

The pervasive and hidden influence of culture in the context of foreign market entry

April 25 2013

Affligem, Belgium

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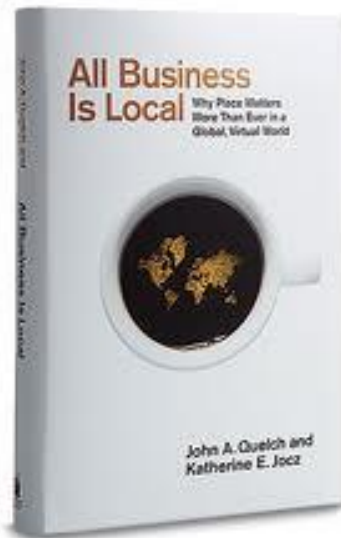
Globalization is overestimated as levels of cross border integration are seriously exaggerated*

Global reality check

■ What % of physically mailed letters in the world cross national borders?	■ 1%
■ What % of telephone calling minutes involves international calls?	■ <2%
■ What % of internet traffic is routed across a national border?	■ 17%
■ What % of news do people gather from international sources?	■ >5%
■ What % of students study overseas out of all university students?	■ 2%
■ What % of people will never leave the country in which they were born?	■ 90%
■ What % do global exports represent out of all the value produced in the world (GDP)?	■ 20%
■ What % of venture capital money is deployed outside the fund's home country?	■ 15%
■ What % of private charitable giving crosses borders?	■ <10%
■ What is the % of cross border ownership of bank deposits?	■ 25%

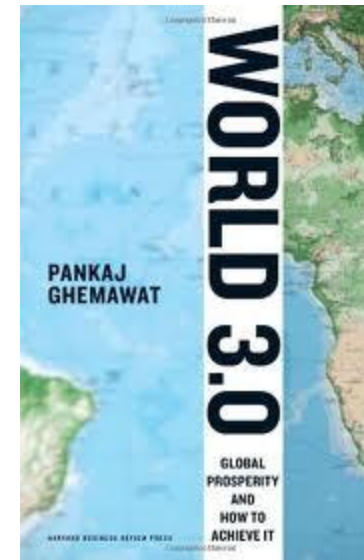
*Source: P. Ghemawat, World 3.0.

Debunking globaloney...



“We live in a flat and spiky, globalized and local world”

(J. A. Quelch & K. E. Jocz, All Business is Local, 2012)



“The true state of the world today is that of semi-globalization”

(P. Ghemawat, World 3.0, 2011)

The story of Avianca flight 052...

Transcript from Avianca 052 ... as the plane is going in for its abortive first landing

- Caviedes: *The runway, where is it? I don't see it. I don't see it*

They take up the landing gear. The captain tells Klotz to ask for another traffic pattern. Ten seconds pass

- Caviedes [seemingly to himself]: *We don't have fuel*

17 seconds pass as the pilots give technical instructions to each other

- Caviedes: *What happened with the runway. I didn't see it*

- Klotz: *What happened with the runway. I didn't see it*
- ATC: *What happened with the runway. I didn't see it*

Starts with routine acknowledgment of ATC instructions

- Caviedes: *What happened with the runway. I didn't see it*

- Klotz [to ATC]: *That's right to 1-8-0 on the heading and, ah, we'll try once again. We're running out of fuel*

"Running out of fuel" has no meaning to ATC

What is going on?

- “Mitigated speech”: an attempt to downplay or sugarcoat the meaning of what is being said
- We mitigate when we’re being polite, or when we’re ashamed or embarrassed, or when we’re being deferential to authority
- In some situations, mitigation is entirely appropriate, but in a cockpit on a stormy night it’s not

First officers when talking to the captain overwhelmingly use mitigated speech

Mitigated speech explains one of the great anomalies of plane crashes

- Historically, crashes have been far more likely when the captain is in the “flying seat”
- Put differently, planes are safer when the least experienced pilot is flying, because it means the second pilot isn’t going to be afraid to speak up

Back to cockpit of Avianca 052...

