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The Cross-Cultural Analysis of Risk Attitudes in International Business Decision-Making

Prof. Massimo Egidi

Supervisor

Alessia Giovaruscio 101502

Candidate

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Introduction

What would life be without risks? Maybe we don't realize it, but risking is an action that we practice daily, every decision we make include some sort of risk that we are willing to take or not. But the question that we should ask ourselves is: "What are the factors that make us decide whether or not to take a risk?". In the international field, culture plays a big role. This study aims to explore the influence of cultural factors on risk attitudes in the context of international business decision-making. As businesses expand their operations across borders, they encounter diverse cultural norms, values, and practices that significantly impact decision-making processes. Perviousness research have demonstrated that the presence of a strong relationship between culture and risk attitudes is a fact. A strong example is the study "Culture's Consequences: International Differences in Work-Related Values" written by Hofstede, G. (1980). This study looks at how cultural values affect people's attitudes towards risk and other behavioural elements. Although not explicitly geared towards international decision-making, it offers a fundamental comprehension of the cultural aspects that influence decision-making procedures. By uncovering the intricate relationship between culture and risk attitudes, this research will provide valuable insights for multinational corporations, entrepreneurs, and policymakers seeking to navigate the complexities of global markets. It is important to anticipate that there are some limitations to this study since the experiments involving comparison across different countries are not in a large quantity. Additionally, cultural differences are multifaceted and complex, and this study may not capture the full spectrum of cultural nuances influencing risk attitudes in international business. However, this analysis will be able to satisfy the research question helped by previous studies and research and specific case study analysed. The structure of this work is composed by three chapter. The first chapter is based on the literature, in which it is analysed the works conducted in the past and it focused on the results that past studies have discovered. The second chapter immerses into the development of the research analysis going deep in the investigation of the International Business Context and the exploration of Cultural Factors that have proven to influence Business Decisions that will lead to the formulation of research hypotheses on the relationship between culture and risk attitudes. Lastly, the third chapter undertakes a meticulous analysis of two specific case studies. The first case study, titled "The Role of Enterprise Risk Management in Sustainable Decision-Making: A Cross-Cultural Comparison," aims to scrutinize how cultural differences moderate the efficacy of an organization's enterprise risk management (ERM) program in sustainable decision-making, contrasting Chinese and American participants. The second case study, titled "The Influence of Cultural Context in Managerial Decision-making: Legitimacy Views of Finnish and Italian Managers," inherently scrutinizes the perspectives of Finnish and Italian participants. Through this structured approach, this study endeavors to unravel the intricate tapestry of cultural influences on risk attitudes in the realm of international business decision-making.

Chapter One: Literature Review

KEY CONCEPTS ON RISK IN INTERNATIONAL BUSINESS DECISIONS

A business will always be exposed to some risks when it chooses to participate in foreign territory. Political and foreign exchange risk are the two primary hazards that come with doing business internationally. Businesses may find it challenging at times to sustain consistent and steady income due to these obstacles.

Political risk

If there are variables that impact company risk, politics is maybe the most remarkable. Geopolitical risk, sometimes referred to as political risk, arises when a nation's government abruptly modifies its regulations, therefore adversely affecting the foreign enterprise. Commerce barriers, which serve to restrict or obstruct international commerce, are one example of the kinds of policy changes that may be implemented. As an aspiring international firm, it is worthwhile to monitor the changing political landscapes of the target market or markets. Regrettably, there are other political risk factors that have an impact on global corporations. Emerging regulation provides many less sensational examples that a company ought to be aware of. The first priority should be adjustments to the current legislation (such as tax rates, minimum wages for employment, or licence requirements). Certain governments will ask for more money or taxes in return for allowing exports into their nation. Quotas and tariffs are tools used to shield home manufacturers from outside rivalry. This may also have a significant impact on an organization's earnings as it either reduces the amount of money that can be made from export taxes or limits the amount that can be made. Adhering to the law entails continuing to do so even when successive administrations modify or replace entire legislative packages. To put it plainly, modifications to the law have the power to completely destroy current compliance initiatives and reset corporate strategies. Importers and exporters operating internationally must also keep up with trade agreements. Small firms are significantly impacted by the establishment (or termination) of profitable international trade agreements, which nearly totally determines their capacity to survive outside of their primary home market. Free trade agreements or low tariffs on commodities between countries can help small enterprises, who already have limited margins in several product categories. In an attempt to lower the amount of trade barriers, nations have enacted free-trade agreements, such as the North American Free Trade Agreement (NAFTA) and other comparable measures. But not all of these strategies work, and continuing trade disputes can impair the market efficiency and commercial operations of a multinational corporation. Thus, the earnings and general success of a corporation conducting business abroad are nevertheless impacted by the regular variations in foreign regulations. The business environment can quickly change if these agreements are modified, eliminated, or even extended to a third-party country.

Foreign Exchange Risk

Foreign exchange risk arises from variations in an investment's value brought about by shifts in the exchange rate of a currency. Other names for foreign exchange risk are FX risk, currency risk, and exchange-rate risk. The profit or returns made abroad will decline upon conversion back to the home currency when the home currency increases vs the foreign one. It can be challenging to guard against this sort of risk, which can hurt sales and revenues, because of the exchange rate's relatively erratic character.

Safeguarding Global Businesses

In general, businesses involved in international finance may have significantly higher levels of revenue volatility. Running a business successfully can be challenging when there is an unstable and erratic source of income. Despite these drawbacks, doing business internationally can lead to more lucrative markets and lower resource costs. A corporation can also mitigate some of these risk exposures in other ways.

Hedging

For instance, a company can try to purchase futures, currency forwards, or options on the currency market in an effort to mitigate some of its foreign exchange risks. These hedges are meant to lessen the possibility that changes in currency exchange rates will have a negative impact on the earnings and revenue of the business. Currency futures, for instance, are frequently used by importers and exporters as a hedge against changes in exchange rates. They will work with a bank or other financial organisation to enter into a currency forward contract. This legally-binding over-the-counter (OTC) agreement fixes the exchange rate for when a certain currency is bought or sold at a later time.

Political Risk Insurance

Businesses may also choose to purchase political risk insurance to shield their loans and equity investments from particular government actions. The steps multinational companies take to reduce the political risk they encounter abroad are frequently described in their 10-K annual filings with the U.S. Securities and Exchange Commission (SEC). Even in erratic or uncertain business conditions, political risk insurance enables these enterprises to expand and grow their international operations. Insurance that provides defence against war, terrorism, labour disputes, shortages in supplies, and trade restrictions is available for purchase by businesses.

Other Risks Associated to International Businesses

International enterprises may encounter institutional failures and insufficient funding to maintain their operations, in addition to the risk of currency rate volatility and possible political instability (which could also entail increased rates of crime and violence).It is important to take into considerations also risks regarding cultural differences, wheather events and legal challenges.

Cultural Differences

Language and cultural limitations are far more visible risk considerations for international company. At the very least, companies need to be able to communicate with their suppliers and/or consumers. Therefore, it's critical to ensure that language abilities are enough when growing into a market where there is a dialect or language barrier. Thankfully, e-commerce companies can hire freelance translators for translations of marketing materials and product descriptions. On the other hand, physical stores might require a more "boots on the ground" strategy, which is very expensive. Even more important is learning the subtleties of the new cultural surroundings. Even if the grammar in eventual messages is flawless, a forbidden turn of phrase can swiftly destroy a commercial relationship. The same holds true for behavioural conduct, therefore maintaining appropriate looks is necessary for successful sales. In China, for instance, business cards and manners are crucial, but in Saudi Arabia, asking connections to lunch during the daytime hours of Ramadan could be viewed as impolite. Even the standard work wear in New York and London is evolving.

