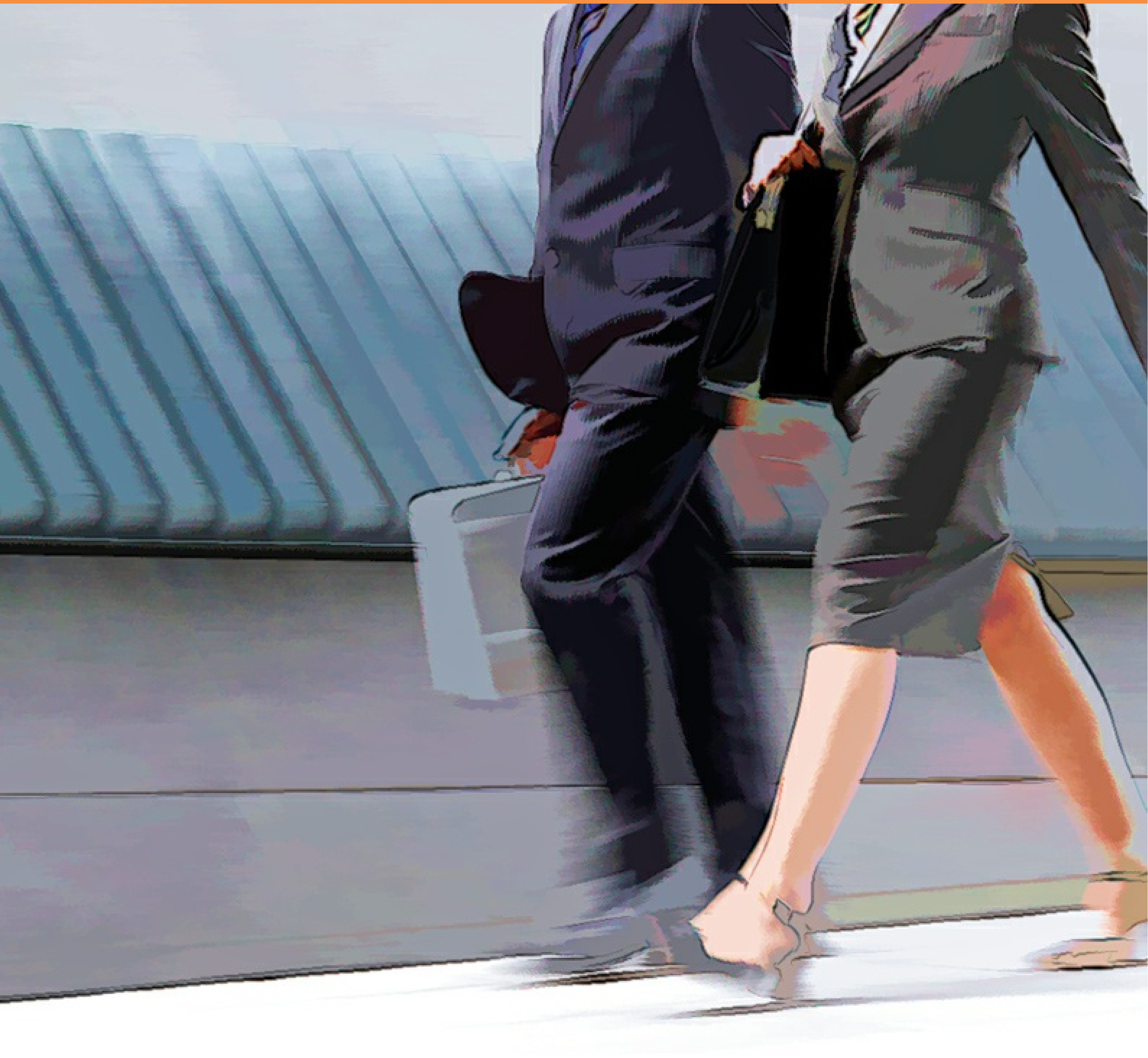

# Introduction to International Business

People, Places, and Ideas

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# INTRODUCTION TO INTERNATIONAL BUSINESS

## PEOPLE, PLACES, AND IDEAS

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# CONTENTS

# INTRODUCTION

Congratulations! You have decided to study international business, a phenomenon which affects almost every aspect of your life, including the food you eat, the clothes you wear, and the people you meet. Regardless of where you live or to what part of the world your career takes you, knowledge of international business is a vital key to success. This book is designed to help increase your understanding of how global business works as you find your niche in that exciting, dynamic context.

Each chapter in this book focuses on a different aspect of international business. Chapter One introduces key concepts of geographical, economic, political, and regulatory environments. Chapter Two explores the cultural features which differentiate how societies express their values and expectations. Chapter Three covers the specific verbal and nonverbal communication characteristics of countries across the world. Chapter Four focuses on how culture impacts organizational processes, such as leadership and conflict. Chapter Five delves into the practical aspects of working and traveling in a globalized business world. Finally, the appendices present quick reference guides that may be of help as you research more deeply just how international business works.

It is hoped that the information in this text will give you a foundation upon which to build even more knowledge, especially as it relates to your career interests. Having stated that, it is important that you consider this book as a basic introduction to the field; before you become involved in any of the processes covered in this book, you should consult appropriate professionals – for example, international legal and financial experts – who can guide you as you make your business decisions. In the meantime, sit back and enjoy your entry into what just may be the most exciting field of study in your life!

This text is intended for educational purposes only. Before engaging in international business, consult with the appropriate financial, legal, or cultural experts who can advise you.

# 1 THE INTERNATIONAL BUSINESS ENVIRONMENT

## 1.1 GLOBALIZATION

Early societies believed that the world was flat. People thought that if a ship sailed far enough, it would fall off the edge of the Earth. When explorers proved that idea to be wrong, it changed everything from religion and mythology to the way societies conducted business. In Europe, the new "route to the East," for example, opened up an entirely new venue for commerce, thus creating what might be considered the first significant step toward globalization. Things were never the same.

Ideas about the shape of the world continued centuries later, at least in a metaphorical sense. In the mid 20th century, Marshall McLuhan's concept of a "global village" (McLuhan 1962) revolutionized thinking about the inter-connectedness of countries across the globe. A Canadian media specialist, McLuhan posited that modern communication technologies effectively "shrank" the world by facilitating a single interactive society in which all parts of the world could participate. His insights pre-dated the advent of the Internet, which has now exponentially hightened commerce across the globe. McLuhan's vision is brought to life every time you access the World Wide Web today.

### 1.1.1 GLOBALIZATION AND INTERNATIONAL BUSINESS

In more recent times, metaphors about the world have even more sophisticated iterations. In 2005, *New York Times* columnist Thomas L. Friedman wrote the book, *The World is Flat: A Brief History of the Twenty-first Century,* in which he argued that technology had "flattened" the word by eliminating barriers that once separated markets from each other. His concept of globalization, the "interweaving of markets, technology, information systems, and telecommunications networks in a way that is shrinking the world from a size medium to a size small" (Friedman 2005) accurately reflects the way the Internet has made it possible for people to exchange products and services from all over the globe. One need only to examine items in retail stores to see the familiar tag, "Made in…" bearing the names of countries such as China, Mexico, Pakistan, Taiwan, Japan, or Brazil. It is also noteworthy that India has become the outsourcing capital of the world, most notable for the many international call centers located in that country. How many of us have talked with customer service representatives based thousands of miles away as if they were right across the street?

Changes in society have clearly accommodated globalization. Marber (2007) alludes to the impact these changes, including longer life spans, higher literacy and education rates, improved production technology, and a rise in middle class populations in nations even where great wealth disparities once prevailed. These evolutions have ushered in an era which popular management scholar Peter Drucker called the "ultimate consumer," resulting in an enhanced information-based society in which "the most important implication is probably the impact of information on mentality and awareness" (Drucker, 2007 p. 8). Drucker's statement suggests how deeply the technological environment in the contemporary world influences how we perceive and react to our world – and he is right.

It indeed seems that McLuhan's vision has come to fruition; the ease of trade across the global marketplace has indeed made the world a big commercial "village". Globalization has made it possible for companies in smaller, economically disadvantaged countries to become competitors in markets which have historically been dominated by larger, western economies. Yet companies both in wealthier and less wealthy countries still face the same basic set of challenges: to overcome the constraints of the geographic, economic, political, and regulatory environments that frame the global business context.

**Objectives**

The remainder of this chapter is dedicated to different aspects of international business. At the conclusion of the chapter, you should be able to:

1. Explain the different forms of international business
2. Describe the geographic "map" of the business world, identifying the major countries, regions, and organizations that facilitate international business;
3. Identify the economic factors which lay the foundation for international business;
4. Explain the nature of political structures and their influence on the international business environment; and
5. Analyze the regulatory elements in countries which encourage or inhibit trade and other forms of international business.

## 1.2 FORMS OF INTERNATIONAL BUSINESS

Thanks to developments in communication technology, faster intercontinental travel, and improvements in international banking and law, more opportunities now exist for international business than ever before. Companies engaging in forms of international business transactions are frequently referred to as **Multinational Companies** (MNCs) or **Multinational Enterprises** (MNEs). These organizations have operations, facilities, materials, or personnel in more than one country, and often maintain **subsidiaries** – smaller companies owned by larger ones. Others operate under their own names or their parent companies' names. Some popularly-known MNCs include Walmart, AIG, ExxonMobile, Volkswagon, and Toyota (CNN Money, 2014).

### 1.2.1 INTERNATIONAL COMPANIES

While many MNCs are concerned with the manufacturing and distributing of their products, many others engage in the simple buying and selling of goods, which is known as **Exporting** – the sale and shipment of goods to other countries – and **importing**, the purchase of goods shipped from other countries. Such opportunities exist today for all types of businesses, including companies that ship agricultural products – which, because of increased ability to be transported, can make it from another continent to your table in a matter of days or even hours.

International companies of all sizes participate in international business; For example, in the United States, most importing and exporting is conducted by small and medium-sized enterprises (SMEs) rather than by larger corporations (U.S. Census Bureau, 2013). Table 1 shows some basic trade statistics for the United States in 2011.

| Activity | Number of U.S. Companies | Amount (US$ trillions) | Primary Trade Partners |
|---|---|---|---|
| Exporting | 302, 260 | $1.612 | Canada (19%)<br>Mexico (13.3%)<br>China (7%)<br>Japan (4.5%) |
| Importing | 183, 960 | $2.357 | China (18.4%)<br>Canada (14.2%)<br>Mexico (11.7%)<br>Japan (5.8%)<br>Germany (4.4%) |

**Table 1** Trade Statistics for the United States, 2010–2011
Source: CIA Factbook (2013)

### 1.2.2 OTHER FORMS OF INTERNATIONAL BUSINESS

In addition to the enormous exporting and importing industry, there are many other types of international business endeavors that occur on a daily basis in every country in the world. These other forms include, not are not limited to, the following:

**Foreign Direct Investment** (FDI) refers to a company's ownership of a business in another country.

**Alliances/Joint Ventures** are formed when two or more companies from different countries combine assets and ownership in a business.

**Licensing** is an agreement that allows a company to manufacture the product of another company in exchange for a fee.

**Franchise**s give the right of a business to use the products and trademark of another company in exchange for a fee.

**Wholly Owned Subsidiaries** are operations or business ventures that are completely owned by a company in another country.

**Contract Manufacturing** refers to an arrangement which allows a company in one country to produce the goods of a company in another country to which it attaches its own trademark.

While opportunities for global exchange are plentiful, companies must determine how desirable a particular market may be for international business. One of the critical considerations in the decision to "go global" is the perceived level of involved **risk**, which is the likelihood that external factors will lead to a company's loss of assets or market share. Risk is typically calculated with respect to different factors, which include, but are not limited to, the geographic, economic, political, and regulatory challenges. We take a look at each of these contexts in the sections that follow.

## 1.3 THE GEOGRAPHY OF GLOBAL BUSINESS

Prior to the end of the Cold War between the United States and the former Soviet Union in the late 1980s, international business was largely dominated by Western economies such as the United States, The United Kingdom, and France. It was soon after the Berlin Wall fell that the early throes of globalization began to "re-shape" the world, opening borders and crossing oceans to include markets previously untapped. Of course, this reshaping was symbolic, manifesting itself in the geo-political changes of the contemporary global economy. Today, organizations such as The United Nations, the World Bank Group, and the U.S. Department of State each identify their own classification systems of the world's regions according to various geopolitical criteria, such as location, political structures or ideologies, economic systems, or culture. Extrapolating from these sources into an international business contexts, we can look at the world by regions:

**North America**: Geographically, the North American continent includes Canada, the United States, Mexico, Central America, and the Caribbean. From a cultural standpoint, however, The United States and Canada share the most similarities among business practices, political structures, legal systems, and communication norms.

**Latin America**: This region refers to all of the Spanish and Portuguese-speaking Western Hemisphere, including Mexico, Central America, The Caribbean, and South America. Societies of origins other than Spain and Portugal – including many indigenous cultures – fall within this general region.

**Europe:** Although the European continent is the smallest land-wise, its 47 countries constitute a great deal of diversity. Northern European countries, such as Finland, Norway, and Sweden, are often referred to as Scandinavian, or Nordic countries. Western Europe includes countries such as France, The United Kingdom, The Netherlands, Germany and Belgium. Eastern Europe refers to Russia and many of the former U.S.S.R. states, and are still called "Eastern Bloc" countries, or, more recently, the Commonwealth of Independent States (CIS); countries in the Northeast area of Europe – such as Latvia, Lithuania, and Estonia--are often referenced as "Baltic" states. Southern Europe, which can be defined loosely as those countries bordering the Mediterranean Sea, including Spain, Italy, and Greece. In general, the cultures of Western and Southern Europe were most heavily influenced by the Roman Empire during its campaigns during the first century (AD) and are historically characterized by their democratic forms of government and the prevalence of Catholicism.

**Middle East/Northern Africa**: While most of the Middle East is geographically considered to be part of Asia, the region is best understood by its cultural attributes, also includes a great deal of the African continent. Together, this mostly Arabic-speaking region is often referred to as MENA. It is strongly characterized by its Islamic culture, which influences much of its business practices. Part of this region may also be considered Western Asia, particularly countries such as Iran, Kazakhstan, Uzbekistan, Turkmenistan, and Turkey.

**Sub-Sahara Africa**: This region includes the African countries south of the Tropic of Cancer and the Sahara Desert, including Western Africa (Mauritania, Guinea, Mali), Central Africa (Central African Republic, Chad, Democratic Republic of The Congo), East Africa (Kenya, Ethiopia, Somalia) and Southern Africa (South Africa, Mozambique, Namibia). The region is one of the most linguistically rich in the world.

**Southwest Asia**: This area is sometimes called "West Asia" and includes India, Nepal, Sri Lanka, and Pakistan. India is frequently referenced as the "Indian Subcontinent."

**East Asia**: Often characterized as "Confucian Asia" due to the cultural influence of the historic teachings of that philosophy, these countries are Japan, Korea, China, and Taiwan.

**Southeast Asia**: Refers to the area South of China, East of India, and North of Australia (New World Encyclopedia, 2014). Including the mainland countries of Myanmar, Thailand, Vietnam, Philippines and the countries of Singapore, Indonesia, and Malaysia.

**Oceania:** The principle countries of this region are Australia, New Zealand, but also include Micronesia, Polynesia, and Macronesia.

When considering these regional classifications, it should be noted that no two countries are the same. While groups of countries may share histories, religions, languages, or political characteristics, each country within itself is a unique conglomeration of its own cultural heritage.

### 1.3.1 INTERNATIONAL COORDINATION

Since the latter part of the 20th century, a number of international organizations have facilitated international affairs. For example, the Group of Six **(G6),** formed in 1975, became a forum for the prime ministers/presidents of the wealthiest countries in the world at the time – France, West Germany, Italy, Japan, The United Kingdom, and The United States – to consult about various political and economic issues of mutual concern. The six-country consortium was joined later by Canada and Russia to form the **G8**. In 1999, the **G20** developed, including the original G8, the European Union, and the developing economies of Brazil, Argentina, Turkey, South Africa, China, India, Indonesia, South Korea, Saudi Arabia, Mexico, and Australia. The prime ministers/presidents of each of these entities meet, usually on a bi-annual basis, to discuss the common economic, commercial, and social problems that beset their respective communities. The G20 today has become a major political force for world cooperation and change.

Other organizations, such as the World Trade Organization **(WTO),** have played a significant role in global development. With headquarters in Geneva, Switzerland, the WTO defines itself as, "…an organization for trade opening" and "a forum for governments to negotiate trade agreements" (WTO, 2013). Having begun in 1995 as the General Agreement for Tariffs and Trade (GATT), the WTO became a global venue for resolving trade disputes between countries.

Like the WTO, many other organizations exist to facilitate international trade and development. **The World Bank Institute**, for example, is comprised of non-governmental representatives from 188 countries whose purpose is to improve economic conditions, particularly among developing nations, through activities such as securing loans for business. Two of its five organizations – The International Finance Corporation and the Multilateral Investment Guarantee Agency – work to improve financial opportunities in international markets and support foreign direct investment, respectively, in emerging economies. Finally, the **International Monetary Fund** (IMF), established in 1944 under the auspices of of the United Nations, is a major force in the financing of world trade. The IMF "promotes international monetary cooperation and exchange rate stability, facilitates the balanced growth of international trade, and provides resources to help members in balance of payments difficulties or to assist with poverty reduction" (IMF, 2013).

In 2013, the world's biggest economies include developing countries such as Brazil, Russia, India, and China, known as the "**BRICs**," which are now major contenders in the world market. More newly emerging countries such as Colombia, Indonesia, Vietnam, Egypt, Turkey, and South Africa, referred to as the **CIVETS**, as well as Asia's "**Four Tigers**" of Taiwan, South Korea, Hong Kong, and Singapore leave no stones unturned in the global market today.

### 1.3.2 TRADE AGREEMENTS

One of the biggest boons to international business has been Economic Integration, most notably in the rise of trade agreements, which reduce or eliminate taxes on traded goods among signatory countries. These agreements are either **bi-lateral** (an agreement between two countries) or **trade blocs** (a group of several countries sharing a single trade agreement). These agreements, many of which began in earlier forms in the 1960s, focus on the reduction or total elimination of **tariffs** – taxes paid on products crossing international borders – to open up larger markets than any one country could produce by itself. Each country negotiates arrangements to trade with other countries, in order to maximize its **comparative advantage**, which is a country's practice of capitalizing on exporting its most economically produced goods. Thus, what one country can produce easily and cheaply, it exports; those products which are difficult or costly to create, it imports.

The reduction of tariffs allow both countries maximum benefit from such agreements. For example, the United States currently has trade agreements with 20 other countries in Asia-Pacific region, Latin America, and the Middle East: Australia, Bahrain, Canada, Chile, Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Israel, Jordan, Korea, Mexico, Morocco, Nicaragua, Oman, Panama, Peru, and Singapore. It is also a member of The North American Free Trade Agreement and the Central American Free Trade Agreement.

### 1.3.3 FREE TRADE BLOCS

In addition to the large inventory of bilateral agreements in operation today, there are over 60 agreements existing which involve **trade blocs**, which is a group of countries who enter into an agreement to trade with each other according to a set of economic conditions. A trade bloc integrates the economic exchange among several countries within a geographic region or beyond and represent the concept of **economic integration** Although their primary purpose is most often to encourage international trade, many of these blocs contain provisions related to social, cultural, or political exchange as well, and may provide standards affecting things such as fair labor or environmental protection. Some of the largest of these groups include the following:

The **Asia Pacific Economic Cooperation (APEC)** is a group of 20 countries, all bordering the Pacific Ocean, established in 1989, whose mission is to support sustainable economic growth and prosperity in the Asia-Pacific region. (APEC, 2013). Members include Australia, Chile, Hong Kong, Singapore, and the United States.

The **Association of Southeast Asian Nations (ASEAN)** was established in 1967 by Indonesia, Malaysia, The Philippines, Singapore, and Thailand, and coordinates the economic, social, political, and educational exchanges among its signatories (ASEAN, 2013).

The **Central American Free Trade Agreement (CAFTA-DR)** began in 2004 initially with the exchange of agricultural products, CAFTA-DR was the first trade agreement between the United States and a small group of developing countries (Office of the United States Trade Representative, 2013). CAFTA-DR's members include: Costa Rica, The Dominican Republic, El Salvador, Honduras, Guatemala, Nicaragua, and the United States.

The **Common Market for Eastern and Southern Africa (COMESA)** is comprised of 19 member countries, all from the Sub-Saharan area of Africa. Its vision is to "be a fully integrated, internationally competitive regional economic community with high standards of living for all its people ready to merge into an African Economic Community" (COMESA, 2013). Member states include Kenya, Egypt, Libya, Mauritius, and Zimbabwe.

The **Common Market of the South (MERCOSUR)** is South America's largest free trade block. Its full (voting) members are Argentina, Brazil, Paraguay, Uruguay, and Venezuela; Bolivia and Chile are associate members. MERCOSUR identifies itself as not a "commerce-only" organization that also promotes advances in education, science, health, and the environment (MERCOSUR, 2013).

**The European Union (EU)** is a conglomeration of 28 European countries, 19 of which are united by a common currency, the Euro (€) which is the official currency of 25 countries and numerous territories around the world. The EU is a full customs union, meaning that there is no tax on the movement of goods within its borders. The EU accounts for about 20% of the world's total imports (Activities of the European Union, 2013). Among its larger members are France, Germany, Italy, Spain, and the United Kingdom, the latter of which voted in 2016 to withdraw from the EU.

The **North American Free Trade Agreement (NAFTA)** combined previous trade agreements between the United States and Mexico, The United States and Canada, and Canada and Mexico into a three-country bloc, currently the biggest in the world. Signed into law in 1994, NAFTA is now the largest trade area in the world with a population of over 450 million people and commerce in excess of $1.6 trillion US. (NAFTA, 2013).

The **South Asian Association for Regional Cooperation (SAARC)** is an association of 8 countries in Southwest Asia (Afghanistan, Banglasdesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka) focusing on various economic and social issues. In addition to the membership, there are 10 "observer" countries – including the United States, China, and Japan – which attend parts of SAARC's yearly summit (SAARC, 2013).

Additionally, nine countries – Australia, Brunei Darussalm, Chile, Malaysia, New Zealand, Peru, Singapore, Vietnam, and the United States – are presently negotiating for the creation of the **Trans-Pacific Partnership Agreement (TPP)**, which, when developed, will "enhance trade and investment among the TPP partner countries, promote innovation, economic growth and development, and support the creation and retention of jobs" (Office of the United States Trade Representative, 2013). Like many already existing agreements, the proposed arrangement would contain provisions for trade practices, environmental concerns, labor issues, intellectual property, and sanitary/phytosanitary standards. These issues, and many more, are typically found in all types of trade agreements and are negotiated thoroughly as part of an overall agreement.

## 1.4 THE ECONOMIC ENVIRONMENT

You may have studied economics in other courses. The field of economics is divided into **Macroeconomics,** which is the study of how a country as a whole manages its resources such as debt, currency, and economic policies, and **Microeconomics,** which focuses on the behavior of particular market segments and how they utilize their resources. As an academic discipline, economics is central to understanding the international business context, as the economic health of a country – as a potential partner, consumer, or supplier – can strongly affect the level of profitability an international business venture might enjoy. To analyze a country's potential as a site for international business ventures, business analysts look at **economic indicators** – statistics which reflect the overall economic health of a nation and which measure stability, growth, trends which may "make or break" any particular business venture. Some key economic indicators are discussed below:

### 1.4.1 GROSS DOMESTIC PRODUCT (GDP)

Among the many economic indicators that may reveal a country's economic status include statistics about the monetary value of all items produced within the borders of a particular country. GDP is used as a primary measurement of the size of an economy. In 2012, sixteen entities had GDPs of over one trillion U.S. dollars. Those economies – the world's largest – are shown in Table 2.

| Rank | Economy | GDP (In trillions USD) |
|---|---|---|
| 1 | European Union | $18.084 |
| 2 | United States | $15.880 |
| 3 | China | $7.209 |
| 4 | Japan | $5.920 |
| 5 | Germany | $3.599 |
| 6 | France | $2.834 |
| 7 | United Kingdom | $2.602 |
| 8 | Brazil | $2.576 |
| 9 | Italy | $2.245 |
| 10 | Russia | $2.197 |
| 11 | India | $1.858 |
| 12 | Canada | $1.809 |
| 13 | Spain | $1.524 |
| 14 | Australia | $1.470 |
| 15 | Mexico | $1.231 |
| 16 | South Korea | $1.201 |

**Table 2** World's Largest Economies by GDP in 2012
Source: Economy Watch (2013)

As Table 2 shows, the United States remains the largest economy for a single country, surpassed only by the 27-member European Union. While following for many years in second place, Japan was surpassed by China's rising market in 2010. While the preponderance of large-economy nations are found in what is considered the "Western" world, developing economies in Eastern Europe, Asia, the Middle East, and Latin America are quickly emerging within the global scene. While the world's average GDP for 2012 was $393(b), countries from all parts of the world countries exceeded this average including Argentina, Indonesia, Iran, South Africa, Taiwan, Turkey, The U.A.E., Saudi Arabia, and Poland (Economy Watch, 2013).

### 1.4.2 GROWTH RATE

Changes in a country's GDP are measured every year and serve as the basis for determining a country's **growth rate**, which is the percentage of change between the GDPs of one year compared to the next. Since the worldwide economic downturn of 2008, many countries' rates of growth, including that of the United States, have lagged behind previous periods of prosperity. Yet while many of the Western European nations' economies have also suffered slow growth, emerging countries in Sub-Sahara Africa, and the Asian continent appear to have been among the fastest growing. In fact, five countries – Angola, China, Iraq, Liberia, and Niger – reported growth rates at least twice that of the world average of 4.49% By comparison, the growths for the larger Western economies for the same period were much more modest: The European Union, 2.06%; Canada, 2.62%; Germany, 2.09%; and France, 1.78%, and the United States, 2.87%; these countries were outpaced by the developing countries of Ghana, Haiti, Kenya, Mozambique, and Zambia (Economy Watch, 2013).

