

Differentiating Strategies in Accordance With Cultural Differences

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CHAPTER LEARNING OBJECTIVES

On completion of this chapter, students should be able to

- recognize how multinational enterprises (MNEs) may have to tailor their policies and strategies to the unique cultural realities of each nation,
- evaluate differences in consumer preferences among cultural groups and appreciate the need for market segmentation along these cultural lines,
- discuss the need to develop personal relationships in order to do business in certain nations,
- describe how specific social forces may be changing over time, requiring ongoing modifications in corporate strategies,
- understand how the cultural differences among nations can cause differences in other environmental forces.

Cross-cultural management scholars have long noted that managerial values, beliefs, norms, and attitudes are impacted by national culture, causing managers to conceptualize human nature, relationship to nature, work, time, relationships, space, and language very differently (Adler, 1986; Hofstede, 1991). These differences are significant, held at an unconscious level, and impact our perceptions of “right and wrong” and “how things ought to be” (Gopalan & Thomson, 2003, p. 313).

An extensive literature examines the ways in which culture can impact business issues ranging from managerial and employee behavior

to customer preferences and marketing. Culture can impact a manager's education and life experiences, and culture can influence individual perceptions of ethical problems, including the consequences of ethical decisions. In some societies, people apply the same rules and treatment consistently to those from all social groups, while in others they make distinctions between insiders and outsiders. Some support universalism where rules are considered to be paramount. However, the cultures in many less developed nations support particularism and personal relationships, with a sharp distinction between loyalty to in-groups and nonloyalty to out-groups. These cultural distinctions lead to different definitions of truth and reality, with particularist cultures tending to reject the notion of universal truths and principles.

In some cultures, people separate business from pleasure. In business discussions, they use communication styles that are direct, concise, and focused on specific issues. However, diffuse cultures view all types of activities as interrelated, so business dealings must rest on long-term personal relationships. Personal and professional lives become mixed. In place of direct comments, these cultures practice ambiguity in communication with comments that avoid negative connotations.

In some cultures, people believe that they have mastery over the circumstances that they face, relying on science and technology and personal effort to maintain control of their own destinies. However, cultures in Asia and the Middle East place a heavier emphasis on the power of outside events, with outcomes being preordained by divine power or the result of fate or luck or destiny. Cultural differences can impact the types of information that individuals consider in their decision making and can also impact individual evaluations of certain actions as ethical or unethical. From these perspectives, management must carefully analyze cultural differences in order to operate effectively internationally and in order to develop global strategies that combine global objectives with local differentiation.

For MNEs, continual changes in social forces have created a set of moving targets. It is no longer adequate for the MNE to develop a standard set of reaction patterns within each nation's static culture. Rather, the MNE must undertake ongoing analyses of changes in social forces that are relevant for its operations, together with ongoing studies of related changes in other environmental forces as well. Consequently, social forces enter our analyses of technological, economic, and political forces throughout this text. Frequently, academic publications utilize Hofstede's typology as a framework for research and commentary.

Hofstede's Typology

In analyzing cultural differences, many academics base their research on the typology created by Hofstede (1991, 2001) who developed his conclusions

from a survey of 117,000 IBM employees in 66 countries. Originally presented as four sets of issues, he later added a fifth on the basis of a survey undertaken in China. Hofstede ranked countries in accordance with these five dimensions, and other authors have related these dimensions to a wide range of issues that confront management. For example, many authors have pointed to differences between the United States and China that require U.S. multinationals to alter their behavior and practices in order to be successful if they invest in China. Some authors have applied Hofstede's typologies to differences among countries in regard to general issues such as ethical behavior, including systemic corruption and corporate social responsibility (CSR) activities. Some authors have applied his typologies to specific managerial decisions, such as marketing strategies, that must be modified in accordance with differences in consumer preferences.

First, "individualism/collectivism" refers to the cultural attitude concerning individual achievement or well-being, as opposed to collective achievement or well-being. Cultures where individualism is pervasive lead to the common practice of people caring only for their personal or immediate family success. They see individuals as responsible for their own advancement or failures. However, within collectivist cultures, people rely on group decisions rather than their own individual decisions. People look to groups to protect them, and they make decisions based on their loyalty to these groups.

