



Globalization and its Effect on International Business

Andrea Herrmann
Wilkes-Barre, PA 18702
Andrea.Herrmann@simona-america.com

The ongoing globalization increases the overall need for knowledge of cultural differences between not only countries but also corporate cultures. More and more employers start transferring their experts from country to country to help build new subsidiaries or to support existing ones in certain projects (Beaverstock, 2012). Their success is closely linked to not only the obvious need for language skills but also the understanding of sub cultural influences, different communication styles and social behaviors of each society. But in many companies these challenges have not been addressed yet. In a lot of cases experts/employees are transferred to foreign subsidiaries with almost no cultural training based on the erroneous assumption that the subsidiary cannot be too different from the home countries and its headquarters culture.

To understand the effects of globalization we will take a look at the two possible definitions of globalization. Per A.G. Frank in his book 'ReOrient: Global Economy in the Asian Age' globalization is "either a conceptualized modern phenomena involving the breakdown of borders, the emergence of new technologies and a mix of different cultures or a phenomena with a long history which dates back to the first known connections between countries and people in the world...". With this definition the questions arises if globalization and the freedom of trade and travel actually existed before all the boarders were set up and trade regulations have been put in place. It also raises the question why these regulations and boarders have been set up in the first place whywe start tearing them down a couple of centuries later. Was it based on fear to be invaded or was to protect the own economy?

Anyways, these are questions to be answered at another time, coming back to the present – globalization is happening and it is happening very fast due to the improvement of technology, the faster communication as well as the fast travel possibilities via cars, ships and aircrafts. The actual status of globalization can be



described by three major changes. First of all we all see the change in job markets. The search for multilingual personnel increases, people moving from country to country for jobs or traveling all over the world for their businesses. Also the internet business seem to have a major effect on competition and market developments as the actual location of a company does not really matter anymore. Looking at the increased international travel and moving activities it seems that traditional cultures move more and more into the background. People adapt to world habits. Looking around in our societies the entertainment industry seems to conglomerate to an international mix of music and movies which is available everywhere, international food choices are available in almost every town or city. Also most of the larger cities have multilingual habitants and a variety of different religions. Furthermore we see developments of subcultures within countries or even cities. Subcultures meaning that there are places in a country or a city which keep holding on to their original culture and get not touched by the change of their environment. A perfect example for this would be the Amish people in Pennsylvania, while you have everybody else around them changing and adopting to the global habits the Amish keep their culture and do not let the developments around them influence their believes, ways of living and values. Also there are places which adapt the culture of the citizens who moved there and start a different culture, an example for that would be all the China Towns in the big metropolis. The question is why this is happening, why do people develop subcultures? To answer this questions a definition of culture will help to understand the need for subcultures. Geert H. Hofstede defined culture as follows: "Culture consists of the patterns of thinking that parents transfer to their children, teachers to their students, friends to their friends, leaders to their followers, and followers to their leaders." This means that our perspective of culture is influenced by the people we surround are surrounded by. If we all would have had the same parents, same teachers and friends and worked for the same company and boss we would all have the same viewpoints, values and way of doing things. The change of just one of these components changes perspectives and might change the perceived culture we live in but still would give us some points which let us connect. Baumeisters research has shown that most humans seem to have a basic need for belongingness and therefore feel happier in the culture they know. Certain individuals might not be able to



adjust to new cultures and surround themselves with the known national culture to maintain the safety of belonging to a certain group with the same or very similar background and cultural understanding, which leads to more subcultures and therewith cultural differences within countries (Baumeister & Leary, 1995). This means, that we are looking for people in foreign countries who allow us to connect with them due to similar values, viewpoints and thinking patterns which we were taught by our own culture. Included into these thinking patterns are also stereotypes of cultures which we are taught by our environment. Let us compare the American and German stereotypes in pictures:



Everybody has some kind of stereotype in mind when talking about a different country or culture and most likely it is a very different idea than it is when we finally meet the people we were trying to picture before. Parts of the stereotype will fit to the person you meet some of them, never all. This makes it really difficult to describe cultures in a certain way.

