

“THE IMPACT OF CULTURE IN INTERNATIONAL BUSINESS. AN APPLICATION OF THE HOFSTEDÉ’S MODEL.”

Author: Lorenzo Lanaro De Vito

ABSTRACT

Managing culture within a firm is becoming one of the most important pillars of management, especially when taking into consideration to expand the firm’s boundaries. This is due to the fact that different countries have different values and norms.

More and more companies are starting to look abroad in order to expand their businesses as the world increasingly becomes interconnected so as to achieve economies of scale and scope, increase revenues and take advantages from the so-called “spill-over effect”, an effect that increases the knowledge of a company that can arise from agglomeration. As a consequence, managing culture has become one of the largest challenges for international business.

Culture can influence the business in different ways: from language to pricing, from different values and customs to differences in religion beliefs and holy days. Understanding different cultures is important in order to take advantages from these differences, but this kind of study is not easy.

One of the most important issues when dealing with this subject is to give a definition of culture. Since numbers of authors have given many definitions, an overview has been made in the thesis, focusing on the Hofstede’s one that is, in my opinion, the best definition available in the literature.

Hofstede’s definition of culture is:

“Culture to me is the collective programming of the mind which distinguishes one group or category of

*people from another. [...] Culture is a construct, that means it is “not directly accessible to observation but inferable from verbal statements and other behaviors and useful in predicting still other observable and measurable verbal and non verbal behavior.” It should not be reified; it is an auxiliary concept that should be used as long as it proves useful but bypassed where we can predict behaviors without it.”*¹

In this statement, Hofstede gives the idea that culture is something shared among groups of people but, at the same time, he warns about the fact that we shouldn't take it into account as something concrete but he implicitly says that we should always “study” the person with whom we're getting in touch since he or she can, in a way, disassociate from the common values of the community in which he or she lives.

Is for this reason that Hofstede's studies have to be taken into account as an instrument, not as a perfect result. The scores should be verified by remaking the survey on the specific group of people on which we're interested in. Hofstede values can give a general idea, but if a company need specific and punctual results, managers should use the survey as a tool to understand how to manage or change his know how in order to best fit a new target community.

This is the aim of this thesis: highlight the importance of studying a new market community on which a company wishes to invest in by using the tool invented by Geert Hofstede.

In the first chapter, an overview of anthropology provides the reader the necessary elements in order to have a good picture in mind of what this thesis is about and what kind of objective I want to achieve through it.

The dissertation will present the points of view of different authors, from Lewis Henry Morgan – founder of anthropology – to Bronisław Malinowski – the father of the modern ethnography – through Edward Burnett Tylor that gave the first definition of culture in his publication *Primitive Culture* in 1871 and other important schools of

¹ J.S. Osland, D.A. Kolb, I.M. Rubin, *The Organizational Behavior Reader*, 2000

thought of important authors like J.G. von Herder, Franz Boas, Edgar Henry Schein and David C. Funder will be quoted to understand the whole anthropologic theoretical framework: from classical anthropology to modern ethnography.

In this way, the change in the research methods will be clear, giving to the reader the possibility to understand the influence that these authors had on Geert Hofstede's research, a research that ended up with a model thanks to which it's possible to make a cultural overview, at least on a firm-level.

Once the concept of culture is clear to the reader, the model can be introduced: a model that, as said, explains the general traits of a national culture focusing on six dimensions:

1. **Power Distance Index (PDI):** Inequalities among people are a matter of fact in every country, this dimensions gives an idea of how much people within a community accept it. The value scored in this dimension let us understand if those people accept these inequalities or if they tend to equalize the distribution of power. In other words, if a community tends to accept a distribution of power that is in the hand of few people, the score will be high, otherwise, if people tend to give the same – or with little differences - powers to everybody, the score will be low.
2. **Individualism vs. Collectivism (IDV):** This dimension gives an idea of how people in a community relate each other. If people within a community like to constantly be in touch, for both work and friendship, the score will be high; instead, if they like to work alone or if they get in touch with others only for work purposes, the score will be low. In the definition of the second dimension, the Author underlines the impact that growing in a group has on a person's attitude. In fact, this dimension is affected by values learnt by the family – or group - when growing that will be kept throughout the entire life.
3. **Masculinity vs. Femininity (MAS):** In this dimension the lifestyle is the topic; basing on what kind of ambitions people within a community have, the score will be high or low according with them. High scores lead to a Masculinity culture, meaning that tough ambitions are common in that

country; on the opposite side, low scores lead to a Femininity culture, in which values like having an healthy life or harmony are felt very much.