Although these statistics do not necessarily signal a decline in the prominence of the world's historically largest economies, but they do suggest the potential for business opportunities in parts of the world that, as little as twenty years ago, may not have been seen by the international community at large as competitive – or even viable – markets.

### 1.4.3 INFLATION

Other markers of a country's relative economic strength include its **inflation rate**, which is reflects the rise of prices of goods and services over a period of time. In periods of extreme financial conditions, people in certain countries have watched the buying power of their currency drop, sometimes in a matter of hours – a phenomenon called **hyperinflation**. While those conditions generally do not prevail around the world today, the buying power of consumers – often reflected in the country's **Consumer Price Index** (CPI), which follows the price increases of a sample of goods – potentially influences how successful a business venture will be, as consumers must have money to meet the prices of the items they need to buy. As of 2012, inflation in most developed nations was modest, ranging around 2–4% annually. The 2011 U.S. inflation rate was 3.2% , while during the same period, 58 countries experienced inflation rates of at least twice that amount, including Belarus 53.2%, Ethiopia, 33.2%, Venezuela, 26.1%, Guinea, 21.4%, Iran, 20.6%, Uganda and Vietnam, 18.7%, Suriname, 17.7%, and the Kyrgyz Republic, 16.5%. (World Bank, 2013).

Clearly, the impact of inflation is a key component of international enterprise, as varying economic conditions in each country prevail. Other statistics – such as a country's overall debt, its unemployment rate, its per capita income, its balance of trade with other countries, and the strength of its currency, to name a few – also attest to the economic viability of a country. These factors should all be analyzed by companies or individuals who are considering expanding their business investments to other countries.

## 1.5 POLITICAL ENVIRONMENT

Just as a country's economic climate and structure shape its posture in the world, political factors provide a context for international business as well. Ultimately, the ability to engage in global commerce is dependent on a government's policies on trade as well as on its overall relationships with other countries. For example, the Caribbean island nation of Cuba has been "off limits" to U.S. consumers and businesses for over sixty years because of political reasons. When Fidel Castro's government – allied with the former Soviet Union – took control of Cuba and thereby presented a military threat to the U.S., commercial ties were severed through a diplomatic and trade **embargo** – a ban against doing business with another country. Now, six decades later, the embargo is still in effect. The few U.S. tourists who are allowed to travel to Cuba are not able even to use ATMs that are held by U.S. financial institutions. No U.S. embassy is in Cuba to assist travelers with diplomatic needs; the Swiss Embassy operates a "U.S. Interests" office which is the closest things to an actual embassy.

Although Cuba represents a rather extreme case study of political barriers, it serves to remind us that international business is largely at the mercy of the political relationships that exist at a larger level. Economic sanctions against other countries – Iran, North Korea, Syria, Somalia, to name a few – are in effect as of 2013. Companies should check with their governments to ascertain what, if any, such barriers exist against countries they are considering doing business with.

### 1.5.1 POLITICAL SYSTEMS

The range of political systems can be understood as a spectrum. At one end is **democracy**, a political system which inculcates principles such as equality, fair elections, due process, political pluralism, and government based on majority rule (Kekic, 2007). In the United States and in other countries, these concepts are operationalized as free speech, the right to a fair trial, freedom from unwarranted searches and seizures, and other human rights. Democracies are also characterized by minimal governmental control over business and property ownership, a condition often equated with capitalism, a system which allows private ownership of goods and properties. A democracy typically enjoys a **free market economy**, which is an economic system driven by the demands of consumers rather than by the dictates of a government.

At the other end of the political spectrum is **totalitarianism**, which is a political regime which controls all aspects of citizens' lives and properties. Countries with totalitarian governments do not assure or enforce the same slate of human rights as more democratic countries do. Totalitarian governments (sometimes referred to as "Authoritarian") are usually headed by a single person, often referred to as dictators – such as Kim Jong Un of North Korea, the late Hugo Chavez of Venezuela, and Bashar Assad of Syria – in whom most or all of power is vested without checks and balances of the government or its people. Countries led by authoritarian regimes also tend to have **command economies** – markets controlled by the dictates of the government and not by the supply and demand relationships that might occur naturally in the marketplace.

### 1.5.2 INDEX OF DEMOCRACY

In reality, most governments fall somewhere between extremes, as there are varying degrees of political freedom. One way to consider the political spectrum is to look at the individual characteristics that contribute to the overall level of democracy that is found in a particular country. For example, The Economist Intelligence Unit provides such a measure in its *Index of Democracy*. For each country, the Index examines five categories – political process and pluralism, civil liberties, government functioning, political participation, and political culture – to score that country's level of democratic governance. Countries' cumulative scores fall on a scale of 1–10, denoting its classification. According to the 2012 Index, only 25 countries – representing 11 percent of the world's population – are considered "full democracies," while the preponderance of governments have varying levels of democratic freedoms (Huffington Post, 2013). Table 3 depicts some examples of the Index scores:

| Classification | Score | Number of Countries | Percentage (N=167) | Sample Countries |
|---|---|---|---|---|
| Full Democracy | 8–10 | 25 | 14.98 | Norway, Sweden, U.S., Japan, Spain, Germany, The Netherlands, Australia, |
| Flawed Democracy | 6–7.9 | 54 | 32.33 | France, Italy, South Africa, Brazil, Taiwan, Mexico, Hong Kong, Chile |
| Hybrid Regimes | 4–5.9 | 35 | 20.96 | Singapore, Turkey, Kenya, Nicaragua, Pakistan, Nepal, Ukraine, Honduras |
| Authoritarian Regimes | <4 | 53 | 31.73 | Haiti, Russia, China, Cuba, Qatar, Vietnam, Myanmar, Jordan, Algeria |

**Table 3** Index of Democracy Scores
Source: Huffington Post (2013)

### 1.5.3 SOCIALISM

Political ideologies underlie the level of control governments have over business operations in their respective countries. **Socialism**, for example, is a political and economic system in which there is a high level of government ownership and/or control of production and markets and key public services. In many socialist countries, a **mixed economy exists**, in which market and production control are shared between the government and private enterprise. **Communism** – an extreme form of socialism – provides little, if any, personal freedom and total government control and ownership of markets and properties. A **theocracy** is a form of government controlled by religious precepts which are imposed on all aspects of business and personal life. An example of a theocracy is Islamic (Sharia) Law, which is based on the Qur'an and the teachings of the Prophet Mohammed. Countries such as Iran. Saudi Arabia, and other Middle Eastern and Northern African countries (**MENA**s) observe varying levels of such legal systems.

## 1.6 REGULATORY ENVIRONMENT

How easy is it to operate a business in another country? To what extent do a country's laws and procedures invite participation in a market? These are questions international entrepreneurs ask themselves when they consider expanding their interests to different parts of the world.

A country's ability to attract foreign business is contingent, in large part, on its economic freedom, or the extent to which a country's laws and policies limit the growth and operation of a business. There are multiple gauges of economic freedom. The Heritage Foundation, a public-policy global think tank, measures 10 indicators of economic freedom from which country ranks and scores are derived.

### 1.6.1 COMMON LAW VS. CIVIL LAW

Another element shaping countries' business environments is the type of legal system which oversees that country's judicial processes. This is particularly important to international business ventures as it pertains to contract or business law. Like the United States, most countries have judicial branches which are separate from their governments' legislative and executive branches, thus the court structures and processes may be nominally similar. However, the foundation of each country's legal system – common law or civil law – influences how decisions are made and how laws are enforced. In a **common law** system, a case may be argued, and successfully won, on the basis of **precedent** – court rulings in previous cases which bear similarities to the case being adjudicated. The common law system originated in Britain and exists in British Commonwealths and former British colonies today, including Australia, Central and Western Canada, India, Ireland, New Zealand, and, the United States.

**Civil Law** (Also referred to as "codified" or "code law") is predicated on statutes or legal codes which are legislatively updated (University of California-Berkeley, 2013). Such a system is highly prescriptive and does not have the force of precedent that supports common law. Based on early Roman legal system, civil law is observed in most non-British commonwealth countries, including many in Europe, The Middle East and Africa, Asia, and Latin America. Because of its roots in French Law, civil law is also practiced in French-speaking Canada and even in parts of the U.S. state of Louisiana, to an extent where it is often referred to as "Napoleonic Law."

### 1.6.2 ECONOMIC FREEDOM

A country's scores on each of these measures is used to create a composite "**Economic Freedom Score**," which summarizes the extent to which each country promotes a free market within its borders and with other countries. The Foundation's ten indicators are:

| | |
|---|---|
| Business Freedom: | The ease with which a new business can be started in a country. |
| Trade Freedom: | The extent to which tariffs and non-tariff barriers (NTBs) are conducive to trade. |
| Fiscal Freedom: | The country's tax rates. |
| Government Size: | The amount of government expenditures |
| Monetary Freedom: | Trends in the country's inflation and price stability |
| Investment Freedom: | Restrictions on the influx and management of foreign investment. |
| Financial Freedom: | Government's control of banking processes and regulations. |
| Property Rights: | Protection of ownership rights. |
| Freedom from Corruption: | The level of fairness and transparency in a government |
| Labor Freedom: | The ability to hire and pay employees (Heritage Foundation, 2013). |

Each year, the Heritage Foundation publishes a report containing countries' scores on these 10 variables, based on which a rank is calculated. In the 2012 report, there were 179 countries analyzed, based on the criteria indicated above, in which five were classified as "free"; 22 as "mostly free"; 61 as "moderately free"; 59 as "mostly unfree"; and 29 as "repressed".

While many of the countries characterized by little or no economic freedom are governed by totalitarian regimes, such as Cuba, North Vietnam, Venezuela, and Iran, others, such as Argentina, have democratic governments but exert significant control over commercial practices within their borders. At the other end of the spectrum, the countries with the most economic freedom, are presented in Table 4.

| Rank | Country | Score* | Classification |
|---|---|---|---|
| 1 | Hong Kong | 89.3 | Free |
| 2 | Singapore | 88.0 | Free |
| 3 | Australia | 82.6 | Fre |
| 4 | New Zealand | 81.4 | Free |
| 5 | Switzerland | 81.1 | Free |
| 6 | Canada | 79.4 | Mostly Free |
| 7 | Chile | 79.0 | Mostly Free |
| 8 | Mauritius | 76.9 | Mostly Free |
| 9 | Denmark | 76.1 | Mostly Free |
| 10 | United States | 76 | Mostly Free |

**Table 4** The World's Top Ten Economically Free Countries
Source: Heritage Foundation (2013). *highest possible score is 100

It is perhaps a matter of coincidence (or not) that nine of the countries listed in Table 4 border oceans – a fact which no doubt may play a part in their penchant for international business success. Certainly there are many other countries which also enjoy similar geographies but are not economically free or internationally competitive, which, in many cases, may also correlate with the political and regulatory environments that govern them.

### 1.6.3 EASE OF DOING BUSINESS

The regulatory environment is of a country is particularly important for individuals or companies wanting to open a physical location in that country. For example, there may be lengthy, cumbersome, or bureaucratically-enforced laws or procedures related to establishing a physical location, securing and managing finances, hiring employees, and so forth. To help potential foreign investors understand these laws, the World Bank Group (2013) employs a system to analyze 185 countries according to the "**Ease of Doing Business**," scores on 10 factors:

Starting a business
Dealing with construction permits
Getting electricity
Registering property
Getting credit
Protecting investors
Paying taxes
Trading across borders
Enforcing contracts, and
Resolving insolvency

As of 2012, the list of the countries with the highest "ease of doing business" scores bears striking similarity to the lists for economic freedom and high GDP, as well as having democratic forms of government. These countries are shown in Table 5.

| Rank | Country | Highest Score Area |
|---|---|---|
| 1 | Singapore | Trading across borders |
| 2 | Hong Kong | Dealing with construction permits |
| 3 | New Zealand | Starting a business |
| 4 | United States | Getting credit |
| 5 | Denmark | Trading across borders |
| 6 | Norway | Resolving insolvency |
| 7 | United Kingdom | Getting credit |
| 8 | South Korea | Enforcing contracts |
| 9 | Georgia | Registering property |
| 10 | Australia | Starting a business |

**Table 5** Top Countries for Ease of Doing Business
Source: The World Bank Group (2013)

### 1.6.4 HIGH INCOME COUNTRIES

The list of countries in Table 5 also reflects a tendency of the high-scoring countries scores also being to "high income" countries as classified by the **Organisation for Economic Cooperation and Development** (OECD) (2013), with the one exception being Georgia, an Eastern European country once part of the Soviet Bloc. It should also be noted that five of the countries – Singapore, Hong Kong, New Zealand, Denmark, and Norway – also appear in the top ten list of countries identified by World Economic Forum's Enabling Trade Index (2013), a measure of countries' market access, border administration, transportation and communication infrastructure, and overall business environment – the conditions which create the most accessible markets in the world. Clearly, the countries which appear to enjoy the highest levels of democracy and business freedoms are also the ones who tend to have the largest international presence; it is unlikely that this relationship is mere coincidence.

## 1.7 CULTURAL ENVIRONMENT

In this introductory chapter, we have covered many of the logistical aspects of the international business environment – geography, economics, political systems, and regulatory practices. We're off to a good start: You should now have an appreciation for the complexities involved in the international business arena. Now we turn our attention to what is probably the most delicate skill in international business: Understanding the cultural nuances which shape how cross-cultural business is transacted. In Chapter Two, we explore the nature of culture and how it shapes your success as an international business entrepreneur. Chapter Three will cover communication behaviors that arise out of cultures. Chapter Four will view culture as a function of management, and Chapter Five will discuss the mechanics of becoming professionally involved with international business.

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# 2 THE CULTURAL ENVIRONMENT OF INTERNATIONAL BUSINESS

## 2.1 INTRODUCTION

In Chapter One, we examined at the economic, political, and regulatory aspects of the international business context – the "mechanics" of the global business environment. Now we turn to a very differnt aspect of that equation: the cultural differences that impact the international business process.

Culture influences all aspects of human behavior; understanding the diversity of others is a prerequisite for conducting international business. Without an appreciation for other cultures, participants cannot easily engage in global transactions. Even when presented with favorable economic, political, and regulatory factors, negotiators may find that they are doomed to failure when they cannot understand the nuances of each other's cultures. That *is* why nearly every business *degree* program today *requires* at least one course in international business; that's probably why you are reading this textbook right now.

## 2.2 WHAT IS "CULTURE"?

The word *culture* is frequently tossed about in popular and academic discussions. This casual reference, however, is often imprecise. Initially, culture comes from the Latin *cultura,* an agricultural term referring to cultivation or tilling. The word evolved in French to refer to one's education and upbringing, or to the collective achievements and intellectual aspects of society (Online Eytomology Dictionary, n.d.). Today, culture is often frequently inaccurately interchanged with terms such as nationality (political identity), race (biological identity), or ethnicity (linguistic or social identity). However, while culture is indeed all of these things, it *is* none of them exclusively. We therefore *explore* the meaning of culture further.

### 2.2.1 DEFINITIONS OF CULTURE

Scholarly literature offers a multitude of definitions for culture, most of which reference common elements such as values, experiences, norms, and *beliefs held* by a person's social community. International business scholars generally agree on these elements. For example, Deresky (2008) defines culture as "the shared values, understandings, assumptions, and goals that are learned from earlier generations. This shared outlook results, imposed by present members of a society, and passed on to succeeding generations [which] results, in large part, in common attitudes, codes of conduct, and expectations that subconsciously guide and control certain norms of behavior" (p. 91–92). Similarly, Daniels, Radebaugh, and Sullivan (2004) present culture as "the specific learned norms based on attitudes, values, and beliefs that exist in everynation" (p. 46). Hodgetts, Luthans, and Doh (2005) refer to culture as "acquired knowledge that people use to mterpret expenence and generate social behavior (p. 93–94).

More abstract, if not more practical, conceptualizations of culture have been offered by scholars in fields such as anthropology. For example, Clifford Geertz (1973) defined culture as "the fabric of meaning in terms of which human beings interpret their experience and guide their action" (p. 24). Prominent cultural antropologist Geert Hofstede (n.d.) described culture as, "the collective mental programming of the human mmd which distinguishes one person from another" (para. 1). The importance of these distinctions is illustrated by Javidan, Dorfman, deLuque, and House (2006), who asserted that culture "colors nearly every aspect of human behavior" (p. 67).

Culture is a complex phenomenon but there are many paradigms for understanding the ways it manifests itself in human behavior. Hodgetts, Luthans, and Doh (2005) suggested that culture is: *Learned* (assimilated through experience), *shared* (experienced by a common group), *trans generational* (passed down by generations), *symbolic* (containing common references), *patterned* (affected by changes), and *adaptive* (subject to changes). Thus, an individual's culture is the product of his /her cumulative experience and background, most of which is provided by larger cultural groups. The resulting framework governs, to a significant extent, the behavior of that person.

Although societies reflect different characteristics of culture, they are founded in common frameworks. For example, Collier (2000) conceptualized culture in the following ways:

> Culture as *place:* The experiences influenced by the location where a person grew up or lives
> Culture as *ancestry and people:* The shared history of a group of people
> Culture as *art/artifact:* The expression of a group's "heart, spirit, emotions, or philosophies" (p. 19)

Culture *as capital or economic resource:* Economic systems (such as capitalism) or principles, that influences culture
*Culture as product:* The symbolic representations of foods, music, and popular culture
Culture as politics and ideology: The institutionalized value systems accepted by the local community
Culture as *psychology, worldview,* thinking, or speaking: The ways in which individuals commonly their express ideas
Culture as *performance:* The passage of stories and myths as a means of perpetuating a culture's history or values
Culture as *group identity:* A culture's tendency to compare itself with, and distinguish itself from, other cultures

Each of these factors plays its own role in how an individual sees the world and reacts to it. Some aspects may be more influential than others; a person's individual characteristics also help shape his/her worldview. However, it is reasonable to conclude that an international business person must strive to learn as much *as possible* about a counterpart's *culture* in order to anticipate his or her behavior and thereby establish an effective working relationship.

To summarize, culture is the lifelong blueprint which each person brings to the negotiation table; it is the umbrella under which he or she thinks about, talks about, and acts upon every business decision with which they are faced. This chapter will examine the nature of cultural differences you may encounter in the international business environment. After completing this chapter, you should be able to:

1. Explain the role of cultural values,
2. Describe different cultural dimensions used by scholars to study international culture, and
3. Describe the similarities of cultures within "clusters."

## 2.3 CULTURAL VALUES

**Values** are predispositions that "inform a member of a culture about what is good and bad, right and wrong, true are false, positive and negative, and the like (Samovar and Porter, 2000, p. 11). Values are "important and lasting beliefs" (Businessdictionary.com, n.d.). and therefore are not easily changed. Every person maintains his or her own set of values which constitute an important part of that person's overall identity.

Although values vary greatly across cultures, they are based on a common set of themes inherent to the human condition. Kluckholn and Strodtbeck (1961) maintained that all human cultures operate around the same six values:

*Human nature* refers to the extent to which humans are assumed to be innately good (mutable) or evil (immutable). Such assumptions are frequently rooted in religious traditions. For example, Christianity purports that humanity is inherently evil or sinful, whereas many Eastern philosophies maintain that humans possess characteristics of both good (trustworthiness, altruism, compassion) or inherently evil (self-serving, dishonesty, harmful). The Chinese concept of *ying and yang* is an example of this. The motivations and expectations of people are driven to varying extents by the religious tenants they hold true.

*Relationship with nature* involves the degree of humankind's connection to natural resources. This often translates to the regard society holds for the environment, consumption of energy, protection of wildlife, and its commitment to renewable natural materials. "Nature" may also connote a spiritual component, such as in many Native American belief systems which regard the existence of a symbiotic relationship maintaining harmony between humankind and nature.

*Motive for behavior* speaks to whether or not a society's emphasis is on *doing,* or *being.* The cultures of some countries, especially those having a strong capitalist base, place a great premium on personal accomplishment; they therefore often measure success through their level of achievement, or on what they have *done.* Yet other cultures are more moment-focused, emphasizing their condition of their existence at a given *time.* These respective orientations affect how time *is* spent, the *quality* of interpersonal relationships, and the level of attention to appreciating the past, enjoying the present, or anticipating the future.

*Relationships with others* hold different priorities in different cultures. For example, maintenance of the family and close network of friends may be seen as more important than achieving success in business obligations; in fact, in many cultures such as Latin American or Middle Eastern, it is often necessary to establish a personal relationship with a potential business partner before expecting to actually engage in any business transaction with them. The concept of extended family also tends to be predominant in relationship-oriented cultures, and business opportunities are often reserved for those related or close to the family-something the value systems of other cultures might deem nepotism.

*Time orientation* refers to a society's tendency to focus its attention on the past, present, or future. Past- oriented cultures, such as in Asia, have a very deep respect for traditions, experience, and history. Present-oriented cultures focus more on adapting to their current circumstances by "living in the moment." Future-oriented cultures like the United States tend to be more forward-looking and devote greater attention to preparing for the future and anticipating possible outcomes, as well as engaging in long-term strategic planning and business and lifelong retirement preparation.

*Space and privacy* connotes the degree to which personal space, possessions, and privacy are perceived as important in each culture. High-space cultures, which also tend to be more individual-focused, usually value their privacy more than those in close-space cultures, in which people must share resources more readily. People in high space/privacy cultures may also value their "alone time," a concept which is often incomprehensible to people from group-oriented cultures. Greater regard for space and privacy may often be held by people in less densely populated (e.g., number of people per square mile) regions than in heavily populated metropolitan areas.

### 2.3.1 CULTURE-SPECIFIC VALUES

Every culture "interprets" the common values described by Kluck and Strodtbeck (1961) differently. For example, in his work, *Values Americans Live By* (1984), Robert Kohls outlined 13 ideals prominent in mainstream U. S. culture, many of which cause consternation for others with different backgrounds. These ideals or values permeate virtually all aspects of behavior and communication in the U.S. business context and among U.S. professionals conducting business abroad. They are:

*Personal control over one's environment.* A belief that one has the ability to effect control over situations, as opposed to the notion of "fate" or "God's will" dictating events. This is similar to the notion of internal, versus external, locus of control. It differs, for example, from the Middle Eastern ideal of "Insha Allah," which means "if God wills it."

*Change.* Compared to more ancient societies, U.S. culture in general holds little regard for history or tradition, focusing instead on the changes of the moment and plans for the future. In fact, reluctance to embrace change may even be regarded negatively in the U.S. business context. This is in contrast to many Asian cultures, whose regard for their histories and traditions may present less willingness to make major changes in the way things are done.

*Time and its control.* Americans – particularly when in business contexts – carefully plan the way they use time. Consequently, they adhere to tight deadlines and schedules, become upset when those parameters are not maintained, and attempt to control events within their environment in accordance with those plans; punctuality and deadlines are therefore quite important to the U.S. business person. The idiom, "Time is money," reflects this tendency.

*Equality.* Because of its long democratic history, the U.S. holds that all people-regardless of position or social standing-are all entitled to the same rights and treatment as everybody else, and that equal opportunities exist for all people. This contrasts sharply to India's caste system, which tightly categorizes people according to the social status into which they were born, or to cultures which have a history of highly authoritarian governments.

*Individualism and Privacy.* In the United States, people are apt to restrict personal information and keep to themselves more so than do people of other many other cultures. The abundance of privacy protection laws in the United States, designed to maintain confidentiality of certain types of information, reflects these tendencies. That is why one's personal life and professional life are usually kept separate in the United States.

*Self-Help.* One need only examine the "self-improvement" section of a U.S. bookstore to realize that independence and self-improvement are hallmarks of U.S. culture. Thus, they may not ask for help with a task, or, may fail to offer assistance to others, as it is a cultural norm to solve problems on one's own.
*This* high level of *independence* may be perceived as *aloofness* or insensitivity among *cultures* that are more group oriented in their task performance.

*Competition and Free Enterprise.* The strong capitalistic nature of the U.S. business environment creates an atmosphere which promotes fair (but often aggressive) competition in almost everything, from sports to business. Moreover, free enterprise-the ability to operate a business independently with little government intervention-is reflected in the rise of entrepreneurship degree programs at US. universities in the last decade.

*Future orientation:* Planning for the future is a hallmark of U.S. culture, as is evidenced by organizations' emphases on strategic planning. This tendency extends to individuals in the US., who typically make long-term plans and adjust the activities in their lives to accommodate these plans. For example, young professionals begin planning their retirement at a young age by establishing investment goals and practices-sometimes decades before they are eligible to retire.

*Action/Work.* US. culture is characterized by a strong attachment to activity, particularly one's job. Success is often measured by recognition they receive as a result of this activity. Personal achievement is important, thus there is a preference for the state of *doing* rather than *being.* Even the way leisure time is spent reflects this priority, as sports or hobbies may actually constitute a significant part of one's identity.

The time spent working tends to reflect a society's emphasis on that activity, as depicted by the number of hours spent per year working. While most workers in the United States usually expect a two-week vacation each year, French workers are entitled to at least five weeks of vacation time per year, plus a 35-hour workweek with no overtime (Leung, 2005). Yet in other cultures, even more time is devoted to work than in the U.S., as shown by the mean number of working hours per year by country:

| Country | Number of Hours | Per Week* |
|---|---|---|
| Mexico | 2,317 | 46.34 |
| Chile | *2,102* | *42.04* |
| Korea | 2,092 | 41.84 |
| Poland | 2,069 | 41.38 |
| Estonia | 2,021 | 40.42 |
| Russian Federation | 2,002 | 40.04 |
| United States | 1,798 | 35.96 |
| Hungary | 1,797 | 35.94 |
| Japan | 1,765 | 35.30 |
| Slovak Republic | 1,749 | 34.98 |

**Table 1** Annual Number of Workweek Hours by Country
*Extrapolated from data based on an assumed standard of 50 weeks of work per year
Source: cnn.money.com (2013)

*Informality.* Since deference to authority in the United States is comparatively low, the workplace environment is generally informal, both in the way people dress and in the way they relate to each other. It is not uncommon, for example, for workers to address their bosses by their first names, or engage in casual humor with them.