Extrene Weather Events and Natural Disasters

Supply chains that are interconnected globally may require to give up complete control over every logistical process. Mother nature can sometimes be an impediment, even when there are production and transportation partners who are completely trustworthy and dependable. Because of this, when entrepreneurs grow globally, harsh weather conditions and natural disasters pose a constant risk to their firm. For example, the British Isles have long been a safe haven from natural disasters and extreme weather since they don't sit on geological fault lines and enjoy a generally mild temperature, even though the UK itself is feeling the consequences of climate change more and more. Sadly, not all situations are like this. The 2011 tsunami caused an estimated $235 billion (USD) in damage to Japanese infrastructure; equivalent costs are expected to be incurred by more recent storms in Berlin and New York. Practically speaking, severe weather could damage a company's assets or buildings, so it may be necessary to pay higher business insurance premiums and deal with operating difficulties.

Legal Challenges

A company also needs to familiarise itself with and abide by completely new legal frameworks. If businesses disregard their applicable municipal authorities, for example, they may face fines or other legal repercussions. Due to unavoidable regional legal variations, It is suggested to consult with an accountant and a licenced counsel to ensure not to breake any local laws.

Tax Compliance

Nearly all countries impose some kind of tax obligation (though some have lower thresholds than others). The local governments will require a business to file some sort of tax return documentation, even if it is a loss or shows no net profit, regardless of the actual payments made to the relevant governing authorities. In addition to the ongoing operations of the firm, managing the deadlines and workload associated with each of these responsibilities will be necessary. Different tax rates can also affect the growth plan in each new site you open. If you have less resources for one place than another, it can be very challenging to apply a consistent strategy across your organisation. Thankfully, as a result of globalisation, some legal components are coming together, a good example is the corporation tax rate. This can assist the organisation budget consistently.

Operations Compliance

Compared to the tax example above, operational requirements are a significantly more varied and non-standardized aspect of foreign business. Certain industries within each nation are subject to stricter regulations than others, and different countries control their corporate macroenvironment in different ways. Prior to being able to conduct lawful business, it is necessary to obtain permits for specific commercial operations, depending on how "free" the market is in your new nation. Businesses in the agriculture and fishing industries, for example, must deal with environmental regulations, and manufacturers that make products for children are frequently subject to strict safety requirements. A licence may also be required for some commercial operations, such as handling food or performing music protected by copyright. Depending on the product type, there may be special regulatory obligations if it is an online retailer that manufactures or imports goods. For example, alcohol dealers could need to obtain a licence or permit and guarantee not to sell to minors, while tech companies might need to ensure that their products adhere to electrical safety regulations.

Contract Compliance

Establishing definite contracts is crucial, regardless of whether it is dealing with local companies for supplies or assistance, or recruiting employees to complete orders. Certain contracts between companies and their suppliers or workers could be deemed irrational and unenforceable, leaving it vulnerable to legal action or unmet duties. Particular legal concepts can differ significantly between the legal systems of two countries, such as time-centric provisions or what might be considered a "good faith" agreement. Securing trustworthy contracts may become more challenging if there is a language barrier added.

Purchasing Power Parities

Financial considerations have an impact on companies's risk exposure, but it's crucial to know how. The budget might not go as far as it did in the UK while growing abroad. When foreign buyers pay more for the same quantity of goods than a domestic resident, this is referred to as purchasing power parity. Should this be the case, It will need to factor this significant business expense into the initial investment and growth strategy. Fortunately, things aren't always like this. It's critical that it is taken full use of this advantage if the budget prediction indicates that the money travels farther than expected. Doing so will enable to finance a more aggressive expansion strategy than the domestic competitors.Crucially, disparities in purchasing power aren't constant; no country can consistently obtain items at a lower cost than another. To maximise the access to pricing differences, try to adopt a hybrid approach, making domestic (UK) purchases and/or importing goods to new operational site. Purchasing power is rarely constant throughout time. The purchasing power of nations fluctuates due to the volatile nature of economies and currency markets, which is driven by a combination of factors such as shifting market forces, the perception of stability among policymakers and business leaders, political orientation, and more. China is renowned for having experienced some of the most significant and long-lasting economic growth in human history. As a result of rising disposable income and the desire to purchase high-end brands, China is currently expected to dominate the luxury goods industry.

The Main Reason Why International Businesses Fail

Chron claims that the primary reason for the collapse of foreign businesses is a lack of planning. Multinational corporations may neglect to conduct adequate market research, examine the costs associated with conducting business internationally, and compare local versus global strategy.

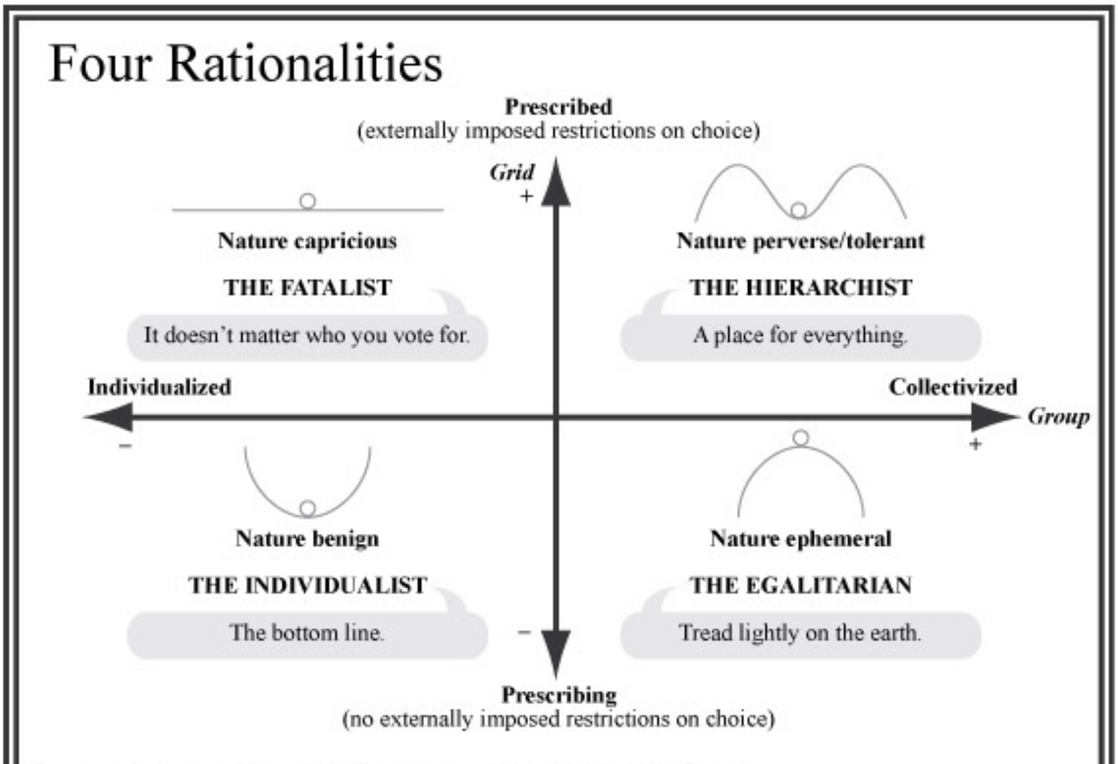
The Least Risky Type of International Business

The least dangerous way to enter a foreign market is through exporting, since it requires less capital (no production facilities need to be built in the target nation) and the business isn't dependent just on domestic sales. It's also the most economical kind of international business for the same reasons.