The difficulties with cultural differences for international business became obvious in the 1960's already and have also been recognized by IBM. Therefore Geert H. Hofstede was hired to conduct research on human behavior and preferences across countries to get a better understanding of cross-cultural management. Hofstede questioned 60.000 employees from 71 different nations in his survey. In 1980, Hofstede published his model of five cultural dimensions based on the results of his research (Hofstede, 1984). The five dimensions defined are, in his opinion, the most influential on differentiating



behaviors of people and therewith help to define the country's culture (Hofstede, Geert H. Hofstede, 2011). This provides a better understanding on stereotypes of peoples thought processes and decision making.

The five dimensions:

1) Power Distance

Measures the extent to which power is distributed equally within a society and the degree that society accepts this distribution.

2) Uncertainty Avoidance

The extent to which individuals require set boundaries and clear structures.

3) Individualism versus Collectivism

The extent to which individuals base their actions on self-interests versus the interest of the group

4) Masculinity versus Femininity

A measure of society's goal orientation

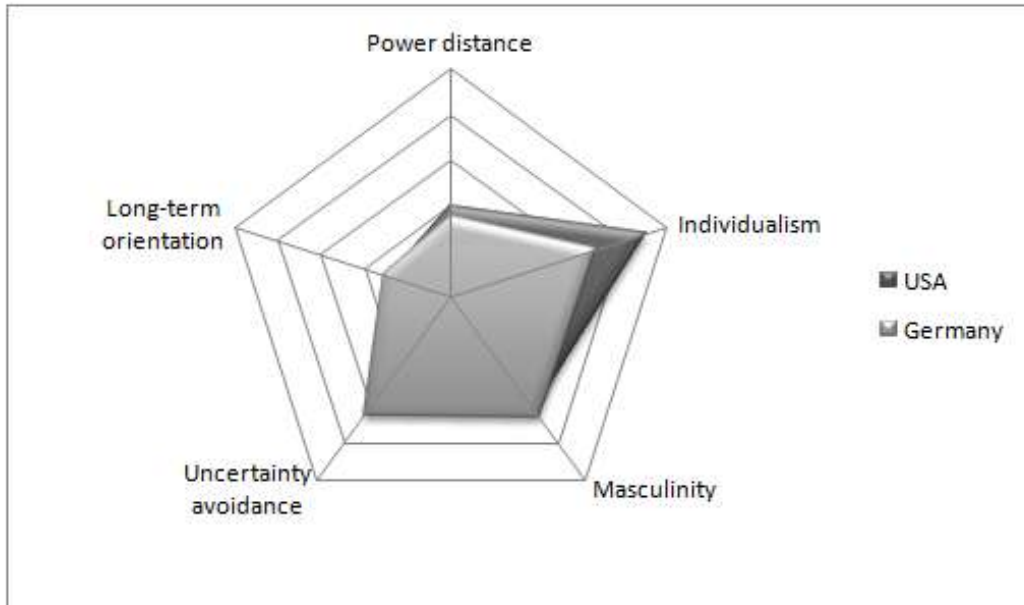
A higher focus on status or human relations

5) Long-term vs. short-term orientation

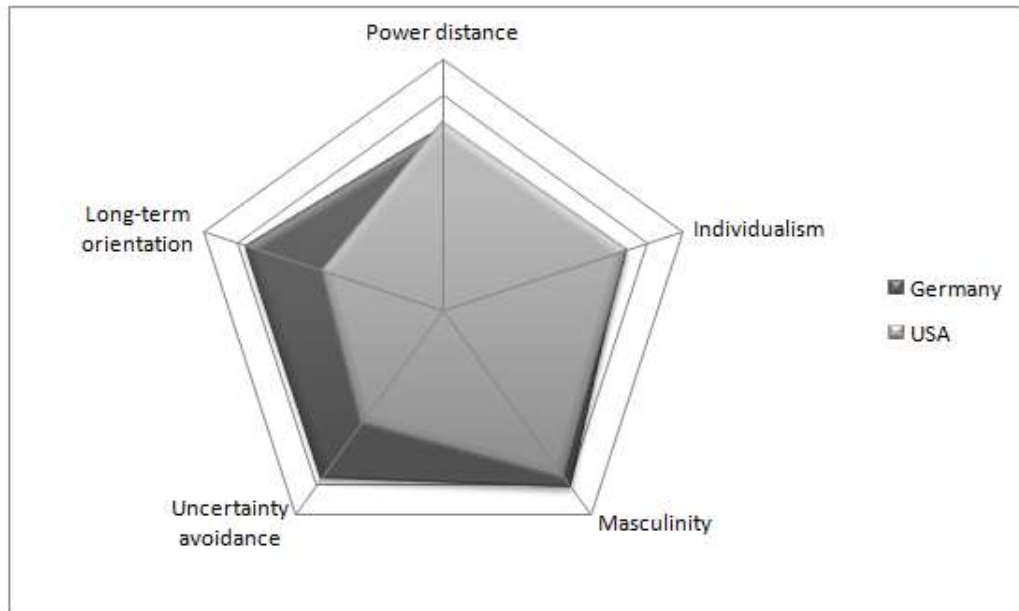
The extent to which a society does or does not value long-term commitments and respect for tradition