*Directness/Honesty:* The predisposition to "speak your mind" is common in U.S. culture. Openness and truthfulness-even when unpleasant-are expected. For example, a U.S. business person will say "no" to a proposal or criticize ideas openly, unlike someone from Japan: whose culture prizes face-saving, might say, "This would be difficult" to avoid embarrassing the other person. This disparity in communication practice is often the cause of misunderstandings of people from different cultures who negotiate.

*Practicality and efficiency.* Americans seek that which accomplishes objectives in the most efficient way. American idioms such as "time is money" and "the clock is ticking" reflect this tendency. As a result, meetings are often void of much personal discussion, business meals are usually brief, and negotiations rely little on spending time getting to know a potential business partner. By comparison, business professionals from Latin America, which emphasizes relationship-building, may find this approach impersonal or detached, whereas the U.S. person is merely trying to be "efficient."

*Materialism:* The attainment of wealth-often represented by homes, cars, clothes, and technology-is a common goal of many people in U.S. society. The ability to purchase the "best" of things used even for leisure or entertainment purposes is a hallmark of success, accomplishment, and reward for hard work. Nevertheless, the U.S. is noted for its altruism, depicted by contributions to charitable causes, which approached $300 billion in 2011 (Nichols, 2012).

Other cultures share many of these values, interpret them differently, or have different values altogether. For example,

***Japan.***
In Japanese culture, honor and respect are considered important. Moreover, the Japanese reverence the concept of the heart (kokomo zukai), the Zen concept of selflessness (mu), and the priority to create and maintain harmony (wa) with others in society. Honne (feeling) and tatamae (facade) represent the contradiction between the true emotions one is experiencing and the outward, socially acceptable behavior he or she actually exhibits, constituting a "double social reality" (BBC, 2001). Additionally, efforts to save face-avoiding embarrassment-for oneself and for others, is considered an essential component of Japanese culture.

***Latin America.***
Most Latin American societies place a high value on the demonstration of simpatía, which roughly equates to kindness, or a "cultural norm which requires individuals to be friendly" (Gomez, 1994, p. 320); respeto, which calls for people to treat others with dignity (Lenartowicz & Johnson, 2003; Conlogue, 2004); personalismo, or personal warmth, and confianza (trust) established on a solid relationship. Thus, relationship-building is extremely important and may extend, even in a business situation, to the entire family of a potential business associate. Spending quality time with an associate, even attending entertainment venues with them, is a common prerequisite to a long-lasting business relationship.

***Middle Eastern Countries.***
Hospitality is considered a hallmark of Middle Eastern cultures. The concept of adab (good manners) is expected, both of a host and a guest, and in a personal or business setting. The expectation of good treatment to others probably extends further in Arabic cultures than many others: If, for example, a visitor admires an object in the host's house, the host may feel obligated to give him/her that object. Moreover, the importance of loyalty to family and innermost *circles* cannot be overstated, as well as other societal values such as deference to authority and age, patience, compromise, and indirectness (Chaney & Martin, 2013). Foremost, the tenants of Islam strongly govern behavior in Middle Eastern countries, to the extent of affecting the laws.

***Europe.***
In 2008, the European Commission published *The Values of Europeans* (European Commission, 2012), which attempted (as much as possible) to find common core values shared by most of the cultures on the continent. While respondents identified Human Rights and Respect for Human Rights, and Peace most commonly (43, 43, and 40 percent, respectively), less frequently reported values included Democracy (28 percent), Tolerance (15 percent), Self-Fulfillment (11 percent), Respect for Other Cultures (9 percent), and Religion (5) percent. Many of the lower-ranked values are in stark contradiction to US. values as described by Kohls (1984).

## 2.4 CULTURAL DIMENSIONS

A **cultural dimension** is a construct used by researchers to compare attributes between cultures. Extensive research on cultural traits by a number of scholars has extrapolated patterns of norms that are common to specific groups. These traits are then illustrated as a concept "depicted graphically as a continuum" (Grovewell, 2005) with polar ends indicating extremes. Cultural dimensions have been linked to various business activities, including international marketing (Gupta, 2003), advertising (Albers-Miller & Gelb, 1996), vendor selection (Van Winter, Liebrenz-Himes, 2015); team boundary spanning (Golden & Veiga, 2005), ethics (Alas, Junhong, & Carneiro, 2010; Alas, 2006); and corporate website design (Usunier & Roulin, 2010; Conaway & Wardrope, 2006; Ahmed, Mouratidis, and Preston, 2009). Below we examine the work of researchers who have addressed cultural dimensions in a number of different ways.

### 2.4.1 GEERT HOFSTEDE

Hofstede is undoubtedly the premier cultural researcher of the contemporary era. He is most noted for his work on the dimensions of national culture (1980, 2001) which set the stage for much of the research in this area of study. Hofstede's original work (1980) centered on four cultural dimensions as described below. In each case, the countries identified were extrapolated from Hofstede's body of work:

1. Power Distance refers to the extent to which a society accepts that power is shared equally among its members. High power cultures, such as China, Saudi Arabia, and Slovakia, defer to authority; in such cultures, people are less likely to question or challenge authority. Low power cultures like the United States, Denmark, and Switzerland, hold less regard for formal hierarchies and consider people equal. People in "these societies may feel more free to disagree openly with decisions made by "those holding positions of authority (Hofstede, n.d.).

2. Uncertainty Avoidance concerns the degree to which people in a culture are comfortable with ambiguity. This characteristic reflects a culture's tendency to seek information when little has been provided. France, Mexico, Japan, and Egypt tend to be high on uncertainty avoidance. Low uncertainty avoidant cultures such as the United States, Denmark, and Singapore, may feel more at ease operating in a situation without all known facts and details.
3. Masculinity deals with the role of gender in a culture. In high masculine cultures such as Japan, Hungary, Slovakia, and Italy, men tend to hold positions of power; in these societies, there are also more clearly-defined gender roles for men and for women. In low masculine cultures such as Norway, Denmark, and the Netherlands, power is dispersed more equally between men and women, and the roles for "male" behavior and "female behavior" are less defined.
4. Individualism-Collectivism refers to the extent to which a culture emphasizes the welfare and rights of a individual person versus those of a group, such as a family, a company, or a society in general. The United States, the United Kingdom, Australia, and the Netherlands are examples of highly individualistic countries where individuals may feel free to act autonomously and in his/her own best interests. Collective societies such as China, Indonesia, Ghana, and Peru are more centered around the welfare of the group.

In Hofstede's research, each country was assigned a "score," that positioned it on a continuum between each extreme, so even countries that tended to be similar could be compared against each other. For example, Slovakia, Kuwait, China, and Brazil are all considered "high power" countries, but their respective scores of 100 (Slovakia), 90 (Kuwait), 80 (China), and Brazil (69), reveal the magnitude of power orientation among them. As the Hofstede website (n.d.) asserts, "The country scores on the dimensions are relative, as we are all human and simultaneously we are all unique" (Para. 9).

In addition to Hofstede's original dimensions, two more were later added based on continuing research. The fifth dimension, originally conceptualized by Hofstede (1991) as Long-Term Orientation, was re- configured to reflect Pragmatic versus Normative, and a sixth dimension, Indulgence versus Restraint, was added (Hofstede, Hofstede, & Minkov. 2010). The former is represented as a culture's need to explain its environment. In pragmatic countries such as China, Japan, the Czech Republic, and Germany, it is generally accepted that everything cannot be explained, and that "truth" is a relative concept. Normative cultures are characterized by a drive to explain reality or absolutisms. Ghana, Norway, Colombia, and Jordan are examples of normative cultures.

The sixth dimension, Indulgence versus Restraint, pertains to the way people in a particular culture respond to stimuli that makes them happy. Indulgent societies are those which are less inhibited in seeking gratification of their needs and desires. Mexico, Denmark, Ethiopia, and Venezuela are examples. By comparison, restrained cultures tend to suppress or delay gratification; Egypt, China, Italy, and Bangladesh are classified as relatively restrained.

### 2.4.2 EDWARD T. HALL

Another pioneering researcher in cultural anthropology was Edward T. Hall. His contributions (1959; 1976) lead to an early understanding of how culture communicates, especially through nonverbal communication (The subject of nonverbal communication will be covered more extensively in Chapter Three). Among other contributions, Hall's work provided insight into two cultural dimensions: Context, and use of time.

Context refers to the circumstances and characteristics of a communication episode. High context cultures (such as France, Thailand, Japan, and Mexico) place a high emphasis on the way something is said rather than the literal words themselves. For example, in Japan, the use of the word "no" is commonly considered too direct or impolite, so, in order to avoid offending, a neutral or even positive- sounding response such as "we will have to consider it" may mean no; the context of the setting and the nonverbal communication behaviors used by the Japanese manager should be used to interpret "maybe" as "no." Thus, high context *cultures* are indirect, *implicit,* and more complex in the way their messages are sent and received.

Low context cultures, such as the United States, Australia, and Sweden, are less sensitive to contextual factors and are more literal in their communication. Business people from these cultures would generally have less of a problem saying "no" to another person's request and would not rely greatly on nonverbal communication; they would be more literal and direct. People from High Context cultures may see people from Low Context cultures as too forward, or even rude, whereas the latter may judge the former to be evasive, untruthful, or lacking in confidence.

Use of time has no doubt presented one of the biggest barriers to effective intercultural communication. Hall identified two orientations of time-monochronie and polychronic-to delineate between different cultures' perceptions of time:

Monochronic time ("mono" means one; "chrono" refers to time) represents a society that sees time as linear; it is expected that people set deadlines and accomplish one thing at a time, including conversations which are focused on a single topic until it is fully discussed. Polychronic timecultures ("poly" means many) are more circular in their conversations, more relationship-oriented, and less dependent on deadlines and schedules. Thus, whereas a U.S. business person would report promptly at an appointment *time,* someone from Brazil might be 20 *minutes* or more late, because *time is* perceived as more fluid. Monochronic cultures include the United States, The United Kingdom, Germany, Australia, and Japan; polychromic cultures include Mexico, Saudi Arabia, Italy, and Malaysia.

### 2.4.3 PROJECT GLOBE

Global Leadership and Organizational Behavior Effectiveness (GLOBE) was a team of 170 researchers who collected cultural data from 62 countries over a multi-year period. The project, under the direction of Professor Robert House of the University of Pennsylvania's Wharton School of Business, emassed a substantial amount of data, both on leadership behavior in different cultures and on culture in general. These data were used to identify the "similarities and differences among numerous societal and organizational cultures (Grove, 2005, p. 2), or, in other words, cultural dimensions. Since the research was built on the previous work of Hofstede (1980), some of the dimensions were similar to Hofstede's constructs; others were unique to the GLOBE project. The study produced nine cultural dimensions that could be used to compare cultures (House, Hanges, Javidan, and Dorfman, 2002, 2004; Gupta, Hanges, and Dorfman, 2002):

1. *Power Distance* refers to the tendency of a culture to share power equally among all members. It is very similar to Hofstede's power construct. High power countries include Thailand, Morocco, and Russia; Denmark, The Netherlands, Czech Republic are among *lower-power* countries.
2. *Collectivism I* pertains to how institutional practices (e.g., organizations) encourage group success and provide group resources. Japan, South Korea, and China are collectivistic; Greece, Hungary, and Argentina represent less collective societies.
3. *Collectivism II* is the extent to which individuals identify with groups such as organizations or families. Countries with high Il-collectivism include The Philippines, Georgia, and Iran. Countries with smaller collectivism-Il scores are Czech Republic, Denmark, and Sweden.
4. *Gender Egalitarianism* refers to how much a culture differentiates between the roles of men and women and treats both sexes equally. This dimension parallels Hofstede's concept of masculinity orientation. Sweden and Denmark rank high on this dimension, whereas South Korea, Egypt, and Kuwait have lower scores.

5. *Assertiveness* pertains to the degree to which people in a culture feel free to confront, challenge, *or* be forthright in their communication. Nigeria, Albania, and Hong Kong have high assertiveness scores, whereas Sweden, New Zealand, and French-speaking Switzerland have lower scores.
6. *Future orientation* refers to the tendency of a culture to plan for the future and thus delay gratification. Highly future-oriented cultures include Singapore, The Netherlands, and Canada; less future-oriented cultures include Argentina, Greece, and Poland.
7. *Performance orientation* is how a culture expects and rewards improvement and achievement. Hong Kong, Singapore, and Switzerland are high performance oriented; Qatar, Venezuela, and Russia are among lower performance-oriented cultures.
8. *Humane orientation* pertains to how cultures value fairness, kindness, and hospitality. Countries with high *scores* on *this* dimension include Zambia, Ireland, and Indonesia; countries with lower scores include Germany, Spain, and Greece.
9. *Uncertainty Avoidance* is the extent to which a culture tolerates ambiguity and tries to reduce uncertainty in their social environment. This is similar to Hofstede's Uncertainty Avoidance construct, although Hofstede's research differs somewhat from GLOBE data (Venaik & Brewer, 2013). GLOBE found that Switzerland, Austria, and Finland were high on uncertainty avoidance, while Russia, Guatemala, and Greece scored low.

### 2.4.4 FANS TROMPENAARS

Like Hofstede and Project GLOBE researchers, cultural anthropologist Fons Trompenaars conducted an extensive study of cultural attributes. He collected data from 15,000 managers in 28 countries. His work suggested the presence of seven cultural attributes (Trompenaars & Hampden-Turner, 2011), several ofwhich are differentiated from Hofstede and the GLOBE studies:

1. Universalism/Particularism refers to the extent to which a culture enforces its rules objectively "universally" or in accordance with particular circumstances. Universal cultures maintain a single standard of what is accepted practice, whereas particularistic cultures make decisions based on "the particulars" of a situation – the context, the people involved, etc. The United States is highly universalistic, whereas China is widely particularistic.
2. Neutral/Affective style deals with theextent to which people in a culture freely express emotions. Neutral cultures such as Japan frown on excessive display of emotion, whereas in emotional cultures like Italy, the display of emotion is more expected.
3. Specific/Diffuse style illustrates how the public and private spheres of life are separate in a culture. In specific cultures, such as the United States, work relationships and family relationships are kept separate and privacy is valued; in diffuse cultures, such as China, there is less distinction made between contexts and there is less privacy.

4. Achievement/Ascription reflects the level of power and status are recognized by a society. In achievement-oriented cultures such as the United States, success is attained largely through personal accomplishment and ability. In ascription-oriented cultures such as Japan, status is chiefly determined by social class, gender, or other "birth" demographics.
5. Inner-Directed/Outer-Directed orientation deals with a culture's perception of control. People in inner- directed cultures have an internal locus of control which places the responsibility for events on self; outer-directed cultures have an external locus of control, which ascribes events in one's life to circumstances, other people, or to fate.
6. Synchronous Time/Sequential Time is similar to Hall's concepts ofmonochronicity and polychronicity. Sequentially-oriented cultures are linear in their perception of time, both in their work habits and in their conversational norms. People in synchronous cultures see time as fluid and place less emphasis on deadlines. Germany is monochronic; Mexico represents a polychronic culture.
7. Individualistic/Communalistic is a dimension very similar to Hofstede's explanation of individualism. A culture is collective when it emphasizes the well-being of a group, such as a family, as opposed to an individualistic culture, which prioritizes the individual. The United Kingdom is individualistic; China is collectivistic.

## 2.5 COUNTRY CLUSTERS

Understanding every single culture on Earth would be an onerous task. Further, within each mainstream culture is a plethora of subcultures, which are groups within the larger culture that have characteristics unique to that sub-group. In their meta-analysis of research techniques used to compare and contrast cultures, Ronen and Shenkar (1985) produced a schema of country "clusters," or the "use of national units" (p. 444) to classify groups of cultures. This clustering, as Ronen and Sheknar note, is formed largely on the *factors* oflanguage, geography, and *religion* (p. 44). *To avoid stereotyping,* however, *it* should be understood that while countries within each cluster share many similar attributes, each country has a unique history and identity and thus there is always some variation.

Below are the country clusters and their corresponding characteristics which parallel, in part, the research of Hofstede (1980), GLOBE (House, et aI, 2002), Hall (1959, 1976) and Trompenaars and Hampden-Turner (2011):

1. The Anglo Cluster (Sample Countries: The United States, Great Britain, Ireland, Australia, New Zealand, and South Africa.)
   Unlike the other nine clusters which follow, this one is not geography-specific. The defining characteristics of the Anglo cluster are threefold: The predominance of the English language, a shared background in English governance, and the presence of free economies, collectively representing a significant portion of the world's trade (Ashanasy, Trevor-Roberts, and Earnshaw, 2002). Each country shares a history significantly influenced by Judeo- Christian value systems, and each has a common-law legal system. Anglo cultures are noted for high levels of individualism, performance orientation, future orientation, low levels of uncertainty avoidance, and a modest level of masculinity. *Most* Anglos are punctual (monochromic) and direct in their business dealings. There may be significant variation in some of these traits in specific areas of the countries listed above, such as in French Canada or Maori-influenced New Zealand.

2. The Latin American Cluster (Sample Countries: Argentina, Bolivia, Brazil, Colombia, Costa Rica, Ecuador, EI Salvador, Guatemala, Mexico, Venezuela.)
   The countries of this cluster are spread across several regions: Mexico, Central America, South America, and, to a certain extent, the Caribbean. The common denominators for this culture include a strong Catholic heritage, a large integration of indigenous cultures, and historical and political roots to Spain and Portugal. Consequently, Spanish and Portuguese are the predominant languages, with certain regions preferring indigenous languages, English, French, and German. Latin Americans generally possess a high power orientation, a high avoidance for uncertainty, and high levels of collectivism, especially within the family structure. They are also polychronic, hence the term «Latin American Time" is used to distinguish it from the strict punctuality of Latins' North American neighbors. The region is predominantly Roman Catholic.

3. Latin European Cluster (Sample countries: France, Italy, Portugal, Spain, Switzerland (French- speaking), Israel.)
   What has been considered the "cradle of Europe" (Jesuino, 2002, p. 81), this region of Western Europe has a unique history which had made its countries both similar and diverse. Historically impacted by Greece rationalism, Roman law, and the monotheism of Jewish-Christian heritage (Valery, 1939, and Derrida, 1991, in Jesuino, 200), the cultures remain united by its tendencies towards collectivism, highly masculine, high assertiveness, and performance orientation. These characteristics reflect what Jesuino (2002) referred to as a, "paternalistic role attributed to the state, expecting it to regulate, educate, and protect its subjects (p. 84). These countries are all characterized by democratic governments and highly developed economies. Israel is included in this cluster because of migration of Jewish Europeans to the state of Israel after its establishment in 1948.

4. Nordic European Cluster (Sample countries: Denmark, Finland, Sweden)
   The countries that comprise Northern Europe (which, although not represented in the study, include Norway and Iceland) share Latin Europe's tendency towards democracy and high economic development. They also are characterized by high quality oflife in general. These countries rank high on gender egalitarianism or low masculine orientation, along with high levels of individualism, low levels of power distance, and high levels of assertiveness. Although each country in this cluster retains its own native language, English is commonly spoken-especially in business contexts-as are other major European languages such as Russian in Finland. Nordic countries are frequently referred to as Scandinavian.

5. Germanic European Cluster (Sample countries: Austria, Germany, Netherlands, Switzerland (German-speaking.)
   This section of middle Europe is characterized by two centuries of political change and map-redrawing, owing in part to the influences of the Holy Roman Empire, brief occupations by Spain and France, engagements with the Ottomans, and, finally, the effects of two world wars (Szabo, Brodbeck, Hartog, Reber, Weibler, and Wunderer, 2002). For a time lasting through the Cold War, Germany and its capital, Berlin, were physically and politically separated. German and Dutch are the predominant languages in the region, and Christianity is the historically prevalent religion, split almost equally in the region between Catholics and Protestants. The cluster is also characterized by high levels of uncertainty avoidance, power distance, performance orientation, and assertiveness while ranking lower on gender egalitarianism.

6. Eastern European Cluster (Sample countries: Albania, Georgia, Greece, Hungary, Kazahastan, Poland, Russia, Slovenia.)
   A generally understudied region because of its political history (Bakacsi, Sandor, Andras, and Viktor, 2002), this cluster is comprised of a large measure of diversity but has been historically united because of its history as part of the former Soviet Union. Many of these countries, once considered part of the Soviet "Bloc," had limited access to the rest of the world, even including other parts of Europe (Greece is the primary exception). Historically, the prevailing religion in this area was Orthodox Christianity, although during the era of Soviet domination, religion was widely suppressed. Today the region also contains relatively large populations of Catholics, Protestants, and Muslims. It is also linguistically diverse. The cluster is highly collectivist, high power, high on assertiveness and performance orientation, while remaining relatively low on uncertainty avoidance. The economic development of many of these countries lags behind the more developed countries found in Northern and Western Europe.

7. Arabic Cluster (Sample countries: Egypt, Kuwait, Morocco, Qatar, Turkey.)
   The countries within this cluster are generally related through one or two similarities: The Arabic language, and the religion of Islam. Both of these commonalities are found in neighboring countries of Saudi Arabia, Jordan, Syria, and other countries in the region. Arabic, the fifth most spoken language in the world is prevalent (as well as English and French, the 1st and the 6th, respectively), in most business circles and is considered to be a strongly unifying social force (Kabasakal and Bodur, 2002). The predominance of Islam-the influence of which varies from country to country-governs financial laws as well as individual behavior; alcohol, for example, is illegal in many of these countries, and there are restrictions on women's dress). Religious observances, such as fasting during Ramadan and five daily prayers, are integrated into the daily routine of business. In general, people in the Arabic culture are highly collective, especially at the family level, and high power. Low levels of future orientation exist in these cultures, probably due to the Islamic notion of fate (Kabalsakal and Bodur, 2000), or the notion of Inshalla Allah (God willing).

8. Sub-Saharan Cluster: (Sample countries: Nigeria, Zambia, Namibia, Zimbabwe.) This cluster is comprised of African countries located south of the Sahara Desert, excluding South Africa. The region, whose countries tend to lag behind much of the world economically, are beset with conflict (Krabacher, Kalipeni, & Layachi, 2009) but is a richly diverse area in terms ofculture. Liberated in the 1960s from a history of European colonialism (primarily French, Portuguese, and Dutch), the countries *of* Sub-Sahara Africa employ a variety of Indo-European languages including Afrikaans, as well as Swahili, Somali, and countless indigenous tongues across the continent. Religion, aside from Islam and Christianity, shares the common characteristics of creator worship, rituals, and oral mythology (Encyclopedia Brittancia, 2013). Most African cultures are highly collectivistic, being family-oriented and having a high humane orientation.

9. Southern Asia Cluster (Sample countries: India, Indonesia, Iran, Philippines, Malaysia, Thailand.)
   Representing a wide geographic region (Iran to the west and the Philippines to the east), this cluster is diverse in many ways. The region is characterized by a multitude of languages, some of which are Indo- European and others which are Dravidian; in India itself, over 35 different languages may be spoken among a million people (Norton, 2010). Differences in religion are present due to a colorful history of European exploration and conquest involving China, France, Portugal, Great Britain, and the Arab world (Gupta, Surie, Javidan, & Chhokar, 2002). The two predominant religions are Hinduism and Islam, with smaller populations of Christianity and Buddhism. Although it comprises a relatively large portion of the Eastern Hemisphere, this cluster provides a relatively small portion of the world's GDP and holds a median rank on economic development. In general, cultures in the Southern Asia Cluster are collectivistic, high power distance, and male-oriented. They generally rate lower on assertiveness.

10. Confucian Asia Cluster (Sample countries: China, Hong Kong, Japan, Singapore, Taiwan, South Korea). These countries, once referred to as the "Far East," share many of the societal tendencies influenced by philosophical traditions handed down by Confucianism (Ardichivilli, Jondle, & Kowske, 2009). Ideals such as ethics, integrity, respect for elders, wisdom, and harmony with nature are important aspects of daily life in these cultures, which are highly collectivistic and hierarchy-oriented (Gupta et al, 2002). There is also a collectivist tendency of doing business within a close family/social network, known as guanxi (networking) in China and Chaeblis (conglomerates) in Korea. Face-saving is an integral part of interpersonal relationships. Countries in this cluster also tend to be high-power, high on uncertainty *avoidance*, and high context.

### 2.5.1 CONCLUSION

Now that we have covered some popular frameworks for understanding cultural differences, what is the next step? How does knowing these elements empower us to become effective *leaders* in a complex environment containing so much diversity? In Chapter Three, we turn to the complex concept of human communication, which is central to the very foundation of culture. In that chapter, we will demonstrate how cultural values, cultural dimensions, and the characteristics of different cultural clusters are operationalized in the daily operations of global business contexts around the world.

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# 3 CULTURE AND COMMUNICATION

The study of human communication has held a place within the intellectual community for centuries. Early Greek and Roman rhetoricians such as Aristotle, Isocrates, Cicero, and Quintilian provided historical foundations for what today is called "Communication Studies," at most universities. These scholars applied their oratorical skills to the fields of law, philosophy, political science, and religion; today, communication interfaces the fields of linguistics, sociology, psychology, management, and other academic disciplines. The relevance of communication to international business is straightforward: People speak and act out of their cultural backgrounds, and thus shape the global dynamic context. In short, communication serves as a medium for negotiating international business.

Defining communication itself would be a voluminous task. Two general perspectives, however, which emerged during the latter half of the 20th century, help characterize its essence. One view, loosely characterized as a linear or process model, depicts the communication process as the simple transmission and reception of messages between two or more sources. Person A talks to Person B, who, in turn, sends a message back to Person A. While this theory takes into account the individual attributes of each communicator, the media used, and the context, its limitation is its reliance on words and symbols as being static and mechanistically transmitted, much like a simple radio wave, with little or no regard for the shared dynamic created between sender and receiver.

