic distance as a predictor of IMS	Communication difficulties encountered…in foreign markets…arising from large geographic distances, time zone **differences**, or **differences** in language, culture, laws and business practices	Perceptions of an expert panel of 10 Australian Trade Commissioners.	Psychic distance is a highly significant predictor of early IMS.
Swift (1999) IMR	That cultural closeness is an indirect determinant of psychic closeness	A combination of cultural distance, plus mistrust plus social distance	Questionnaire survey of perceptions of 276 managers in England.	Countries which engender the greatest level of psychic distance are those that **are culturally most different**
Lee (1998a) JGM	Modelling cultural distance in relationships between exporters and importers	**Difference** between home country and the target country in terms of language, business practices, legal and political systems and marketing infrastructure.	105 Australian exporters' perceptions of Korea measured by questionnaire.	Psychic (cultural) distance affects opportunism positively and exporting performance negatively.
Fletcher & Bohn (1998) IBR	To improve understanding of the firm's internationalisation process	**Cultural distance (cultural differences)** is used as a proxy for psychic distance	Adaptation of Kogut and Singh (1988) formula which was based on Hofstede's survey results.	Psychic distance is an important factor impacting on a firm's involvement in international markets.
O'Grady and Lane (1996) JIBS	To examine firm performance against psychic distance	A firm's degree of uncertainty about a foreign market resulting from **cultural differences** and other business difficulties	Questionnaire on perceptions on cultural differences from 180 managers in Canada and 91 managers in the USA.	A paradox emerges, psychic distance is inversely related to performance

THE U.S. AND JAPAN AS POLAR TYPES (1)

USA	Cultural context	Japan
Individualistic, self-assertive, individual freedom, opposing interests	**General characteristics**	Collective, consensus and cooperation oriented, embeddedness in society, harmony
Low power distance, low uncertainty avoidance, very high individualism and high masculinity	**Geert Hofstede: Culture's Consequences**	High power distance, very high uncertainty avoidance, low individualism and very high masculinity
Universalism, individualism, emotional relations, specific culture	**Fons Trompenaars: Riding the waves of cultures***	Particularism, collectivism, neutral relations, vague culture

* Not elaborated in this presentation.

THE U.S. AND JAPAN AS POLAR TYPES (2)

USA	Socio-political context	Japan
Little government interference in the market, distrust of powerful institutions, adversarial relations among and no shared responsibility of all economic players	**Economic system**	Much government interference in the market, trust of powerful national institutions, cooperation among and shared responsibility of all economic players
Job market requires little stability of socio-demographic factors, little conformity to traditional roles, strong heterogeneity of employees	**Socio-demographic factors**	Job market requires much stability of socio-demographic factors, high conformity to traditional roles, relative homogeneity of employees
Stress on creativity and independent thinking, top universities and top-educated graduates responsible for high competitiveness in tech sectors, neglect of mass education responsible for lower competitiveness in low tech sectors	**Educational system**	Stress on group integration, insufficient top universities and top-educated graduates responsible for lower competitiveness in high tech sectors, good mass education responsible for high competitiveness in middle tech sectors

THE U.S. AND JAPAN AS POLAR TYPES (3)

USA	Economic context	Japan
Remuneration is based on market forces, resulting in low unemployment but also in 'working poor'	**Macro economic factors: Distribution of work and income**	Remuneration and employment for the core workforce is based on the collective will to be fair to all
Consumer orientation, pursuing the 'American Dream', lower average standard of product and production technologies in middle value-added industries, but high standard in high value added and service industries because of high performers, high importance of shareholder value, innovative start-ups	**Market characteristics**	Producer orientation, promoting 'Japan Inc.', high average standard of product and production technologies in middle value-added industries, but lower standard in high value added industries because of lack of high performers, little importance of shareholder value due to bank lending, few innovative start-ups
Strongly adversarial, formalised and standardised industrial relations	**Industrial relations**	Cooperative, little formalised and standardised industrial relations

THE U.S. AND JAPAN AS POLAR TYPES (4)

USA	Managerial context	Japan
High importance of short-term financial objectives in order to increase shareholder value, management strategies, structures, systems and techniques as well as top-managers of importance	**Management principles**	Financial and non-financial objectives of importance in order to secure long-term survival, independence and growth of the company which is in the interest of all stakeholders, all those in the production process are valued
High importance of top-management and individual decision making responsibility allows for quick strategy changes, functional specialists, pyramid corporate structure	**Organizational structure**	Top management mediates between various proposals, status quo and stability orientation, cross-departmental thinking, network-like corporate structure
Low importance of HR department compared to other departments and compared to line management, stress on management, less on the human resources themselves	**Significance of HRM for overall management**	High importance of HR department compared to other departments and compared to line management, stress on both management and on the human resources

THE U.S. AND JAPAN AS POLAR TYPES (5A)

USA	HRM	Japan
Finding the best qualified person for a specific job (job-oriented), high labour turnover	**Recruitment and release of personnel**	Finding the person who fits best for the company (people-oriented), lifelong employment
Training focused on specific, limited knowledge for individuals for narrowly defined tasks (specialist training)	**Training and development**	Widespread, extensive and group-oriented training for broadly defined tasks (generalist training)
Individual achievements and quantifiable criteria of importance (results oriented), specialist career path	**Employee assessment and promotion criteria**	Seniority and contribution to collective achievements of importance (behaviour-oriented), generalist career path

THE U.S. AND JAPAN AS POLAR TYPES (5B)

USA	HRM	Japan
Primarily material incentives, pay based on individual achievements, significant pay differences	**Employee incentives**	Material and immaterial incentives, pay based on seniority, little pay differences
Primarily vertical, structured and efficient	**Communication within the company**	Primarily horizontal, unstructured and extensive
Top-down, authoritative, individual, confrontational and based on hard facts	**Decision making within the company**	Bottom-up, participative, collective, consensus-oriented and based on soft facts
Specific, task-oriented, based on regulations	**Superior-subordinate-relationship**	Holistic, person-oriented, based on common values