

## **ABOUT THE SIGNIFICANCE OF NATIONAL CULTURE DIFFERENCES FOR DOMESTIC COMPANIES THAT EXPAND TO THE INTERNATIONAL ENVIRONMENT**

### **Paris Bayias**

Forecasting & Strategy Unit, School of Electrical & Computer Engineering,  
National Technical University of Athens  
Iroon Polytechniou 9, Athens 157 80, Greece  
&  
Strategy & Policy Development Sector, RACTI  
Davaki 10, Athens 115 26, Greece  
E-mail: bayias@cti.gr

### **Vassilis Assimakopoulos**

Forecasting & Strategy Unit, School of Electrical & Computer Engineering,  
National Technical University of Athens  
Iroon Polytechniou 9, Athens 157 80, Greece  
E-mail: vassim@central.ntua.gr

### **—Abstract—**

*This work investigates the importance of national culture differences for domestic companies that consider international expansion. Is it a factor of prime importance for companies that expand internationally, as some researchers say, or it is overrated, being lower in the significance list? A group of 61 managers from 7 internationalized companies listed in the Athens Exchange SA contribute to the research. Findings seem to support those authors that say that national culture differences do influence the strategy, tactics and management practices of domestic companies that plan international expansion, but this influence is not of prime importance. Findings show that there are other factors such as market potential, legal framework, market infrastructure, broad economic indicators and technology barriers that are more significant than national culture issues, with the latter being overrated<sup>1</sup>.*

**Key Words:** *national culture differences, internationalisation, globalisation*

**JEL Classification:** M16 - International Business Administration

---

<sup>1</sup> These results are indicative pending statistical confirmation in a wider sample.

## **1. INTRODUCTION**

### **1.1. Background**

Globalisation of markets and internationalization of domestic companies are issues related to business and management since 1970s (Levitt, 1983; Laurent, 1983). However, their importance has been significantly increased during the last two decades, and their consideration seems to be necessary for the companies whose major aim is to be or remain competitive in the long term. These two important issues are influenced by a series of factors, with 'national culture' being one of them. National culture is a significant factor for cross-national business relations and national culture differences must be considered when organizing internationalization efforts.

### **1.2. Topic**

The research of the level of significance of the 'national culture differences' factor for domestic companies that plan to expand to the international environment is the topic of this work. Given the afore-mentioned background, the topic is very important for the international business and management; its importance has been further increased because the eastern-western cultures mix (Hofstede & Bond, 1988) has become more complicated during the last years - mainly due to China / Asia markets opening. The main research question set is the following: "How important are national culture differences to companies who expand to internationally?" Namely, do the 'national culture differences' factor has a highly important role to play in the current, globalised, highly competitive business arena? Is the impact of culture as important as for example market potential, market infrastructure, legal considerations? In other words, is the culture that matters or the business potential and development? Can the dynamics of globalisation be crucially influenced by cultural differences?

## **2. LITERATURE SURVEY**

### **2.1 Do national culture differences influence management practices?**

This paragraph includes an attempt to research the influence of national culture differences on management practices. What is investigated is the impact of the existence of cultural differences on the strategic decisions, plans and actions, the marketing plans, the human resource management actions etc of a company which plans to expand internationally.

Globalisation possesses a significant role in business (Adler & Bartholomew, 1992; Levitt, 1983; Porter, 1990), and internationalisation should be seriously considered by a domestic company which is interested in being / remaining competitive. Given this internationalisation consideration of a domestic company, two interrelated issues / questions arise: (1) Are the company's management practices influenced by national culture differences? Namely, should the company change or adapt its management practices because of its international expansion (to nations which culturally differ)? If yes, (2) At what degree? What is the level of significance of this influence?