4. **Uncertainty Avoidance Index (UAI):** In this dimension, fear of uncertainty is calculated. People that are adverse to uncertainty will score high, meaning that they're constantly looking for something that is safe and stable, without changes. On the opposite side, low score means that people are constantly looking for changes, even if this could be risky.
5. **Pragmatic vs. Normative (PRA) – ex Long Term Orientation vs. Short Term Orientation (LTO):** This dimension was firstly named “Long Term versus Short Term Orientation” and it deals with how much people are willing to live their lives day to day or if they prefer some sort of stability and plans for the future.
6. **Indulgence vs. Restraint (IND):** This dimension deals with hedonistic behaviors; in other terms, how freely can people satisfy their basic needs and desires, how strict social norms are followed and gratification regulated.

In order to validate the model, it has been applied in ENEL S.p.a., the most important Italian MNE in the electricity market. Details of the sample are summarized in the next figures.

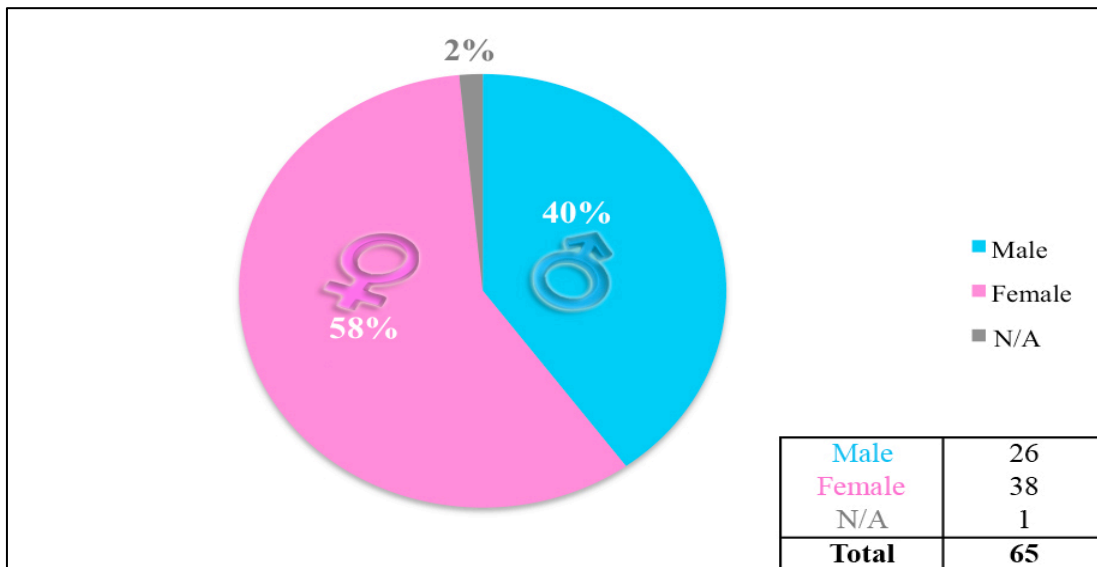


Exhibit 1 Statistical Data: Gender.