Second, "uncertainty avoidance" refers to a general desire to avoid ambiguous or uncertain situations. In cultures where they feel threatened by ambiguous situations, people seek relationships that create certainty and predictability. They strive to avoid conflict, and they look to experts and authorities for decision making. They do not tolerate people or ideas that are out of the mainstream. Consequently, for both government and business, systems are centralized within a hierarchical power structure. Individual initiative is discouraged. In cultures with lower levels of uncertainty avoidance, these tendencies are replaced with decentralized decision making where managers are prepared to take greater risks and are encouraged to do so.

Third, "power distance" refers to the degree to which people are willing to accept an unequal distribution of power and wealth. Cultures that have a high degree of power distance also tend to be hierarchical, with decision making concentrated in the managerial/political elite. Compensation is based on static structures that relate to differences in job status rather than being geared to individual achievement. In contrast, low power distance cultures convey less respect for titles and formal status, and employees are more comfortable questioning the decisions of senior management.

Fourth, Hofstede's "masculinity/femininity" dimension relates to a distinction between aggressive objectives, such as the pursuit of money and power, and nurturing objectives. Masculine cultures support values such as personal assertiveness and materialism. They tend to distinguish gender roles in which men are automatically given the superior job descriptions. Work has priority over other duties. On the other hand, feminine cultures place a stronger emphasis on personal relationships that are multidimensional. They

value the quality of life and nonmaterial success. Employment security is important, together with group decision making.

Hofstede's fifth cultural dimension, long-term orientation, relates to the difference between a focus on short-term outcomes and long-term outcomes, and it relates to the value placed on characteristics such as perseverance, reliability, respect for tradition, and established relationships. Hofstede developed this fifth dimension on the basis of surveys in China, so many authors link this dimension to the values of Confucianism. With Confucianism, a stable and lasting social order is achieved through generally accepted principles of human wisdom rather than through the imposition of laws and regulations. All human relationships should be motivated by sincerity, benevolence, and goodness, with respect and courtesy and ongoing consideration for the needs of others. In this context, business organizations have a hierarchical structure within which there is a generally accepted respect for seniors and for authority. Employees exhibit unquestioned obedience. The pursuit of personal success is not admired, and humility is regarded as a virtue.

Hofstede's fifth cultural dimension underlies many significant differences between Western and Asian business practices. In contrast with Confucian values, Western businesses tend to encourage individualistic and self-interested behavior. Western businesses regard transactions as separate from personal relationships. Western businesses rely on their legal rights, and they engage in litigation to resolve disputes. Miles (2006) raises the question, "How does a corporate governance model embodying all these traits fit in with Confucian beliefs? The truth is that to a large extent, it does not" (p. 307). As a result, Anglo-American corporate governance practices cannot be implemented easily in Asian countries. An example is the concept of appointing independent directors to corporate boards. Governments in China, Japan, and Korea have required this practice within each of their listed companies. However, independent directors in this culture may not be able to play the role that is expected of them in asking questions that might be embarrassing to management and in pursuing issues that could disrupt existing corporate practices. Other examples of differences in corporate governance include the increasing support for minority shareholder rights and shareholder activism practices. These rights and practices may be limited in many nations due to cultural characteristics and beliefs. From this perspective, the adoption of modern corporate governance practices may be very difficult in such cultures.

The Role of Personal Relationships

Managers in China have frequently noted the entrenched cultural norm of *guanxi*, and such a cultural norm is also commonplace in many other

nations. Business negotiations often require that participants first develop a personal relationship with one another. These relationships are based on a gradual creation of trust and friendship through the process of an ongoing exchange of favors. Relationships require significant time and effort as individuals interact to build credibility between them. Some argue that the lack of strong institutions requires this informal network. Without a long-standing legal system, business law, or judicial precedents, it is not possible to rely solely on the enforcement of contracts. Furthermore, circumstances in the environment of business continually change, and this may require frequent modifications in written agreements due to developments beyond the control of either party. Other commentators point to the need to deal with inefficiencies that permeate the bureaucracy. A manager needing government approval for any particular activity, such as sale of a new product or construction of a plant, can bypass the complex system of government approvals and reduce time delays. Guanxi is generally seen as a personal asset. Nevertheless, a firm can establish practices that strengthen relationships between their employees and those with whom they must negotiate or gain approval. Systematic invitations to participate in expense-paid entertainment or travel, personal gifts, and the development of intermediaries to strengthen network contacts may all serve as ways of strengthening the firm's guanxi.

