Introduction

In this opening chapter, we set the building blocks that will serve the reader, whether scholar or practitioner, as he or she goes about reading, reflecting, and using this book. We consider this book a scholarly treaty, a reader, a reference, a handbook, and, finally, a cultural atlas. Cognizant of these multiple roles, the first chapter lays out the definitions, rationale, and boundary domain that set the stage for the chapters that follow. This chapter serves as a template for the overall endeavor, presenting our vision of culture as a deeply embedded force whose roots and nature may be abstract but whose impact is anything but.

We begin by defining culture and explaining our focus on the nation as a unit of analysis, despite acknowledging variations based on region, organization (corporate), industry, sector, and occupation, among others. We explain why culture matters to the operation and outcome of business transactions (e.g., cross-cultural negotiations) and arrangements (e.g., mergers and acquisitions), and why its in-depth understanding is crucial to the practitioner as much as to the scholar. While focusing on management and organizational behavior, we also explain, if briefly, why culture matters across the spectrum of business functions, be they finance or marketing, for example. We then discuss the roots of culture – how it emerges, evolves, and is sustained over time. We proceed to discuss what might happen to culture and to cultural variations under globalization, briefly discerning...
the countervailing forces underlying convergence (making cultures more similar) and divergence (retaining or even reinforcing cultural differences). Finally, we present cultural clustering, the focus of this book, as a solution to the varying and partial similarity across the nations of the world. This solution, like the rest of this book, applies to scholars and practitioners alike, as it reduces the close to momentous variations in the cultures of the world to manageable groupings allowing navigation of this diverse terrain.

1.1 Culture and its Boundaries: The Nation-state as a Cultural Entity

Ever since international mobility and commerce commenced, culture has been of major importance to the transacting parties. Typically seen as a hindrance, yet sometimes perceived as an asset or even as a comparative and competitive advantage, culture remains one of the most potent forces in business, impacting both process and outcome; its intangible, complex, and evolving nature notwithstanding. Indeed, the fact that a phenomenon has been defined in literally hundreds of ways attests not only to its abstraction and ambiguity but also to its importance. Culture is a powerful force. It shapes people’s perceptions, dispositions, and behaviors (Triandis, 1989). It influences the very willingness to engage in business as in other life domains as well as the nature and form of such engagement and its likely success or failure.

The word culture comes from the Latin word *cultura*, which over the ages acquired multiple and diverse meanings. Biologists readily acknowledge that culture is hard to define (e.g., Kaessmann et al., 1999), and even in the narrower sense in which it is used in business and management, culture boasts literally hundreds of definitions. The American anthropologist Donald Brown (1991:130) defines culture as the “patterns of doing and thinking that are passed on and between generations by learning,” whereas Gould and Grein (2009:237) view culture as “a web of significance or meaning that is formed into narrative,” involving “processes of sense-making, meaning making or production.” A shared way of life of a group of socially interacting people, transmitted from one generation to another via acculturation and socialization that distinguish one group’s members from others (Berry & Pootinga, 2006; Hofstede & Bond, 1988), culture constitutes “the collective programming of the mind” (Hofstede, 1980a), a “shared mental software” (Hofstede, 2001).

Distinction between groups is fundamental to the concept of culture. Biologists note that humans are less diverse than other species, and culture is both a source and a manifestation of this diversity. In biology, culture
represents information that may cause variation in behavior, acquired and retained by social learning (Boyd & Richerson, 1985; Castro et al., 2004); in business and management, it is the variation of people in the workplace that is of interest. In this book, we seek to document that variation and identify its content, sources, and stability or change over time. Given the multiplicity of human groups, however, our first task is to identify the groups whose culture we seek to study and compare across; in other words, to decide our unit of analysis.