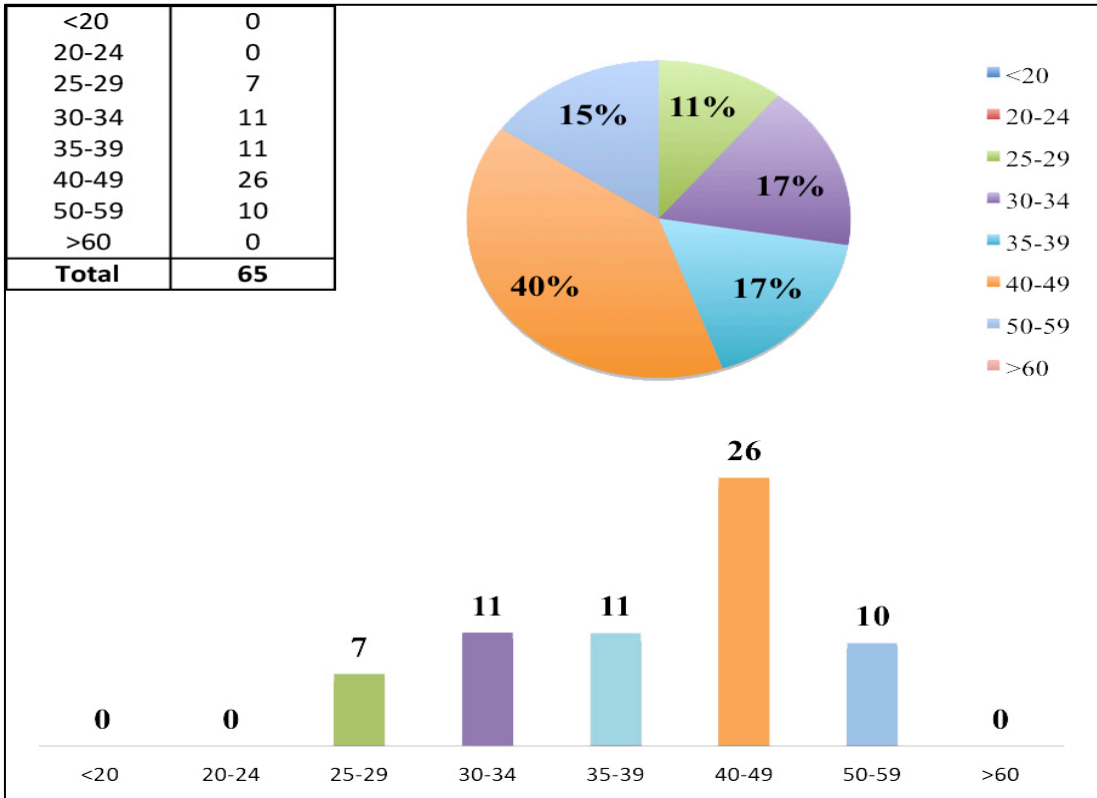


Exhibit 2 Statistical Data: Age

10 years or less	2
11 years	2
12 years	0
13 years	6
14 years	0
15 years	1
16 years	1
17 years	7
18 years or over	46
Total	65