Meanwhile, the environment of business is changing in ways that are placing a greater emphasis on the Western practice of rule of law. Corporate governance is becoming stronger in many nations, and the freedom of individual managers to engage in guanxi may be restrained by corporate codes of conduct. Greater reliance on free markets and the extension of privatization are reducing the interventionist role of government and its agencies, thereby reducing the need for guanxi. MNEs have greatly expanded their international activities, and this has brought Western practices into a wider array of negotiations.

Culture and MNE Operations

These cultural differences have important implications for the decision-making structure within the MNE and in particular for the ability of the head office to manage a foreign subsidiary's marketing operations. On the one hand, the MNE requires a globally consistent set of policies and behaviors for a number of reasons, including the development of a global brand. Yet the need for creating trust and dependence in negotiations that extend beyond formal contracts adds complications to the firm's internal balance of power. In collectivist cultures, trust is more important relative to economic rewards as a motivation in cooperative behaviors. This conclusion has implications for the relationships between a firm and its

employees in each country, as well as the division of decision-making responsibility between the parent and its subsidiaries.

Significant differences among nations in regard to cultural differences can impact the ethical sensitivities of employees, creating challenges for the MNE. Meanwhile, MNEs do influence their employees' perceptions in regard to ethical issues in ways that are changing employee perceptions in these countries. If cultural values are collectivist and passive with submission to authority, employees may not feel that they have a clear ethical framework to guide their decisions and may feel helpless in exerting their personal opinions against the common practices within the firm. As a result, there may be a lack of uniformity and consistency in regard to ethical practices. Management within the MNE must become more culturally sensitive and aware of its host country's ethical environment, hiring local managers and staff, as well as designing cultural and sensitivity training for expatriates.

Many commentators have studied the implications of cultural differences for daily business activities within international business operations. Oertig and Buergi (2006) discuss the difficulties of leading cross-cultural project teams when members of the teams live and work in different countries and must rely on long-distance communications. Their interviews led them to conclude that "virtual" communication lacks the ability to develop trust in a broad sense compared with face-to-face discussions, so physical rather than virtual meetings should be organized as often as possible. Apart from this issue, they note that trust has an important time component, with confidence in each other being built with long-term consistency in mutual experiences and decisions. Language differences enter as another important element in the challenges of cross-cultural communication, particularly when it is virtual rather than face-to-face. These realities add a complexity to management procedures.

Cultural differences form an important subject in the creation of international alliances and joint ventures. Arino, de la Torre, and Ring (2001) relate cultural differences to the degree of trust that is initially part of the international alliance, and they emphasize the importance for management to understand both the trust that the participants share and the ways in which this trust may be strengthened over time. They point to Russia in the 1990s as a particularly dramatic example.

Western European managers negotiating alliances in Russia were unanimous in their view that legal contracts were of little consequence in that environment. Furthermore, language difficulties and differences in the worth attributed to verbal agreements rendered initial assessments of trustworthiness suspect at best. (p. 115)

Negotiations may have to be an ongoing process rather than being firmly established in a contract. Initial trust is fragile, so negotiation must involve a considerable effort in regard to understanding the other party.

Furthermore, management must recognize that its own behavior is being closely monitored by the other party and must engage in practices and personal behavior that may be different from those it would practice in its own country. Management should expect that cultural conflicts will arise, and management must devote considerable effort to ensuring that these conflicts are resolved. Overall, in managing its international operations, the MNE must emphasize the creation and strengthening of trust.

Many authors have focused on the need for trust in joint ventures that involve different cultures. For many cultures, trust depends on social relations among the decision makers, and this is particularly difficult when the decision makers live and work in different countries. Madhok (1995) emphasizes that “Relationship management is increasingly important in today’s business environment where the forces of global competition and technological dynamism compel even the strongest firms to enter collaborative relationships in order to remain competitive” (p. 133).