The Nation-state as the Unit of Analysis

Comparative management, as a field of inquiry, acknowledges that the cultural milieu may be broader or narrower than the borders that delineate the political and legal environments of a country. Huntington (1996) views the civilization as the fundamental cultural entity; however, most social science scholarship uses the nation-state, or “society,” as the cultural delineator (Korotayev & Kazankov, 2002). From a historical standpoint, nations are political expressions of cultural similarity, such as those that defined each of the early nations of Egypt and Greece. The very existence of the state encourages cultural homogenization (Cavusgil et al., 2004; Gould & Grein, 2009; Hofstede, 1980a; House et al., 2004; Javidan et al., 2006; Peterson & Smith, 2008; Ronen & Shenkar, 1985; Tang & Koveos, 2008; Tweed et al., 1999) by language, law, education, mass media, sense of history, and identity (Conway et al., 2001; Tweed et al., 1999). Political, economic, social, and legal institutions define the nation-state as a cultural delimiter, as confirmed by neo-institutional and functional theories (Peterson & Smith, 2008).

According to Huntington (1996:38), “successful political, security, and economic international institutions are more likely to develop within civilizations [rather] than across civilizations; going forward, conflicts between groups from different civilizations will be more frequent, more sustained and more violent than conflicts between groups in the same civilization.” National institutions, which include socializing agents such as schools, families, and social agencies, interact with the cultural milieu to create unique value systems that distinguish between countries and represent societal cultures (Conway et al., 2001; Gelfand et al., 2007). In structural–functional theory, preserving and reinforcing national culture is the primary role of educational institutions (Parsons, 1975). Thus we agree with Inglehart and Baker (2000:37) that “the nation remains a key unit of shared experience and its educational and cultural institutions shape the values of almost everyone in that society.” National governments also shape work-related culture via workplace laws and provide the base for multinational
enterprises’ (MNEs) operation at home and abroad, inclusive of cultural content (Shenkar et al., 2008) and participation (Smith et al., 1997).

When a nation consists of two or three cultures with little overriding or uniting values, it seems unlikely to survive in the long-term. Either the nation breaks up into smaller units or, alternatively, one group imposes its culture on the rest. In nations with very diverse groups, the result has been more evolutionary, as different cultural groups unite based on superordinate values that bind these groups together, stimulating the development of national culture. Huntington (1993:23) argues that “villages, regions, ethnic groups, nationalities, religious groups, all have distinct cultures at different level of cultural heterogeneity,” and that “the culture of a village in southern Italy may be different from that of a village in northern Italy”; however, he insists that “both will share in a common Italian culture that distinguishes them from German villages.” Indeed, there is a broad agreement in the comparative management literature that cross-national variance in individual values is greater than within-nation variance (Hanges & Dickson, 2006). Even the handful of scholars who contend that values vary more within countries than between countries (e.g., Fischer & Schwartz, 2011) use the nation as their unit of analysis.

Support for the nation as a cultural unit also comes from organizational theories. Peterson and Smith (2008) point to the role of the nation-state in delineating the legitimacy of nations as implements of coercive institutional mechanisms, suggesting that from the perspective of both neo-institutional theory and functional anthropology there is reason to anticipate that the nation-state would be an important culture delimiter, a notion that is further supported by the analysis of sovereignty. There is strong evidence that when personal values are aggregated to the societal level, they predict economic growth, educational achievement, suicide rates, road death tolls, female participation in the workforce, female-to-male income ratios, and transparency/corruption, among other variables (Hofstede, 2001; Minkov, 2011; Minkov & Hofstede, 2012).

Finally, MNEs are rooted in a national culture and their strategy and operations take place in the context of national environments whose stakeholders, from governments to unions, are their bargaining counterparts for cultural contents (Shenkar et al., 2008). MNEs function in a national world and use the nation-state in their environmental analysis. Laws, taxes, tariffs, exchange rates, interest rates, credit availability, and other variables important to the MNE vary by country, while national governments set investment terms. The MNE is subservient to national sovereignty and its political whims. Italy, for instance, has seen over 60 governments since World War II with corresponding legal and regulatory changes (Lundby &
Delineating Culture Jolton, 2010). National markets also differ in attractiveness, the result of variations in economic and commercial environments, growth rates, political stability, and consumption patterns (Cavusgil et al., 2004), and there is substantial evidence that those are correlated with culture (e.g., Hofstede, 2001). Human resource considerations also support using the nation as the unit of analysis: the corporate workforce is primarily national, and even MNEs draw most of their employees from the host country. Laws concerning wages and benefits also vary from country to country. Thus, on balance, the national unit represents the best, as well as the most pragmatic, option available for the study of culture and its impact on organizations and individuals. Minkov and Hofstede (2012) find that when basic cultural values are compared, in-country regions tend to cluster along national lines rather than scatter and intermix with the regions of other countries in the same cultural or geographic area. This is true even in the case of nations constituted relatively late, e.g., Malaysia and Indonesia, which share an official language (Malay-Indonesian), a dominant religion (Islam), a long history of rice cultivation, and a national border (maritime in this case).