Alternatively, a body of thought illustrates communication much differently as a dynamic process of meaning creation, wherein Person A and B simultaneously interface through their use of symbols (words and nonverbal symbols) to establish a unique field of meaning. This thinking more nearly explains the communication process in intercultural contexts, regarding communication as more than the simple exchange of information but instead as a symbol-based relationship that is negotiated between two or more people. Here, each communication episode must be considered unique, just like every relationship between people is distinctly formed.

Specific intercultural communication theories provide some models which help explain how those communication encounters evolve. For example, the Third Culture Model (Dodd, 1998; Casmir, 1999) purports that the cultural characteristics of two individuals essentially creates a third culture that is uniquely formed by the individuals' relationship. As Holmes (2005) writes, "The 'third culture' model starts with imagining that a person from culture A meets a person from culture B. They both notice differences and uncertainty and ideally both start to build culture C based on their discovered similarities. Culture C is the 'third culture' which is constructed in some way by both or all parties involve in the attempt at communication and cooperation" (p. 5). As you reflect on the relationships you have experienced, you can probably recall how each one was distinct from the others; this is an example of third cultures you have helped to create.

This chapter will examine the symbiotic relationship between communication and culture, especially as it relates to international business contexts. At the end of this chapter, you should be able to:

1. Describe the nature of language and how it affects international business circumstances.
2. Describe the different aspects of nonverbal communication and their norms as used by different cultural groups.
3. Explain the significance of societal practices which affect communication and behavior across different cultures.

## 3.1 LANGUAGE

Most people tend to think of language in terms of the official tongue spoken in a particular country or by an ethnic group of people. This literal understanding, which depends on literal translation, does little to account for the cultural nuances that underlie a language. This chapter offers a more robust conceptualization of language which includes a much larger social context. Indeed, we support that language is "not a thing to be studied but a way of seeing, understanding, and communication about the world and each language user uses his or her language(s) differently to do this" (Scarino and Liddicoat, 2009, p. 16). This is why most university international business programs require study abroad programs, in order to introduce a cultural context to a language which is affected by a society's frames of reference. A holistic approach thus ties communication to cultural meaning, rather than depending on a series of words detached from their common usage.

While traditional theorists such as Noam Chomsky argued that all people are universally "wired" for language rules, the more recent work of Daniel Everett, *Language: The Cultural Tool*, challenges that assumption. His research on the Pirahã in Amazonian Brazil led him to believe that culture, not biology, guided language use ( Everett and King, 2012). The Pirahã language, void of many words such as "please" or "thank you," limits communication to shared frames of references and experiences, which he refers to as a "lack of recursion." What many might consider to be linguistic simplicity is actually a tool that works well for the Pirahã, whose society functions effectively with a learned pattern of expression that is concrete, present-oriented, and person-specific.

Another view of communication was espoused by Edward Sapir and Benjamin Whorf, which later became known as the Sapir-Whof Hypothesis (Hoijer, 1954). This theory represents the school of thought known as **linguistic determinism** – the idea that language dictates our thinking process – and linguistic relativity, the idea that people who speak different languages see the world differently based on the language they use to describe the world. For example, the habit of U.S. business professionals to use sports metaphors reflects that culture's tendency towards competition (Schmidt, Conaway, Easton, & Wardrope, 2005). Thus, our language (verbal communication) shapes our reality, and, in turn, our reality is reflected by our language.

### 3.1.1 WORLD LANGUAGES

Currently, there are over 6,900 live languages in the world (Nations Online Project, 2015), existing in language "families" whose members bear similarities in root, history, and culture. Table 1 presents family groupings of languages that account for those most widely spoken in the world.

<table>
<tr><td>Afro-Asiatic</td><td colspan="2">Arabic, Hebrew</td></tr>
<tr><td>Altaic*</td><td colspan="2">Japanese, Korean</td></tr>
<tr><td>Austro-Asiatic</td><td colspan="2">Vietnamese, Laos,</td></tr>
<tr><td>Austronesian (Malayo-Polynesian)</td><td colspan="2">Malay, Thai, Tagalog, Indonesian</td></tr>
<tr><td>Dravidian</td><td colspan="2">Northern India, Tamil</td></tr>
<tr><td rowspan="7">Indo-European</td><td>Baltic</td><td>Lithuanian, Latvian</td></tr>
<tr><td>Germanic</td><td>Dutch, English, German</td></tr>
<tr><td>Hellenistic</td><td>Greek</td></tr>
<tr><td>Indic</td><td>Sanskrit, Hindi, Urdu, Bengali</td></tr>
<tr><td>Iranian</td><td>Farsi (Persian)</td></tr>
<tr><td>Latin</td><td>French, Italian, Portuguese,<br>Romanian, Spanish</td></tr>
<tr><td>Slavik</td><td>Czech, Russian, Slovak, Polish</td></tr>
<tr><td>Niger-Congo</td><td colspan="2">Mende, Swahili, Bantu, Zulu</td></tr>
<tr><td>Sino-Tibetan</td><td colspan="2">Chinese (Mandarin and Cantonese), Burmese</td></tr>
<tr><td>Uralic</td><td colspan="2">Hungarian, Finnish, Estonian</td></tr>
</table>

**Table 1:** Principle Language Families
*there is some disagreement among linguists about the classification of Japanese and Korean as Altaic; many linguistics believe them to be independent of a language family.

One need not be a linguist to note that languages within the same family share similarities. For example, in the Latin (also called "Romance") languages, direct objects usually precede the subjects and verbs, whereas in Germanic languages, the direct objects follow the subject and verb. In Afro-Asiatic languages (also called "semitic"), text is written from right to left as opposed to Indo-European languages, for example, which write left to right. Because of these similarities and others, it may therefore be easier to learn a second language that is contained in the same family as your first language; a fluent Spanish speaker may learn Italian, for example, much easier than learning Mandarin. It is also noteworthy that many other cultural characteristics, such as religion, are shared within language families; we will discuss the impact of religion and other societal characteristics later in this chapter.

Similarities in languages are often found in **syntax** (the structure of sentences), **morphology** (the structure of words), overall **grammar** (rules governing syntax), and **phonology** (the sounds of words). These concepts tend to reflect the formal characteristics of how a language is written and spoken and are often taken for their **denotative meaning** – their official common usage that you would find in a dictionary. More subjective is the **connotative meaning** – a secondary meaning shared by the users of a word) – that is often evoked within a cultural group. For example, the definition of the word "late" is universally understood as "not being on time." However, while some cultures would consider ten minutes past a deadline to be "late," others would not. In Latin America, for example, arriving an hour or more later than an agreed upon time would not be considered late; in the United States, Germany, and Japan, it would be considered quite rude.

### 3.1.2 IDIOMATIC LANGUAGE

Confounding interpreters' ability to translate languages word-for-word are **idioms**. Idioms are also examples of when a language cannot be literally translated but rather depends on vernacular meaning. An idiom is a culture-specific expression that defies word-for-word translation and does not make sense apart from its cultural context. Consider, for example, the following idioms commonly used in the United States as shown in Table 2.

| Idiom | Common Meaning |
|---|---|
| "Out of the frying pan, into the fire" | Going from one bad situation to another |
| "Put the cart before the horse" | Misplacing priorities |
| "Let the cat out of the bag" | Revealing a secret |
| "Burn the midnight oil" | Working late |
| "Cry 'wolf'" | Making a false statement |
| "See the writing on the wall" | Understanding something yet unknown |

**Table 2:** Common U.S. Idioms

In each case, the idiom alludes to a cultural reference that would generally not be understood by someone of a different culture. For instance, *cry wolf* originates from an Anglo story in which a little girl screams for help against an imaginary wolf until when one appears, then nobody believes her. See *the writing on the wall* relates to a Biblical passage in which mysterious script appeared on a wall, a prophetic message given to a Babylonian king. *Let the cat out of the bag* references the unveiling of a the cat-of-nine-tails (whip), which, when brought out of its storage bag on British navy ships, signaled impending punishment for some sailor. Idioms are an inherent part of all languages; some non-English examples appear in Table 3.

| Language | Expression (in English) | Meaning |
|---|---|---|
| Chinese | Guard a tree stump waiting for rabbits | To sit idly by |
| Spanish | I have an aunt who plays the guitar. | So what? |
| Arabic | Coming back with Hunain's shoes | Being unsuccessful in a task |
| Hungarian | It's eight to me | It doesn't matter to me |
| Japanese | Even monkeys fall off of trees | Everybody makes mistakes |
| Portuguese | Night is a good counselor | Thinking about something to clarify it |
| Swahili | The day you decide to leave home naked is the day you run into your in-laws. | Taking a bad risk |

**Table 3:** Non-English Idioms

### 3.1.3 METAPHORS

A **metaphor** is a linguistic tool that compares two unlike things. Metaphors usually reflect particular values or practices specific to a particular culture. The sports-related metaphors appearing in Table 4, many of which are frequently applied in U.S. business contexts, demonstrate that culture's emphasis on athleticism and competition.

| Metaphor | Referenced Sport(s) | Meaning |
|---|---|---|
| "The ball's in your court" | Volleyball | Action on your part is required |
| "Three strikes and you're out" | Baseball | You've lost your last chance |
| "Last inning" | Baseball | The game is almost over |
| "End run" | Football (American) | Bypassing someone or something |
| "Cry foul" | Numerous | Someone did something against the rules |
| "Drop the ball" | Baseball | Make a mistake or miss an opportunity |
| "Par for the course" | Golf | As expected |
| "Take off the gloves" | Boxing | Get serious about a conflict |
| "Go to the mat" | Wrestling | Defend one's self or another person |
| "Run interference" | Football (American) | Prevent a third party from causing problems |
| "Slam dunk" | Basketball | A fast, easy success |

**Table 4:** U.S. Sports Metaphors

### 3.1.3 LANGUAGES WITHIN LANGUAGES

Even within the parameters of a single language, variations can exist between countries or even subcultures. The differences between British English and American English are a prime example. While for the most part individuals from both cultures (either side of "the pond," as Britons might say) have no difficulty understanding each other, there are subtle differences in usage, as outlined by Nutt (2008):

- British spelling includes the letter "u" in words such as flavour, colour, and honour; American spelling does not.
- The "er" ending of certain words in Britain are reversed to "re," such as theatre, centre.
- American English uses "z" in words such as realize and globalize; British English uses an "s."
- Articles are sometimes excluded in British English; one might say, "He is attending university," whereas an American would say "the" before "university."

Other subtle differences which might cause some confusion are presented in Table 5.

| American | British |
|---|---|
| Elevator | Lift |
| Bathroom/Restroom | Toliet/Loo/Water Closet (W.C.) |
| Cell phone | Mobile phone |
| Gas | Petrol |
| Sidewalk | Pavement (Footpath in Australia) |
| Counterclockwise | Anticlockwise |
| Eraser | Rubber |
| Hood (Car) | Bonnet |
| Takeout (food) | Takeaway |
| Cookie | Biscuit |
| Call me | Ring me up |
| French fries | Chips |

**Table 5:** Differences in British/American English Expressions

Americans traveling in England will also find the ground floor of a building is designated "0," and the second floor is "1," whereas in the United States the floors are "1" and "2," respectively. Other parts of the world use a floor numbering system similar to England's. An example of differences with potentially greater consequence is the variation in financial terms between the two countries, as shown in Table 6:

| United States | British |
|---|---|
| Fiscal Year | Financial Year |
| Stock | Share |
| Common Stock | Ordinary Share |
| Checking Account | Current Account |
| Treasury Bonds | Gilt-edged Stock |
| Mutual Funds | Unit Trusts |
| Annual Shareholder Meeting | Annual General Meeting |

**Table 6:** British/United States Financial Terms

Disparities similarly exist between "new world" and "old world" versions of the other languages as well. Differences between Continental and Canadian French is one example: Parisian (Metropolitan) French, tends to be more "Anglicized," than traditional Canadian French, with the former using terms such as "parking" instead of "stationnement" and "weekend" for "fin de semaine." Similarly, Iberian Spanish and Latin American Spanish differ in pronunciation and usage, such as in the case of the traditional Spanish formal plural *vosotros* which is omitted in the Spanish-speaking countries in most of the Western Hemisphere.

Further, language may be very diverse even within the geographic confines of a country. For instance, there are over 447 "living" languages in India, including Hindu, Sanskrit, and English, the latter of which is the lingua franca in the country's business environment (Ethnologue, 2008). Another example lies within parts of Central America, where pockets of local populations still rely on indigenous languages such as Quiche, Cakchiquel, and Tzutujil, rather than Spanish. Similarly, in rural areas of South America, Spanish and Portuguese are replaced by, or used in conjunction with, native languages such as Tupari, Arawak, Carib, and Gě. Similar examples exist in many parts of the world, such as Northern Asia, the Pacific Islands, and Central and Southern Africa.

Another area with linguistic variety is China, where numerous languages and dialects are spoken, including the primary language, Mandarin, as well as Gan-Hakka, Wu, Yue (Cantonese), Xiang, and Min. Within each of these are many sub-dialects. And while written Chinese is generally understood across these language groups, people in one part of the country may not be able to converse with someone from a different region. Chinese is an example of a *tonal* language which will be discussed in more depth later in this chapter.

In Europe, multi-lingualism is common. The relative closeness of borders has historically necessitated that people speak at least one other language in addition to their native tongue. One example is Belgium, where French and German are interspersed. Also Switzerland, where three official languages are recognized – French, German, and Italian – is quite diverse. English, as the world's primary business language, is spoken widely throughout Europe, especially in large metropolitan centers.

## 3.2 NONVERBAL COMMUNICATION

In addition to contending with the complexity of spoken language, multinational business people must also be mindful of **nonverbal communication** – those messages which are relayed through means other than the words themselves. Even members of a single language community experience conflict and misunderstanding through the day-to-day expressions of a glance, a gesture, or tone of voice. How much greater, then, is the potential for misunderstanding in multicultural environments?

Communication scholars will be quick to cite the findings of well-known anthropologist Albert Mehrabian (1971), whose landmark study revealed that some 93% of all communication occurring between individuals was nonverbal. He also asserted that nonverbal cues served as a means of expressing emotion and regulating conversations. Likewise, researchers Ray Birdwhistle determined that no more than 35% of meaning conveyed between people was transmitted through the face (McDermott, 1980). The nonverbal signals used as a normal part of human interaction are culture-based: what is considered a friendly gesture in the United States may be construed as obscenity somewhere else.

Nonverbal communication includes: kinesics, haptics, oculesics, proxemics, olfactics, paralanguage, artifacts, chronemics, and chromatics.

### 3.2.1 KINESICS

**Kinesics** refers to movement and includes the messages produced by body posture and gestures. Movements involved in greeting rituals, such as bowing, offering a handshake hugging, or kissing – are examples of kinesics. These actions can send important messages, many of which are culture-learned. According to Ekman and Friesen (1969), people use kinesics in the following forms:

- Emblems, or substitutions for words, such as a gesture designed to engage a waiter's attention at a restaurant; for such a purpose, cultures may use a single finger, two fingers, or an entire hand to gesture.
- Illustrators are movements which reinforce verbal communication, such as an up-and-down head nod to indicate agreement; however, in some cultures, an affirmative head movement may signal understanding only.
- Affect Displays reflect emotional reactions, such as raising eyebrows when surprised.
- Regulators are movements designed to control conversations, such as holding up a hand palm forward to silence another person.
- Adaptors are movements which show tension, such as the movements associated with a deep breath, or rubbing one's forehead.

Kinesics is especially important in greeting rituals. Whereas most Anglo cultures limit movement to conversational gestures, people in many Asian cultures bow, while Middle Easterners and some Europeans kiss (see discussion on haptics below). Other cultures are more expressive and animated than others. Further, it is important to remember that gestures – such as the "OK sign in the United States – do not have universal meaning; that particular gesture, for example, is considered offensive in Greece, Brazil, and many other countries.

### 3.2.2 HAPTICS

The study of touch as a form of communication is known as **haptics**. Some cultures are more touch-averse than others, limiting most physical contact to close familial or friendship relationships. In particular, most Asian, Northern European, and United States cultures are uncomfortable with touching and hugging as part of business greetings (Martin and Chaney, 2006). Latin American, Middle Eastern, Mediterranean, and African societies, on the other hand, are less averse to contact and may even include a light kiss or hug as part of even a business greeting, although each of those cultures observes different "rules" for such contact:

In most Latin American countries, two women will kiss each other once on the cheek to greet, men will kiss women, and men may briefly hug each other or grab each other's arms and hold for a greeting.

In Western European countries such as France and Italy, women routinely may kiss each other twice – once on each cheek – in greeting; men will similarly kiss women, and sometimes other men as well.

It is not uncommon for men in the Middle East to kiss each other on each cheek as a sign of friendship or solidarity. Hand contact, however, is generally limited to the right hand only, as the left hand is considered unclean in many Islamic contexts.

Friends of the same sex may walk hand-in-hand or with locked arms in such countries as Thailand or Vietnam, an action elsewhere that would be construed as inappropriate, taboo, or sexually harassing.

### 3.2.3 OCULESICS

Eye movement, or **oculesics**, is form of nonverbal communication that can be voluntary or involuntary. There is an adage, "The eyes are the windows to the soul," which suggests that eye behavior is a powerful communicator of emotions and intentions. Indeed, much research has been conducted in Western communities regarding the psychology of eye behavior, such as the dilation of pupils during attempts to deceive, or avoidance of direct eye contact in the face of unpleasant or tense situations. At a cultural level, however, much eye contact behavior is learned. In the United States, direct eye-to-eye contact is encouraged and perceived as a sign of honesty; children in that culture are often told by their parents to teachers to "Look at me when I am talking to you." Thus, the absence of eye contact in that culture is considered rude or suspicious.

The opposite is generally true in mainstream Asian cultures, where too much eye contact is regarded as disrespectful, especially if shown by a subordinate to someone of higher rank or status. It may be more acceptable, for example, to cast one's gaze at the floor while being reprimanded, instead of meeting the eye contact face-to-face. Yet in many Middle Eastern, Western European, and Latin American contexts, prolonged eye contact is quite common – much to the discomfort of North Americans (Morrison and Conaway, 2012). It is important for the international business professional to be aware of, and adapt to, these unwritten "rules" as they may impact the success of your business relationships.

### 3.2.4 PROXEMICS

**Proxemics** concerns the use of space as a means of communicating. Next to haptics, it probably presents the greatest discomfort among people of different cultural backgrounds. Most high-context societies, such as Middle East and Latin America, are accustomed to extended contact in short-distance settings; Anglos – especially those in the United States – are much more acclimated to larger space in their personal and physical environments.

There are two conceptualizations of space: personal space and territory. **Personal space** refers to the area we carry around with us and our own preferences for how close we allow the access of others. In the United States, this "bubble" is quite large, extending sometimes to as much as a foot, unless the other person is a very close acquaintance or family member. Many other societies, such as Latin America, allows others – even relative strangers – access to this area on much shorter notice. The implications are two-fold: Someone with a "close" space orientation will be offended if the "distant" space orientation pulls away, while the closer-oriented person will feel uncomfortable, or even threatened, by an "invasion" of the other person; each party must learn to anticipate, and not react to, different spatial orientations.

The second type of space, **Territory**, refers to the physical environment that is claimed by a person, such as a home, an office, an automobile, etc. Many times in job interviews, the applicant finds him/herself in the employer's space, surrounded by furniture, pictures, award plaques, and other characteristics that reflect "ownership" of the other person, which can cause some intimidation and stress. This territory is not only a reflection of a person's power, but of their personality as well. Objects found in one's territory can also be an inducement of discussion about common interests – or create tension if the other person finds those items objectionable.

### 3.2.5 OLFACTICS

**Olfactics** refers to the sense of smell, which many people may not automatically associate with communication. Yet odors trigger mental and emotional responses as well as physical ones for members of all cultures – those responses just differ from culture to culture. Some smells are reasonably universal – such as the smell of freshly-made coffee that would appeal to people of almost every major culture – others are not. For example, North Americans tend to use perfumes and colognes very sparingly, whereas Western Europeans and Middle Easterners are much more liberal in their applications. Various culture-specific foods and spices may appeal primarily to people of that cultural group, while others might find certain scents nauseating.

An even more extreme example is natural body odor. Many western societies – The United States, Great Britain, and much of Latin America, for example – take great effort in eliminating or masking what they perceive to be unpleasant body odors. It is estimated that in 2005, Americans spent $1.9 billion on deodorant alone (Packaged Facts, 2006). Some cultures would find this to be an unnatural obsession with the body's natural odors, such as many Middle Eastern societies, which tends not to find such odor offensive; in fact, the ability to smell a friend's breath is considered a positive experience (Martin and Chaney, 2006). Regardless of your own culture's perspectives on odor, it serves you well not to criticize a viewpoint different from your own – and to try not to react negatively to the other person.

### 3.2.6 PARALANGUAGE

Another term for **Paralanguage** is "vocalics," which refers to the characteristics of the voice: tone, pitch, speech rate, and volume. In most languages, changes or inflection of the voice are used to communicate emotion, emphasis, or to denote the type of sentence (a question, for instance, usually has a rise in tone at the end of the sentence. Some cultures and their respective languages tend to be softer, such as in Japan, or louder, like the Middle East (Morrison and Conaway, 2012).

Some languages are considered **tonal**, which means that the pitch is used to differentiate the various grammatical forms of nouns or verbs (Maddieson, 2013). Many Sino-Tibetian, Austro-Asiatic, and Niger-Congo languages are tonal, including Mandarin, Vietnamese, and Thai. Generally, native speakers of non-tonal languages have great difficulty discerning and reproducing tonal sounds when they first attempt to learn those languages. Tools such as the International Phonetic Alphabet (IPA) may be useful in learning the uniqueness of sounds in tonal, as well as non-tonal, languages.

The rate at which a language is normally spoken by its first-language users is another aspect of paralanguage that bears attention, especially for individuals learning to listen and speak a language that characteristically is spoken more rapidly than the person's first language. Languages can be classified as dense (fewer syllables spoken per second) or less dense (more syllables per second). English and Mandarin have relatively high density ratios, of 6.19 and 5.18 syllables per second, respectively; Spanish and Japanese are low-dense languages with ratios of 7.82 and 7.84 syllables per second (Kluger, 2011). Thus, speakers of highly dense languages may have trouble following the speech of low-dense languages; the lower-dense language speakers may become impatient with their slower-speaking counterparts.

### 3.2.7 ARTIFACTS

**Artifacts** are objects that serve as symbols, signs, or other representations of culture. Just as relics discovered on archaeological digs reveal aspects of ancient civilizations, personal artifacts such as clothing, jewelry, or personal possessions often reflect elements of an individual's culture or his/her personal attributes. A common example of an artifact is a wedding band, representing commitment to another person; in the U.S., wedding rings are worn on the fourth finger of the left hand; elsewhere, such as Eastern Europe, they may be routinely worn on the right fourth finger.

Artifacts may also be used to express status. Wearing expensive (or designer-name) clothing, driving an expensive car, living in a particular neighborhood, or staying in five-star hotels are signs to denote a person's business success or wealth. Eating trendy foods, attending popular vacation spots, or even participating in certain athletic activities may also speak to a person's background. Personal adornments – jewelry, tattoos, piercings, or other types of body art may also be a symbol – either intentional or unintentional – about a person's beliefs or personality. International travelers should consider carefully what image they want to project, as they prepare to enter a culture which has very different interpretations of visual symbolism.

### 3.2.8 CHRONEMICS

What one might not automatically think of as a form of communication**, chronemics** is a type of nonverbal communication that deals with the use of time. As presented in Chapter Two, cultures tend toward being **polychronic** (more flexible with time) or **monochronic** (tighter adherence to punctuality and deadlines). Anglo cultures (such as the United States and Great Britain) are monochronic; Latin America, The Middle East, and other parts of the world tend to be polychronic. For example, the term, "Latin Time," or manaña, describes the relatively laid-back treatment of time in Latin America. Thus, it is common for an appointment set for 10:00 might not actually begin until 10:15, 10:30, or even later. It is wise, however, for international associates to be punctual – at least until a familiar relationship has been established.

Time may also be thought of in terms of relationship-building. In most Asian cultures, for instance, establishing trust and confidence in a business partner requires a considerable amount of time and patience; forcing business too soon, without a sufficient relationship intact, can be a deal-breaker. Getting to know an associate in Argentina may involve meeting and spending time with extended family and friends in recreational venues before serious business is even discussed. Middle Easterners take seriously their hospitality role, which involves a considerable amount of entertaining before discussing business. In contrast to these styles, U.S. business people pride themselves on efficiency and punctuality – getting down to business with as little socialization as politely possible. This rushed approach is cause of mistrust among more relationship-oriented cultures.

### 3.2.9 CHROMATICS

**Chromatics** pertains to the symbolism represented by color. Colors have culture-based meanings on many different levels. An example is politics. In the United States, for example, red and blue can be used to reflect the two primary political parties of Republican and Democratic. In Ireland, orange and green often represent Protestantism and Catholicism, respectively. Color can even be used to denote gender: babies in the United States are often dressed in blue if they are boys, pink if they are girls; yet the opposite is true in Belgium. Holidays, such as Christmas and Kwanza, also typically are associated with certain colors. In Thailand, each day of the week is associated with its own particular color: Yellow for Monday, Pink for Tuesday, Green for Wednesday, Orange for Thursday, Blue for Friday, Purple for Saturday, and Red for Sunday. Other color-related associations are listed in Table 7.

| Color | | |
|---|---|---|
| Red | Love, danger, romance, power (U.S.) | Prosperity, luck, marriage (China)<br>Marriage purity (India) |
| White | Purity, marriage (U.S.) | Death, mourning (China, India) |
| Green | Money, Environment (U.S.)<br>Catholicism (Ireland) | Strength, Islam (Saudi Arabia) |
| Yellow | Masculinity, sacredness (China)<br>Cowardice (U.S.) | Courage, hope (Japan)<br>Egypt (mourning) |
| Orange | Color of Royal Family (Netherlands)<br>Protestants (Ireland) | Autumn, Halloween (U.S.) |
| Blue | Calm, sadness, male babies (U.S.) | Immortality (Iran) |
| Pink | Femininity, trust (Korea) | Male babies (Belgium) |
| Black | Death (U.S.) | Marriage (Japan) |
| Purple | Royalty, Opulence (Europe) | Mourning (Brazil)<br>Catholicism (Latin America) |

**Table 7:** Cultural Meanings of Color

Colors can also represent holidays, such as red and green for Christmas, orange and black for Halloween, light pastels for Easter, or red and pink for Valentine's Day. The African holiday of Kwanza is often represented by red, black, and green, while blue and white are typically used to represent the Jewish holiday of Chanukah. More universally, the Rainbow Flag, a hallmark of the Gay, Lesbian, Bi-Sexual, and Transsexual populations, is recognized in almost all countries across the world as a symbol of equality and respect.