Kauser and Shaw (2004) point to a substantial literature that concludes that the success of international strategic alliances is impacted significantly by the degree of commitment, trust, coordination, interdependence, and communication between the strategic alliance partners. They have developed a database for the period 1988 to 1995 for strategic alliances between British MNEs and their U.S., European, and Japanese partners. Of these alliances, 287 participated in the study, which examines the relationships between the degree of success in strategic alliances and the behavioral characteristics within these alliances, as well as the key structural or organizational characteristics. The authors conclude that the behavioral characteristics were more significant in predicting the degree of success of international strategic alliances than any structural or organizational features. Hence, they conclude that firms entering strategic alliances should emphasize ways of coordinating activities that will lead to ongoing interdependence and commitment. Trust may be strengthened through a number of practices, such as improving the quality of information that is shared, as well as participating together in planning procedures and setting goals and in creating procedures for resolving conflicts.

Rodriguez (2005) presents an analysis of the opportunities for managers from different cultures to create a new shared culture, or “a third culture,” that can facilitate the success of a joint venture. Rodriguez uses data from U.S.-Mexican strategic alliances to test hypotheses in regard to this concept. He concludes that the different management styles converge into a more participative and consultative style that combines U.S. managers’ focus on task innovation with Mexican managers’ focus on personal relationships (p. 67).

Recognizing that managers have a set of personal attitudes that have been shaped by the culture in which they live, it is helpful in international alliances if managers focus on ways of aligning cultural backgrounds. An important mechanism for this is the creation of procedures through

which managers from both countries regularly share in joint decision making. A shared working culture can create new cultural norms and attitudes that are different than the traditional norms and attitudes from the participants' countries. In this process of shared decision making, it is essential to focus on the resolution of conflicts, and personalities play an important role. In general, the development of a third culture within international joint ventures depends on the personal determination and adaptability of management.

Consumer Preferences and Market Segmentation

Values help direct a consumer's behavior in that an individual develops their value system and beliefs based on the culture in which they are raised. . . . Obviously, cultural values influence how people think and behave. Consequently, ethical characteristics such as Machiavellianism, opportunism, trust, consumer ethical perceptions, and moral philosophies may be useful to segment and understand markets. (Al Khatib, D'Auria Stanton, & Rawwas, 2005, p. 228)

Al Khatib et al. (2005) have used surveys in order to segment consumers in the countries of Saudi Arabia, Oman, and Kuwait. In their surveys, consumers were asked to indicate their position on a wide variety of scales measuring cultural attributes, demographics, and ethical beliefs. In spite of the fact that respondents came from the same geographical area, the analysis has resulted in the delineation of three distinct segments. "Principled purchasers" emphasize ethical behavior in their day-to-day activities, including their purchasing patterns. They trust others and do not search for ulterior motives. Their personal standards are high. They tend to be older than the average. For MNEs to succeed with such customers, it is necessary to develop marketing strategies and practices that will present themselves as ethically and socially responsible. This approach impacts the products and services offered, as well as the procedures for marketing. Principled purchasers want the firms where they deal to exhibit the idealism, trust, and high moral standards to which they adhere. Since this group has a culture that is collectivist, opinion leadership plays an important role. Consequently, advertising should include the identification and recognition of a "moral champion" as a supporter of the MNE's products and services.

A second distinct segment consists of the "suspicious shopper," who is mistrustful of other people. These consumers are cautious in their purchases for fear that they will be dealt with unfairly. While they are not likely to engage in unethical actions themselves, they may not be completely transparent for fear of being exploited. In order for the MNE to market successfully to suspicious shoppers, the firm must be honest and

forthright with a conscious determination to develop trust. The firm must ensure that customers perceive that both the firm and the customer will benefit from the transaction. Specific practices include great care that pricing is accurate and that sufficient stock is available.

A third segment, the “corrupt consumers,” may engage in clearly unethical practices within a store, such as changing price tags on merchandise or telling lies in order to negotiate a better deal. They view morality as situationally specific. With such customers, the MNE must be culturally sensitive but impose a strict code of ethics. Managers must be aware of situations in which members of this group might try to exploit or deceive the firm and must invest in practices that can apprehend inappropriate behavior such as product theft, altered returns, or consumption on the premises.

Malhotra, Ulgado, Agarwal, Shainesh, and Wu (2005) emphasize the significance of culture in determining consumer perceptions of quality in the provision of services. The authors present 10 dimensions of service quality: reliability, access, understanding of the customer, responsiveness, competence, courtesy, communication, credibility, security, and tangible considerations. The authors note that some dimensions of service quality are related to the stage of economic development. For example, reliability and access depend on the country’s infrastructure, technology, and even educational levels. They conclude that cultural factors do play a decisive role and that these must be understood by the firm if it is to be successful in its marketing. From this perspective, marketing will have to differ among nations and perhaps even within nations. The authors refer to Hofstede’s typology of cultural dimensions, and they focus on power distance and individualism/collectivism as particularly important aspects of culture in international marketing. International marketing programs should be geared to these realities, with the firm’s reliance on alternative marketing techniques differing among countries as discussed in these comparisons.