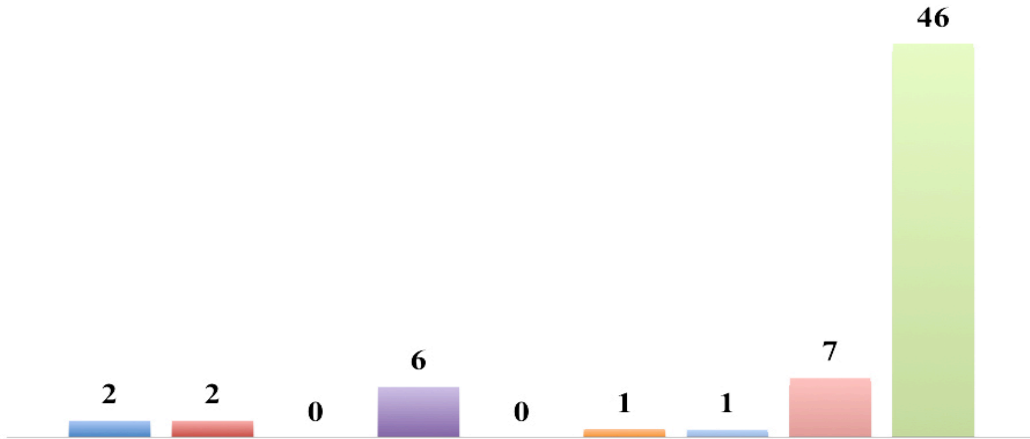
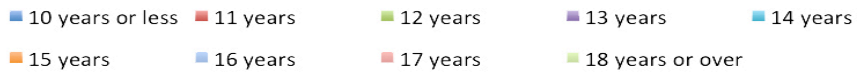
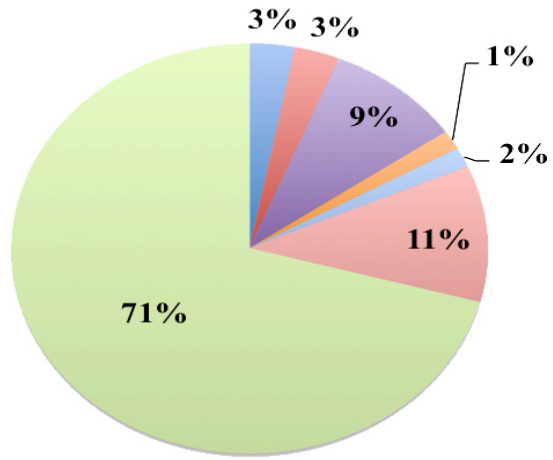
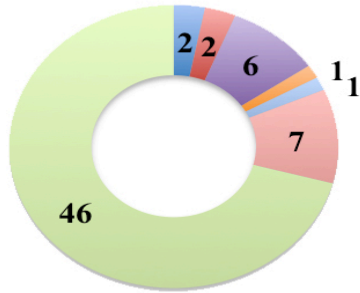
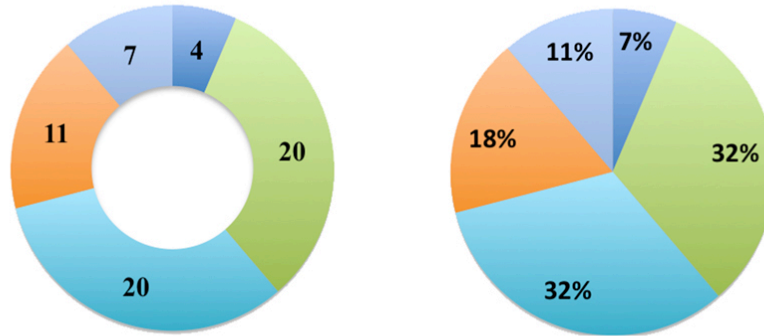


Exhibit 3 Statistical Data: Years of formal school education (starting with primary school)

No paid Job (includes full time student)	4
Unskilled or Semi-skilled manual worker	0
Generally trained office worker or secretary	20
Vocationally trained craftperson, technician, IT-specialist, nurse, artist or equivalent	0
Academically trained professional or equivalent (but not manager of people)	20
Manager of one or more subordinates (non-managers)	11
Manager of one or more managers	7
Total	62



- No paid Job (includes full time student)
- Unskilled or Semi-skilled manual worker
- Generally trained office worker or secretary
- Vocationally trained craftperson, technician, IT-specialist, nurse, artist or equivalent
- Academically trained professional or equivalent (but not manager of people)
- Manager of one or more subordinates (non-managers)
- Manager of one or more managers