When considering a foreign market entry, a corporation must determine if the benefits outweigh the drawbacks. As globalisation increases, many businesses recognise the advantages of growing outside of their own countries. Their choice to concentrate on overseas markets is largely influenced by the possibility of more revenue as well as the chance to reach a wider audience with their goods and services.

THEORETICAL APPROACHES TO RISK MANAGEMENT IN CULTURAL CONTEXTS

In opposition to the prevalent technical, logical, and psychological methods for evaluating risk perception, Mary Douglas and her associates created the cultural theory of risk in the early 1980s (Douglas and Wildasky, 1982; c.f., Slovic, 1987; Starr, 1969; Tansey and O'Riordan, 1999). According to cultural theory, people perceive risk as a social process whereby, based on their beliefs and chosen social order, some hazards are acknowledged and others are concealed (i.e., worldview). Individuals "choose what to fear (and how much to fear it), in order to support their way of life," as explained by Wildasky and Dake (1990). Douglas (1992) argues that risk is a social construct in which people evaluate the same threats but form disparate assessments of it due to ingrained cultural prejudices connected to their way of life. By definition, cultural theory of risk is concerned with the shared, societal, and collective norms that shape people's views. Risk perception, according to cultural theory, is a "culturally standardised response" (Douglas, 1992). In summary, the main reason for disparities in risk perceptions is the socio-cultural background. According to Douglas (1992), "risk" is defined as "the probability of an event combined with the magnitude of the losses and gains that it will entail." However, Douglas points out that "acceptable risk," or socially accepted concepts of safety, is never a probability but rather a political concern. Cultural theorists contend that a society's threshold for acceptable risk cannot be determined by a predetermined method or equation. A certain level of logic and ideas of what is reasonable are used to determine what dangers are acceptable (Douglas, 1992). A typology is employed to facilitate cultural study and help make sense of conflicting inclinations and aversions to various hazards. This typology divides risk perceptions into four different worldviews or ways of living. Grid, which measures how much social interactions should be governed by laws and customs, and group, which measures how much people are integrated or bound into social groupings, are two characteristics that set each worldview apart. To summarise these viewpoints, consider the group axis as providing a response to the question "who am I?" or "who am I with?" and the grid axis as providing an answer to the question "how should I behave?" (Tansey and O'Riordan, 1999; Wildavsky, 1987; Schwarz and Thompson, 1990). The resulting quadrants depict four worldviews or cultural ways of living related to risk: Here are the four groups: 1) Individualists (Low Group; Low Grid), 2) Hierarchists (High Group; High Grid), 3) Fatalists (Low Group, High Grid), and 4) Egalitarians (High Group; Low Grid). Schwarz and Thompson (1990) used this grid-group typology to overlay four opposing perspectives on nature, showing how the worldviews employed in cultural theory align with various understandings of the natural world's resilience or fragility. According to their typology, there are various management methods available to address the varying cultural perspectives on risk when it comes to environmental risks. Individualists, for instance, value personal autonomy and accountability (Low Group) above affiliations and coalitions. When it comes to actions, they prefer self-policing and market-based solutions to top-down restrictions (Low Grid). Cultural preferences influence knowledge and the right institutional arrangements and policies, as this case shows. Schwarz and Thompson (1990) claim that an individualist worldview is consistent with a strong, benign understanding of nature, which is able to withstand and absorb the detrimental effects of civilization. Individualists tend to disregard technological and environmental dangers because they believe that limiting people's freedoms would make it more difficult to collect and use natural resources for constructive purposes. Therefore, the consistency of this worldview requires faith in nature's resilience. In addition to being Low Grid, egalitarians support small-scale organisations and oppose externally imposed controls and restrictions on their freedom of choice because they believe that these actions will lead to social differentiation and undermine their objective of promoting egalitarian social relations. Egalitarians value collectivism, collaboration, and communal modes of organising over individualism and have stronger interpersonal ties (High Group). They want everyone to be treated equally under the rules. According to their perspective, nature is ephemeral and extremely delicate, so even minor disruptions to its equilibrium should be avoided since they could have disastrous consequences (Schwarz and Thompson, 1990). Egalitarians support the precautionary principle and work to shield society's most vulnerable citizens from risks associated with the environment and technology. Similar to a military organisation, hierarchists like highly organised organisations with well defined jobs that are ranked and lead to social difference; they are also willing to submit to bureaucratic administration and institutionalised power (High Grid). They have strong social ties and a sense of duty (High Group). They see nature as "tolerant/perverse" (Schwarz and Thompson, 1990). This specific wording highlights how resilient, but limited, their understanding of nature is (Schwarz and Thompson, 1990). Thus, in order to prevent things from getting out of control and upsetting the natural "balance," Hierarchists believe that stringent laws and oversight are necessary. Experts are best suited to evaluate and manage hazards related to technology and the environment. Last but not least, the Fatalists are the outcasts of society who have few social connections (Low Group) and are subject to numerous social factors that are beyond their control (High Grid). One example of a fatalist is a slave in the antebellum South (Ellis and Wildavsky, 1990). A individual who is unemployed for an extended period of time and moves from "one welfare centre to another ad infinitum" is used as an example by Schwarz and Thompson (1990). Fatalists are unlikely to engage in politics since they are powerless over their life's circumstances and prefer to "endure" whatever happens to them. This is consistent with the idea that nature is unpredictable and thus unmanageable. It is noteworthy that, according to Douglas, no person, organisation, or society fully belongs to one cultural worldview over another; rather, each is, to varied degrees, hierarchical, individualist, egalitarian, or fatalistic (Douglas, 1992). In fact, according to a number of writers (Malsch, 2012; Tansey, 2004; West, et al., 2010), the grid-group typology should only be applied as a heuristic, or a tool for thinking about social phenomena. Recent attempts to measure cultural theory, according to Tansey (2004), have transformed what was once a theory of institutional forms into "a psychological theory of risk perception" that is applied to the person rather than the community.



Source: Schwarz, M. and M. Thompson, 1990, Divided We Stand: Redefining Politics, Technology and Social Choice, p. 7.

EMPIRICAL EVIDENCE ON THE RELATIONSHIP BETWEEN CULTURE AND RISK ATTITUDES

Risk has a significant role in both business and society life. Moreover, it is an essential component of a business since every decision made between multiple options carries some level of risk. Almost all significant economic decisions have some degree of risk and uncertainty. However, in mainstream economics, risk is handled by utility theories, where an individual allocates resources to meet his or her wants. It appears that risk attitude is only a name that describes the shape of the utility function that is assumed to drive an individual's decision. The study made by Blais and Weber examines the concept of risk attitude, which has traditionally been modeled through utility functions within frameworks like expected utility theory and prospect theory. These models describe risk attitudes using the shape of utility functions, indicating risk aversion or seeking based on their concavity or convexity. However, these traditional approaches often fail to account for the variability in risk attitudes observed across different contexts and domains, such as financial versus recreational decisions. Empirical evidence reveals that individuals display inconsistent risk preferences depending on the situation, challenging the notion of risk attitude as a stable, situation-invariant trait. This inconsistency undermines the predictive validity of conventional risk attitude assessments, such as those based on the Choice Dilemma Questionnaire, which aggregate diverse risk scenarios into a single score. To address these limitations, Blais and Weber developed the Domain-Specific Risk-Taking (DOSPERT) Scale. This scale measures both conventional risk attitudes (the reported level of risk taking) and perceived-risk attitudes (the willingness to engage in a risky activity as a function of its perceived riskiness) across five distinct domains: ethical, financial (further divided into gambling and investment), health/safety, social, and recreational. The DOSPERT Scale recognizes that risk perception and behavior are influenced by situational factors and psychological dimensions, such as dread, familiarity, and controllability, which vary across different types of decisions. By providing a more context-sensitive assessment, the DOSPERT Scale offers a refined and accurate tool for measuring risk attitudes, acknowledging the complex interplay between individual differences and situational determinants in decision-making under risk.