Straughan and Albers-Miller (2001) conclude that retail MNEs must create international expansion strategies on a country-by-country basis because culture is a crucial factor in determining loyalty to existing domestic retailers. They compare survey data from the United States, Australia, France, and South Korea. They use Hofstede’s dimensions of culture, focusing on the importance of individualism and uncertainty avoidance. These cultural variables indicate that the higher the level of uncertainty avoidance, the greater the loyalty to existing domestic retailers. The more individualistic a culture is, the less loyal the customers are to existing domestic retailers. The authors have found substantial differences in loyalty patterns between men and women, with men being more loyal to existing domestic retailers. This suggests that women may be a more responsive target market for MNE retailers. The authors have found that age is not an indicator of loyalty.

Cultural differences impact the degree to which consumers are likely to adopt new products readily and to find new characteristics or features of

products desirable. Therefore, marketing strategies should differ among cultures, being designed in accordance with the predominant cultural characteristics. In cultures where power distances are significant, where uncertainty avoidance is strong, and where so-called feminine characteristics are common, marketing strategies should use normative influences with interpersonal communication as a framework for introducing new products and new product characteristics. Hierarchical forms of communication lead to the recommendation that role models or authority figures should be used in marketing programs. Advertisements should enable consumers to observe the product in use, with sales people and opinion leaders extolling the virtues of a product. Distribution of free samples may also be an effective marketing technique. In order to reduce perceived risk and skepticism, marketing programs should offer guarantees, after sales services, and lenient refund policies.

Alam (2006) has investigated the ways in which new developments in the service sector are influenced by cultural forces, focusing on financial service firms in Australia and the United States. His results from 300 questionnaires indicate that U.S. firms more often use a well-defined team leader, relying on cross-functional teams to a greater extent. The degree of customer uncertainty in the context of the heterogeneity of a service requires that the provision of training for personnel differ significantly between the countries. U.S. firms devote more effort to personnel training and take more care in the selection of staff delivering new services. U.S. firms see a need to undertake more extensive internal marketing in order to strengthen the understanding and support of employees for the introduction of new services. Alam extends his study to businesses operating internationally, noting that this international perspective has become of greater importance to an increasing number of firms. He concludes that “overall the results support the central argument of the article that significant cross-national differences do exist with regard to a firm’s new service strategy and new service development (NSD) process” (p. 247).

Modifications in Cultural Differences Over Time

In their news coverage, the global media convey cultural attitudes from throughout the world in ways that enable people everywhere to see a wider variety of social norms and individual objectives as increasingly acceptable globally. Entertainment, especially through television, presents disparate behavior patterns in a vast array of circumstances. Movies with world-famous actors convey a set of images that people throughout the world may emulate. Literature can now appeal to a global market. In this process of cultural interaction, the English language has become

commonly used, and this reality has facilitated more extensive communication linkages. Travel has become commonplace for people from all nations, so the exposure to other cultures has become increasingly frequent. Student exchanges create opportunities to live in another culture for an extended period of time. A vast expansion of international trade has created globally branded products that are now available anywhere. Worldwide advertisements and retail chains have created global fashions and fads that now permeate cultures everywhere. The Internet has become a means through which people in any nation in the world can communicate with people in any other nation, thereby enhancing their understanding of other cultures. In this process, many aspects of the cultures of Western Europe and North America have penetrated traditional cultures in developing countries, while aspects of these traditional cultures have also penetrated the economically advanced nations.

For many decades, the schisms between capitalism and communism created solid barriers to cultural exchange in much of the world. The philosophies underlying capitalism and communism encouraged very different personal goals and behavior patterns. Since 1990, with the overthrow of communism in Eastern Europe and Russia, these barriers have largely disappeared. With China's gradual movement toward free markets, openness to foreign cultural influences has expanded. Throughout the world, responsibilities for one's employment and income have shifted from the government to the individual—with the result that attitudes toward the employment relationship, success criteria, and appropriate norms have all been changing.