Comparing Germany and the U.S. with each other you could see that there are some major differences to be realized and addressed when doing business with each other.



This survey was conducted between the 1960's and 1980's. Therefore there are changes in managerial behavior expected, especially due to the development of technology in travel and communication. A small survey based on 100 responses from german citizens and 50 responses from american citizens has shown the following results:

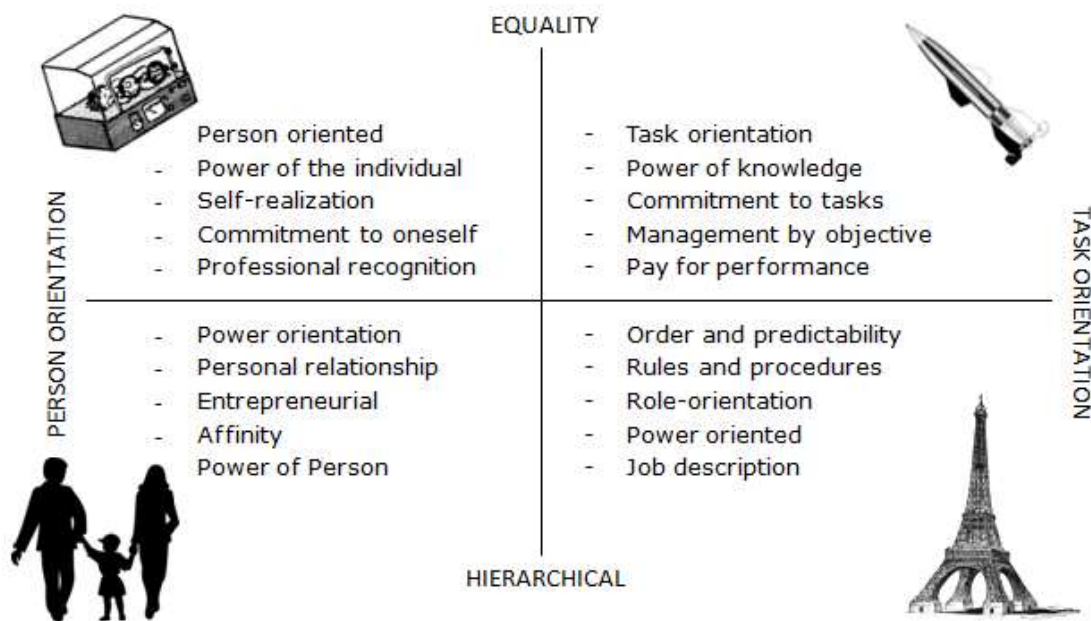




This leads to the questions whether the survey conducted by Geert H. Hofstede is still a valid basis for cultural stereotype discussions or if it would be the right time to reevaluate the data and redo the survey to determine how much globalization effects the stereotypes of cultures.

But how does all this influence company cultures and therewith international business?