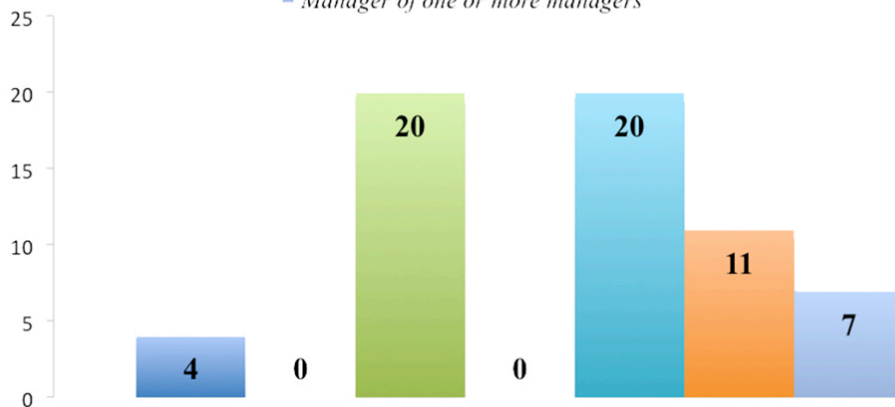


Exhibit 4 Statistical Data: Kind of Job

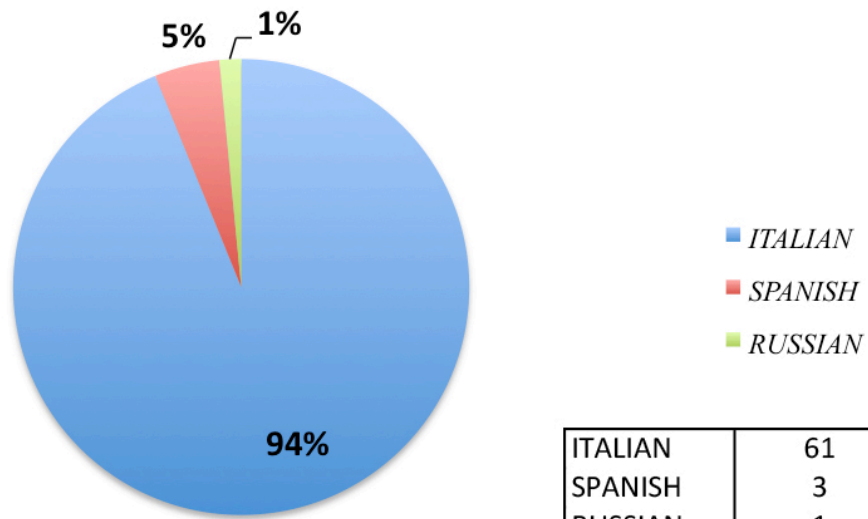


Exhibit 5 Statistical Data: Nationalities

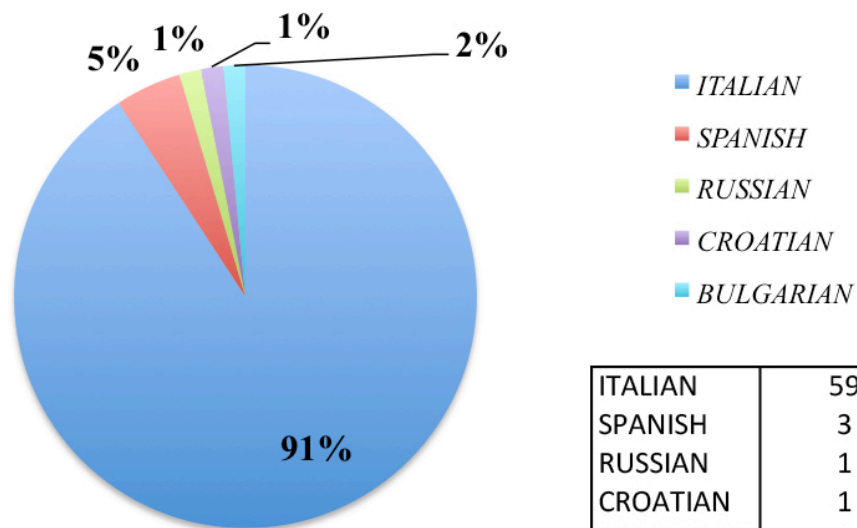


Exhibit 6 Statistical Data: Nationalities at Birth

This thesis has the objective of validating this innovative model, at least on a local/firm-specific level. The model, in fact, is one of the most criticized for the assumptions made by the Author. In fact, the main conjecture around which the academic debate revolves is the assumption that there is a one-to-one relationship between the results obtained surveying a sample of employees and the entire population of the related country.