MNEs have increasingly responded positively to global nongovernmental organization pressures in implementing CSR activities and in adopting reporting procedures uniformly through all of their operations. Many MNEs have come to recognize that common technologies and CSR practices throughout the world may be the most cost-efficient approach to CSR, and in this way MNEs have become a vehicle for local adaptation to global norms. Meanwhile, governments are signing international agreements in which they pledge to create local laws and regulations that are consistent with the objectives of these international agreements. As indicated in Chapter 2, for example, Organisation for Economic Co-operation and Development (OECD) agreements and World Bank pressures are leading governments everywhere to impose penalties for corruption.

Urbanization has become a powerful reality throughout the world as rural inhabitants flood to the cities in pursuit of jobs and a more exciting lifestyle. In each nation, this urbanization is facilitating the absorption of the forces for change described above, relegating traditional rural cultural traits to an ever-decreasing proportion of the populations. The cities themselves create a culture of adaptation as individuals from a myriad of villages suddenly confront a wider range of cultural alternatives.

Migration

For many nations, immigration is a process that is continually changing local social forces. While some nations such as Japan have experienced limited immigration and so have not been subject to this cause of change, Western Europe and North America have experienced annual immigration numbered in the millions. Immigrants bring their traditional cultural practices and may alter the nation's cultural characteristics. In the extreme, a country such as Canada has become multicultural, where the national culture to a large degree consists of dozens of separate ethnic cultures. In recent years, many millions of Hispanics have entered the United States, making the Spanish language a significant presence, especially in certain cities such as Miami. European countries are also experiencing a substantial immigration.

Many immigrants maintain linkages and ongoing dialogue with relatives in their home countries, and this communication can convey cultural attributes of their new homes in ways that may modify the norms and values of their original homelands. Immigration can lead to social fluidity and to modifications in the culture of the new home country. Immigrants strengthen their impact through their ethnic networks. Immigration can enhance the understanding and acceptance of cultural differences, as well as serving as a force of change. The presence of immigrants heightens the sensitivity of traditional residents to cultural traits of other nations. Yet these interactions can reveal widespread social biases and can result in divisive conflicts. For the MNE, immigration provides an opportunity to hire individuals who have been raised in other nations, speak other languages, and understand other nations' cultures. The MNE from a multicultural home base has an automatic advantage in regard to hiring employees who can enable it to be competitive in other cultures. Andrea Mandel-Campbell (2007) uses Canada as an illustration of the advantages for MNEs of the new social capital that immigrants bring with them.

Multiculturalism is arguably the country's most defining feature. With one foot in Canada and the other in their country of origin, these cultural double agents have the ability to act as trade bridges, whether by filling in knowledge gaps and lowering the fear factor involved in foreign ventures or infiltrating ostensibly closed societies and forging relationships, while reporting back home in a language Canadian companies can understand. (p. 219)

The Malleability of Youth

Increasingly, young people are part of the adaptation to global norms at a pace and with an intensity that appears to be quite different from older

residents. It is the youth who seem to be most involved in watching global entertainment and adopting global fashions. It is the youth who use the Internet to a greater degree than older people, developing the skills necessary for using information technology to communicate internationally. It is the youth who can participate in student exchanges. It is the youth who most readily leave rural areas to create a new life in the cities. It is the youth who are involved in formal education that increasingly exposes them to what is happening in other nations and to the cultural traits that exist elsewhere. As a result, it is possible that Hofstede's cultural dimensions may differ not only geographically but also across age groups, with youth being more aggressive and individualistic and less inclined to accept hierarchical decision making.

It is the youth who form the bulk of the immigrants to advanced economies, forming a process for intensive cultural adaptation. It is the youth who may marry someone from another cultural background, creating an additional vehicle for cultural fusion. It is the youth who will be hired by MNEs and will have to adapt to new cultural norms in their employment. As young people age, their malleability in regard to cultural norms will become a more common component of each nation's culture and will lead to a shift in dominance from "traditional" to "modern." Enhanced availability of formal education may alter the attitudes of young people and—with the aging process—eventually alter general social attitudes. One might expect that the impacts of formal education might change the relative significance in any society of each of Hofstede's five cultural dimensions.