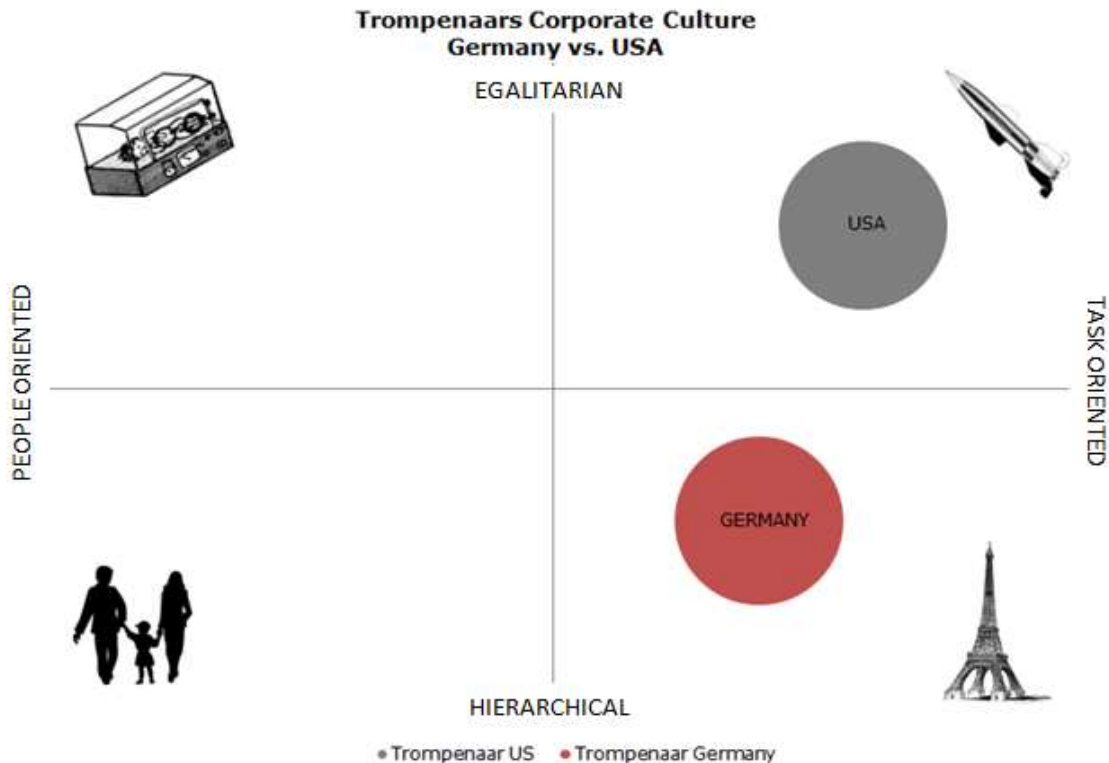
To ease the classification on how corporate decision making is influenced by culture, Fons Trompenaar and Peter Wooliams added a corporate culture scheme to the model of cultural dimensions, defining four categories; the Guided Missile, the Eiffel Tower, the Family and the Incubator. They have different attributes which affect the decision making and therewith the leadership in companies based on their local cultural background (Trompenaar & Wooliams, 2003).



Once again returning to our sample countries Germany and the USA Fons Trompenaar and Charles Hampden Turner defined the company culture in the United States as very task oriented reflecting the favorite clichés “Getting the job done” or “Having the right person in the right place”. “Achievement and effectiveness are weighed above the demands of authority, procedures or people. Authority and responsibility are placed where the qualifications lie, and they may shift rapidly as the nature of the task changes” (Trompenaar & Asser, 2010). This resulted in the placing of the American Icon



in the more task oriented than people oriented part of the model. In Germany, on the other hand social plans and status, speaking of time of employment and age, are involved in dismissal decisions. The orientation within companies is very task driven and values order, accuracy and timing. Therefore Germany's Icon ended up a little closer to the people oriented site of the model than the U.S. In describing the cultural traits of Germany and America using Trompenaar's model, we can assign them to the model and one of the four company cultures. Trompenaar placed the U.S. culture in the area of the Guided Missile icon with its high task orientation and an egalitarian, more team oriented, way of doing business. As long as the task is fulfilled the hierarchies traditionally are not that important. The American companies expect people to perform, no matter where they are in the organizational structure. The corporate system is not structured to carry people for life and will not hesitate to set people free if they do not rise up to the expected performance in a short term, which in the U.S. means in general less than 5 years. In the past, based on the American Dream Philosophy "Work hard and you will succeed", everybody is responsible for their own development and gratuity. Today due to globalization and outsourcing of jobs, this venerated "American Dream" is fading rapidly. Following the motto "Vertrauen ist gut, Kontrolle ist besser", an expression attributed to Lenin" (Trompenaar & Asser, The Global M&A Tango, 2010) saying 'Trust is good, control is better' Germany resembles behavior located by the Eiffel Tower icon, leading interaction through hierarchies and structure. Even if performance is expected, the task orientation is not as strong as in the United States. The German social system influences the corporate cultures and forces companies to pay closer attention to their work force; the balance of young and elderly and the social responsibilities coming with running a company. Social plans have major effects on the structure of companies if they are forced to let employees go. In the past, Germany was even more hierarchical oriented than today, it is slowly moving towards a more egalitarian style involving more teams. But still teams are mostly led by assigned people, chosen by the upper management. In the U.S. work-teams may elect their leader within the group, depending on the company.