The first issue is related to the so-called 'convergence / divergence dichotomy' (Adler, Doktor & Redding, 1986; Newman & Nollen, 1996; Tayeb, 1994; Clark & Mueller, 1996). Those who support the convergence or universalist perspective argue that organisational characteristics across nations are mostly free of the particularities of specific cultures, leading to "common industrial logic", most notably of technological origin. "Institutional frameworks, organisational patterns and structures, and management practices are converging." (Adler, Doktor & Redding, 1986:300-301). According to Lubatkin, Ndiaye & Vengroff (1997), the universalist hypothesis is grounded on the static equilibrium assumption that all institutions are driven by the same desire for efficiency that motivates managers to mimic the best administrative practices, regardless of their societal context. Levitt (1983:20), being one of the convergence part supporters, has related his 'homogenisation' position with 'technology' and 'globalisation'. Newman & Nollen (1996:753) mention that the American management theory led to the convergence theory or the one size fits all belief, that "a good manager in the US will also be a good manager in other countries, and that effective US management practices will be effective anywhere". Lubatkin, Ndiaye & Vengroff (1997) say that all managers, even those from non-western, non-industrialised, non-Anglo-Saxon origins, face a similar set of challenges that cause them to independently construct similar solutions, or mimic the skill activities of others.

As concerns the divergence adherents, they argue that "organisations are culture-bound, rather than culturally free, and are remaining so" (Adler, Doktor & Redding, 1986:301). Hofstede and Laurent have deeply researched the area and have concluded that different cultures lead to different management practices, or else managers' behaviour worldwide maintains its dissimilarity (Tayeb, 1994). Hofstede (1993, 2001) has concluded that there are no such things as universal management theories and "universal solutions to management problems do not exist" (Hofstede, 2007:415), adding that "diversity in management practices ... has been recognised in US management literature for more than thirty years"

(Hofstede, 1993:82). At the same time, Laurent (1983:95) concludes that his findings “cast serious doubt on the universality of management and organisational knowledge and praxis”. Newman & Nollen (1996:753) state that “there is no one best way to manage a business. Differences in national cultures call for differences in management practices”. Porter (1990:73-74) says that “... no nation can or will be competitive in every or even most industries ... no one managerial system is universally appropriate”. Reviewing Porter’s work on these issues, Clark & Mueller (1996) conclude that in spite of globalisation, the role of the home situation is more significant than ever before, because it is the source of the main technologies and skills which underpin competitive advantage.

Concluding this convergence / divergence discussion, we could ask: Convergence or divergence? Adler, Doctor & Redding (1986) mention that the studies are inconclusive. However, some years later, Adler & Bartholomew’s review of over 28,000 articles related to culture led to the conclusion that there is an overwhelming consensus (93.8% of the articles) that culture is important and does make a difference (Adler & Bartholomew, 1992). As expected, Hofstede (1996) has been positioned in a clear way: “At one time there was a discussion about whether organisations and organising are bound by national cultures. Some people adhered to the ‘culture-free hypothesis’. We have not heard much about this hypothesis lately; it probably died in East Asia. Of course, organisations have universal characteristics: organisations in one country resemble those in another, but they are not culture-free”.

## **2.2. National culture differences do influence management practices: What is the level of significance of this influence?**

As concluded in the previous paragraph, national culture differences seem to influence management practices. Pressey & Selassie (2002) say that the notion that differences in national culture influence all aspects of international management is not only held as true, but also axiomatic. However, it seems that there is a debate concerning the *degree of importance* of this influence. There are authors implying or stating that national culture differences are *of high importance* when considering cross-national co-operations, whereas another chunk of researchers concludes that *these differences are not so significant*, with other factors such as market potential and infrastructure, and legal issues being more important.