In comparison, Hofstede's Uncertainty Avoidance Index (UAI) is a measure that captures the degree to which members of a culture feel threatened by and attempt to avoid ambiguous or unknown situations. It reflects the extent to which a society relies on established norms, rules, and structures to create stability and predictability. In high UAI cultures, such as Greece, Portugal, and Japan, there is a pronounced need for formal rules and regulations to manage uncertainty and mitigate the inherent unpredictability of life. These cultures emphasize detailed planning, strict adherence to protocols, and a strong preference for clear, structured environments. For instance, in high UAI countries, workplaces might have extensive policies and procedures, and employees might prefer explicit job descriptions and stable career paths. Educational systems in these cultures often stress rote learning and standardized testing, minimizing ambiguity in the learning process. Moreover, high UAI societies are characterized by a general reluctance to embrace change and innovation. New ideas and unconventional behaviors can be met with skepticism and resistance, as they introduce uncertainty. This aversion to risk is evident in both personal and professional contexts. For example, in financial decisions, individuals from high UAI cultures may prefer low-risk investment options and exhibit a cautious approach to entrepreneurship. The healthcare systems in these cultures might also emphasize preventive measures and comprehensive insurance schemes to cover potential health uncertainties. In contrast, low UAI cultures, such as Singapore, Sweden, and Denmark, exhibit a greater tolerance for ambiguity and uncertainty. These societies are more comfortable with flexible rules and less formal structures, which allows for more adaptability and innovation. In low UAI cultures, the workplace environment is often more relaxed, with an emphasis on open-ended goals and creative problem-solving. Employees may be encouraged to take initiative and explore new ideas without the fear of strict repercussions. The educational systems in these cultures often promote critical thinking, creative exploration, and the acceptance of multiple perspectives. In terms of risk-taking, individuals in low UAI cultures are generally more willing to engage in entrepreneurial activities and invest in high-risk ventures, reflecting a broader societal acceptance of uncertainty and potential failure. These cultures tend to foster an environment where change is seen as an opportunity rather than a threat. This openness to new experiences and flexibility can be seen in social behaviors as well, where there is a higher tolerance for diverse lifestyles and non-conformity.

The DOSPERT Scale and UAI represent distinct yet complementary approaches to understanding risk and uncertainty. While DOSPERT offers detailed insights into individual risk attitudes, UAI reveals how cultural factors shape risk perception and tolerance at the societal level. Integrating both approaches enhances our understanding of risk dynamics by elucidating the interplay between individual tendencies and cultural influences. For instance, DOSPERT may reveal how individuals within a high UAI culture exhibit risk-averse behavior in certain domains, while UAI highlights broader societal preferences for stability and structure. Conversely, in a low UAI culture, DOSPERT may identify instances of greater risk-taking among individuals, reflecting the culture's tolerance for ambiguity and innovation as indicated by UAI. This integrated approach allows for a comprehensive analysis of risk behavior, enabling more informed decision-making strategies tailored to both individual and cultural contexts. This dual perspective enables more effective and tailored strategies for managing risk, fostering innovation, and understanding the complex dynamics of decision-making in diverse cultural settings.

Chapter two: Development of the research analysis

ANALYSIS OF THE INTERNATIONAL BUSINESS CONTEXT

Any business activity or transaction that takes place between nations with the intention of advancing the commercial objectives of people, companies, or economic organisations is referred to as international business. The internal and external elements that impact an enterprise's performance and eventual success or failure make up its business environment.

Any commercial activity aimed at facilitating the global flow of people, ideas, technologies, resources, goods, and services is referred to as international business. It is frequently used in many nations and regions to meet the commercial objectives of people, companies, and economic organisations. In the current framework of international cooperation connections, conducting business internationally is both crucial and essential. It is a given that a nation's economy will deteriorate and that people's living conditions will not rise much if it remains outside of the global market. In comparison to domestic business, a robust presence in international business will generate more prospects and advantageous conditions for growth, expansion, and better income. Global distribution of capital, goods, and services will be facilitated by international business. As a result, projects are started, flourish, and implemented with greater speed and reach. The utilisation of capital and human resources is improved, and funding operations can go more smoothly. Additionally, consumers and purchasers can choose from a wider range of goods and services with superior quality and quantity when doing business internationally. International competition can result in lower prices for goods and services under these circumstances.

The business environment can be broken down into geographical, political, legal, economic, cultural, and institutional contexts when examining the environment in a "static" condition.

From a functional and operational standpoint (that is, by taking a dynamic approach to the environment), the business environment consists of financial, investment, and commercial aspects. From the perspective of business conditions, the business environment is divided into the below different sections.

Economic Environment

Economic systems or models refer to the way societies organize and distribute resources, goods, and services. There are several different models of economic systems present in the world, each with its own characteristics and approaches. Here are the main ones:

Market Economy:

In a market economy, also known as capitalism or free market economy, economic decisions are primarily driven by the interactions of individuals and businesses in the marketplace.Private individuals and businesses own the means of production (land, labor, capital) and make decisions based on supply and demand. Prices are determined by market forces, and there is minimal government intervention in economic activities. Examples include the United States, Canada, and most Western European countries.

Command Economy:
In a command economy, also known as socialism or communism, the government owns and controls the means of production. Economic decisions, including what to produce, how to produce, and for whom to produce, are made centrally by the government. Prices are often set by the government, and there is little to no private ownership of property. Examples include the former Soviet Union, China (before economic reforms), and Cuba.

Mixed Economy:
A mixed economy combines elements of both market and command economies. While private individuals and businesses own most of the resources and make most economic decisions, the government also plays a significant role through regulations, taxation, and public services. Mixed economies vary in the degree of government involvement, with some leaning more towards a market economy and others towards a command economy. Examples include the United Kingdom, Germany, and Japan.
These are the main models of economic systems present in the world, each with its own strengths, weaknesses, and variations. Countries may adopt different economic models based on their historical, cultural, and political contexts, as well as their goals for economic development.

The influence of the economic environment on international business activities:
Businesses that operate in global marketplaces must possess a certain level of economics expertise. Understanding economics can assist managers and business owners in recognising the following: the impact of businesses on the economy of the host nation; the impact of a nation's economic policies on the performance of its businesses. Businesses operating in the market are directly impacted by the stability or volatility of the economies and economic policies of a nation, of nations in the region, and of nations worldwide. Stabilising the currency, reining in inflation, and maintaining the integrity of the national financial system are the three main components of economic stability. Because these challenges have a direct bearing on the financial performance of corporations operating overseas, businesses are both very concerned and terrified of

them. The paramount entitlement of consumers is the fundamental element impacting the functioning of the market economy.