Based on the above stereotype company cultures a variety of international companies struggle to manage the different leadership styles and expectations in their subsidiaries.

There are three types of Corporate cultures

- 1) Mono culture: Same culture in every location
- 2) Multi culture: Locations develop separate cultures which not necessarily need to be linked to one another
- 3) Mixed culture: Harmonized company culture using synergies between the headquarters and subsidiaries culture

The number one challenge for international corporations per Nancy J. Adler is that “Cultural differences were significantly greater among managers working within the same multinational corporation than they were among managers working for companies in their own native country. When working for multinational companies, Germans seemingly became more German, Americans more American and so on. It appears that employees may be resisitng a company’s corporate culture if it is counter to the beliefs of their own national one.” Meaning that it is even harder to try to mix cultures while



managers or employees are transferred from country to country as they are most likely resist the new culture which they were supposed to adapt to. Without their knowledge of cultural backgrounds, expectations and the understanding of their own behavior it will be an almost impossible task for managers to lead a team in the foreign country and culture without running into major problems. Companies no matter which cultural approach they decide to take will always have a problem with people adjusting to the foreign or changed culture, as at least one side has to adjust to a difference.



Mono cultural approach

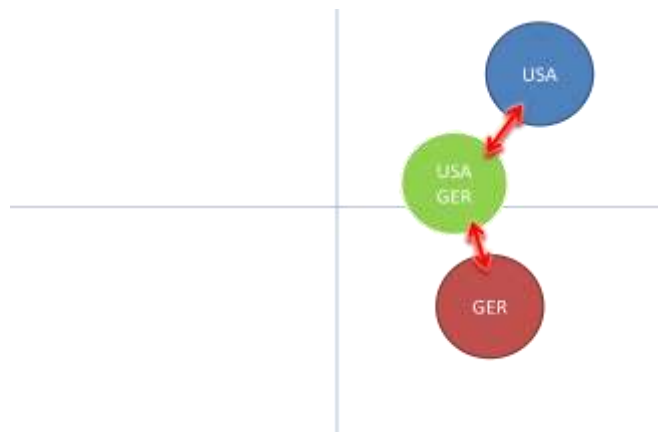
Subsidiary has to adjust to headquarters culture. Transferred employees from the headquarters will not have to adjust to a totally different culture

Multi cultural approach

Both companies keep their own culture. Transferred employees will have to adjust to the foreign culture; also the employees working with the headquarters/subsidiary have to be aware of cultural differences

Mixed cultural approach

A new company culture is generated by combining the best of each location. Transferees do not need to adjust to a new culture but everybody in the company no matter from which cultural background will have to adjust in the beginning to fit in the new culture and therewith the corporation.



The major challenge for international corporations are and will be the interaction between employees worldwide. Based on the ongoing globalization this will be a growing problem unless companies are aware of the challenge and make the right decisions. To prepare their company for an international environment the management needs to decide first what cultural approach they will follow. This decision needs to be communicated among all employees. They need to be made aware of cultural difference and the challenge they are going to face. Cultural awareness as well as the understanding of the challenge will most likely lead to an opener communication between the subsidiaries. The next challenge for the corporation is to find people to fit their environment and cultural approach. Not everybody is able to adjust to different cultures and might just be effective in the home countries culture. Also the change of the cultural environments due to the ongoing globalization needs to be watched closely. International corporations cannot miss the train of cultural changes anywhere in the world, as every change might influence one of their subsidiaries and therewith effect their employees and corporate culture.

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