The author analyzed a large database of employee value scores collected within IBM, assuming that these results can give an overview of an entire country. This is one of the reasons why I decided to conduct this research; in other terms, I wanted to find out if the results in another firm are the same, or at least closer. Moreover, Hofstede did not conduct the same research in other firms, allowing critics to say that these results cannot represent a Country culture.

Furthermore, in the first chapter an International Business and Management literacy overview has been made: the results of other researchers like M.L. Jones and M. Søndergard will be mentioned to find out for what extents the model has been discredited and validated. Thus, the reader will be able to take a stand in the debate with his/her own ideas and point of view.

Another important characteristic is that culture continuously evolves, so the Hofstede's results can in a certain way "expire" over time.

It's important to say that I personally think that, without taking into account ENEL results on this survey, the mechanism of evaluating employee's culture within a firm applying the Hofstede's model, is at least an important starting point when deciding to enter in a new Country or even to understand how the employees feel within a firm or a simple teamwork. Thus, the Hofstede's model can be used by Human Resources Managers when recruiting or also by Marketing managers in order to make a marketing mix that fits a certain country population.

Before giving the survey results, ENEL S.p.a. has been presented in the second chapter and some history has been reported in order to understand the reasons why I choose this firm as sample target. As will be possible to see even through describing pictures provided by the company, ENEL is one of the most important MNEs in the world, 9th MNE for FDI² and 73rd for TNI^{3,4}, and this is one of the reasons for sure.

² Foreign Direct Investments

³ Source: UNCTAD, 2011

⁴ TNI, the Trans Nationality Index, is calculated as the average of the following three ratios: foreign assets to total assets, foreign sales to total sales and foreign employment to total employment.

The following exhibit shows the results obtained:

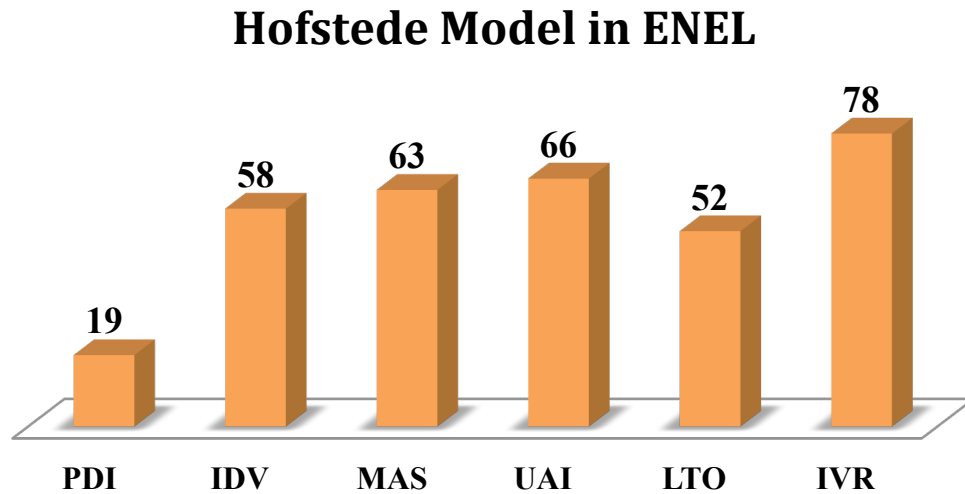


Exhibit 7 Results overview⁵

Since Power Distance is defined as the extent to which the less powerful members of institutions and organizations within a society expect and accept that power is distributed unequally, in ENEL the power is felt as well distributed and people feel involved or at least taken into account when decision are made.

A low value for Individualism vs. Collectivism dimension means a collectivistic society while an high value means an individualistic society and since the result is 58, ENEL is somewhat in between those two kind of societies meaning that experiencing a good relationship with other employees is important and spending time with them is seen positively, but at the same time it is also important to have sufficient time for personal or home life.