Political Environment

Political systems refer to the structures and processes by which governments operate and exercise authority over their citizens. There are several types of political systems present in the world today, each with its own characteristics and methods of governance. Here are some of the main types:

Democracy:

Democracy is a system of government in which power is vested in the people, who exercise it directly or through elected representatives.There are two main types of democracy: direct democracy and representative democracy. In a direct democracy, citizens participate directly in decision-making processes, often through voting on laws and policies. In a representative democracy, citizens elect representatives to make decisions on their behalf, typically through periodic elections. Examples of democratic countries include the United States, India, and many Western European nations.

Monarchy:

In a monarchy, a single individual, usually a king or queen, holds supreme authority and inherits the position through hereditary succession. Monarchies can be absolute, where the monarch has almost unlimited power, or constitutional, where the monarch's powers are limited by a constitution or laws. Examples of monarchies include the United Kingdom (constitutional monarchy), Saudi Arabia (absolute monarchy), and Japan (constitutional monarchy).

Authoritarianism:

Authoritarianism is a system of government characterized by strong central power and limited political freedoms. Authority is concentrated in the hands of a single leader or a small group of elites, who often maintain control through force or manipulation. Authoritarian regimes may suppress opposition, censor the media, and restrict civil liberties. Examples of authoritarian regimes include North Korea, China (under the Chinese Communist Party), and Russia (under Vladimir Putin).

Totalitarianism:

Totalitarianism is an extreme form of authoritarianism in which the government seeks to control all aspects of public and private life. Totalitarian regimes typically rely on extensive propaganda, surveillance, and ideological indoctrination to maintain control. Examples of totalitarian regimes include Nazi Germany (under Adolf Hitler), the Soviet Union (under Joseph Stalin), and modern-day North Korea.

Theocracy:

A theocracy is a system of government in which religious authorities hold political power, and religious law governs society. Theocratic governments may be headed by religious leaders or clerics, and laws are often based on religious texts or principles. Examples of theocratic states include Iran (under the Supreme Leader), Vatican City (the headquarters of the Roman Catholic Church), and Saudi Arabia (where Islamic law, or Sharia, influences governance).

These are some of the main types of political systems present in the world today, each with its own variations and complexities. Countries may adopt different political systems based on historical, cultural, and ideological factors, as well as the preferences of their citizens and leaders. A country's political environment encompasses its independence, sovereignty, political system, and social institutions. The growing interdependence among states will pose a threat to each nation's independence. There will be restrictions on the power and capability to act in accordance with national policy. New demands to keep up with the pace of trade liberalisation and opening up will constantly put strain on the stability of the political system and social institutions. There is always a chance of issues with foreign powers taking advantage of and interfering with national affairs.

As a result, in order to engage in international trade, businesses need to be aware of the political climate in the nations and regions in which they wish to conduct business. The degree to which the majority of people support certain institutions and political viewpoints, as well as the degree to which the political system has sufficient legitimacy, all indicate political stability.

Cultural Environment

In today's interconnected world, the cultural environment serves as a vibrant mosaic, reflecting the diversity and richness of human experiences across the globe. It encapsulates a multifaceted tapestry of unique material, intellectual, emotional, and spiritual elements that collectively define the identity of civilizations and communities worldwide. As recognized by UNESCO, culture transcends mere artistic expressions; it encompasses a diverse array of elements, including literature, visual and performing arts, culinary traditions, architectural styles, linguistic diversity, philosophical perspectives, and religious beliefs.

The cultural environment is intricately intertwined with the broader environmental landscape, shaping and being shaped by geographical, political, economic, and social forces. It influences and is influenced by factors such as globalization, technological advancements, migration patterns, and environmental sustainability efforts. Furthermore, the cultural environment serves as a catalyst for social cohesion, resilience, and innovation in the face of environmental challenges. Cultural expressions, such as art, music, dance, and storytelling, play a crucial role in raising awareness, mobilizing communities, and fostering collective action towards environmental conservation and sustainability. In essence, the cultural environment is an integral component of the broader environmental landscape, embodying humanity's interconnectedness with the natural world and its collective responsibility towards environmental stewardship and sustainability. By recognizing and embracing the cultural dimensions of environmental challenges, societies can harness the power of cultural diversity and creativity to foster a more harmonious and sustainable relationship with the planet.

Competitive Environment

Conventionally, domestic and international business vary in that the former is frequently conducted on a greater geographic scale. Due to the need to spend more money on operations and commercial expansion, the corporation in the nation faces greater challenges. However, today's challenges associated with geographic distance have significantly diminished as a result of the quick and contemporary growth of information and transportation infrastructure.

The company's competitiveness has increased due to advancements in science and technology as well as the degree to which these achievements are being applied. To a certain extent, the degree and range of government interference has helped or impeded company operations and enterprise performance. Utilising cutting edge science and technology effectively can assist companies in lowering the risks associated with conducting business internationally.

Businesses now have to contend with a large number of new rivals due to worldwide commerce. Additionally, the company's competitors' competitive pressures are what cause the prices of "input factors" and "output factors" to fluctuate according to distinct trends. In order to decrease obstacles, boost possibilities, minimise risks, and improve business outcomes in this scenario, firms must be promptly aware of it and flexible enough to modify their business operations. In order to do this, the business needs to establish market dominance as soon as possible and provide new, high-quality items at competitive pricing with appropriate models.

The level of competition is rising due to several factors, including a growing number of competitors, the slow growth of contemporary industries, rising costs, a disregard for the process of product differentiation or cost details as a result of supplier changes, competitors with diverse business strategies, competitors with different origins, and barriers. Businesses are unable to shift from one industry to another due to the economics. The development of new businesses that join the market with the capacity to grow and take market share poses a danger to established organisations. In the realm of market economies, open economies, and integrated corporate environments, businesses encounter a multitude of challenges and high demands from both suppliers and clients. Each market presents its unique set of pressures and obstacles, and even within the same nation, competitiveness varies significantly across different product markets. Transitioning economies further add complexity, with three distinct market types: state-owned enterprises (SOEs), monopolistic markets, competitive markets, and markets protected by the state, each characterized by differing levels of competition.

Amidst this dynamic environment, some businesses excel by swiftly adapting to shifting conditions, seizing advantageous opportunities as they arise. However, many companies grapple with persistent challenges, often taking substantial risks to compete against rivals with greater advantages and potential. Supplier relationships play a crucial role in business success, with the ability to adjust prices, enhance product quality, and drive profitability reflecting the strength of the connection.

Moreover, customers wield significant bargaining power, leveraging their ability to negotiate for lower costs, higher quality, or alternative offerings. The threat of substitute goods and services further compounds the challenge, with consumers readily turning to alternatives when faced with rising prices or dissatisfaction with current offerings. Industry-wide competition intensifies these dynamics, as businesses engage in fierce battles over pricing, product differentiation, and innovation to maintain market share and relevance.

In navigating this intricate landscape, businesses must remain agile, adaptable, and resilient, continuously assessing and responding to market dynamics to thrive amidst intense competition and evolving consumer preferences.

IMPORTANCE AND ROLE OF CULTURE IN INTERNATIONAL BUSINESS

Culture has various definitions, but in the simplest terms, culture refers to the norms, beliefs, ideas, attitudes, and social behavior of an individual or society.

Culture can be defined as the synthesis of various experiences, values, beliefs, and ideas that shape the attitudes and behaviours of a group, a community, or an individual.

Religion, language, gender roles, social dynamics and structure, traditions, laws, and cu stoms are some of the fundamental components of culture.

In international business, cultural adaptation includes both national and organisational c ultures and customs.