Transcript from Avianca 052

Plane turns away from Kennedy after first attempt. Klotz has been on the radio with ATC, trying to figure out when they can try to land again. Caviedes turns to him

- Caviedes: *What did he say?*
- Klotz: *I already advise him that we are going to attempt again because we can't...*

4 seconds pass

- Caviedes: *Advise him we are in emergence*

4 more seconds pass. The captain tries again

- Caviedes: *Did you tell him?*
- Klotz: *Yes, sir. I already advise him*

Klotz starts talking to ATC – going over routine details

Back to cockpit of Avianca 052...

Transcript from Avianca 052 (cont'd)

The captain is at the edge of panic

- Caviedes: *Advise him we don't have fuel*
- Klotz [to ATC]: *Climb and maintain 3.000 and, ah, we're running out of fuel, sir*

A little over a minute passes

- ATC: *Avianca 052, am gonna bring you about 15 miles northeast and then turn you back onto approach. Is that okay with you and your fuel?*
- Klotz: *I guess so. Thank you very much*

A flight attendant enters cockpit, points to empty fuel gauge and makes a throat-cutting gesture. No one in the cockpit reacts. Silence for 5 minutes.

- Flight attendant [still in cockpit, yells]: *Flameout on engine number four!*
- Caviedes: *Show me the runway!*
- ATC: *You have enough fuel to make it to the airport?*

Transcript ends

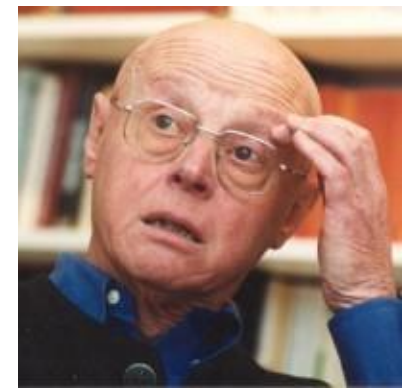
Enter Geert Hofstede

Prof. Hofstede is an influential Dutch management theorist who studies the interactions between national cultures and organizational cultures

He is the author of several books, most famously *Culture's Consequences* and *Cultures and Organizations*

Prof. Hofstede conducted the most comprehensive study of how values in the workplace are influenced by culture. He analyzed a large data base employee values scores collected by IBM between 1967 and 1973 covering more than 70 countries

Prof. Hofstede has given us a map for navigating different national cultures. It includes 5 dimensions



Hostede's cultural map

1. Power distance: the extent to which less powerful members of organizations (like the family) accept and expect that power is distributed unequally. It's the acceptance of hierarchy or not

Hostede's cultural map

2. Individualism vs. collectivism: the extent to which individuals are integrated into groups. On the individualist side, you find societies where ties between individuals are loose: everyone is expected to look after himself and his immediate family. On the collectivist side, you find societies in which people from birth onwards are integrated into strong cohesive groups, often extended families

Hostede's cultural map

3. Masculinity vs. femininity: the degree to which tough values like assertiveness, performance, success and competition, which in nearly all societies are associated with men, prevail over tender values like quality of life, care for the weak, etc.

Hostede's cultural map

4. Uncertainty avoidance: degree to which people prefer structured over unstructured situations.
How well do people cope with ambiguity?

Hostede's cultural map

5. Long term vs. short term orientation: On the long term side, you find values associated with the future, like thrift (savings) and persistence. On the short term side, you find values associated with present and past, like respect for tradition and fulfilling social obligations

Impact of Hofstede's findings on aviation industry?

- On board: The task of convincing first officers to assert themselves is going to depend an awful lot on their culture's power distance rating*

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

	Power distance		Individualism		Masculinity		Uncertainty avoidance		Long term	
USA	40	L	91	H	62	H	46	L	29	L
Germany	35	L	67	H	66	H	65	M	31	M
Japan	54	M	46	M	95	H	92	H	80	H
France	68	H	71	H	43	M	86	H	No data	
Hong Kong	68	H	25	L	57	H	29	L	96	H
Indonesia	78	H	14	L	46	M	48	L	25	L
Columbia	72	H	13	L	64	H	80	H	No data	
Russia	95	H	50	M	40	L	90	H	10	L

Source: G. Hofstede, Cultural constraints in management theories, Academy of Management, vol. 7, no. 1, p. 81-94

H = top third; M = medium third; L = bottom third (among 53 countries and regions for the first 4 dimensions; among 23 countries for the fifth)

So next time you think of flying, you may want to consider this...