For what concerns the third dimension, with a score of 63, ENEL's employees unconsciously believe, even if not at all, that men are supposed to be more assertive than women while women are supposed to be more tender than men. Moreover, the employees are success-driven, meaning that success is the first important thing, while liking what they do is less important. It is important to underline that this doesn't mean that women cannot be leaders. In fact this kind of bias is proper in communities where this dimension scores very high, close to 100, like Japan, where this dimension scores

⁵ Detailed results are described in the second chapter of the thesis

95 (Hofstede Centre)⁶ and women are not perceived as good leaders. However this doesn't mean that in Japan only men can be leaders but longer working hours and dedication to work are needed for women in order to achieve leading positions.

The fourth dimension scored 66, so ENEL's employees need written rules and certain situations to feel good, there's a few need of feeling secure that whatever will happen won't be unexpected.

In the fifth dimension, ENEL's employees scored 52. This means that ENEL's employees are somewhat in between the two kinds of societies that this dimension is about and a dominant preference in ENEL's culture cannot be determined; this means that they value both being thrifty but sometimes they can bend the rule and be spendthrift, they're respectful of the traditions but at the same time they can adapt them easily to changed conditions, they're perseverant in achieving results for the long-term but taking into account also the short-term profit made.

The last dimension has a value of 78. This indicates that ENEL's culture is one of indulgence. *“People in societies classified by a high score in indulgence generally exhibit a willingness to realize their impulses and desires with regard to enjoying life and having fun. They possess a positive attitude and have a tendency towards optimism. In addition, they place a higher degree of importance on leisure time, act as they please and spend money as they wish”*⁷

⁶ <http://geert-hofstede.com/japan.html>

⁷ <http://geert-hofstede.com>

The last chapter describes in details the comparison between Hofstede's results and ENEL's results. An overview is showed in the following exhibit.