### **2.2.1. National culture differences are of high importance**

Fan & Zigang (2004:81) mention that in a survey entitled ‘What is the *biggest barrier* in doing business in the world market’, cultural differences ranked first in all eight items including law, price competition, information, language, delivery, foreign currency, time differences, and cultural differences; no more information is given for this survey. They come to express their statement in a different way mentioning that “...it can also be observed that most of the failures faced by cross-national companies are caused by neglect of cultural differences”. Hofstede is one of the authors that believe in the de facto great importance of national culture differences. He avoids the comparisons with other factors or the direct statements about the cultural differences significance. He says, for example, that “there are (unintended) conflicts which often arise during intercultural encounters, which make the participants suffer” (Hofstede, 1991:208). He also states that home countries play an important role for businesses’ effectiveness (Hofstede, 2007). Pooley (2005) also agrees with Hofstede and Fan & Zigang, stating that there is plenty of evidence that cultural differences are a major reason why so many of cross-border joint ventures fail. Schneider researches the issue from the ‘strategy formulation’ point of view saying that “the strategy formulation process cannot be considered ‘culture-free’” (Schneider, 1989:149). Bigoness and Blakely (1996) refer to an increasing number of authors whose research supports the theory that the exportability of management theories and practices is determined by the comparability of the cultural values between nations. Porter characterises the national context as the very significant source of competitive advantage and “... the role of the home situation is more significant than ever before” (Porter, 1990; Clark & Mueller, 1996:129). DiBella states that “Culture can be a major stumbling block to planned change because critical, underlying assumptions are hidden, and visible elements of culture, such as language, may be considered inconsequential” (DiBella, 1996:368). Kvedaraviciene & Boguslauskas (2010) refer to the great importance of cultural differences in offshore outsourcing, stating that it is one of the most important reasons for fails. Dodor & Rana (2007:82) conclude that managers must “pay careful attention to how national cultural differences may influence the effectiveness of their management styles, strategies and decisions”. At the same time, Newman & Nollen’s (1996) conclusions include the high importance of the congruence between management practices and the national culture characteristics in order to produce better performance outcomes, therefore pinpointing in another way the importance of cultural differences.

### **2.2.2. A different opinion: National culture differences are not so important**

Markoczy (1998, 2000) makes a clear claim that national cultural differences are overrated. She mentions that social psychologists have shown that people automatically and subconsciously look for and exaggerate differences based on nationality. She states that cultural differences cannot be ignored, but she urges the researchers to learn to proceed with caution when looking at cultural differences. Using the Muller-Lyer illusion (which line is/appears longer?), she makes a parallelism and practically says that cultural differences possibly appear to be very important, but actually are not. She also states that “one of the best ways to identify national (or any) differences is to blind yourself to other factors” (Markoczy, 1998:3), or else fall into the trap of looking first for deep cultural differences and no further (Markoczy & Goldberg, 1998), adding that the adherents of the great importance of cultural differences “cannot tell us whether those differences are substantial” (Markoczy, 1998:3). Pressey & Selassie’s (2002) findings identify little evidence to support the popular idea that culture exerts a significant influence on international business relationships. Instead, these findings suggest that some managers perceived factors such as communication/language barriers, political barriers, geographic distance, economic factors, industry barriers, time differences, technology barriers, legal differences and infrastructure barriers, being more important as concerns their impact on cross-national relationships. From a different viewpoint, Gerhart (2008:255) concludes that his analysis “does not support the hypothesized strong role of national culture, on average, as a constraint on organizational culture”. Wood & Robertson (2000) present their results on a research examining the importance of various types of foreign market information relevant to target market selection (market entrance strategies). Experienced managers participating into this research have evaluated the following factors as important when analysing foreign markets and considering market entrance (listed according to importance): Market potential, legal considerations, politics surrounding market, market’s infrastructure, broad economic indicators covering overall development and culture.

### **2.3. The core question**

Having presented two different perspectives concerning the importance of the ‘national culture differences’ impact when a company internationalises, the following question can logically be set: ***How important are national culture differences to companies who expand to internationally?*** Namely, it would be of interest to check whether the ‘national culture differences’ factor has a highly

important role to play in the current, globalised, highly competitive business arena. Is the impact of culture as important as market potential, market infrastructure, legal considerations and other factors mentioned above? In other words, is the culture that matters or the business potential and development? Can the dynamics of globalisation be crucially influenced by cultural differences? These are some of the questions that have been investigated in this work's fieldwork.