Top 5 Pilot PDI's

1. Brazil
2. South Korea
3. Morocco
4. Mexico
5. Philippines

Bottom 5 Pilot PDI's

15. USA
16. Ireland
17. South Africa
18. Australia
19. New Zealand

If you compare this list to the ranking of plane crashes by country, they match up very closely

How to avoid this fate – and select the right targets for your firm's foreign market expansion?

Look beyond a country's sales potential (as expressed by national wealth or propensity to consume) and **analyze the probable impact of distance**

Distance still matters ... the CAGE framework

	Cultural distance	Administrative distance	Geographic distance	Economic distance
Attributes	<p>Different languages</p> <p>Different ethnicities</p> <p>Different religions</p> <p>Different work systems</p> <p>Different values, norms</p>	<p>Lack of colonial ties</p> <p>Lack of shared trading bloc</p> <p>Lack of common currency</p> <p>Different legal system</p>	<p>Physical remoteness</p> <p>Lack of land border</p> <p>Size of country</p> <p>Different time / climate zones</p>	<p>Different consumer incomes</p> <p>Different availability of</p> <ul style="list-style-type: none"> • Human resources • Natural resources • Infrastructure
Industries / products affected by distance	<p>High linguistic content (TV)</p> <p><u>Affecting cultural or national identity of consumers (foods)</u></p> <p><u>Carrying country specific quality associations (wines)</u></p> <p>Product features vary in terms of size (cars), standards (electrical appliances), packaging</p>	<p>Government involvement is high in industries that are:</p> <ul style="list-style-type: none"> • Producers of staple goods (electricity) • <u>Large employers (agriculture)</u> • <u>Vital to national security (aerospace / food stuffs)</u> • Exploiters of national resources (oil, mining) 	<p><u>Products that are fragile or perishable (vegetables, fruits, glass)</u></p> <p>Communications and connectivity are important (financial services)</p>	<p>Nature of demand varies with income level (cars)</p> <p><u>Distribution or business systems are different (supermarket vs. grocer vs. market place)</u></p>

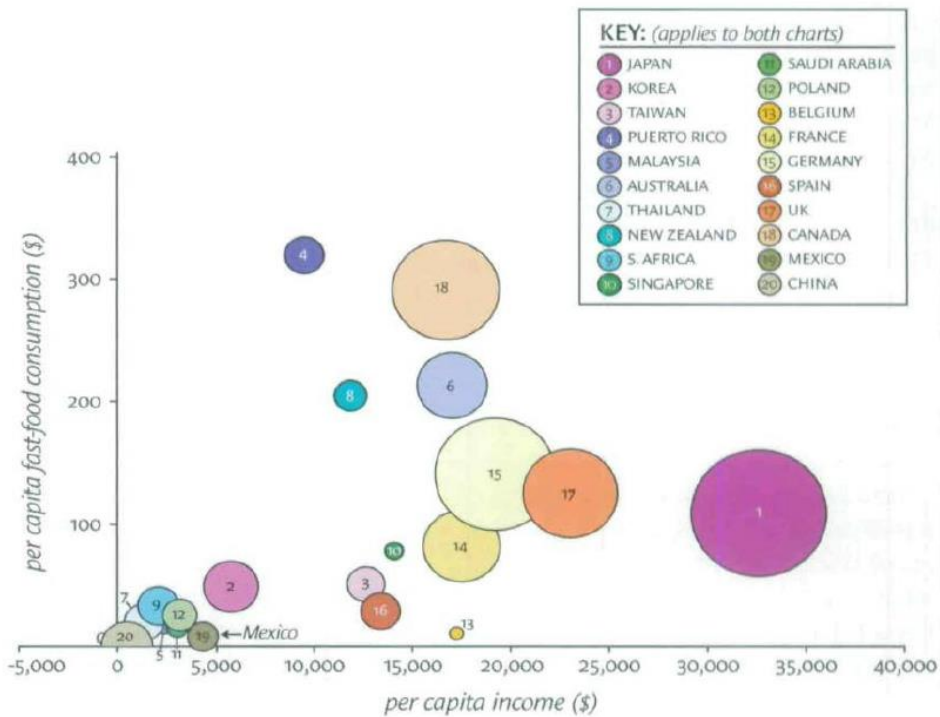
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Industry sensitivity to distance