As a result of the above forces, cultural attributes and preferences have become age-dependent to some degree. For the MNE, this reality forms an important element of market segmentation. For example, the potential for e-business activities on the Internet will generally be much higher among the youth than among older population groups. As employees, young people may adopt a pattern of changing jobs several times in their careers as opposed to their parents' pattern of lifetime employment with loyalty to a specific firm. Meanwhile, the changes in the age structure in a country will automatically lead to changes in the social forces in that nation.

Changes in Demographic Profiles

Some economic demographers have concluded that each age cohort has unique preferences and consumption patterns. Consequently, it is necessary to gear the firm's production and marketing to specific age cohorts. A firm's success will depend on the number of people in the age cohorts that it chooses as a target. By examining the different numbers in each age group in each nation, a manager can project the future numbers in each age group in, say, 5 or 10 years. In this way, a manager can understand how much the target market will grow or decline over time.

Social forces are impacted by changes in the dependency ratio. As birth rates fall and life expectancy increases and as women enter the workforce, the percentage of the population that is employed is changing. When the Treaty of Rome created the European Union in 1957, all the signatories had fertility rates above 2.1. Today none does, and for many the fertility rate has fallen below 1.5, guaranteeing an eventual decline in the population unless enormous immigration occurs. The decrease in child labor in many nations, often accompanied by more years of formal education, also impacts the dependency ratio. In many countries, the aging population will change demographic profiles dramatically. The number of older people continuing to work may increase. These phenomena differ from country to country, presenting each country with unique changes in social forces.

For the MNE, these demographic changes have implications for many business issues. For example, a growing percentage of the MNE's employees may be women, so the MNE may need to create systems that can facilitate the occupational promotion of women. With an increase in the dependency ratio, taxation rates for both employees and the firm may have to rise to cover higher costs of pensions and healthcare for the growing percentage of the population that is elderly. At the same time, the change in composition of the population alters the demand for various types of goods and services, creating new business opportunities and requiring new types of market segmentation. Growing numbers of the elderly may alter the general attitude of a population toward social forces, leading, for example, to pressures on governments to alter their public policies. An International Monetary Fund report by Batini, Callen, and McKibbin (2006) points to several trends:

- Population aging in industrial countries will reduce growth, beginning in Japan in the next decade and then the rest of other industrial countries by the middle of the century.
- In contrast, as the relative size of their working-age populations increases, developing countries will enjoy a “demographic dividend” that should result in stronger growth over the next 20 to 30 years, before aging sets in.
- Demographic change will also affect saving, investment, and capital flows. Japan and to a much lesser extent the other industrial countries—the fastest aging countries—could see large declines in saving and a deterioration in their current account positions as the elderly run down their assets in retirement.

Interactions Between Social Forces and Other Forces in the Environment of Business

Many government policies seek to change social forces, creating incentives and punishments for behaving in certain ways. In some circumstances,

political leaders take the initiative in order to achieve their vision of a better society. In recent decades, for example, many governments have sought to reduce discrimination through the imposition of affirmative action programs. Bills of rights and charters of rights have created a legal foundation for individual actions that may violate traditional social norms. On the other hand, certain public policies such as environmental or labor legislation aim to prevent individual actions that might violate new social norms.

New technologies will also likely change social forces. The Internet and e-business together with the recent expansion of satellite technologies will alter the ways that people view their daily lives. Biotechnology is raising a host of new ethical issues with which societies must wrestle. For Europeans, genetically modified foods may be socially unacceptable, while for Americans the prospects of productivity improvements may lead to a general acceptance of such products. New possibilities of cloning farm animals may raise new social challenges. Throughout the implementation of new technologies, the need for new skills is impacting educational systems—and hence social norms and values. For each nation, increases in per capita incomes alter consumer choices and lifestyles—and so may also alter the relative significance of Hofstede's five cultural dimensions. For the MNE, changes in social forces are adding greater complexity to the creation of strategies and management practices.

De Beers used advertising programs to alter cultural values so as to expand its potential market. Within the United States and Europe, De Beers sought to increase the occasions when a diamond ring should be the gift of choice, and it also sought to make diamond jewelry culturally desirable in Asia. The case of De Beers illustrates the opportunities for a firm to change social forces in ways that can increase the firm's profitability.