Limitations in Using the Nation as the Unit of Analysis

Evidently, there are also drawbacks to the use of the nation-state as the focal unit. Since cultures are rarely in perfect congruence with their countries of incumbency, the use of the country as a unit of analysis blocks full representation of cultural uniqueness (Berry, 1969), underplaying within-nation variation and subcultures within nations (Peterson & Smith, 2008). Indeed, studies at the individual level show significant within-nation variance, and many nations have regional, ethnic, or other subcultures (Minkov & Hofstede, 2012). Subcultures, the result of sometimes arbitrary drawing of national borders and immigrants who preserve their culture of origin while adapting to a new culture (Berry, 2003; Huynh et al., 2009; van de Vijver & Phalet, 2004), are masked, a problem especially acute in multiple-nationality countries such as Belgium, Canada, and Switzerland, but also a challenge in diverse countries such as the United States. Huntington (1993:42) held that “people differentiate themselves by civilizations,” and therefore predicted that “countries with large numbers of people of different civilizations such as the Soviet Union and Yugoslavia are candidates for dismemberment,” as indeed happened. Similarly, he asserted that “torn countries,” e.g., Turkey, may try – not always successfully – to redefine their identity.

Studying the effects of national culture requires a meaningful degree of within-country commonality and between-country differences (Dawar & Parker, 1994). A question raised by Peterson and Smith (2008) is whether
it is useful to understand cultures in terms of nations, regional subcultures within nations, or clusters of nations representing distinct civilizations. The evidence is inconclusive. Hofstede (1980a, 2001) found, for example, that, despite sharing a language, Flemish Belgium and the Netherlands scored differently on his dimensions and were consequently distinguishable, whereas the German-speaking regions of Switzerland were more similar to Germany than to Switzerland’s French-speaking region. A study of school teachers and university students by Schwartz (1994) showed that when countries and in-country regions were ranked on cultural value dimensions, Shanghai in northeastern China and Guangzhou in southern China were farther apart on their aggregate scores on some value groups than the United States and Japan; on other values, the gap between the two Chinese cities was greater than between Hungary and New Zealand, or Brazil and Turkey. Peterson et al. (2006) and Peterson and Fanimokun (2008) found that geographically localized Nigerian ethnic groups diverged on some World Values Survey (WVS) measures but not on others. Dheer et al. (2015) identified significant cultural differences across India’s geographic regions. Lenartowicz et al. (2003) reported value differences between national regions in Latin America and similarities across national boundaries. However, Hofstede et al. (2010a) found that despite differences between Brazilian states there was clear evidence of a common Brazilian national culture and the states were much more similar to each other than to other Latin American countries.

In addition to regional and other cultural fault lines within nations, scholarship recognizes cultural variations along industry, sector (e.g., state-owned vs. publicly traded), occupation, and, in particular, corporate lines (Kraut & Ronen, 1975). Some studies adapted national culture measures for organizations (Kirkman et al., 2006; Sivakumar & Nakata, 2001), an approach criticized by Hofstede and his associates (Hofstede et al., 1990:312–313) who argue that “organizational culture differences are composed of other elements than those that make up national culture difference” and that “national cultures and organizational cultures are phenomena of different order: using the term ‘cultures’ for both is, in fact, somewhat misleading” (see also Javidan et al., 2006:904). Regardless, the consensus is that corporate culture can attenuate but not eliminate the influence of national culture (Newman & Nollen, 1996) and that organizational culture does not erase national culture but can soften it (Adler, 2008; Newman & Nollen, 1996; Pearce & Osmond, 1999). As Weber et al. (1996) and Erez and Gati (2004) show, organizational culture is nested within national culture, so even if we accept that a strong corporate culture rests on homogeneity in member perceptions (Schneider et al., 2002), such homogeneity may be biased in the direction of the national home culture.
Most importantly, corporate practices incongruent with national culture are unlikely to yield high performance (Denison & Mishra, 1995; Earley, 1994; Erez & Earley, 1993; Leung et al., 2005; Newman & Nollen, 1996).