Gaining a deeper understanding of how local businesses and the workers operate is bene ficial to the organisations. To comprehend how culture influences multinational corporations, it's imperative to explore its significance in various facets of international business. First of all, we need to consider how to enter into markets. In order to conduct worldwide business, one must access new markets. When preparing a marketing strategy for their overseas subsidiaries or interacting with foreign clientele, businesses need to show consideration for diverse cultural traditions. The first thing that business executives should do is research the values, beliefs, and habits of the local market. Second of all, it is the business negotiation, in fact diverse cultural backgrounds lead to differing viewpoints on commercial discussions. Some see talks as the start of a solid commercial partnership, while others see them as a signed contract between two parties. As such, It is crucial to know your counterpart's perspective on the goal of the negotiation in order to establish a mutually beneficial long-term partnership or to consider it as a one-time transaction. Furthermore, another facet is the personal style. International corporate culture has a big impact on people's personal style, which affects everything from how they dress to how they interact with others. Every culture has its own conventions and etiquette for conducting business meetings and negotiations. Therefore, generating the right impression and closing important commercial deals depend greatly on understanding the complexities of other cultures and adhering to the proper procedures.The following aspect is the team organisation. Organisational culture has a significant impact on how they negotiate deals. Some people think that decisions should be made by agreement, while others think that one person should be in charge of all decisions. These principles impact all parties involved in a business transaction, regardless of whether the culture supports societal equality or hierarchical roles. Business executives should therefore be aware of how teams from various cultural backgrounds organise and engage in decision-making. The last characteristics are inclusion and diveristy. An organisation sets the standard for diversity and inclusivity in the workplace when it embraces the ideas, practices, and people from many cultures. A dynamic and competent workforce is facilitated by sensitivity to and acceptance of other cultures. Furthermore, these principles have a long-lasting effect on stakeholders, investors, and clients.

International Business and Cross-cultural Challenges

There are difficult times in the interaction between culture and global business. A few of the cross-cultural issues that firms face worldwide are given below:
Recognising regional business customs:

Organisations' inability to comprehend regional business practices is one of the main cultural problems in international business. One of the biggest obstacles to international trading is not knowing how to conduct business in another country while taking cultural, political, and economic factors into account.

For example, in certain Asian nations, culture has a big impact on how workers react to managerial positions. Social hierarchies are respected in Japan, and elders are treated with the highest regard. Nonetheless, the organisational structure is quite flat in the US.

Identifying regional differences:

Organisations that prioritise the global picture frequently ignore regional variations in growing markets. Subcultures encompass more than just geographical and ethnic diversity; they also include things like the ways that male and female consumers behave and think differently.

Adapting business model to the local market:

Consumer attitude and behaviour are greatly influenced by culture. Nevertheless, a lot of businesses adopt a one-size-fits-all strategy without understanding that personalisation is the key to attracting a wide range of clients. Their business strategies need to be reorganised to take into account regional traditions, lifestyles, and the inclinations of various client personas.

Adapting human resource policies:

It might be difficult for a foreign corporation with local employees that is culturally clueless to recruit, retain, and leverage global talent. Cultural differences exist in organisational commitment, work satisfaction, motivation, and conflict resolution. The secret to comprehending these variations is to reconsider human resource practices to take into account regional cultural norms. Teams in charge of human resources should be conscious of cultural variations while hiring and interacting with foreign workers.

Establishing an inclusive and diverse workplace:

An inclusive and diverse workplace attracts and keeps top talent from around the world, meets the varied demands of consumers, opens up new business opportunities, encourages creativity, and propels innovation. Issues with diversity and inclusion differ from country to country, and it should be noted that prejudice, discrimination, and cross-cultural disputes impede international trade.

Modifying management techniques:

Every organisation has its own management styles and procedures that are based on particular cultural tenets. Although it sounds ideal, there is a problem when these habits spread across cultural boundaries without taking cultural variances into account. It is now the organization's duty to train its employees on how to get over the various layers of cultural barriers.

Addressing the Cultural Barriers in International Business

It makes sense to ask: "How do we overcome the cultural barriers in international business?" given the importance of culture in international business and the cross-cultural difficulties involved.

It can be difficult to manage cross-cultural relationships successfully in multinational company. Understanding the cultural hurdles obstructing international business partnerships is not enough; you also need to be ready to address the problems.

Establish a culturally sensitive workplace:

Making accommodations for the cultural needs of your international coworkers and employees is one of the finest strategies to navigate cultural differences in international company. To make everyone feel included, for example, take into account dietary requirements, customs, and holidays related to different cultures and religions and incorporate them into your organization's regulations.

Encourage open communication:

Cross-cultural communication and international business go hand in hand. The only way culturally diverse teams can get over their differences and collaborate is via encouraging an environment of free communication. The world's leaders need to set an example. They ought to encourage candid dialogue, pay attention to everyone's viewpoints, and establish a transparent and safe work environment. Workers ought to have a judgment-free environment in which they can discuss their difficulties.

Engage in diversity training:

Participate in diversity training Organisations that make an effort to welcome and incorporate individuals from a range of cultural backgrounds are making progress towards breaking down cultural barriers in global trade. Diversity training is a useful tool that enables workers to recognise unconscious biases, prejudices, and other barriers while also facilitating opportunities for learning how to value diversity.

Establish a shared company culture:

The greatest method to bring a culturally diverse team together is to create a strong corporate culture that represents the interests of each individual member. It is your responsibility as a team leader to make sure that your group works as a cohesive unit to resolve conflicts, voice complaints, and address business obstacles. It's critical to establish a team culture free from stereotypes when members operate remotely.

Understand the local culture:

Prioritise learning about the business practices of the area before diving headfirst into conducting operations in a new market. Consider starting with a localised attitude and implementing changes gradually in your firm rather than using a full-blown global approach.

Cultural Differences in International Business

Understanding how culture affects international business is essential to preventing miscommunications with clients and staff and building a strong reputation in new areas. Embracing cultural diversity in multinational corporations provides you with a wide range of business expertise and fresh perspectives to address pressing business issues.

The basic definition of culture is different from that of international business culture, which impacts multinational corporations in five main domains: interaction, communication, organisational hierarchy, and workplace etiquette.

Interaction:

In a different cultural context, professional gestures and behaviours that are seen normal in one culture may be rude or improper. Therefore, if you are used to formal interactions in your country with handshakes, eye contact, and cheek kisses, this may not be the case with international clients and business partners. Understanding appropriate and proper business manners becomes essential.

For example, Americans feel more at ease using first names in a formal setting, but Japanese people view it as impolite to address someone by their first name on a first meeting.

Communication:

Different civilizations use different communication techniques. Therefore, one of the best ways to overcome cultural differences in the context of international business is to grasp the language and communication preferences of your target market. For instance, whereas the Japanese rely on indirect communication, the Israeli and American cultures value direct communication. Similarly, Indians usually communicate subtly and indirectly, while Finns are more likely to be succinct and employ direct communication techniques.

Organizational hierarchy:

The way that different cultures view organisational structure varies. You should be aware that the host nation may have a different perspective on company structures than you do when venturing into new markets. As a result, it could be difficult to establish responsibilities in cross-cultural teams or identify the authority figure on the opposing side. Sweden has a flat organisational hierarchy that prioritises equality, in contrast to Japan's simple organisational structure that supports hierarchy. Furthermore, American teams are more likely to have a leader with ultimate authority than Chinese or Japanese teams, which emphasise consensus decision-making.