Culture is also reflected in countries' national flags. For example, the red, white, and blue of flags in the United States, France, The Caribbean, and numerous countries in Central and South America are related to those countries' independence or revolution, with the red often representing blood shed in gaining freedom. Red, white, green, and black are often found in the flags of Pan-Arabic countries (Green is symbolic of Islam), and yellow, gold, and green are primary colors in the flags of many African countries.

A culture's use of language and nonverbal communication is strongly related to many of its societal observances which impact the routine practice of business. The next section discusses some of these practices.

## 3.3 SOCIETAL PRACTICES

Business is more than the exchange of resources between two companies. Recognizing, accepting, and even participating in the social processes by which those commodities are exchanged is essential for successful international business. These transactions always require cultural understanding that you may not have considered before. The remainder of this chapter focuses on four aspects of cultural life that potentially impact your interaction with other cultures: religious practices, norms for eating, greeting rituals, and gift-giving.

### 3.1.3 RELIGIOUS PRACTICES

There are literally thousands of religions in the world, many of which are subsets or denominations of larger ones. The five major world religions are: Christianity, Islam, Judaism, Hinduism, and Buddhism; the first three of these are called Abramic Faiths because of their common origins.

**Christianity**, in its original form, began as Roman Catholicism and later split into Orthodoxy and Protestantism. The religion is based on the Bible for its theology and codes of moral conduct, although there is considerable disagreement among Christian sects or denominations about the interpretation of these tenants. Central themes of most Christian theology is the concept of the Trinity – Father, Son, and Holy Spirit – the Ten Commandments, the celebration of ordinances such as baptism and communion, and the celebration of religious holidays of Christmas (virgin birth of Christ) and Easter (the resurrection of Christ). Additionally, many predominantly Catholic countries recognize other holidays and celebrations. An example is Mexico, as illustrated by numerous celebrations, many of which are shown in Table 8; on many of these occasions, business and government offices may not be open.

| | | |
|---|---|---|
| January 1 | Nuevo año | New Year's day |
| January 6 | Epiphany Día del las Reyes Magos | The visit of the three wise men to the birthplace of Christ |
| 1st Monday in Feb. | Día de la constitucion | Constitution Day |
| Week before Lent | Carnaval | Celebration leading up to Lent |
| March 16 | Birthday of Benito Juarez | Celebration of national hero |
| Week prior to Easter | La Semana Santa "Holy Week" | Events leading up to the crucifixion of Christ |
| March/April | Pascua | Celebration of Christ's resurrection |
| May 1 | Labor Day | Honors working people |
| Aug. 15 | Feast of the Assumption | Celebration of Mary's assumption into heaven |
| Sept 16 | Independence Day | Celebrates Mexican Independence from Spain |
| Oct. 12 | Día de la raza | Celebration of the Hispanic race |
| Nov. 1 | Day of the Dead (Día de los muertos) | Celebration of departed saints |
| 3rd Monday Nov. | Mexican Revolution Day | Celebration of Mexico's Revolution |
| December 8 | Immaculate Conception | Celebration of the conception of the Virgin Mary |
| Deceember 12 | Día de Nuestra de Guadalupe | Honor of Mary, the Patron saint of Mexico |
| Dec 16–25 | Las Posadas | Commemorates the journey of Mary and Joseph to Bethlehem |
| Dec 25 | Navidad | Christmas (Birth of Christ). |

**Table 8:** Mexican Holidays

In general, Christianity observes no particular dietary laws, although some Catholics still refrain from eating meat on Friday or observe some type of fast during Lent (40 days leading up to Easter). Consuming alcohol is frowned upon my many Protestant denominations, and some groups such as the Latter Day Saints (Mormons) may avoid food or drinks containing caffeine. Sundays are generally regarded as the day of worship, although many Christians will work or engage in entertainment venues on that day.

**Judaism** is the principle religion observed by people of Hebrew decent and is also based on the Torah (first five books of the Bible). Its largest concentrations of adherents are located in Israel and the Northeastern United States. Four types of Judaism: Orthodox, Conservative, Reform, and Reconstructionist observe differing levels of adherence to historical laws written in the Torah – the book of laws – which is interpreted variously by the rabbinical community. The Sabbath, Shabbat, is recognized as beginning at sunset on Friday and lasts through sunset on Saturday. Many Jews celebrate several religious or cultural holidays, including Rosh Hashanah (Jewish New Year), Yom Kippur (Atonement), and Chanukah (Festival of Lights). Except among highly orthodox sects, working on these holidays is not considered taboo, although many Jewish men may wear yarmulkes on sacred occasions; orthodox groups such as the Hassidic Jews may wear long, traditional coats and not cut their beards, even as a regular practice.

Traditional Judaism recognizes kashrut, or kosher, dietary laws, which are still observed by many Orthodox and Conservative Jews. Kashrut refers to the preparation of "clean" meats for human consumption. Pork, certain fish, and certain fowl are not permissible foods, nor is it permitted to consume meat and dairy together in the same meal. The term "kosher" denotes that a food item meets preparation standards prescribed by religious law; "pareve" indicates that a particular food is neither meat nor dairy.

**Islam** is the fastest growing religion in the world. Its beliefs are based on the teachings of the Prophet Mohammed, the Hadith, and the Koran. Among Islamic codes of behavior include five daily prayers (salah): *fajr* at dawn, *zuhr* at noon, *asr* in mid afternoon, *maghrib* at sunset, and *isha* in the evening. Faithful adherents will break from their work at these times to pray, usually prostrating themselves on the floor, often on a rug, for that purpose. Fasting is also practiced during the annual observance of Ramadan, with no food or drink being consumed from sunrise to sunset on each day.

Islam is characterized by certain codes of behavior, including the abstinence of alcohol and pork; limited physical conduct between unrelated men and women; and a workweek revolving around Friday as the holy day of the week. In largely Islamic countries, the typical workweek is Sunday through Thursday, although there is variation according to the degree of secularization in each country. Muslim women may wear the hijab, a covering for the face, when in public settings. The two largest Muslim groups are the Sunni and Shiites, which share most of the same religious teachings but differ along political lines. God is referred to as Allah and Mohammed is seen as his prophet, references to whom may include PHUH, or "Peace Be Upon Him."

**Buddhism** is also practiced worldwide but is particularly predominant in China and South Asia. Buddhists consider their beliefs more a philosophy than an actual religion, since a Deity is not worshipped per se, as it is in the case of the Abramic Faiths. Among the most common beliefs among Buddhists is the concept of human suffering (duakkha), cause-and-effect (samudaya), the end of suffering (nirhodha) and an escape from the path of suffering (magga). The eight-fold path, which includes admonitions to behave in a way that causes no harm to others, serves as a code of conduct for most Buhhists; perceiving, speaking, acting, and meditating accordingly is a common way of life.

Much of Buddhism is about the path to enlightenment, or nirvana, which is celebrated on Versakha Puja (Buddhism Day in Myanmar, Cambodia, India, Laos, Thailand, and Sri Lanka) or Nirvana Day in China, Japan, Korea, and Vietnam. These, as well as many provincial holidays and festivities, may be observed but are not often expected to interfere with the activities of the professional workplace. Confucianism and Shintoism share many of the same beliefs as Buddhism.

**Hinduism** is purported to be the world's oldest religion. Although it is predominant in the South Asian countries such as India, Bengal, Sri Lanka, and Nepal, its adherents are widely found across the world. Perhaps no other philosophy is as diverse in its beliefs as Hinduism; in addition to the common belief structure – that all life is sacred, karma (action) affects the cycle of life, and that all souls are reincarnated or reborn until moshka (liberation, salvation, enlightenment) is reached – different regions observe a wide variety of beliefs, celebrations, and religious practices. Among the most popular sects of Hinduism are Varshnaism, Saivanism, and Shaktism.

Hindus observe more celebrations than perhaps any other religion. These festivals, which often recognize historical events in the lives of deities, may last several days. Holi, Festival of Colors in early March; Diwali (Festival of Lights at the New Year, 5 days), and Dussehra are the most universally observed. Because the cow is considered a sacred animal in Hindu mythology, most devout Hindus will not eat beef or beef by-products and should not be offered such at a meal; the Dharmaśāstras (religious laws found in the ancient scriptures of the Vedas), proscribe against drinking of cow's milk. Many Hindus may also practice some form of vegetarianism; it is therefore wise to offer a variety of food choices. *Namaste* is a common greeting word used by Hindus.

There are many other prominent religions which compare and contrast to the five mentioned above. Confucianism, Daoism, and Shintoism are observed across much of Asia and share many of the tenants of Buddhism. Bah'ai (adherents of which observe fasts in March, April, and May), Sikhism, and various indigenous religions are found throughout the world, and there are many permutations of the major faiths. For example, in parts of Central America and the Caribbean, traditional Catholicism has combined with indigenous rituals and celebrations, including the adoration of "local" saints such as San Simón, a figure who is venerated across the highlands of Guatemala. Many such examples exist throughout the world.

### 3.2.3 EATING

It is obvious that religion, as well as other cultural factors, plays a role in the daily activities of people's lives, including their eating habits. It is also true that much business is negotiated over food and drink, which raises the issue of dining etiquette. What, and how you eat as an international business host or guest may play a significant role in developing your business relationships and ultimately the success of your negotiations.

**Exotic Foods**. Each culture has its traditional cuisine, much of which may be considered exotic either locally or internationally. For example, escargot (snails) are generally regarded as a delicacy in France, as is pate (poultry liver). When in Korea, you might encounter kimchi, (fermented cabbage), or when in Scotland, Haggis (sheep stomach stew). Cuy (roasted guinea pig) is commonplace in Ecuador and Peru, as is Ceviche (raw meat) and Menudo (stew made with cow's stomach) in Mexico. Blood cake in Taiwan is made of boiled congealed pig blood. Different parts of the world consider foods such as octopus, eel, snakes, insects, or even spiders to be delicacies. In the Southern part of the United States, you may encounter organ meats, alligator stew, or chitlins (pig intestines) as part of the local flavor. And since in the etiquette of most cultures it is considered rude to refuse any food that may be offered in hospitality, it is advisable to accept it, unless there is a religious or medical reason, in which case a polite explanation is generally acceptable.

While the substance of foods themselves is often a hindrance, there is much more to consider when sitting down at the table with your international business partners; the manner in which people eat, as well as the substance of they eat, is yet another extension of culture. Polite dining practices should be observed at all times, even when enjoying a brief snack or coffee break; cultures take these eating habits very seriously.

**Eating Styles**. Except for the United States and Canada, most other Western cultures eat continental style (using the left hand to hold the fork and the right hand to hold the left – never switching) compared to the North American zig zag method, which involves switching hands to cut items on a plate. Contrast this to the habit in some Middle Eastern and Southwest Asian cultures in which it is acceptable to use one's hands to pick up food, although the left hand is never used as it is considered unclean. In some cultures, leaving food on plate is an indication that you are full; in others, cleaning the plate is considered a sign that you want more. In many British commonwealths, it is customary for a tea break in the late afternoon (coffee may also be offered), usually served with biscuits (cookies) or some other type of light snack.

Alcohol, particularly locally produced, may be served with the afternoon and evening meals. Many times, a national drink, such as the Cuba Libre, will be proudly offered. Wine-producing countries such as France, Germany, Italy, South Africa, Australia, Argentina, and Chile are particularly proud of their wines and will insist that you sample – and hopefully complement them on – the wines.

**Meal Times**. Although the concept of three mails a daily is fairly universal, the times and length of those meals vary greatly from culture to culture. Breakfast for most working individuals in the United States tends to occur early in the morning, as many people are at work by 8:00 a.m. or 9:00 a.m. It is therefore not uncommon for restaurants in the U.S. to open by 6:00 or 6:30 every morning to welcome their patrons. Breakfast is usually consumed quickly, or “on-the-go” and may include cereals, eggs and pork, fried potatoes, bread, juice, and coffee. The mid-day meal, lunch, is usually eaten between 12:00 p.m. and 1:00 p.m. and is eaten quickly so that people can return to work; even working lunches seldom last more than an hour. The evening meal (supper or dinner) is usually the largest meal of the day and is eaten around 6:00 p.m.

By contrast, Europeans (with the exception of the English Isles) eat a lighter breakfast fare, usually a little bit later in the morning, consisting of pastries, cheeses, fruit, and small open sandwiches, served with coffee and juice. This is often referred to as a *continental breakfast*. In Great Britain, breakfast is a much larger affair, with a “full English breakfast” consisting of eggs, bacon or sausage, potatoes, baked beans, pastries, puddings, juice and coffee. Lunch, which may be considerably lighter, is eaten around 1:00, and a multi-course evening meal typically served around 6:00. Dinner in France, Italy, and Spain is considered “late” by comparison, often not starting until 8:00 or even later. The meals, especially the evening one, focus on conversation and leisure and therefore may contain five or more courses, with conversation time in between. It is not unusual for a dinner in Western Europe to last 2–4 hours.

Latin America likewise sees mealtime as a social event, although the largest meal of the day is lunch (almuerzo) which is often observed around 2:00 p.m. and may last two hours. Like Europe, wine may be served with this meal. In Central America and the Caribbean, rice and beans are a staple food (and may be eaten for breakfast), along with fish, fresh fruits and vegetables, stews, and tortillas. Further South, Argentina is noted for its outstanding beef, Brazil for its black bean stew, and Chile for its wine. People of each country in Latin America are very proud of their food and will be charmed if you are eager to sample it.

Asia is more diverse than most other parts of the world in its cuisine, corresponding to the larger and more diverse geography. Seafood and chicken are popular among almost every part of Asia, since pork and beef are not generally consumed in Muslim and Hindu populated areas, respectively. Eastern Asia is more apt to have a smaller breakfast, with lunch – if entertaining guests – and dinner much larger affairs. Evening meals are often served "family style," with large dishes placed on the table, from which each person is served. Rice and soups are commonplace, even at breakfast, and may be combined with Western-style elements of eggs, pastries, or other meats. Food in India, while historically influenced by trade from Europe, is characterized by spices such as curry, turmeric, and chili peppers, and has become popular across the world.

While each country has its own dress "code" for a business meal, it is reasonable to assume that an international traveler should always err on the side of formality; a tie or jacket can be removed if deemed to be too formal, but it is more difficult to find one's self dressed too casually with no access to a change of clothes. Politeness (such as waiting until everybody at your table has been served before eating) and a willingness to try new experiences are prerequisites for a good business encounter, much of which occurs at the table.

### 3.3.3 GREETING RITUALS

Business professionals from different countries greet each other in different ways. While the handshake is generally accepted most places, its duration varies: Middle Eastern and Latin Americans tend to shake longer than North Americans, Asians, or Europeans; the former may also engage in greater use of touch by gripping the forearm or shoulder of a male associate. European and Latin American women may kiss each other on the cheek; in some European and Middle Eastern cultures, men will greet each other with a kiss. In Asia, a short bow is generally offered immediately before a brief handshake. In Arabic cultures, contact using the left hand, which is considered unclean, should be avoided.

Business cards should be printed on both sides: one side in your language, the other translated into your counterpart's language (even if you do not speak it). Thus, if you do business in more than one language environment, you might have several business cards. It is extremely important in Eastern Asian contexts to treat business cards with great respect; they are generally offered and accepted with both hands, examined closely by the recipient, and carefully stowed away in a card case, or shirt or coat (not pant) pocket. If attending a meeting in Asia, it is protocol for you to carefully arrange each collected business card on the table in front of you during the meeting, which is a sign of respect.

Except for Anglo cultures, the process of getting to know potential business associates is lengthy. Thus, the U.S. penchant for "Business first," is not generally effective in most other places. In other places, the "greeting period" may last several days, several weeks, or perhaps even months. Latin Americans, for example, prefer to do business with people they know well, so spending leisure time filled with conversation, sports or cultural events, visits with the extended family, etc., may constitute the first significant portion of your business relationship. In the Middle East, however, contact with female members of a business partner's family should be limited only to those times when a male member of the family is present, and inquiries into the well-being of the family should be generic, with no specific mention of a female family member.

Visits with your international associates may involve the consumption of coffee (often espresso) or tea (Most Asians, unlike the English, do not put sugar or milk in their tea), or alcoholic beverages, particularly those originating in their countries. Tobacco may also be offered, even in the form of a hookah (water pipe). Unless you have a medical reason for refusing any of these things, it is offensive to refuse them. You should be certain that you politely decline the offer and, if possible, eagerly accept another accommodation if offered. Further, do not be surprised if the conversation jumps from one topic to the next, as a circular conversational pattern is common, especially among high-context cultures.

## 3.4 GIFT GIVING

It is customary in almost every culture to present a gift to a host or potential business partner. Ideally, the gift should be something from your home country that the other person wouldn't have access to, such as souvenir. A gift for the entire family – music, books, candy, or wine – is usually acceptable. However, care should be taken in the Middle East not to offer any product containing forbidden substances, such as pork or alcohol, nor should a gift be given for a female member of the family. In Eastern Asia, knives should not be given as gifts (they are a symbol of separation), nor should clocks (they are reminders that time is finite). Gifts in Asia are usually opened after the giver has departed; in Europe and the United States, they are typically opened immediately upon receipt.

There are many other gift taboos, such as the color of flowers – see preceding section on colors – political or religious material, or, in Asia, anything in a set of 4 (because its name sounds like death in many Asian languages, the number is considered to be unlucky). People from France should generally not be given non-French produced wine, since France is noted for its winemaking heritage. Likewise, conversational topics should focus on art, music, sports, travel, or other non-sensitive topics; showing that you have done some research on their country is always a strategic idea, although additional questions which express your interest in local culture is usually appreciated as well. The fine art of casual (non-business related) conversation is greatly employed in places such as Australia, England, Canada, France, and South America; not as much in Finland, Germany, Sweden, and Japan (Morrison and Conaway, 2012) at least until a more informal relationship has been established. Business people in the United States are less likely to expect gifts from international business associates but should be prepared to offer them, especially when they themselves are presented with a gift. In general, avoid gifts which might trigger a discussion on politics or religion.

Adapting to the communication behaviors of other cultures is not an easy task. Without preparation – or perhaps even with preparation – you may violate the norms practiced by your international counterparts. For most minor snafus, your partners will be understanding and forgiving. Repeated effort to show a regard for their customs – including efforts to speak the local lingo – will go a far way in building trusting, long-lasting business relationships.

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# 4 THE GLOBAL ORGANIZATION

In previous chapters, we have examined the cultural and communication variables that impact the international business environment. For the most part, these complexities have been addressed in the context of person-to-person scenarios. Now we turn to the complexities that arise when a group, or an entire organization, is involved in the international process: How does a collection of people, who have very different cultural backgrounds, unite to accomplish the objectives of a single organization?

Obviously, the organization itself must create an atmosphere which fosters mutual understanding and cooperation among all its members – domestic and international alike. This environment is represented by a company's **organizational culture**, which is the "shared values and beliefs that enable members to understand their roles and the norms of the organization" (Luthans, and Doh, 2012, p. 154). Within this culture are, as Omahe (2006) asserts, values which "hold together the members of an omeoba-like, network-based, global organization" (p. 14). These values, influenced by the cultural make-up of its leadership and members, set the stage for the norms of activity that exist within the company. Trompenaars (1994) identified four general types of organizational cultures, based on a 2×2 grid, with people-orientation (person vs. task) and structure (hierarchical vs. egalitarian) as the variables:

1. *Incubator cultures* are people-oriented and egalitarian; they foster creativity, innovation, and the development of the individual. Scandinavian countries tend to be incubators.
2. *Family cultures* are people-oriented and hierarchical; they emphasize familial-type relationships, loyalty, and deference to authority. Japan, Spain, and India tend to be family cultures.
3. *Guarded Missile cultures* are task-oriented and egalitarian; they emphasize a team approach to work and performance. Anglo cultures such as the United States and the United Kingdom are guarded missiles.
4. *Eiffel Tower cultures* are task-oriented and hierarchical. In these organizations, burearcracy and structure, and roles are important. Germany and Austria are examples.

While an entire chapter could easily be devoted to organizational culture, this chapter focuses on those aspects related directly to the activities of international business – particularly the functional areas of management shape and reflect the organization's approach to the global environment. After reading this chapter, you should be able to:

1. Explain how a company's strategic objectives contribute to an organization's international business focus;
2. Explain how the structure of a company influences its international business efforts;

3. Describe the role of various leadership functions and their impact to a company's international business operations; and
4. Explain the communication behaviors which characterize international business organizations and their stakeholders/customers.

## 4.1 STRATEGY

The successful operations of any contemporary organization. multinational or domestic, are governed by **strategic planning**, which is "the process of determining the major goals of the organization and the policies and strategies for obtaining and using resources to achieve those goals" (Nickels, McHugh, & McHugh, 2013, p. 185). More specifically, a company's **global strategies** are those "plans developed by an organization to target growth on a global level for sales of products or services" (Business Dictionary, n.d.). A corporate orientation towards a global audience is evident through many of the company's activities and communication, such as the content and layout of its website or the availability of multiple language versions online (Conaway and Wardrope, 2015). A company's commitment to international business may also be directly or indirectly presented in its mission statement, value statement, vision statement, message from the chief executive office, or other information usually found under web links such as "About Us" or "Who We Are." For example,

- Levi Strauss & Co. touts its commitment to "supporting and educating communities across the global by building stronger relationships through funding, volunteering, and education for a better, healthier, and more sustainable world" (Levi Strauss & Co, n.d.). The company also lists its membership in global business organizations such as the American Chambers of Commerce in China, Hong Kong, and the European Union, as well as the European Branded Clothing Alliance, the U.S. Council for International Business, and the U.S.-ASEAN Council.
- HSBC's values, listed on the company's website, are "…valuing different perspectives… building connections, being aware of external issues, collaborating across boundaries" (HSBC, n.d.).
- Honda's philosophy reads, "Maintaining a global viewpoint, we are dedicated to supplying products of the highest quality, yet at a reasonable price for worldwide customer satisfaction" (Honda, n.d.)

Companies may also emphasize their commitment to their home countries or the other countries they serve, such as Brazilian oil producer Petrobras, which strives

- "To act in the oil and gas industry in an ethical, safe, and profitable way, with social and environmental responsibility, providing products suited to the needs of its clients and contributing to the development of Brazil and the countries where it operates" (Petrobras, n.d.),

  or U.S.-based insurance provider Assurant, whose objective is

- "To be the premier provider of specialized insurance in North America and select worldwide markets" (Assurant, n.d.).

Such messages also clearly serve a marketing function directed to customers, suppliers, and investors. Many global companies also provide versions of the financial documents – annual reports, quarterly balance sheets, etc. – in multiple languages to accommodate foreign direct investment.

### 4.1.2 STAGES OF INTERNATIONALIZATION

As companies expand beyond their **home** countries (the country of their origins) into foreign markets (**host** countries), changes are apt to occur within the organizations as they endeavor to adapt to the different business cultures. This process is often thought of as a company's internationalization process, an incremental path to adapting resources, objectives, and operating procedures accordingly. Internationalization is facilitated by the forces of government and politics, technology, competition, and the market (Phatak, Bhagat, & Kashlak, 2009).

An entire body of academic literature focuses on the internationalization process, roughly following the path of an organization as it evolves from domestic to transnational. As Gankema, Snuif, and Zwart (2000) summarize, such research has tended to fall into two lines of thought: The "U" Model, as conceived by Johanson & Widerersheim-Paul (1975) and Johanson & Vahlne (1977); and the "I" Model as reported by researchers such as Cavusgil (1984). According to Gankema et al, the former is characterized by a company's gradual increase of knowledge and commitment about international markets; the latter is based on the company's level of exporting as a function of its overall business activity. Another conceptualization of stage theory is simply provided by Hines (2007), who identifies four stages beyond the purely domestic one:

*International companies* are essentially importers and exporters; *multinational companies* participate in foreign direct investment and focus on tailoring their products to local preferences; *global companies* extend to many countries but "homogenize" their products without high regard for local preferences; and *transnational companies* strive to satisfy efficiency and local preferences, with authority to different national headquarters. Advancement through the stages of internationalization lead to an evolution of staffing approaches, as discussed below.

### 4.1.3 STAFFING OF MULTINATIONAL COMPANIES

An organization's hiring practices both reflect a company's international orientation as well as perpetuate it, yet those practices are strongly affected by a variety of factors, such as political, legal, economic, socio-cultural, and firm-specific constraints (Nanda and Kumar, 2012). **Expatriates** (non-host-country citizen employees) can be home-country nationals or third-country nationals. Companies rely on a certain number of expatriates for a variety of reasons, including the need to find qualified candidates, their need to broaden their international experiences, and their ability to conform their operations to the headquarters' standards (Daniels, Radebaugh, & Sullivan, 2004). Expatriates often experience a great deal of "culture shock" when integrating into a new country and job, and may also affect the dynamics of local company operations. Therefore, companies must decide strategically how to staff their various outlets and also how to help acclimate both foreign and domestic employees to a culturally diverse work environment.