### **3. THE FIELDWORK**

#### **3.1. Preparation**

The literature review has covered various issues related to national culture differences and their influence on management practices. Key points have been noted and main questions have been stated. The review has included the opinions that prominent authors have expressed regarding these key points and questions. The fieldwork covers the same core issues, but the viewpoint is different. The opinions of active managers who work for companies that have already gone international or plan to internationalise in the immediate future have been collected and analysed. The 'questionnaire' method has been used; Part A, including 7 questions, asked for information useful for statistical purposes (gender, age, nationality, position in company etc) and Part B including 13 questions covered the essence of the research. The main target was *to add value, through the presentation of practical findings, to the issue of the prime importance (or not) of the 'national culture differences' factor when a domestic company internationalizes.*

#### **3.2. Execution**

The questionnaire was distributed through the Athens Exchange SA to 7 listed international (or under internationalization process) companies. The final total number of recipients was **110** managers, at the middle or high level in order to be decision makers, be related to the strategic considerations of the company etc. A pilot phase was first organized, with the contribution of 8 top managers working for one of the selected companies. The **number of responses collected were 61**, meaning that **55%** of the initial recipients responded. Given the profiles of the recipients, this percentage was rather expected and can be characterised as normal.

## 4. CONCLUSION

### 4.1. Major findings in relation to literature review's key points

The sample of this research work mainly includes Greek, male, middle and high-level managers, aged 30-49, working for Greek-based, but internationalised companies, which operate in products industries. According to this group's opinion:

1. Globalisation significantly influences business. Internationalisation must be seriously considered by a domestic company in order to be or remain competitive.
2. National culture differences influence management practices. Domestic, under internationalisation companies must adapt management practices to foreign local cultures.
3. Neglect of cultural differences is not the major reason that explains the failures of cross-national companies.
4. 'National culture differences' is not the most important factor to be considered by a company under internationalisation during its strategy formation process.
5. The most important obstacle to planned change of a company under internationalisation is not its adaptation to foreign national cultures.
6. Similarities of employees at the functional – especially managerial – level supersede differences at national culture level.
7. National culture issues are:
  - More important than 'communication/language', 'foreign currency', 'time differences' and 'geographic distance', but
  - **Less significant** compared to 'market potential', 'legal issues', 'market infrastructure', 'delivery of services/products', 'broad economic factors', 'company's strategic orientation', 'managers professional experience and training', and also 'industry', 'infrastructure' and 'technology' barriers
  - Of the same importance as 'politics surrounding market'.

### 4.2. What is the reply to the core research question?

Counted with findings #1-6, findings #7 do not *fully* support the 'national-culture-issues-are-not-important' adherents' studies, but *agree with their core statement*: for a company under internationalisation, the national culture differences do not

seem to be of prime importance. There are *factors, other than the one related to national culture issues, that seem to be more important* for a company that expands to the international environment.

Concluding, as regards the core issue researched, namely: “How important are national culture differences to companies who expand to internationally?”, which has been stated after the literature survey, **the fieldwork research findings indicate that national culture differences are not of prime importance.** According to these findings, factors such as market potential, broad economic indicators, legal framework etc are more important.

#### **4.3. Areas for future research**

(1) Data collection from more countries and cultures, (2) Research expansion to services industries and (3) Focus on specific areas in cross-national business activity for deeply studying the importance of national culture differences.

#### **BIBLIOGRAPHY**

Adler, Nancy and Susan Bartholomew (1992), “Academic and professional communities of discourse: generating knowledge on transnational human resource management”, *Journal of International Business Studies*, 23(3), pp.551-570.

Adler, Nancy, Robert Doktor and Gordon Redding (1986), “From the Atlantic to the Pacific century: Cross-cultural management reviewed”, *Journal of Management*, 12(2), pp.295-318.