Workplace etiquette:

When talking about how culture affects international business, variations in workplace manners are an important factor to take into account. Workplace etiquette varies greatly between multinational teams, which is a reflection of cultural diversity. Let's talk about being on time. When interacting with clients or colleagues who are American, Japanese, Russian, or South Korean, you have to be prompt. However, it is customary in Germany to arrive early for an appointment. In Malaysia, China, Mexico, Ghana, or Nigeria, however, it is normal to be late for meetings.

Style of Negotiation:

When conducting business internationally, negotiating becomes essential. People's negotiating styles are reflected in their actions and speech. It is imperative for organizations to comprehend and adapt to the recognized negotiation conventions in various nations.

FORMULATION OF RESEARCH HYPOTHESES ON THE RELATIONSHIP BETWEEN CULTURE AND RISK ATTITUDES

People view and engage with the world around them through a fundamental lens that is culture. Many ideas, values, customs, and traditions are ingrained in cultural contexts and influence people's attitudes and behaviors, including how they perceive risk. Using recognized theoretical frameworks and concepts, this section explores the development of research hypotheses targeted at examining the complex interaction between culture and risk attitudes.

Theoretical background

A strong theoretical base is necessary to comprehend the dynamic interaction between risk attitudes and culture. A useful foundation for examining cultural differences in risk perception and behavior is provided by Hofstede's groundbreaking work on cultural dimensions. These dimensions—individualism vs collectivism, masculinity versus femininity, power distance, and uncertainty avoidance—offer distinct perspectives on the ways in which cultural variables affect risk attitudes.
Individualism-Collectivism**:** The degree to which a culture values individual liberty and independence over social cohesion and interdependence varies. People who live in individualistic societies, where the emphasis is on personal objectives and accomplishments, can be more likely to take risks in their pursuit of chances for success and personal development. On the other hand, those who live in collectivist societies—where social harmony and group cohesion are highly valued—might exhibit more risk aversion in order to preserve interpersonal connections and uphold communal norms.
Power distance: The degree to which inequality and hierarchical structures are tolerated in a society is referred to as its power distance. People who live in high power distance cultures tend to respect authoritative figures and follow laws and conventions, which makes them favor risk aversion as a way to prevent problems or negative outcomes. On the other hand, people may be more willing to take chances and question established

authority structures in societies with minimal power distance, where egalitarianism and personal empowerment are emphasized.

Uncertainty Avoidance: People's tolerance for ambiguity and unpredictability is influenced by cultural differences in uncertainty avoidance. People in cultures with high levels of uncertainty avoidance typically value stability, order, and risk aversion because they try to reduce uncertainty by adhering to set norms, customs, and routines. Cultures with low uncertainty avoidance, on the other hand, might be more risk-taking, accepting of uncertainty as a normal aspect of life and a chance for creativity and discovery.

Masculinity-Femininity**:** The degree to which a culture values assertiveness, accomplishment, and competitiveness versus nurturing, cooperation, and quality of life is examined by Hofstede's dimension of masculinity-femininity. High levels of masculinity in a culture may encourage people to take risks in their pursuit of achievement, notoriety, and a competitive edge. On the other hand, societies that place a high value on social welfare, harmony, and interpersonal relationships could also prioritize risk aversion as a means of defending the interests and well-being of the community.

Research Approach

In order to capture the complex interaction between culture and risk attitudes, a thorough research methodology integrating quantitative and qualitative approaches is necessary for the empirical testing of the formulated hypotheses. Employing standardized measures of risk perception and behavior, cross-cultural surveys can provide insightful information about cultural differences in risk attitudes among various societies and demographic groups. Furthermore, focus groups and qualitative interviews can offer a thorough examination of the underlying cultural norms, beliefs, and narratives that influence people's perceptions of risk and ways in which they make decisions.

By carefully manipulating cultural cues and situations, experimental study methods provide a potent way to demonstrate the causal links between risk attitudes and culture. Researchers can clarify the causal mechanisms underpinning cultural influences on risk by methodically altering cultural stimuli and tracking changes in risk attitudes behavior that arise.

In conclusion, the complex and dynamic relationship between culture and risk attitudes is a reflection of the interplay between social norms, cultural values, and individual cognition. Scholars can further our understanding of how cultural influences influence risk perception, decision-making, and behavior by developing and empirically evaluating research hypotheses that examine this link. These revelations have important ramifications for a variety of fields, including as psychology, economics, organizational behavior, and public policy. They also provide helpful advice for managing risk in a world that is becoming more interconnected and culturally varied.

Chapter Three: Case Studies

FIRST CASE STUDY

Title: The Role of Enterprise Risk Management in Sustainable Decision-Making: A Cross-Cultural Comparison

Author: Xin Liu

Affiliation: School of Business, Pacific Lutheran University, Tacoma, WA 98447, USA; Email: liuaa@plu.edu

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Abstract: The study investigates the role of cultural backgrounds in shaping the effectiveness of enterprise risk management (ERM) programs in mitigating environmental, social, and governance (ESG) related risks. Conducted by Xin Liu from the School of Business at Pacific Lutheran University, the research employs a cross-cultural comparison between Chinese and American participants to explore how regulatory focus and risk management philosophy interact within different cultural contexts. The analysis reveals significant differences in regulatory focus between Chinese and American participants, with Chinese individuals demonstrating a higher prevention focus and American individuals displaying a higher promotion focus. Furthermore, the study highlights the importance of aligning the framing of risk management philosophies (loss-framed vs. gain-framed) with participants' cultural backgrounds to enhance

proactive risk management. The findings provide valuable insights for both research and practical applications in multicultural work environments.

Introduction: The introduction sets the context for the study by emphasizing the increasing importance of sustainable decision-making and the role of enterprise risk management (ERM) in addressing environmental, social, and governance (ESG) related risks. Xin Liu from the School of Business at Pacific Lutheran University highlights the limited research on the influence of cultural backgrounds on ERM effectiveness and proposes a cross-cultural comparison between Chinese and American participants to address this gap. The Regulatory Focus Theory (RFT) is introduced as a theoretical framework to understand how individuals from different cultural backgrounds approach risk management.

Literature Review: The literature review provides a comprehensive overview of existing research on enterprise risk management, cultural differences in regulatory focus, and the moderating effect of culture on risk management effectiveness. Drawing on previous studies, Xin Liu discusses the Regulatory Focus Theory (RFT) and its application in understanding how individuals with promotion-focused or prevention-focused orientations approach risk management. The review also highlights cross-cultural differences in regulatory focus, with Eastern collectivistic cultures tending to emphasize prevention focus and Western individualistic cultures leaning towards promotion focus.

Hypotheses Development: Xin Liu develops hypotheses based on the Regulatory Focus Theory (RFT) and its interaction with culture. Hypothesis 1 predicts that Chinese participants will exhibit a higher rating on the prevention focus scale compared to the promotion focus scale, while American participants will show the opposite pattern. Hypothesis 2 proposes that the effectiveness of risk management philosophy will be moderated by participants' cultural background, with Chinese participants being more proactive under a loss-framed philosophy and American participants showing greater proactivity under a gain-framed philosophy. Hypothesis 3 suggests that participants' perceived processing fluency will mediate the effectiveness of matching risk management philosophy frame to their cultural backgrounds.

Research Method: Xin Liu describes the participants, design, measures, and procedures employed in the study. The participants were MBA students from universities in China and the U.S. who received extra credit for their participation. A between-subjects design was utilized, with participants randomly assigned to different conditions of risk management philosophy (loss-framed vs. gain-framed). The experimental materials included a hypothetical case describing a corporation's risk management program and information security policies. Measures included self-construal scale, regulatory focus scale, and proactivity scale, among others. The original English materials were translated into Chinese and back-translated to ensure reliability.