Deresky (2008) describes four such staffing approaches:

**Ethnocentric** staffing reflects strong leadership of the parent country, which, in turn, perpetuates the values and practices common to that country; **Polycentric staffing** employs individuals from the local (home) country who understand, and are able to adapt to, the nuances of the local culture in the operation of the business. **Region centric** staffing pulls from cultural groups that are similar to the host country's culture – usually neighboring countries – to create a larger pool of managers with cultural expertise beyond the host country itself. **Global staffing** recruits from all over the world without respect to the potential cultural characteristics of the leaders; this approach is utilized largely by larger, well-established companies whose products are less dependent on local appeal.

Expatriates fill a crucial role both in the expansion and the maintenance of global operations. These expatriates' duties are characterized by a range in the frequency and duration of their trips, as explained by Nanda and Kumar (2012):

*Short-term expatriates* spend more time in a host country than a business trip, but generally less than a year;

*Frequent flyers* have no static physical location but make the rounds frequently.

*Commuters and rotators* travel on a weekly, or bi-weekly basis; and

*Global virtual teams* coordinate functions from the home base, with no, or infrequent travel abroad.

The cumulative dynamic of staffing must also adhere with the structural attributes of an international company, as discussed below.

## 4.2 STRUCTURE

The "structure" of an organization determines its overall hierarchy, its lines of authority, the job functions of organizational members, the communication and reporting habits required of those members, and relationships between departments.

There are several constructs inherent to how an organization's structure works. One of these concepts is **Centralization**, which is the extent to which an organization's activities are controlled or coordinated through a single source of authority. Highly centralized organizations are hierarchical and activities are dictated and scrutinized by high levels of authority; decentralized organizations are characterized by a greater dispersal of freedom in decision making across different levels of the hierarchy.

Another organizational concept is **Formalization**, which is the extent to which organizational lines within the hierarchy are followed. More formalized organizations are more bureaucratic than less formalized ones, which tend not to observe formalized rules as rigidly.

**Specialization** refers to the extent to which a unit (or individuals) may be responsible for a specific function. Highly specialized units or divisions have a narrow span of control; their activities are limited to a particular task or set of tasks closely related and occur most commonly in larger, more globalized companies. Less specialized departments have a broad range of activities, and are more than likely found in small companies with limited resources or a limited range of products/services.

An organization's structure, depicted in the organizational chart of a domestic company in Table 1, is defined by the lines of communication and responsibility between units within that organization:

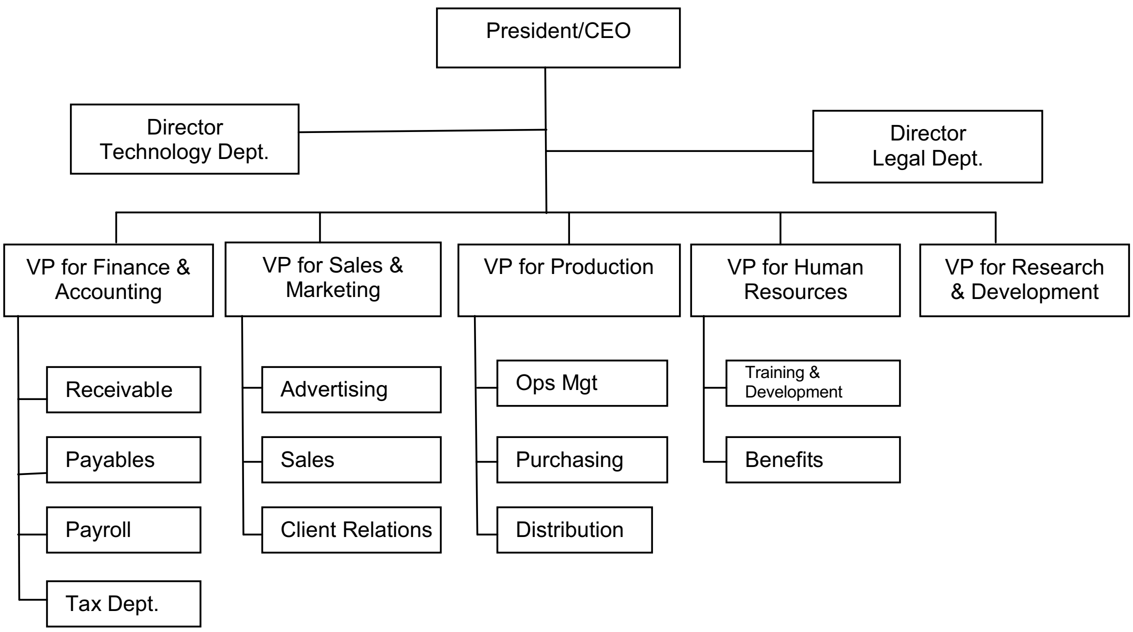


**Table 1:** Sample Structure of a Domestic Company

The structure of a small or newly globalized company may simply contain the elements of the chart appearing above, with the addition of an international department or even an international director who interfaces with all aspects of the organization's functions, which coordinates international activities throughout the company indirectly as see in Table 2:

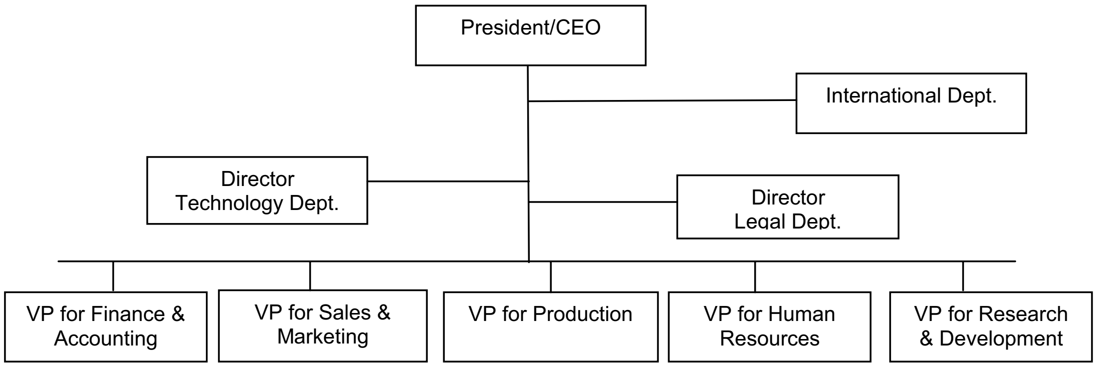


**Table 2:** Sample Multinational Company Structure

In a global product division structure, the organization is arranged by its major product lines, within which there exist sub-divisions arranged by geographic location. The advantage to this structure is that each division can focus its resources according to its product lines and nothing else; unfortunately, the regional contacts and resources enjoyed by one division may not overlap with other divisions, whereby creating an inefficient redundancy.

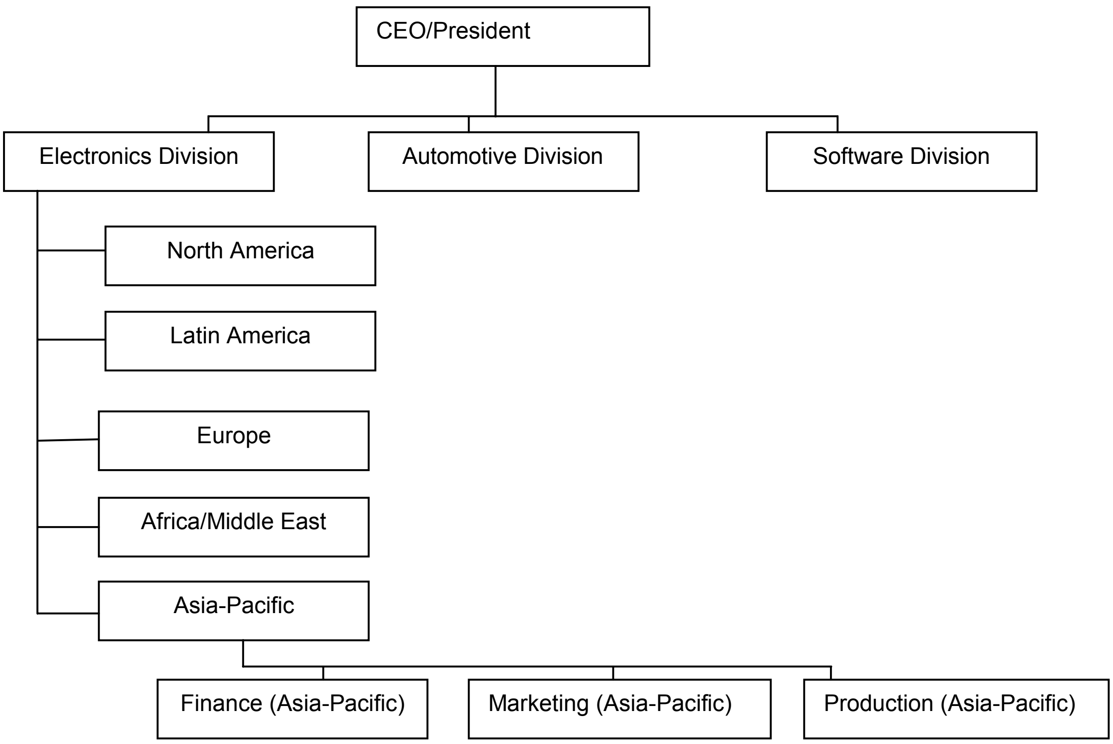


**Table 3:** Sample Structure of Global Product Line Company

In an international division line as shown in Table 4, entire operations for each region or country are consolidated into one central office which answers to the company's headquarters. This structure allows a high degree of autonomy for each regional office and maximizes their ability to customize operations to the local market. This model may present a problem for uniformity within the larger company, as each region acts independently.

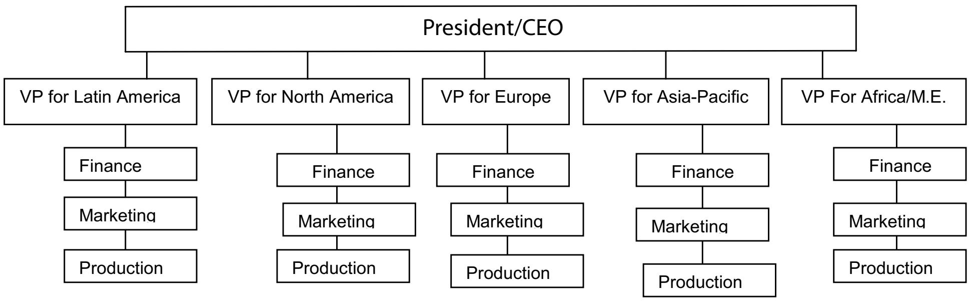


**Table 4:** Sample Structure of a Transnational Company

Within each of the above models, the degrees to which formal structural lines is observed may vary greatly, depending in large part of the cultural context involved. Companies in low power and individualistic cultures, for example, may be more inclined to take initiatives without consultation with higher authorities in the structure; high-power societies may be more inclined to "follow orders" without questioning. Mediating the congruency contributed by culture is vested in the company's leadership – which takes a new dimension when intercultural communication is introduced.

## 4.3 MANAGEMENT FUNCTIONS

### 4.3.1 LEADERSHIP

"**Leadership**" can be defined in various ways. Technically, the term refers to an organization's formal authority structure, but the ability to lead others depends on one's ability to adapt that role to fit the cultural backgrounds of those whom one leads; what constitutes effective leadership in one culture may be completely ineffective in another culture.

Consequently, an unprepared expatriate manager may find that his or her ideas of leading can cause confusion, conflict, or defiance if they don't fit the local norms of leadership. Moreover, the demands of leading an international company are compounded by the need to manage multiple interactions with global stakeholders, to maintain the vast flow of information, ambiguity, change, and maintain a physical presence in the environment (Mendenhall, Reiche, Bird, & Osland, 2012).

The GLOBE studies discussed in Chapter Two provide some benchmarks for understanding cultural variations in leadership. Among the conclusions reached by this research was the assertion that while some leadership traits are universally considered positive (trustworthiness, honesty, encouragement) or negative (irritability, dictatoriality), the perceptions of many characteristics were culturally "contingent," i.e., it depended on the culture. These included traits such as being logical, cautious, formal, and compassionate (House, Hanges, Javidan, Dorfman, and Gupta, 2004). House, et., al, provide some framework for understanding preferred styles, as seen in Table 5.

| Preferred Leadership Style | Characteristics | Cultures Strongly Preferring |
|---|---|---|
| Charismatic | Inspirational, visionary | United States<br>Latin America<br>Middle East<br>Latin (Western) Europe |
| Team-Oriented | Emphasis on team members' roles | All, but particularly Latin American and Confucian/Southern Asian |
| Participative | Subordinate feedback and contribution | United States<br>Nordic |
| Humane-Oriented | Guidance and support | Asian<br>United States<br>African |
| Self-Protective | Safety, structure, face-saving | Asian<br>Middle Eastern<br>Latin American |
| Autonomous | Fosters independence and individuality | Particularly Germany, United States, Eastern Europe |

**Table 5** Preferred Leadership Styles By Culture
Source: House, Hanges, Ruiz-Quintanilla, Dorfman, Javidan, Dickson, Gupta, et. al (1999); Javidan, Dorfman, de Luqye, & House, 2006).

Implicit in the leadership styles which are most effective in each respective culture is an obviously thorough understanding of, and commitment to, the diversity represented by that culture. Yet possessing these is more than an academic knowledge of cultural constructs germane to a particular culture – they are characterized by a mindset which fosters their application. Kim (1996) identifies seven such traits or "pillars" needed for leadership in today's global societies. They are:

1. Global Literacy: The ability to recognize the importance of culture and cultural diversity and how they affect relationships.
2. Global Mentality: The state of open-mindedness that foster learning about and understanding other cultures.
3. Global Identity: The ability to understand one's own background and to accept its distinctiveness from other backgrounds
4. Global Competency: The flexibility to adapt to the cultures of others through communication which is appropriate to that culture.
5. Global Technology: The capability of using information technology to interface with people in other cultures.
6. Global Integrity: The appropriate ethics, conduct, and relationships with others.
7. Global Humanity: The mindset of understanding and respect for all people, regardless of their culture.

However, these abilities alone will not ensure a lack of conflict, which will arise as a normal part of any organization, domestic or international. How one negotiates that conflict is yet another hallmark of a successful global leader.

### 4.3.2 CONFLICT NEGOTIATION

Simply put, **conflict** in an organization occurs where any disagreement occurs among organizational members (Cambridge Dictionaries online, n.d.). More specifically, conflict occurs when there is incompatability between preferences and activities, persons' attitudes, or restrictions on resources (Rahim, 2002). Conflict can be categorized as expressive, relating to the expression of emotion, or instrumental, related to a task (Gudykunst and Kim, 2003).

Mainstream research on conflict styles has identified five general ways of dealing with conflict, much of which involves the negotiation of face. **Face** is a term used to the practice of protecting one's image or reputation (or the image and reputation of others), and is extremely important in many collectivistic cultures, such as those in Eastern Asia. For example, the work of Blake and Mouton (1964), Rahim (1983; 2002), and Ting-Toomey (2009), present negotiation styles usually in matrix form, using concern for self and concern for others as axes. This body of work summarizes thus:

1. *Dominating* is a win-lose style that emphasizes self-face protection.
2. *Obliging* (accommodating) is a lose-win style that emphasizes other-face protection.
3. *Avoiding* is a lose-lose style that emphasizes neither self- or other-face protection.
4. *Compromising* is a lose-lose style that moderately protects self- and other-face.
5. *Integrating* is win-win style that protects both self-face and other-face.

Ting-Toomey (2009) added the cultural dimensions of power and individualism/collectivism, to create a corporate cultural "grid" of approaches to conflict, as explained by Cardon and Okoro (2010):

An Impartial Conflict Approach prioritizes personal freedom and equality (Individualist, Low Power)
A Status-Achievement Approach prioritizes freedom and earned inequality (Individualist, High Power)
A Communal Conflict Approach emphasizes interdependence and equality (Collectivist, Low Power)
A Benevolent Conflict Approach emphasizes one's status (Collectivist, High Power).

By way of explanation, Schmidt, Conaway, Easton, and Wardrope (2007) wrote, "Members of individualistic cultures tend to use more dominating conflict strategies and work toward more integrating strategies. They are less incline to avoid conflict than members of collectivistic cultures. In contrast, individuals from collectivistic cultures tend toward avoiding or obliging conflict strategies and seek to develop cooperating and compromising conflict strategies" p. 111). An example of the latter is exemplified by the Japanese concept of honne and tatamae, or feeling (private) and façade (public). In traditional Japanese culture, it was expected that one's personal feelings should give way to societal expectations in order to maintain harmony, or wa (Doi, 1973). Therefore, "yes" to a proposed solution may not indicate personal agreement with it, but rather simply an acknowledgement of understanding (Huang, 2010). People from the United States, a low power and highly individualistic country, may have trouble understanding this; by contrast, they tend to freely voice their objections or dissatisfaction with outcomes if they exist. Both tactics address the concept of face-saving in much different ways, as defined by respective cultures.

Many other factors may influence the tenor of a negotiation process, such greetings, time management, the meaning of numbers, the types of gifts given, and the kind of gestures used in conversation (Huang, 2010). Coverage of these and related factors appears in Chapter Five.

### 4.3.3 MOTIVATION

A key function of a leader is to influence people in such a way so that they are motivated to perform their jobs. At the time of the industrial revolution in the United States and Europe, **motivation** was often in the form of coercion – people were motivated by the threat of losing their jobs. Motivation theorists have provided various insights into what is believe to motivate others, most notably Abraham Maslow (1943), whose landmark Hierarchy of Need plotted the relative importance of various stimuli in the motivation of others. According to Maslow, humans were most fundamentally motivated to have their physical needs met, followed by their safety needs, their social needs, their need for self-esteem, and the need to self-actualize themselves; the higher-level needs were sought only if the more basic ones were met first. Maslow's work has historically been a significant foundation for the study of management, sociology, psychology, and other behavioral sciences.

Much of the philosophy within the American workforce environment has been dominated by what is known as the **Protestant Work Ethic**. The term derives from the protestant colonials who established themselves on the raw frontier of the Eastern U.S. seaboard in the 15$^{th}$ and 16$^{th}$ centuries, determined to build a society in the midst of hardship (Becker, 2004). The resulting outcome became the foundation for successful U.S. capitalism over the next several centuries, owed to hard work and sacrifice. A tenant of this philosophy was the belief that one could control one's own destiny – what is representative of an internal locus of control.

By contrast, the concept of fatalism (External locus of control) dictated that one is subject to the actions of others, God, or "Fate." Such was an inherent tenant of traditional Catholicism, under which a great deal of Latin American society was formed at about the same time. Many of those countries in the region lagged far behind the United States in throwing off the tyranny of dictatorships, many not until the mid or latter part of the 20$^{th}$ century. Similar situations exist in countries dominated by Islam, with the expression, "Inshalla" (if God wills it) or "Ojalá" (May God will) in Latin America (Becker, 2004); both expressions imply a reluctance to challenge the status quo, a characteristic of high-power cultures.

### 4.3.4 DECISION-MAKING

Decisions underlie an organization's existence. From the most strategic decisions at the top to the daily routine decisions made by lower-level workers, a company relies on some system of making decisions about how to accomplish its goals. This system – like virtually every other aspect of organizational life – is culture-based. Therefore, a "one size-fits-all" model of decision making often doesn't work.

In general, decisions are made by five means: unanimity, consensus, majority, plurality, or fiat (Penrose, Rasberry, and Myers, 2004). The paths leading to decisions can be very different from culture to culture. For example, as Ahlstron and Bruton (2010) point out, businesses in the United States have historically relied on a rational, or normative model of decision making that is generally not accommodating of other cultural decision-making paradigms. This western approach usually takes on a problem-solving focus, whereas many Asian cultures, such as Thailand and Indonesia, assume a more accepting focus (Robbins & Judge). The U.S. decision style is high formalized, structured, and based on a need for achievement and recognition, whereas Japan is more based on the need for group affiliation and China on the need for power (Martisons, 2001).

Rowe and Bougarides (1992) present decision-making styles that shed light on some of the cultural components discussed earlier in this text. They address decision-making in terms of two dimensions: high and low tolerance for ambiguity, and task and social orientation.

> A *Directive style* is based on a culture that has low tolerance for ambiguity and a task-orientation.
> This style is highly dependant on structure, rules, procedures, and results, and requires low level of cognitive complexity.
>
> An *Analytical style* is based on a culture that is high tolerance for ambiguity and a task-orientation. This style is achievement-based, high on cognitive complexity, and derives conclusions from a large collection of data.
>
> A *Conceptual style* is based on a high tolerance for ambiguity and a social orientation.
> Conceptual decision-making utilizes creativity, intuitiveness, risk-taking, and responds to positive results.
>
> A *Behavioral style* is based on a culture with low tolerance for ambiguity and a social orientation.
> This style is geared toward feelings, emotional intuition, and concern for the group's welfare. It is low cognitive complex.

Clearly, variations of cognitive complexity, ambiguity tolerance, and collectivism by members of a decision-making team can lead to intra-group conflict, misunderstandings, and ultimately poor decisions. In addition, there are many culture-specific traditions that govern the way people are inherently programmed to approach problems and solutions, as demonstrated below.

### 4.3.5 CULTURAL PATTERNS OF DECISION MAKING

In China, the Confucian-influenced ideal of **guanxi** governs decision-making. Guanxi is defined as a "deep rooted socio-cultural phenomenon which enhances social harmony, maintains correct relationships and addresses the sensitive issue of face, and in a reciprocal obligation to respond for requests of assistance" (Ardichvili, A., Jondle, D., & Kowske, B., 2010, p. 206). There is no English equivalent for the word, but it may translate roughly to returning favors to others within one's network, sometimes bypassing the usual rules or procedures.

Business in Brazil is often centered around the concept of **Jeitihnko**, a process of bypassing bureaucracy or circumventing normal channels of gaining approval or accomplishing a task (Tanure and Duarte, 2005). Its ideal has its roots in the social nomenclature of Brazilian society; its English translation is roughly "The Brazilian Way." It can be used through deception, sympathy, or creativity (Rodrigues, Milfont, Ferreira, Porto, and Fischer, 2011) and reflects the attributes of loyalty and paternalism inherent to Brazilian culture.

Japanese decision-making involves the complex processes of **nemawashi** or **ringesei**, which involves getting the approval of a peer group before advancing an idea or proposal; the initiator may informally or formally circulate a proposal to build consensus before formally submitting it (Sagi, 2015) is. Also embedded in the culture are the conflicting phenomena of *honne* and *tateamae*, discussed earlier, which often results in someone consenting to a solution without necessarily agreeing with it personally.

Arabic cultures are expressive and relationship-oriented. Their thinking out loud may be distracting for Western cultures and they have a fondness for negotiation (Schmidt, et al, 2007). Their decision making process is considered to be zero-sum, autocratic, and they may be resistant to new innovations (Sidani and Thornberry, 2009). Further, the fatalist concept of "Inshalla" suppresses a certain amount of decision making up to circumstances rather than derived action as a guiding factor.

In Sub-Saharan Africa**,** much of decision making is by consensus, and results from **baraza**, which literally means meeting place or assembly, but is a recognition that everybody's opinion is important which is extremely important to relationship-oriented cultures. Most African cultures are extremely polychromic, which means that decision-making processes may last without high regard for deadlines or schedules. It is also generally expected that each member of a a decision-making team will get to know each other personally before engaging in serious business talk.

European decision-making models, particularly Finnish and Swedish, are based on reaching consensus, managing "from a distance," in France, working toward a common goal in Germany and Austria, and Leading from the Front in The United Kingdom, Ireland, and Spain (Kakbadse, Myers, McMahon, & Spong (1995). Some European cultures are high-power and autocratic (Germany and Austria) while others are more participative (Finland and Sweden), yet all rely on consensus which may be derived in very different ways.

These differences (among many others that could be mentioned) seemingly pose strategic problems for managers who must coordinate activities within a heterogeneous group. When possible, gaining the input of a host-country national to familiarize an unprepared manager with the nuances of a culture is a good starting point. No one solution fits all, but understanding the vantage point of your members' orientation is, at minimum, a prerequisite for facilitating into a group decision.

## 4.4 COMMUNICATION

Organizational leaders regularly face the task of engaging their international business partners in various forms of communication, including the traditional letter (still used in business) and electronic communication (e-mail). Like the face-to-face communication discussed in Chapter Three, the form of written communication is also influenced by culture; *how* one writes, as much as *what* one writes, can make or break a potential business relationship.

Written messages usually address one of four purposes: to relay routine news, good news, bad-news, or a persuasive intent. In many English-language business cultures, the first two types generally use a direct approach, which is to state the purpose of the correspondence at the beginning and in a very direct manner. The second two types, being more psychologically complex, generally follow an indirect approach, in which the purpose of the letter is nested in the middle of the correspondence, following a buffer which prepares the reader for the information to come. This type of letter is written impersonally, and focuses on the business at hand; the approach may not work in cultures with different levels of interpersonal sensitivity.

One significant factor is the issue of collectivism. As Chaney and Martin (2000) suggest, collectivistic cultures are highly concerned with face-saving, which, in a letter, is mediated through the emphasis on *we* and *us*, rather than on *you*. Therefore, signaling out any one person – such as a sales representative or a manager – is uncomfortable for many readers of collectivistic cultures. Chaney and Martin (2000) also suggest that writers in Latin America culture may avoid outright statement of unpleasant news, while the Japanese will shroud it heavily in politeness. Thus, one must be able to "read between the lines" and interpret the real meaning of a letter rather than its stated purpose; a Japanese writer might say, "It will be difficult to fill this order," which would equate to "no" in that culture; an Anglo culture might read this differently, believing that "difficult" would not mean impossible; a "yes" may signal only understanding rather than acceptance (Huang, 2010).