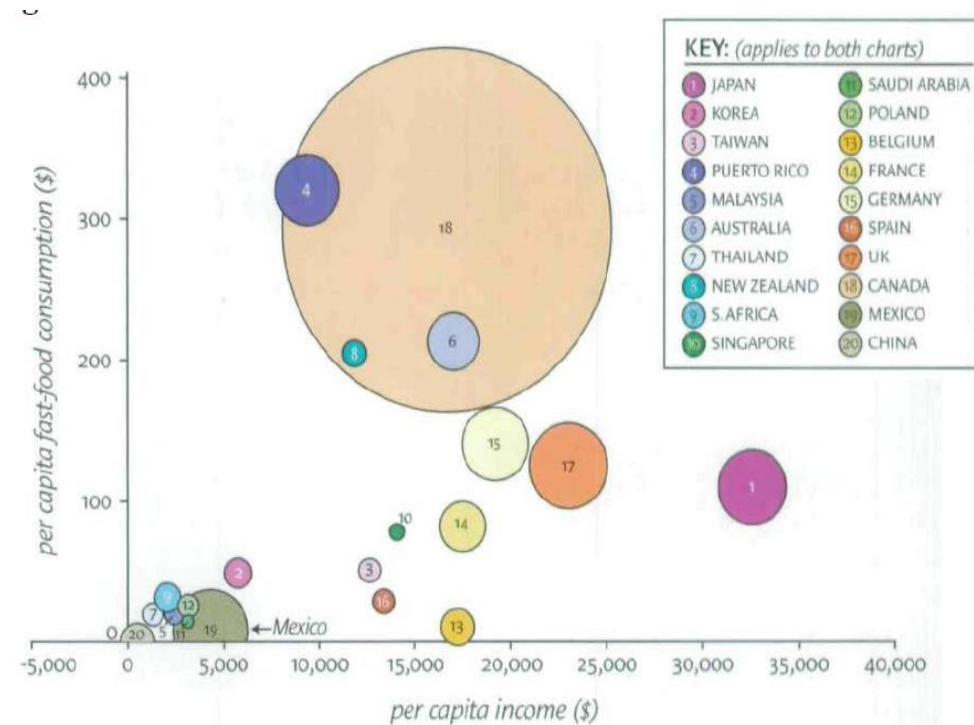
	Cultural distance: Linguistic ties	Administrative distance: Preferential trading	Geographic distance: Physical remoteness	Economic distance: Wealth differences
More sensitive	<p><u>Meat and meat preparations</u></p> <p><u>Cereal and cereal preparations</u></p> <p>Tobacco and tobacco products</p> <p>Office machines and data processing equipment</p>	<p><u>Coffee, tea, cocoa, spices</u></p> <p>Textiles</p> <p><u>Sugar, sugar preparations and honey</u></p>	<p>Paper and paperboard</p> <p>Live animals</p> <p><u>Sugar, sugar preparations and honey</u></p>	<p>(decrease in trade)</p> <p><u>Meat and meat preparations</u></p> <p>Iron and steel</p> <p>Fertilizers</p>
Less sensitive	<p>Watches, optical goods</p> <p>Road vehicles</p> <p>Cork and wood</p> <p>Metalworking machinery</p>	<p>Travel goods, handbags</p> <p>Footwear</p> <p>Sanitary, plumbing, heating and lighting fixtures</p> <p>Furniture and furniture parts</p>	<p>Pulp and waste paper</p> <p>Telecommunications and sound-reporting apparatuses</p> <p><u>Coffee, tea, cocoa, spices</u></p>	<p>(increase in trade)</p> <p><u>Coffee, tea, cocoa, spices</u></p> <p><u>Animal oils and fats</u></p> <p>Photographic apparatuses, optical goods and watches</p>

*Source: P. Ghemawat, World 3.0.

Country portfolio analysis – a flawed approach



Country portfolio analysis – adjusted for distance



*Source: P. Ghemawat, World 3.0.

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