Results: The results section reports the findings of the study, including differences in regulatory focus between Chinese and American participants, the effectiveness of risk management philosophy in influencing participants' proactivity, and the mediating role of perceived processing fluency. Statistical analyses support the hypotheses, demonstrating significant interactions between culture and risk management philosophy on participants' proactivity in mitigating ESG-related risks.

Discussion: Xin Liu discusses the implications of the study's findings for research and practice, highlighting the importance of considering cultural differences in designing and implementing enterprise risk management programs. The study contributes to the literature by providing insights into antecedents to effective risk management and addressing the limited research on the role of culture in ERM. Practical implications include designing ERM programs congruently with employees' cultural backgrounds to foster proactive risk management in multicultural work environments.

Limitations and Future Research: The study acknowledges limitations in its experimental design and suggests avenues for future research to extend the external validity of the findings and explore the impact of culture on other components of ERM frameworks. Additionally, the study suggests investigating the influence of affective factors on managers' decision-making processes in risk management.

Conclusion: In conclusion, Xin Liu's study offers valuable insights into the role of cultural backgrounds in shaping the effectiveness of enterprise risk management programs in sustainable decision-making. By conducting a cross-cultural comparison between Chinese and American participants, the research contributes to a better understanding of how regulatory focus and risk management philosophy interact within different cultural contexts, providing practical implications for designing ERM programs in multicultural work environments.

SECOND CASE STUDY

Title: The Influence of Cultural Context in Managerial Decision-Making: Legitimacy Views of Finnish and Italian Managers

Authors: Johanna Kujala; Valentina Battista; Lorenzo Lucianetti; Anni Paavilainen.

Year: 2021

Abstract: The study investigates how cultural context affects managerial decision-making by examining the legitimacy views of Finnish and Italian business managers. Using a moral dilemma scenario involving the dismissal of an older employee, the authors collect data from both Finland and Italy. They employ legitimacy theory and argumentation analysis to analyze the data, revealing significant differences in managerial legitimation between the two countries.

Introduction: The introduction sets the stage for the study by highlighting the importance of understanding cultural influences on managerial decision-making, especially in the context of globalization. The authors emphasize the need to explore how cultural differences shape legitimacy views among managers, which can lead to varying approaches to moral decision-making.

Literature Review: The literature review provides a comprehensive overview of relevant theories and concepts, including legitimacy theory, cultural dimensions (referencing Hofstede's work), views of legitimacy, and moral decision-making. The authors discuss the scarcity of qualitative research on moral decision-making and the significance of exploring cultural differences in this context.

Methodology: The methodology section outlines the approach taken in the study. The authors use a qualitative research design and collect data through scenario-based responses from Finnish and Italian managers. They employ legitimacy theory and argumentation analysis to analyze the data, aiming to uncover differences in managerial legitimation between the two cultural contexts.

Results: In the results section, the authors present their findings based on the analysis of responses from Finnish and Italian managers. They identify clear differences in the use of cognitive, instrumental, relational, and moral legitimacy between the two countries, highlighting cultural influences on managerial decision-making processes.

Discussion: The discussion section delves deeper into the implications of the findings, relating them back to cultural dimensions and views of legitimacy. The authors explore how cognitive, instrumental, relational, and moral legitimacy are utilized by Finnish and Italian managers, offering insights into cultural differences in short-term versus long-term orientation and normative dimensions.

Theoretical Contributions and Managerial Implications: In this section, the authors discuss the theoretical contributions of the study, including its contribution to qualitative research on moral decision-making and understanding the influence of cultural values on managerial argumentation. They also highlight the managerial implications, emphasizing the importance of cultural awareness in overcoming organizational and individual disagreements.

Conclusion: The conclusion summarizes the key findings of the study, emphasizing the significant differences in legitimacy views and managerial decision-making between Finnish and Italian managers. The authors underscore the importance of considering cultural context in understanding managerial legitimation and moral decision-making processes.

References: The reference list includes relevant literature cited throughout the study, providing a comprehensive overview of existing research in the field of managerial decision-making, legitimacy theory, and cultural dimensions.

Comparing the two case studies provides robust evidence supporting the thesis that culture significantly influences decision-making processes. In the first case study, which examines the negotiation styles of Chinese and American business professionals, cultural norms and values are found to shape communication strategies and conflict resolution approaches. Specifically, the collectivist nature of Chinese culture fosters a preference for harmony and indirect communication, whereas the individualistic tendencies in American culture promote directness and assertiveness. This cultural contrast directly impacts negotiation outcomes and highlights the importance of understanding cultural nuances in cross-cultural business interactions. Similarly, the second case study investigates the legitimacy views of Finnish and Italian managers in moral decision-making scenarios. Here, cultural dimensions such as short-term versus long-term orientation, normative dimensions, and views of legitimacy significantly shape managerial argumentation and decision-making processes. Finnish managers, influenced by a short-term orientation and normative dimension, tend to prioritize property and perception views of legitimacy, while Italian managers, reflecting a long-term orientation, lean towards a process view. These findings underscore the pivotal role of culture in shaping not only negotiation strategies but also moral reasoning and decision-making approaches within organizational contexts. Thus, the comparative analysis of these two case studies offers compelling evidence that culture profoundly impacts decision-making across various domains, emphasizing the need for cultural awareness and sensitivity in managerial practice.

Conclusion

The above comprehensive examination of the intricate relationship between culture and risk attitudes in international business has provided a clear understanding of how cultural factors significantly impact individuals' perceptions, behaviors, and decision-making processes. The analysis revealed that cultural dimensions such as individualism-collectivism, power distance, uncertainty avoidance, and masculinity-femininity are critical determinants shaping risk attitudes. Specifically, we found that the individualistic ethos of Western societies promotes higher risk-taking behaviors, whereas the collectivist orientations prevalent in many Asian cultures are more affine with risk aversion. Additionally, our investigation into cultural differences in negotiation styles, organizational hierarchies, workplace etiquette, and management techniques underscored the importance of cultural sensitivity in navigating the complexities of international business environments.

The results of our study emphasize the profound influence of cultural norms, values, and beliefs on risk-taking behavior across diverse cultural contexts. This highlights the need for organizations to adopt culturally informed approaches in their business strategies and operations. By recognizing and embracing cultural diversity, organizations can encourage an inclusive and supportive work environment, exploiting the collective strengths and talents of employees from diverse cultural backgrounds. The findings also emphasize the importance of effective cross-cultural communication and collaboration, which are essential for building strong relationships with clients, partners, and stakeholders in global markets. These insights suggest that cultural awareness and adaptation are not just beneficial but necessary for achieving competitive advantage and organizational success in the international arena.

Looking ahead, several avenues for future research could deepen our understanding of the interplay between culture and risk attitudes in international business. Further exploration of cultural dimensions and their effects on risk perception and behavior across different regions and industries can provide valuable insights for practitioners and policymakers. Longitudinal studies tracking changes in cultural norms and risk attitudes over time would offer valuable perspectives on evolving trends and dynamics in global business environments. Additionally, qualitative research methods such as ethnographic studies and in-depth interviews could provide a richer understanding of the cultural nuances and contextual factors shaping risk attitudes in specific cultural settings. These future developments would not only enhance the academic discourse on culture and risk but also provide practical guidance for organizations operating in the increasingly interconnected and culturally diverse world of international business.

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