Whereas U.S. business messages tend to be polite, they are not personal. For example, it would be atypical for a U.S. business person to write, "Our best regards to you and your family" or "Allow us to express our delight in receiving your correspondence," but it might not be as usual in other cultures. Business correspondence might also include invitations to visit the host country, inquiries about one's family, or an extension of good wishes to the members of one's company or even family. Table 6 displays of an example of a "bad-news" letter in Latin America that also includes some of these personal sentiments, which you would not find in other cultures.

MATERIALS DEL SUR, S.A.
2200 Avenida Americanas,
Buenos Aires 23957
ARGENTINA

el 15 de enero 2016

Sr. Adolfo Guterriez Robles
Director General
Bandera Construccion
231 Calle Norte
Concepcion 84037
CHILE

Estimado Sr. Guterriez,

Permit me to introduce myself. My name is Marco Herrera Gonzales and I am director of acquisitions at Materials del Sur, S.A., in Argentina. We produce high-quality construction materials all across the Western Hemisphere at very competitive prices and seriously desire to see if we can be of service to you and to Bandera Construccion because we note you have been such a leader in Chile for many decades.

I am making my fourth trip to Chile in February, for business and pleasure—I am also touring Concha y Torro and Santa Rita vineyards—and with your permission, I should like to meet you in person and visit your operations while in the area. May I have the opportunity of introducing myself to you in person? My wife, Emma, and I, are staying at the Intercontinental Hotel in Las Condes. I will contact you upon our arrival there and see if you and your wife might be available to be our guests for lunch if that is convenient for you. In the meantime, please relay my best regards to your colleagues at Bandera.

Sincerely,

*Marcos Herrera Gonzales*

Marcos Herrera Gonzales, Director General
Materials de Sur, S.A.

**Table 6:** Letter of Introduction to Latin American Company

The above letter differs from U.S. letters in both tone and format. Note the emphasis on politeness, use of titles (e.g., "Director"), a compliment to the reader's company success, mention of local attractions (showing interest in the country), inclusion of wives in the lunch invitation (which is appropriate for this culture), and mention of local accommodations, which is a five-star hotel, indicative of a business person's success. Even if this letter were a bad-news or persuasive type – say a collection letter – the tone would still be pleasant and the unpleasant news would be stated indirectly, or implied; strong words such as "cannot," or "rejected" or "denied" would generally not be used.

The format also shows cultural distinctiveness. Note that the name of each man's mother is officially part of their name, which is customary in Chile, but in speaking with them, you would not use it. Note also that the date and address formats are different, as will be discussed below.

### 4.4.1 LETTER FORMAT

The layout of letters has evolved over the last century and appears in many forms. Still, most letters contain the same standard parts, which, although arranged and presented differently across cultures, should still be recognized: A salutation (dear Mr. Johnson – not first name), an inside address with name, title, company name, address, postal code, province/state, and country; a date; a letterhead; the body of the letter (single-spaced in U.S., often double elsewhere); a complimentary closing (sincerely); a signature; and a signature block.

Of particular importance is the presentation of the date, which may follow one of several formats and can cause confusion or trouble – especially if the name of a month is not spelled out. In the United States, the numerical month is presented first, followed by the day; this differs from other formats, as shown below in Table 8, according to International Standards Organization (n.d.).

| Style | Countries Used | Examples |
|---|---|---|
| MM-DD-YYYY | United States | 11-12-2015 or<br>November 12, 2015 |
| DD-MM-YYYY | Europe, Latin America,<br>U.S. Military | 08-01-2015 or<br>le 2 janvier 2015 (France) |
| YYYY-MM-DD | ISO 8601, Asia | 2015-09-06<br>2015-September-06 |

**Table 8:** Date Formats for Letters

Additionally, monetary values may be represented differently. For example, the amount of two thousand, five hundred dollars might be written *$2,500.00* in the U.S.; elsewhere it might appear *$2.500,00* (the decimal and comma are inverted). It is therefore wise to write out the amount. Hours of the day may also take different forms; 2:00p.m. is often represented as 14:00 elsewhere, using a 24-hour clock.

These conventions should also be applied to e-mail. It is unwise to assume that the convenience of e-mail also makes it less formal in other cultures; it is better to be overly formal than too informal, at least until a solid relationship has been established. The tone of e-mail correspondence should parallel that of written correspondence, avoiding slang (which may not be understood or be considered appropriate), abbreviations such as ASAP, internet shorthand, or emoticons, such as "smiley-faces." Finally, the polychromic nature of many cultures do not lend themselves to a prompt respond to an e-mail message (although it will probably come earlier than a letter by post); expecting to wait an ample amount of time for a response before following up may help offset testiness in a follow-up message. Social media, such as Facebook, Twitter, and LinkedIn, may or may not be an effective way of establishing or maintaining business relationships.

In short, a manger needs to be flexible enough to re-create his or her leadership style into terms that are meaningful to subordinates, peers, and supervisors. Ethnocentric approaches – a mindset that sees everything from one's own personal viewpoint – will not take one far in today's globalized business societies; adaptation is a crucial factor to career success. As Omhae (2006a) states, the successful adaptive organization welcomes technological change, personal change, and organizational change. He asserts that the new company will need to possess a "different set of chromosomes" different from traditional ways (p. 28); he captures the essence of international business well.

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# 5 WORKING AND TRAVELING IN THE INTERNATIONAL BUSINESS ENVIRONMENT

In the previous four chapters, we have examined many aspects of today's international business context, including economic, political, and regulatory issues, cultural attributes, communication problems, and managerial concerns relevant to the global workplace. Now we turn attention to the practical issues of actually entering the international market, a process made possible by modern advancements in communication, technology, and travel accommodations. Innovations in these areas have enabled companies, based in their home countries, to expand into international financial markets more than ever before, and have made way for expatriates – people who relocate for their companies – greater access to global markets. Indeed, as Marshall McLuhan prophesied decades ago, the world has indeed become one "village" and its market behavior has evolved accordingly.

## 5.1 THE INTERNET

As of 2013, Internet World Stats (2015) estimated that the world's overall internet penetration – the proportion of the populations who have access to the web – averaged 42.4 percent; North America, Oceania, and Europe possessed the highest concentrations of internet users, at 86.9 percent, 72.1 percent, and 70.4 percent, respectively. Moreover, 10 languages account for over 80% of the world's Internet users, as illustrated in Table 1.

| Rank | Language | Number of Users |
|---|---|---|
| 1 | English | 800.6 million |
| 2 | Chinese | 649.4 million |
| 3 | Spanish | 222.4 million |
| 4 | Arabic | 135.6 million |
| 5 | Portuguese | 121.8 million |
| 6 | Japanese | 109.6 million |
| 7 | Russian | 87.5 million |
| 8 | German | 81.1 million |
| 9 | French | 78.9 million |
| 10 | Malaysian | 75.5 million |

**Table 1:** Top Ten Languages used by Internet Users (2013)
Source: Internet World Stats (2013).

## 5.2 INTERNATIONAL TRAVEL

Facilitated by over 41,000 airports in the world and developing high-speed ground transportation such as the EuroStar and Japan's Shinkansen, crossing oceans and borders is a regular part of everyday life for millions of people. According to the World Bank, in 2013 there were over one billion arrivals in the world, the largest number ever recorded to that date. Countries such as the United States, Brazil, Mexico, Canada, Russia, and Argentina each have over 1,000 airports each, many of them commercial (CIA Factbook, 2015). Estimates place the number of expatriates in the world at over 50 million, with the largest concentrations in Saudi Arabia, the United Arab Emirates, and the United States (Finaccord, 2014).

## 5.3 MASS COMMUNICATION

International business is also facilitated by the ease of communication technologies. In 2011, there were over six billion mobile phone subscriptions in the world, representing over two-thirds of the world's population (International Telecommunications Union, 2013). The number of subscriptions were most prominent in Asia-Pacific and The United States, with China, The European Union, India, Japan, and Brazil each having over 100 million mobile users (CIA Factbook, 2011).

Additionally, the emergence of social media has exacerbated personal, as well as commercial, communication. As of 2015, it was estimated that there were more than 1.3 billion Facebook subscribers, 336 million LinkedIn customers, and 289 million Twitter users, and 74 million Skype users, the latter totaling more than two billion minutes per day (Statistics Brain, 2015). Combined with the expanse of global television network advertising – CNN alone reaches more than 2 billion people in 200 countries (CNN Worldwide Factsheet, 2015) – the world is more interconnected now than ever before.

Whether you are planning to be an expatriate or intend to conduct international business from your home country, you will need the tools to understand how to apply the available tools on a practical level. This chapter will give you some background to apply to that what you have learned in the previous four chapters.

**After reading this chapter, you should be able to:**

1. Identify the financial processes commonly found in international contexts,
2. Describe the elements of the international trade process, and
3. Plan for effective international business travel.

## 5.4 THE FINANCIAL WORLD OF INTERNATIONAL BUSINESS

Money is the lifeblood of commerce, both domestic and international. Transactions involving the latter are understandably more complex than the former, yet the financial processes involved are similar, yet more bureaucracy may seem be inundating. We discuss a few of the most prevalent issues below: Financial institutions, currency, and capital markets.

### 5.4.1 FINANCIAL INSTITUTIONS

Banks serve as the primary handler of monetary exchanges. Each country has a **central bank** which oversees its monetary policies, or actions "which determine the size and rate of growth of the money supply, which in turn affects interests rates" (Investopedia, 2014). These governmental agencies are identified by different names, such as the Central Bank of Brazil, The Bank of England, The Reserve Bank of Australia, the Monetary Authority of Singapore, and the Swiss National Bank. In the United States, this agency is called the Federal Reserve Bank, or "The Fed." Similar to the central banking authorities of other countries, the Fed's mission is:

1. To regulate monetary policy as it affects credit, employment, price stability, and interest rates.
2. To supervise and regulate banks and protect consumers' rights.
3. To maintain stability of financial systems and control of risk.
4. To provide financial services to banks, U.S. government, and foreign institutions. (Board of Governors of the Federal Reserve System, 2015).

Monetary policies can profoundly impact a country's business climate. As an example, a decision by the Fed will require foreign banks by 2016 in the U.S. to have higher levels of capital reserves (Crutsinger, 2014) to hedge against financial crises like the 2008 worldwide recession. This will have the effect of potentially making business in the U.S. markets more costly – an expense which trickles down to the ultimate consumer.

### 5.4.2 BANKING SERVICES

Financial institutions offer many services which facilitate global business. In addition to making loans to companies, most large international banks provide international wire transfers and currency exchanges, as well as export finance and assistance programs which mitigate business risk. They are also instrumental in the international trade process by the following:

**A letter of credit** is a document, issued by a financial institution in the importer's country, guaranteeing payment for goods to be received.

**A confirmed letters of credit** is a document, often provided by a financial institution in the exporter's country, backing the import bank's promise to pay for goods to be received.

**A banker's acceptance** is a time draft in which a bank promises to pay for an export shipment, then later collects payment from a third party.

**Commercial Paper** is a promissory note, unsecured, obliging a company to pay a bank upon receipt of goods or at a specified time. Due to high risk potential, banks may be hesitant to accept such instruments unless the reputation of the company and/or its credit rating are highly satisfactory.

**Wire transfers** (electronic payments) involve transferring funds from one bank (the buyer's) to another (the seller's), usually incurring bank fees, and are subject to the currency exchange rate at the time of the transfer. Such transfers require the account number and the bank's SWIFT (Society for Worldwide Interbank Financial Telecommunication) code.

Another way of receiving payment is through the establishment of **open accounts**, wherein the seller trusts the buyer to pay for goods sometime after their delivery. This method can be particularly risky and is generally reserved for companies with good credit and with whom the seller has an established relationship.

### 5.4.3 CURRENCIES

The strength of a country's **currency** is tied to the country's monetary policies, which are the actions of the country's central bank. Interest rates are a critical component of policy, which, in turn, sets the tone for the country's overall business environment. It is therefore important to ascertain the strength of a national currency if it is to be used in any type of business transaction. Countries use different various approaches to ensure the strength of their own currencies.

For example, many countries "peg" their currencies to that of another (usually financially stronger) country, such as the United States, the Euro, or a "basket" of several currencies. **Pegging**, a type of fixed rate, maintains its value based on the activity of the currency to which it is linked. By contrast, other countries have **floating exchange rates**, which are determined by the activity of the private market.

Countries may also dollarize, which is a when a non-U.S. country adopts, or substitutes, the U.S. dollar for its own official currency. The advantages of dollarizing include, among other potential benefits, the ability to reduce risk against devaluation and increase international investor confidence (Berg & Borensztein, 2000). As of 2011, 66 countries use the U.S. Dollar as their currency, peg their currency to it, or in some way use the dollar as a basis for their own currency (The Economist, 2011). Examples of dollarized countries include Ecuador, Panama, and El Salvador. Other major world currencies, such as Great Britain's Pound and the Euro, have been adopted as currency substitutions in various countries and territories around the world.

Fluctuation of exchange rates during the course of a negotiation – before an actual contract is agreed upon – can seriously impact the viability of a deal. For this reason, transactions are often based on more stable currencies. In 2013, the Bank for International Settlements (2013) reported the United States Dollar as the most common currency trade, no doubt to its position as the World's Reserve Currency. For example, as of April, 2013:

- Trading in the foreign exchange market averaged $5.3 trillion per day, with the US dollar on "one side" of 87 percent of all currency trades
- The most commonly traded currencies, after the U. S. Dollar (USD), was the Euro (EUR), The Japanese Yen (JP), The Great Britain Pound (GBP), the Australian Dollar (AUD), the Canadian Dollar (CHF), and the Swiss Franc (CHF)
- The majority of foreign exchange trading – 71 percent – was intermediated within the financial centers of the United Kingdom, the United States, Singapore, and Japan. (Bank for International Settlements, 2013).

Since exchange rates fluctuate daily, international business contracts must specify the agreed-upon value of the currency at the time of negotiation. Additionally, any reference to monetary amounts should be specified with a currency designation, preferably the ones provided by the International Standards of Organization (ISO) code 4217, which assigns a three-letter code to each currency. Thus, a commitment to pay a company thirty thousand United States Dollars might be expressed, "US$30,000" in order to avoid confusing it with other currencies which use the same sign or designation. For example, the "$" sign is used by over 25 currencies to denote dollars or pesos (the latter of which means "weight"); the Pound sign is used by numerous countries and territories, as is the Euro and other currencies. The very name of currencies can cause confusion, as many derive from similar linguistic roots, such as the Denmark Krone, the Iceland Krona, the Norway Krone, and the Sweden Krona, all forms of the Latin word corona, or crown. For a list of similarly-designated currencies, refer to Appendix A.

It should also be noted that countries in trade unions using a single currency may not have adopted that common currency. For example, nine of the 28 countries in the European Union use their own currencies. currency. Moreover, some countries that are not members of the European Union may officially or unofficially use the Euro, such as the Vatican, San Marino, Andorra, and Montenegro. All of the countries using the Euro comprise what is known as the "Eurozone." For a list of Eurozone and Non-Eurozone countries and their respective currencies, refer to Table 2.

| E.U. Countries in The Eurozone | E.U. Countries Outside Eurozone & Their Currencies | |
|---|---|---|
| Austria | Bulgaria | Lev (BGN) |
| Belgium | Croatia | Kuna (HRK) |
| Cyprus | Czech Republic | Koruna (CZK) |
| Estonia | Denmark | Krone (DKK) |
| Finland | Hungary | Forint (HUF) |
| France | Poland | Zloty (PLN) |
| Germany | Romania | New Leu (RON) |
| Greece | Sweden | Krona (SEK) |
| Ireland | United Kingdom | Pound (GBP) |
| Italy | | |
| Latvia | | |
| Lithuania | **Non-E.U. Countries Using the Euro** | |
| Luxembourg | Andorra | |
| Malta | Kosovo* | |
| The Netherlands | Monaco | |
| Portugal | Montenegro* | |
| Slovakia | San Marino | |
| Slovenia | The Vatican | |
| Spain | | |

**Table 2** Eurozone and Non-Eurozone Countries
*Unofficial adopted currency

The currency to be used to pay international contracts must be specified, as well as the date when the actual currency conversation rate will be applied. Companies can negotiate payment at the present time or in a future time using a **forward contract**, which speculates/hedges currency worth at a future date. It should be noted that there are also fees usually involved in exchanging or converting currencies, which can be a flat charge or a percentage of the transaction's value. More will be discussed regarding currency exchange in a latter part of this chapter.

### 5.4.4 CAPITAL MARKETS

Money is traded across borders in many forms. One prevalent way is through capital markets, which can be defined as "a financial market that works as a conduit for demand and supply of debt and equity capital" and includes stock markets, bond markets, and money markets (Businessdictionary.com, n.d.). Each system is regulated by agencies of its country's government, such as the United States' Security and Exchange Commission, Australia's Securities and Investment Commission, Chile's Superintendencia de Valores 7 Seguros, and Belgium's Cinnussuib Banciare, Franciere, et des Assurances. These bodies exist to protect investors from unfair practices and fraud.

In most cases, companies may be listed on foreign stock markets as long as they meet the requirements of the countries' regulating agencies. For example, as of 2013, there # of non-U.S. Stocks listed on the NYSE, % of which Asia, Europe, etc. Leading world stock markets are presented in Table 3.

| Rank | Market | Country | Market Cap. (in trillions USD) |
|---|---|---|---|
| 1 | New York Stock Exchange | United States | 13.4 |
| 2 | NASDAQ | United States | 3.9 |
| 3 | Tokyo Stock Exchange | Japan | 3.8 |
| 4 | London Stock Exchange | United Kingdom | 3.6 |
| 5 | Euronext | Paris, Brussels, Amsterdam, Lisbon, London | 2.9 |
| 6 | Shanghai Stock Exchange | China | 2.7 |
| 7 | Hong Kong Stock Exchange | China (SAR) | 2.7 |
| 8 | Toronto Stock Exchange | Canada | 2.2 |
| 9 | Bombay Stock Exchange | India | 1.6 |
| 10 | BOVESPA | Brazil | 1.5 |

**Table 3** World's Biggest Stock Exchanges (According to Market Capitalization)
Source: Forbes (2015)

Capital market investors use various indices, or indicators, which reflect the overall performance of the respective market. For example, the U.S. Dow Jones Industrial Average and the Standard & Poor 500 are weighted averages of key stocks on each market and are considered to represent the activity of the New York Stock Exchange and the NASDAQ. Similar indices are used to reflect performance of other world markets, such as Tokyo's Nikkei, London's FTSE, France's CAC-40, Hong Kong's Hang Seng, and Shanghai's Composite, to name a few. The interaction among the leading markets can be seen by the reaction of the American markets, for example, whose day openings follow those of the Asian markets by several hours. A recent example of their interdependence was noted in September of 2015, when the American exchanges dripped sharply following after a decline in China's markets and the devaluation of its currency, The Yuan Reminbi. This example, among many others, demonstrates that the world acts as one gigantic economic village.

## 5.5 THE TRADE PROCESS

In Chapter One, we noted the rise in global business across developed and developing countries, a phenomenon that continues to gain momentum as we pass well into the 21st century. This global mindset favoring international commerce and has been bolstered by advancements in technology and transportation and gives no sign of slowing down. Companies engaged in international business must therefore find ways to contend with the complexities of the global trade market, a prospect which newly internationalized companies may initially find daunting – they will have to consider carefully the pros and cons.

Initially, a new exporting company will start by separating its international and domestic operations as non-domestic sales increase, with the possibility of eventually creating an international division that reports directly to organizational leadership (U.S. Commercial Service, 2013). In any case, the company's resources must be allocated in such a way to accommodate the specialization required for international sales and shipping. These resources include not only capital components but personnel as well – people within the organization, or hired from without, that possess the knowledge to successfully coordinate the processes of international solicitation, negotiation, and logistical control of doing business with other countries.

A company's size and its trade objectives may lend themselves to a number of different organizational approaches to international business, such as the creation of import or export divisions, or administrative positions (see Chapter Four for a review of organizational structure). Companies heavily involved in importing/exporting may also have senior company officers, such as a vice president for international operations, whose responsibilities are exclusively internationally oriented. Organizations beginning their venture into international trade, however, might avail themselves of resources that provide information and guidance into the legal, financial, and logistical intricacies of global business. Starting with the desired country's embassy or consulate may be the best beginning, although many other resources for information and assistance are available, a sample of which is depicted in Table 4.

| | **Websites** |
|---|---|
| International Trade Administration (ITA) | www.trade.gov |
| International Trade Commission (ITC) | http://usitc.gov/ |
| International Chamber of Commerce (ICC) | http://www.iccwbo.org/ |
| World Bank (WB) | http://www.worldbank.org/ |
| World Customs Organization (WCO) | http://www.wcoomd.org/ |
| World Trade Organization (WTO) | www.wto.org |

**Table 4** Resources for International Business

These organizations provide a variety of services. For example, the 161-member World Trade Organization assists with trade negotiations, dispute settlements, international trade policy, technical assistance for developing countries, and coordinates the efforts of other organizations to solve international trade problems. Country-specific organizations, such as the U.S. Commercial Service, American Chambers of Commerce, and the Canadian Trade Commission Service facilitate trade between countries. Each home country's embassy should provide contact information for organizations that offer similar services for its citizens.

### 5.5.1 TRADE INTERMEDIARIES

Given the complexity of international business, exporters and importers often rely on the services of organizations that specialize in international trade. These "intermediaries" are entities that perform a variety of trade-related services, including the procurement of clients, handling shipping and customs functions, assisting with financial issues, to name a few. Intermediaries can be governmental agencies or private companies. Some examples are:

**Export Trade Companies** are firms that take charge of exports in between country entry and delivery to importers. They may assume the title (and risk) of goods until delivery is completed.

**Export Management Companies** are firms that facilitate the transfer of goods from exporter to importer and may also act as sales agents and distributors for the goods.

**Confirming Houses** are buying agents which represent foreign companies in the export market.

**Freight Forwarders** are shipping agents that handle most aspects of transporting goods from exporter to importer.

**Forfaiters** are companies that actually buy, at a discount, the exported goods, and then turn them around to the importer. Forfaiters assume risk until delivery of goods is complete.

**Customs Offices** serve as governmental points of exit and entry for exported goods. Customs officers ensure the enforcement of trade laws and tariffs.

**Commercial Services** are government agencies which, on a voluntary basis, assist its country's exporters in moving goods in accordance with trade laws binding both the exporting and importing companies.

### 5.5.2 EXPORT DOCUMENTATION

Countries have various laws for importing and exporting. In the United States, for example, an export license may be required, or documentation from appropriate government agencies must be submitted in order to export materials that potentially have prohibited end-user application (such as technology that can be re-exported and used for the construction of weapons) or if materials are being shipped to country with embargo restrictions (Bureau of Industry and Security, 2013). Licenses to import may also be required, one purpose of which is often to safeguard against undue competition in the receiving country.

The following are some of the most common documents used in the trade process:

An **airway bill** confirms the conveyance of a shipment, obligating the carrier to deliver consignment to the buyer.

**A bill of lading is** a contract between exporter and importer, which may or may not confer title and may also serve as a certificate of insurance. A **multimodal bill of lading** is used when more than one transportation method (air, water, ground) is used.

**Certificates of Origin** (COO) declare that goods being exported are produced (originate) from the country of shipment such as in the case of meeting requirements of trade agreements, such as NAFTA.

A **commercial invoice** is a bill of goods from exporter (seller) to importer (buyer) detailing the cost of purchased items.

A **consular invoice** is a bill of goods issued by the exporter's customs office specifying the goods, their value, and other information

**CMR**, or *Convention relative au contract de transport international de marchandises par route*, is a standardized document used for cross-border transport in European countries and territories.

A **mate's receipt** is a document, signed by a ship's officer, acknowledging receipt of a shipment; mate's receipts do not convey title or insurance.

**Pro forma invoices** are bills of goods, sent before shipment, detailing the items (and their costs) to be conveyed from seller to buyer

**Shipper's export declaration** is a document used to compile export data.

**A sight draft** is used to indicate that the exporter maintains title of the goods until they reach their final destination (the buyer).

Numerous other forms related to packing, shipment, and customs declarations may be involved in the transport and delivery of international goods, such as **anti-diversion** documentation (declaring that goods are to remain in the intended country of destination) or forms required to comply with **de minimis rules** (trade laws stating that a certain proportion of materials used to manufacture items originated in the member country). Businesses should conduct thorough research into the requirements and safeguards for successful transference from one party to another.

### 5.5.3 HARMONIZED SYSTEM

The World Customs Organization's Harmonized Commodity Description and Coding System (HS) is used for the purposes of uniformly classifying tariffs based on an inter-country code. It is used by more than 200 countries and accounts for 98 percent of international trade (World Customs Organization, 2015). Numerous other related documentation may exist, such as shipping and packaging forms, insurance certificates, special instructions, for forms for transporting hazardous materials.

Table 5 lists HS Classifications:

| Section | | |
|---|---|---|
| I | Live animals, animal products | Chapters 1–5 |
| II | Vegetable Products | Chapters 6–14 |
| III | Animal or vegetable fats, oils, waxes | Chapter 15 |
| IV | Prepared foodstuffs, beverages, spirits, vinegar, tobacco | Chapters 16–24 |
| V | Mineral products | Chapters 25–27 |
| VI | Products of chemical or allied industries | Chapters 28–38 |
| VII | Plastics and rubber products | Chapters 39–40 |
| VIII | Raw hides and skins, furs, saddlery, hardnesses, travel and hand bags | Chapters 41–43 |
| IX | Wood and wood products, cork, basketware | Chapters 44–46 |
| X | Pulp of wood, paper, paperboard | Chapters 47–49 |
| XI | Textile and Textile articles | Chapters 50–63 |
| XII | Footwear, headgear, feathers, flowers | Chapters 64–67 |
| XIII | Stone, plaster, cement, ceramics, glass, glassware | Chapters 68–70 |
| XIV | Precious and imitation jewels, metals, coins | Chapter 71 |
| XV | Base metals and related articles | Chapters 72–83 |
| XVI | Machinery, mechanical devices, electrical parts and equipment | Chapters 84–85 |
| XVII | Vehicles, aircraft, vessels, transportation equipment | Chapters 86–89 |
| XVIII | Optical, cinematographic equipment, medical surgical instruments, musical instruments, clocks and watches | Chapters 90–92 |
| XIX | Arms and ammunitions | Chapter 93 |
| XX | Miscellaneous articles | Chapters 94–96 |
| XXI | Art, antiques | Chapter 97 |
| XXII | Special classifications, amendments, legislation | Chapters 98–99 |

**Table 5** Outline of Harmonized System Codes
Source: Extrapolated from the U. S. International Trade Commission (2015).