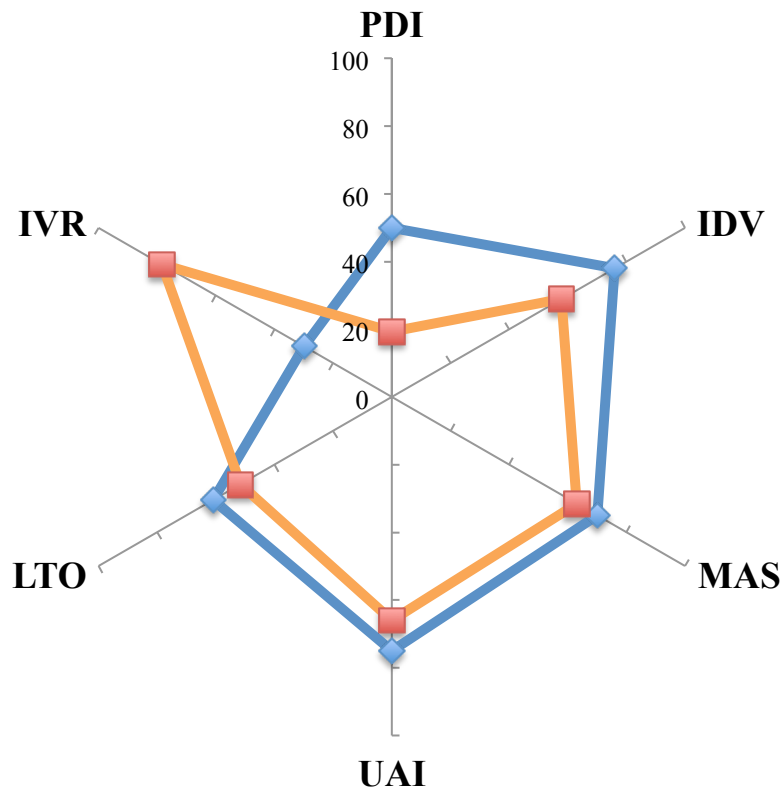
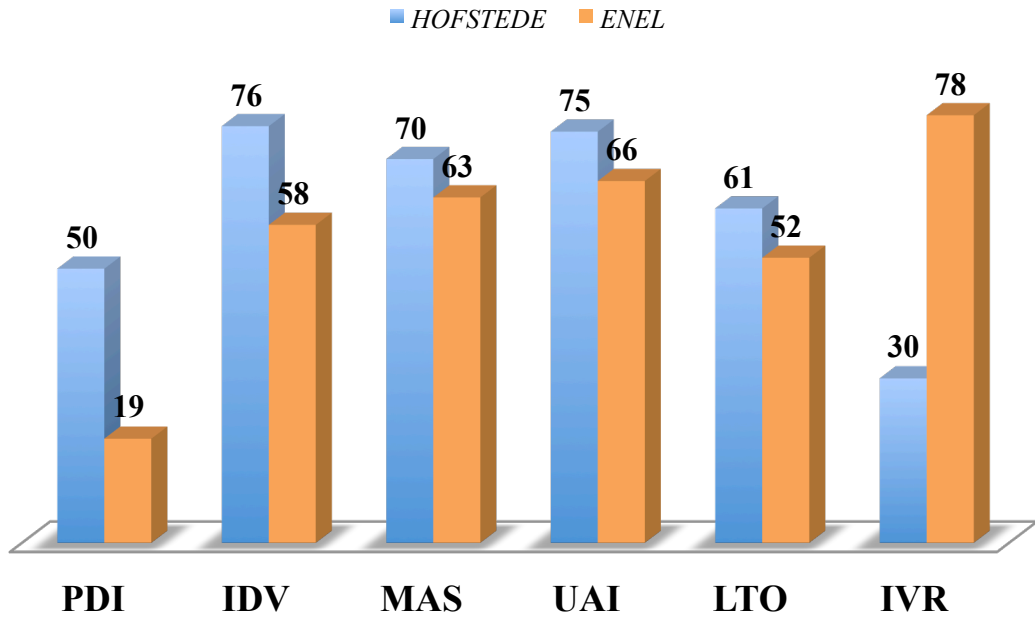


Exhibit 8 Hofstede's and ENEL's results comparison

Management actually doesn't give the proper importance to this aspect; my purpose is to let the reader understand that cultural issues have to be the core of an international project, and the tool presented in this thesis can be very useful to this extent.

As can be seen in the previous Exhibit, differences in PRA, MAS and UAI are not so high but the difference in PRA is relevant for the reasons explained in the previous sections.

Differences in PDI, IDV and IVR are surely higher and more relevant. While PDI and IDV differences were expected, the IVR disparity is clear evidence that something is wrong with the model, supporting the thesis that at a country level the model is imperfect, but not useless. In fact, the purpose of the model is to give a general idea of a country culture; moreover, the same Hofstede affirms that the model must be applied for specific purposes case by case – protecting the model from critics and misunderstandings.

I personally value this model as an important tool for managers that want to create an environment in line with the mission and the vision of the company in which they work.

Opening a subsidiary in a country where people don't accept certain cultural values and habits is in a certain way counter-productive, since employees will be less efficient and this could surely affect the value of the company both on economic and ethic aspects.

Advices have been given in the second chapter in order to understand the cultural traits that arise from applying the model and specific decisions can be taken accordingly by managers involved in managing people, internal culture, ethic and all those important functions of a company that are connected with people.

This model can be important even to Marketing managers since the overview given by Hofstede for each country does apply, with a marginal error, to the entire population within those countries. Actually, Marketing managers perform specific researches with specific traditional tools to foster a new country entry mode, however the Hofstede model can be surely added to these traditional tools to make an even better evaluation of a targeted country.

Finally, the Hofstede model can be administered even in academic fields by professors and researchers in order to understand how to set up a course or a research with students and colleagues.

Globalization is an important process on which every company – both MNEs and SMEs – can take advantages; and now there's a new tool that can be useful for this purpose: the Hofstede's model.