In Practice 1.1 Changes in Cultural Preferences for Diamonds

De Beers convinced the world that a diamond symbolized love. The “diamond is forever” slogan was a brilliant marketing ploy that was invented in the 1930s when diamond demand was at an all-time low. Hollywood actresses cooperated by sporting the glamorous rocks and the public ate it up. Although a luxury item, this penetrating marketing transformed the stone into a necessity in the public eye. As a token of love and devotion and the symbol of marriage, this diamond marketing created a tradition. Some ads advised men that they should spend two months' salary on an engagement ring. The phrase “a diamond is forever” was an ongoing theme in De Beers' retail advertising. De Beers also succeeded in portraying the idea that diamonds were rare. Although sales had been largely in Western Europe and North America, De Beers' advertising was an important element in convincing the rest of the world that diamonds were a key element of the Western lifestyle and romance. Japan was quickly becoming a major market for diamond jewelry.

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Both China and India were experiencing rapid increases in diamond jewelry sales, and they could become huge markets in the future. Nevertheless, the United States still purchased 51% of the world's diamond jewelry, the Euro region 14%, Japan 14%, and the rest of the world 21% (Rapaport Research, 2004).

For the retail consumer of diamond jewelry, the market structure created an opportunity for long-term investment. De Beers' control of the value chain, together with De Beers' market intervention to ensure stability and gradual escalation of prices, meant that a retail customer was assured that his or her investment would not decline in value.

The Diamond Trading Company (DTC) hired J. Walter Thompson to develop advertising campaigns based on themes other than just the wedding. Some campaigns were targeted at men looking for a way to rekindle a sense of excitement and passion in their relationships. A "Celebrate Her" campaign was designed to motivate men to purchase solitaire, three-stone and right-hand diamond rings. Men were urged to show their significant other how valued their relationship was. The diamond gift would prove his love for her. The three-stone ring campaign included a memorable ad of a forty-something man on bended knee offering the three-stone and asking, "Will you marry me again?" The "Women of the World Raise Your Right Hand" print campaign targeted the affluent, fashion-savvy woman who had probably been married at some point, previously received diamond jewelry, and needed no one's permission to indulge herself. The ad copy encouraged women to think of rings for their right hands as expressions of personal style for the independent, worldly, assertive sides of their personalities, and to make their left hands jealous.

By using De Beers as the brand name, identified by the "forevermark" logo, De Beers wanted consumers to associate their diamonds with good ethics, corporate social responsibility, and enduring genuine quality.

De Beers invested heavily in the creation of an Internet site for the promotion of diamonds and diamond jewelry. This was basically an information site enabling the user to gain knowledge and appreciation for De Beers' expertise and guarantee. This site allowed the user to examine a very wide variety of jewelry designs. The question remained whether the actual sale of luxury jewelry through the Internet might devalue the brand equity.

In Africa, civil wars had become numerous and extensive and various groups used diamonds as a way of raising funds and obtaining military equipment. Concerns had developed throughout the world that the retail customer might turn against diamonds on the basis that a purchase might indirectly support civil conflict. Many in the industry feared a consumer boycott similar to that experienced by the fur industry. De Beers took a leadership role in demanding a guarantee from its suppliers that they were not selling "conflict diamonds" smuggled out of Africa.

The government of South Africa had put in place new legislation to shift a certain percentage of equity ownership in all South African companies to black

shareholders and to raise the proportion of employee and management positions held by black South Africans. Instead of fighting against these government policies, Mr. Oppenheimer publicly discussed how the objective of black empowerment might be implemented with least disruption to the economy. In particular, Mr. Oppenheimer argued for a public discussion in regard to precise steps to achieve black empowerment and urged that firms taking part in this transformation should be rewarded with tax concessions. With this, Oppenheimer and De Beers once again cultivated an image of public leadership.

SOURCE: Conklin and Cadieux (2005).

Critical Thinking Questions

1. For the United States and Western Europe, discuss the relationships between changes in social forces and changes in De Beers' strategies.
2. Will consumers in all nations come to accept the diamond ring as a necessary element in a loving relationship? Will such a shift in global norms and values be the result of De Beers' advertising or the result of the adoption of the norms and values of the United States and Western Europe—or both?
3. New global cultural norms and values have included concerns about conflict diamonds. In South Africa, the “black empowerment” movement has also raised new challenges. Evaluate De Beers' responses to these changes in social forces.

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