### 5.5.4 INCOTERMS

To facilitate smooth trade practices among different nations, the International Chamber of Commerce instituted a series of abbreviations, to be used in contracts and packing, that would "provide internationally accepted definitions and rules of interpretation" related to terms used in the sales of goods across borders. (International Chamber of Commerce, 2010). **Incoterms** began use in 1936 and have been changed six times to reflect changes in the import/export industry (Foreign Trade Online, 2015). The specific purpose of these terms is to clearly designate the delivery location, who is responsible for transportation and for insurance, and the parties involved in handling customs (International Trade Paperwork, 2015). Currently used incoterms are depicted in Table 6.

| Term | Meaning | Explanation |
|---|---|---|
| EXW | Ex-Works | Goods are picked up by freight forwarder or other agent; buyer handles insurance & paperwork |
| FOB | Free on Board** | Freight forwarder moves goods to point of origin, at which point the buyer assumes responsibility |
| FCA | Free Carrier | Seller arranges transportation but buyer is responsible for insurance and risk |
| FAS | Free Alongside Ship** | Buyer has responsibility and risk for goods and transportation. |
| CFR | Cost and Freight** | Shipper moves goods to the point of destination. |
| CIF | Cost, Insurance and Freight** | Shipper bears responsibility for the maritime part of the journey. |
| CIP | Carriage and Insurance Paid To | Carrier or freight forwarder covers insurance. |
| CPT | Carriage Paid To | Shipper bears responsibility for the maritime part of the journey but buyer is responsible for cargo insurance |
| DAT | Delivered at Terminal | Shipper pays for shipment and assumes responsibility until goods are unloaded at terminal. |
| DAP | Delivered at Place | Shipper pays for transportation and is responsible for risks until goods are unloaded. |
| DDP | Delivered Duty Paid | Shipper bears all expenses, including duty and fees. |
| "C" refers to arrangements wherein the seller pays for all shipping costs.*<br>"D" refers to arrangements wherein the seller's responsibility ends at some specific point.<br>"E" refers to arrangements wherein the seller's responsibility ends at the departure of the facility.<br>"F" refers to arrangements wherein the seller does not pay for shipping | | |
| *Shipper may pay import clearance costs.<br>**Used in maritime and land transport only. | | |

**Table 6** INCOTERMS

## 5.6 TRAVEL

The world is replete with means of mobility. There are over 41,000 airports in the world; large area countries such as the U.S., Brazil, Mexico, Canada, Russia, and Argentina each have over 1,000, while smaller countries such as Bolivia, Colombia, Paraguay, Germany, and Indonesia have over 500 (CIA Factbook, 2015). In 2014, airplanes moved more than 1.1 billion passengers – a new record – with Europe reporting over 50 percent of international tourist arrivals (World Tourism Organization, 2014). Yet, according to the Airports Council International (2014) eight of the ten top airports for the number of passengers boarding an de-boarding planes were in the United States, with Atlanta-Hartsfield recording more than 94 million passengers, Beijing Capital Airport with almost 84 million passengers, and London's Heathrow Airport with greater than 72 million passengers (Hetter, 2014). The biggest concentration of the top 10 airlines is the United States, as shown in Table 7.

| Rank | Airline | Number of Passengers | Home Country |
|---|---|---|---|
| 1 | Delta Airlines | 162,615 | United States |
| 2 | Southwest Airlines | 106,307 | United States |
| 3 | United Airlines* | 99,452 | United States |
| 4 | American Airlines | 86,204 | United States |
| 5 | China Southern Airlines | 76,455 | China |
| 6 | Ryan Airline | 72,100 | Ireland |
| 7 | Air France-KLM | 71,320 | France |
| 8 | China Eastern | 64,878 | China |
| 9 | Lufthansa | 58,916 | Germany |
| 10 | U.S. Airways | 51,853 | United States |

**Table 7** World's Biggest Airlines, 2013
*In 2010, United Airlines and Continental Airlines became a single airline.
Source: CIA Factbook (2015).

### 5.6.1 CARGO TRANSPORTATION

Goods move as readily as passengers. In 2013, some 51.3 million metric tons of goods – more than 35% of all world trade by volume – were transported by air, accounting for nine percent of airlines' revenues (IATA, 2014). In 2015, the Airport Council International reported an excess of 91.6 million metric tons of freight and mail transported by air, with the greatest number of movement in Asia-Pacific, North America, and Europe; five of the 10 busiest cargo ports were in the Asia-Pacific region, followed by three in the United States, one in Dubai, and one in Germany (Airport Council International, 2015).

The volume of cargo moved by sea was even more prominent. In 2013, the total unloaded goods for the world was 9.5 billion metric tons, an increase of approximately 12% from 2010 (United Nations Conference on Trade and Development (2013). Consistent with the ACI's findings, the Asia Pacific region accounted for the largest portion of sea trade, as suggested by the proportion of cargo at the world's top 100 seaports as shown in Table 8.

| | Countries & Number of Ports | | |
|---|---|---|---|
| Asia (46) | China (11) | Indonesia (2) | Vietnam (1) |
| | Japan (7) | Malaysia (2) | Thailand (1) |
| | Australia (5) | Taiwan (2) | Bangladesh (1) |
| | South Korea (5) | Singapore (1) | Sri Lanka (1) |
| | India (5) | Philippines (1) | North Korea (1) |
| Europe (22 | France (3) | Germany (2) | Italy (2) |
| | Spain (3) | Belgium (2) | Norway (2) |
| | Russia (3) | The Netherlands (2) | Romania (2) |
| | United Kingdom (3) | | |
| Americas (20) | United States (13) | Brazil (6) | Canada (1) |
| Middle East/ Africa (12) | South Africa (3) | Saudi Arabia (3) | Egypt (1) |
| | Turkey (3) | Iran (1) | United Arab Emirates (1) |

**Table X** World's 100 Largest Sea Ports (By Cargo Volume)
Source: American Association of Port Authorities, 2013.

Ground transportation systems, especially speedy means such as the EuroStar and Japan's Shinkansen high-rail system, provide inland movement of passengers and goods as well. Overall, the speed and efficiency of all modern transportation modes today contribute yet another important factor to the growth of international trade.

### 5.6.2 PASSPORTS AND VISAS

International travel is a common, but intricate process requiring a great deal of forethought and planning, sometimes several months in advance, depending upon your purpose and destination. It is therefore advisable to enlist the help of a travel agent, preferably one who specializes in the region or country of interest. Travel agents can help you find the most affordable and convenient air arrangements, hotels, and ground transportation, as well as help you buy travel insurance, which safeguards against losses related to traveler illness, flight changes, lost luggage, and other potential problems one might experience.

Although it is possible to secure passports and visas in a relatively short time, it is advisable to do so well in advance. A passport is a base requirement for entering another country; visas are essentially “permission slips,” given by consulates, to enter a country for a specified period of time. Visas may be given for tourism, business travel, education, employment, or other allowable purposes. Each country has different restrictions and may require visas only from certain other countries, and vary in length; visas must be obtained from the consulate of the country you intend to visit; a travel agent can put you in touch with other services that will facilitate the attainment of your visa.

According to the U.S., Center for Disease Control (CDC), travelers should have a battery of routine immunizations, including mumps/measles/rubella, tetanus, diphtheria, chicken pox, polio, and influenza; additional vaccinations against Hepatitis A and B, typhoid, yellow fever, malaria, rabies, and other diseases may be recommended or required. You should check with your country’s health ministry/department well in advance of your trip to see what vaccinations you should receive.

Travel, like any other aspect of international business, requires documentation. At the very least, a passport is required when a citizen of one country seeks admission to another country. Simply, a **passport** is an official document issued by the government of a country to one of its citizens and make possible entry into another country. Passports authenticate the bearer’s identity, citizenship, right to protection while abroad, and serve as a citizen’s right to exit and re-enter his or her native country. Passports resemble small booklets (125 by 88mm) with a specialized cover bearing the respective country’s name, coat-of-arms, the word “passport” in the appropriate language, and a biometric mark that can be scanned. This standard format is issued by the International Civil Aviation Organization (ICAO), a subset of the United Nations. Passport covers come in a variety of colors, depending on the country of issuance, and are often blue, burgundy, red, green, black. The colors of passports held by diplomats may differ from their country’s standard tourist passport. The bearer’s identification and photo appear in the front and are followed by pages to be stamped by immigration officials when a person enters and exits a country.

Passports are valid for a specified period of time, which differ from country to country. For example, a tourist passport for a U.S. citizen is valid for 10 years; other countries' passports may be valid for as little as five years. Additionally, most countries will require that a passport's validity period be anywhere from one to six months before the holder will be allowed into that country. Generally, a traveler is required to have their passports in their possession at all times while visiting the country, although many travelers will secure their passports in hotel safes, while carrying a photocopy while moving around in public. Travelers who lose their passports will not be allowed to leave a country and must contact their home country's embassy to secure a temporary passport that will allow departure.

**Visas** are documents often required in addition to passports. Visas are authorizations for a foreign national to enter another country, under the terms of established agreements of both countries, for a certain period of time, for a particular purpose, such as tourism, work, or education. The length of visas depends on the purpose – generally tourist visas are good for up to 30–90 days – and usually must be obtained prior to arrival (some countries will grant visas upon, or after, disembarkation). Fees are assessed for visas. Travelers should check with their embassies or consulates well in advance of their anticipated travel, as obtaining visas can be lengthy wait. Passports and visas will be checked by airport or airline officials before a passenger is allowed to board an international flight.

### 5.6.3 ENTRY AND EXIT REQUIREMENTS

Once a passenger has disembarked and exited the gate area, he or she will pass through a number of checkpoints before being allowed to collect luggage and enter the main terminal. Before landing, airline officials will administer the appropriate visitors and customs forms which must be completed. The visitors forms will ask where the foreign visitor will be staying. Customs forms (discussed further below) ask the traveler to declare certain items being brought into the country.

All visitors will pass through immigration, or passport control, at which point their travel documentation will be examined by a government official, who may ask questions about the purpose or duration of the visit; individuals not possessing the appropriate passport/visa, or who do not answer the questions satisfactorily, will not be allowed entrance into the country. Additionally, some countries require that an **entry tax** be paid, many times the result of reciprocal agreements between countries. Usually these fees must be paid in the traveler's home currency, although credit cards are frequently accepted (the fees will be billed in the home currency). Travelers who hold citizenship in economic zones, such as the European Union, may need only to show their national identification cards rather than passports; there are usually designated checkpoint lines for such individuals.

**Customs** must also be cleared before individuals are allowed to exit with their luggage. A customs officer will collect the customs declaration card you have completed, your passport, and will pass your luggage through an x-ray machine; he or she is also entitled to open and search luggage. Customs procedures exist to ensure that certain prohibited items, such as controlled or hazardous substances, weapons, biological products, chemicals, are stopped, or that items bought at a duty-free store in the airport (e.g., tobacco, liquor, perfume) has proper documentation. Once the traveler has passed through customs, he or she is generally cleared to leave the airport and begin their country visit.

### 5.6.4 EXCHANGING CURRENCY

The relative strength of a currency, i.e., its value against other currencies, is a prominent consideration even in tourist travel. When crossing borders, you will in most cases find it necessary to exchange your home country's money for the currency of the country you are entering, at the best possible rate. International travelers who have advance time to plan their trips may arrange to exchange currencies at a local bank; otherwise, they may exchange in the terminals of the airports they depart or enter, some may wait to exchange it at hotels or other tourist destinations that provide an exchange service. Different institutions charge different fees for exchanging money, usually a percentage of the value of the money being exchanged. Most commonly, exchanges are made only for paper currency and not coinage. Thus,
it is often wise to "spend down" as many coins before exiting a country unless you wish to save and collect them.

There are limits placed on how much currency may be brought into a country or removed from a country. in some cases, even permissible amounts must be declared, depending on a country's laws. Refer to Table 9 for the restrictions of selected countries.

| Country* | Entry No-Declaration Limit** | Exit No-Declaration Limit** |
|---|---|---|
| Australia | AUD$10,000 | AUD$10,000 |
| Brazil | BRZ$10,000 | BR$10,000 |
| Canada | CAD$20,000 | CAD$20,000 |
| China | CNY20,000 / USD$5,000 | CNY20,000 / USD$5,000 |
| Eurozone Countries | EUR$10,000 | EUR$10,000 |
| India | USD$5,000 | USD$5,000 |
| Israel | None | None |
| Japan | USD$1,000,000 | None |
| Mexico | USD$10,000 | USD$10,000 |
| Russian Federation | USD$10,000 | USD$3,000 |
| Saudi Arabia | SAR60,000 | SAR60,000 |
| South Africa | ZAR10,000 | ZAR10,000 |
| United Kingdom | EUR$10,000; None for EU Countries | EUR$10,000; None for EU Countries |
| United States | USD$10,000 | USD$10,000 |

**Table 9** Currency Restrictions Entry & Exit
Source: Extrapolated from International Air Transport Association http://www.iatatravelcentre.com
*Guidelines only; restrictions may vary depending upon the specific country of entry or exit; travelers should always check with consulate or embassy to be aware of current restrictions.
**Or equivalent in another currency.

### 5.6.5 LEGAL CONSIDERATIONS

The adage, "When in Rome, do as the Romans do" is sound advice for international travelers. It is important to remember that what is permissible in one's home country may not be allowed in the local legal environments of other cultures. A foreign traveler is expected to follow all of laws of the land; ignorance of those laws will usually not be considered a valid excuse. It is therefore wise to familiarize yourself with a country's legal code before entering that country.

In addition to the fairly normalized definitions of violent crime or theft, certain countries may have laws that are not seen in other cultures. An example is the possession or consumption of alcohol in many Islamic countries, a crime punishable by a number of means, including imprisonment, flogging, or even in some cases, death for repeat offenders. One exception is Dubai, where alcohol is served under a special license by certain hotels and restaurants that cater to non-Muslim travelers. Having alcohol outside of those environments may lead to trouble.

Drugs – even some "over-the-counter" pain relievers – are also forbidden in countries such as Saudi Arabia or Dubai. Generally, any pyschotrophic drug, including narcotic pain relievers, or mood-affecting drugs prescribed for emotional disorders, may require special permission or documentation. Travelers with prescription medications may be allowed to bring in a limited supply for their personal use, but only with thorough documentation. In Saudi Arabia, a traveler must provide the medical diagnosis from a physician, including the patient's personal information, treatment plan, and names and dosage amounts of the drugs in question. Procedures for bringing in prescription medications to the United Arab Emirates is even more complex: Travelers must provide the written prescription of their doctors (attested by a notary), plus authentication from the government of one's home country (UAE Interact, 2015). The UAE's current web list of controlled substances lists over 300 drugs/dosages of "controlled substances."

Socially inappropriate behavior is also subject to cultural interpretation. Public displays of affection, immodest attire, or speech critical of government or religion (blasphemy) may be criminally actionable. Insults, obscene language or gestures, or taking pictures of people or certain objects are also illegal in my Islamic cultures. In Dubai, a British couple was given one-month jail sentences for kissing in public (Huffington Post, Canada, 2013); Singapore imposes caning on petty criminals, such as the case of two German nationals for spraying train graffiti (Shen, R. 2015). Even more serious is the criminalization of homosexuality in several countries, which often leads to severe punishments. The notion of LBGT rights in many Asian, African, and Middle Eastern countries is generally non-existent, or not enforced.

When a tourist finds him/herself in any sort of legal difficulty in another country, they should seek the aid of their home country's embassy. Although they should cooperate with law enforcement officials, continued contact with local authorities without the aid of diplomatic relations may not be in their best interest. Of course, the best objective is not to get into trouble, but sometimes an unwitting transgression may lead to it anyway.

### 5.6.6 OTHER ISSUES

A plethora of legal and technical issues exists for an international business person, too many to enumerate in this chapter. Among some of the predominant considerations include the respect of International Property Rights (IPRs) such as patents, trademarks, and copyright; "dumping," or the illegal sale of goods at a significantly reduced cost, into another country; anti-trust laws, which protect against unfair competition in the marketplace; or the intricacies of e-commerce, including pricing, taxation, information security, and payment. When in the slightest doubt, work with an attorney who can interact with his/her counterpart in the other country.

Traveling abroad can be one of the most exciting things you will do, professionally or personally. Each visit to another culture brings a value-added education to your knowledge of people, places, and processes. Having an old passport, full of stamps from exotic locations you've visited, will serve as a permanent testament to the knowledge and experience you have acquired. So make the travel safe, enjoyable, and enlightening – it will be forever part of your professional repertoire!

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# APPENDIX A

Appendix A (Comparison Of Similarly-Named World Currencies)*

| Currency | ISO |
|---|---|
| Australia Dollar | AUD |
| Bahamas Dollar | BSD |
| Barbados Dollar | BBD |
| Belize Dollar | BZD |
| Bermuda Dollar | BMD |
| Brunei Dollar | BND |
| Canada Dollar | CAD |
| Cayman Islands Dollar | KYD |
| East Caribbean Dollar | XCD |
| Fiji Dollar | FJD |
| Guyana Dollar | GYD |
| Hong Kong Dollar | HKD |
| Jamaica Dollar | JMD |
| Liberia Dollar | LRD |
| Namibia Dollar | NAD |
| New Zealand Dollar | NZD |
| Singapore Dollar | SGD |
| Tuvaluan Dollar | TVD |
| Solomon Islands Dollar | SBD |
| Suriname Dollar | SRD |
| Taiwan Dollar | TWD |
| Trinidad & Tobago Dollar | TTD |
| United States | USD |
| Zimbabwe Dollar | ZWD |
| | |
| Algeria Dinar | DZD |
| Iraq Dinar | IQD |
| Bahrain Dinar | BHD |
| Jordan Dinar | JOD |
| Kuwait Dinar | KWD |
| Libya Dinar | LYD |
| Macedonia Denar | MKD |
| Serbia Dinar | RSD |
| Tunisia Dinar | TND |

| | |
|---|---|
| Czech Republic Koruna | CZK |
| Denmark Krone | DKK |
| Iceland Krona | ISK |
| Norway Krone | NOK |
| Sweden Koruna | SEK |

| | |
|---|---|
| Cambodia Riel | KHR |
| Iran Rial | IRR |
| Oman Rial | OMR |
| Qatar Riyal | QAR |
| Saudi Arabia Riyal | SAR |
| Yemen Rial | YER |

| Currency | ISO |
|---|---|
| Argentina Peso | ARS |
| Chile Peso | CLP |
| Colombia Peso | COP |
| Cuba Peso | CUP |
| Dominican Republic Peso | DOP |
| Mexico Peso | MXN |
| Philippines Peso | PHP |
| Uruguay Peso | UYU |

| | |
|---|---|
| Egypt Pound | EGP |
| Falkland Islands Pound | FKP |
| Guernsey Pound | GGP |
| Gibraltar Pound | GIP |
| Great Britain Pound | GBP |
| Jersey Pound | JEP |
| Lebanon Pound | LBP |
| Sudan Pound | SDG |
| South Sudan Pound | SSP |
| Syria Pound | SYP |
| St. Helens Pound | SHP |

| | |
|---|---|
| India Rupee | INR |
| Indonesia Rupiah | IDR |
| Mauritius Rupee | MUR |
| Nepal Rupee | NPR |

| | |
|---|---|
| Pakistan Rupee | PKP |
| Seychelles Rupee | SCR |
| Sri Lanka Rupee | LKR |
| | |
| Burundi Franc | BIF |
| Central African Franc** | XAF |
| Comoros Franc | KMF |
| Congo (DR) Franc | CFD |
| Dijbouti Franc | DJF |
| French Pacific Franc*** | XPF |
| Guinea Franc | GNF |
| Rwanda Franc | RWF |
| Switzerland Franc | CHF |
| Western Africa Franc**** | XOF |
| | |
| Kenya Schilling | KES |
| Somalia Schilling | SOS |
| Somaliland Schilling | SOS |
| Tanzania Schilling | TZS |
| Uganda Schilling | UGX |

*It is recommended that you consult with legal or financial experts with knowledge of international currency conversion before committing yourself to any transaction.

**Cameroon, Central African Republic, Chad, Republic of Congo, Equatorial Guinea and Gabron.

***French Polynesia, New Caledonia, Wallis and Futuna.

****Benin, Burkina Faso, Cote d'Ivorie, Guinea-Bissau, Mali, Niger, Senegal, and Togo.

Source for currency symbols: www.xe.com

For a complete list of currency symbols, refer to "List of World Currency Symbols," at www.forexrealm.com/additional-info/foreign-currency-symbols.html

# APPENDIX B

Phone, Internet Codes, and Time Zones for Selected Countries*

| Country | Country Phone Code | Country Internet Suffix | GMT/UTC* |
|---|---|---|---|
| Argentina | 54 | .ar | GMT-3 |
| Australia | 61 | .au | GMT+8 to GMT+10 |
| Austria | 43 | .at | GMT+1 |
| Belgium | 32 | .be | GMT+1 |
| Brazil | 55 | .br | GMT-3 to GMT-4 |
| Canada | 1 | .ca | GMT-3 to GMT-8 |
| Chile | 56 | .cl | GMT-4 |
| China | 86 | .cn | GMT+8 |
| Colombia | 57 | .co | GMT-5 |
| Czech Republic | 420 | .cz | GMT+1 |
| Denmark | 45 | .dk | GMT+1 |
| Egypt | 20 | .rg | GMT+2 |
| Finland | 358 | .fi | GMT+2 |
| France | 33 | .fr | GMT+1 |
| Germany | 49 | .de | GMT+1 |
| Greece | 30 | .gr | GMT+2 |
| Hong Kong | 852 | .hk | GMT+8 |
| India | 91 | .in | GMT+5:30 |
| Indonesia | 62 | .id | GMT+7 to GMT+9 |
| Ireland (Northern) | 353 | .ie | GMT 0 |
| Israel | 972 | .il | GMT+3 |
| Italy | 39 | .it | GMT +1 |

| Country | Country Phone Code | Country Internet Suffix | GMT/UTC* |
|---|---|---|---|
| Japan | 81 | .jp | GMT+9 |
| Korea (South) | 82 | .kr | GMT+9 |
| Malaysia | 60 | .my | GMT+8 |
| Mexico | 52 | .mx | GMT-5 to GMT-7 |
| The Netherlands | 31 | .nl | GMT+1 |
| New Zealand | 64 | .nz | GMT+12 |
| Norway | 47 | .no | GMT+1 |
| Philippines | 63 | .ph | GMT+8 |
| Russian Federation | 7 | .ru | GMT+2 to GMT+12 |
| Saudi Arabia | 966 | .sa | GMT+3 |
| Singapore | 65 | .sg | GMT+8 |
| Spain | 34 | .es | GMT+1 |
| South Africa | 27 | .za | GMT+2 |
| Switzerland | 41 | .ch | GMT+2 |
| Taiwan | 886 | .tw | GMT+8 |
| Turkey | 90 | .tr | GMT+3 |
| UAE | 971 | .ae | GMT+4 |
| United Kingdom | 44 | .uj | GMT 0 |
| United States | 1 | .us | GMT+5 to GMT+8 (Mainland) |
| OTHER:<br>European Union<br>U.S. Commercial<br>U.S. Educational<br>U.S. Government<br>U.S. Military<br>U.S. Non-profit | | .eu<br>.com<br>.edu<br>.gov<br>.mil<br>.org | |

* May vary according to Daylight Savings Time and other regional adjustments. It is recommended that you confirm time differences before making transaction arrangements.

# APPENDIX C

Essential Phrases in Selected Global Business Languages*

| English | Spanish | French | German | Portuguese | Chinese | Japanese | Arabic |
|---|---|---|---|---|---|---|---|
| *hello* | *hola/ buenos dias* | *bonjour* | *guten tag* | *Olá/ bom dia* | *nǐ hǎo* | *konnichiwa* | *salam* |
| *goodbye* | *adiós* | *au revoir* | *auf wiedersehen* | *adeus* | *zài jiàn* | *sayōnara* | *ma'salama* |
| *how are you?* | *como está usted?* | *comment-allez vous?* | *wie geht es inhen?* | *Como voce esta?* | *nǐ hǎo ma* | *genki desu ka?* | *kaife halaka(i)* |
| *I am fine, thank you* | *estoy bien, gracias* | *je vais bien* | *mir geht es gut, danke* | *Eu estoy bem, obrigado* | *wo hen hao, xiè xie* | *hai, genki desu* | *ana bekhair, shokran* |
| *thank you* | *gracias* | *merci* | *danke* | *obrigado* | *xiè xie* | *dōmo* | *shukran* |
| *you're welcome* | *de nada* | *je vous en prie* | *bitte schön* | *de nada* | *bú yong xiè* | *dō or itashimashite* | *bi kulli surur* |
| *please* | *por favor* | *s'il vous plait* | *bitte* | *por favor* | *qǐng* | *onegaishimasu or kudasai* | *fádlak (m) fádlik (f)* |
| *excuse me* | *disculpe* | *excusez-moi* | *entschuldigung* | *desculpe me* | *bú hǎo yi si* | *sumimasen* | *a'afwan* |
| *Mr.* | *Señor* | *Monsieur* | *Herr* | *Senhor* | *xiānsheng* | *-san (after name)* | *asseyyid* |
| *Mrs./Ms.* | *Señora* | *Madame* | *Frau* | *Senhora* | *nǚshì* | *-san (after name)* | |

*The use and/or pronunciation of these terms may vary in terms of formality, gender, and regional dialects.