Bigoness, William and Gerald Blakely (1996), “A cross-national study of managerial values”, *Journal of International Business Studies*, 27(4), pp.739-752.

Clark, Peter and Frank Mueller (1996), “Organizations and nations: from universalism to institutionalism?”, *British Journal of Management*, 7, pp.125-139.

Dodor, Jean Baptiste and Dharam Rana (2007), “Culture and economic development: An investigation using Hofstede cultural dimensions”, *International Journal of Business Research*, VII: 2, pp.75-84.

Fan, Pan and Zhang Zigang (2004), “Cross-cultural challenges when doing business in China”. *Singapore Management Review*, 26(1), pp.81-90.

Gerhart, Barry (2008), “How Much Does National Culture Constrain Organizational Culture?”, *Management and Organisation Review*, 5:2, pp.241-259.

Hofstede, Geert (1991), *Cultures and organisations: Software of the mind*. McGraw-Hill, UK.

Hofstede, Geert (1993), "Cultural constraints in management theories". *Academy of Management Executive*, 7(1), pp.81-94.

Hofstede, Geert (1996), "An American in Paris: The influence of nationality on organization theories", *Organisation Studies*, 17(3), pp.525-537.

Hofstede, Geert (2001), *Cultures Consequences: Comparing values, behaviors, institutions and organizations across nations* (2<sup>nd</sup> ed.). Sage publications.

Hofstede, Geert (2007), "Asian management in the 21<sup>st</sup> century", *Asia Pacific Journal of Management*, 24, pp.411-420.

Hofstede, Geert and Michael Harris Bond (1988), "The Confucius Connection: From Cultural Roots to Economic Growth", *Organizational Dynamics*, 16(4), pp.5-21.

Kvedaraviciene, Goda and Vytautas Boguslauskas (2010), "Underestimated Importance of Cultural Differences in Outsourcing Arrangements", *Inzinerine Ekonomika-Engineering Economics*, 21(2), pp.187-196.

Laurent, Andre (1983), "The cultural diversity of Western conceptions of management", *International Studies of Management and Organisation*, 8(1-2), pp.75-96.

Levitt, Theodore (1983), "The globalisation of markets", *Harvard Business Review*, 61(3), pp.92-102.

Lubatkin, Michael, Momar Ndiaye and Richard Vengroff (1997), "The nature of managerial work in three developing countries: A test of the universalist hypothesis", *Journal of International Business Studies*, 28(4), pp.711-733.

Markoczy, Livia (1998), "Us and them", *Across the Board*, 35(2), pp.44-49.

Markoczy, Livia and Jeff Goldberg (1998), "You can pick your friends, and you can pick your nodes, but you can't pick your friends' nodes: misattributions of others' priorities", *The International Journal of Human Resource Management*, 9(5), pp.893-909.

Markoczy, Livia (2000), "National culture and strategic change in belief formation", *Journal of International Business Studies*, 31(3), pp.427-442.

Newman, Karen and Stanley Nollen (1996), "Culture and congruence: the fit between management practices and national culture", *Journal of International Business Studies*, 27(4), pp.753-779.

Pooley, Richard (2005), "When cultures collide", *Management Services*, 49(1), pp.28-31.

Porter, Michael (1990), "The competitive advantage of nations (cover story)", *Harvard Business Review*, 68(2), pp.73-93.

Pressey, Andrew and Habte Selassie (2002), "Are cultural differences overrated? Examining the influence of national culture on international buyer-seller relationships", *Journal of Consumer Behaviour*, 2(4), pp.354-368.

Schneider, Susan (1989), "Strategy formulation: The impact of national culture", *Organisation Studies*, 10(2), pp.149-168.

Tayeb, Monir (1994), "Organisations and national culture: Methodology considered", *Organization Studies*, 15(3), pp.429-446.

Wood, Van and Kim Robertson (2000), "Evaluating international markets. The importance of information by industry, by country of destination, and by type of export transaction", *International Marketing Review*, 17(1), pp.34-55.