The Nation and the Individual

To compare the cultural values of countries, scholars use mean responses of individual members; thus they assume that social culture can be discerned by probing the minds of its individual members. We accept this premise, as we view societal culture as the latent, normative value system, external to the individual, which underlies and justifies the functioning of societal institutions (Schwartz, 2009a, b, 2011). This hypothetical construct is not a psychological variable; it cannot be observed directly but can be inferred from its manifestations. The normative value system influences the minds of individuals but is not situated in their minds; it is an aspect of the context in which people live. Finally, societal culture underlies and is expressed in the functioning of societal institutions, in their organizations, practices, and policies. This value-based approach to culture has been pitched at the national level.

Notwithstanding, both Schwartz (1992) and Bond (1988) provide value-based approaches to cultural differences pitched at the individual level; that is, the domains or dimensions along which people from different nations may be compared were derived by analyzing the data in ways that adduce individual-level constructs, thereby enabling researchers to compare people rather than nations (Leung & Bond, 1989). Within a country, some people can be, for instance, more individualistic or collectivistic, on average, than people from another country (Cocroft & Ting-Toomey, 1994; Gabrielidis et al., 1997; Oyserman, 1993; Oyserman et al., 2002). The cultural attribution error “involves establishment of stereotypes based on nationality, and the assumption that all members of a particular nation will behave in accordance with that stereotype” (Leung et al., 2001a, b, 2005:369). Also, some variables at the individual level would be bipolar, such as individualism–collectivism, rather than unipolar constructs (Kirkman et al., 2006; Oyserman et al., 2000; Triandis, 2004). Finally, Bond (1988) reanalyzed the Chinese Culture Connection’s (CCC) data bank at the individual level (Smith et al., 1996a), while Schwartz (1994) further analyzed his data at the cultural level in an effort to identify a ‘derived-etic’ dimension of cultural variation.

1 These and other terms pertaining to the dimensions of culture are defined and explained in Chapter 4.
As Smith et al. (1996a) note, culture is a fundamental feature of human consciousness, which underlines a range of higher psychological functions, i.e., self-appraisal, emotions, cognitions, attitudes, values, and behavior (Kolstad, 2005, 2007; Triandis et al., 1985; Vygotskij, 1978). Self-identification with cultural values is a root cause of many psychological processes (Brodbeck et al., 2000; Franke et al., 1991; Leeds et al., 1994; Shimoni et al., 2006). However, while mindful of individual self-perceptions (Markus & Kitayama, 1991; Singelis, 1996; Triandis et al., 1985), our emphasis is on the general attributes of the national group. Whereas some distinguish between individual self-perception and cultural characteristics (Kolstad & Horpestad, 2009), we view individual psychological characteristics as adaptive to their cultural context, and believe that individual preferences can be generalized to reflect the relationship between values and the general behaviors of all members (Javidan et al., 2006; Leung et al., 2005). As Hofstede (2001:17, 2006:887) notes, “cultures are not king-size individuals. They are wholes, and their internal logic cannot be understood in the terms used for the personality dynamics of individuals. Eco-logic differs from individual logic.”

To sum up, limitations and level variations notwithstanding, using the nation-state as the unit of analysis is justified by the overlap of national boundaries with institutions and macro conditions on the one hand, and work-related, behavioral variables on the other. Political, economic, legal, and technological factors interact with the cultural milieu to create unique value systems and managerial practices that distinguish between countries and provide an appropriate proxy for societal cultures (Conway et al., 2001; Fischer & Schwartz, 2011; Gelfand et al., 2007). This does not deny substantial within-group agreement and between-group differences laid upon the overall shared values of a nation-state. Thus henceforth, unless otherwise stated, we will focus on national culture as our unit of analysis, starting with the underlying scholarly and practical rationale for our book – why culture matters.

1.2 Why Culture Matters: Culture in Business Theory and Practice

Harrison (1992:1) talks about “the overriding significance of culture,” or, as summarized by Leung et al. (2005:368), “a review of the IB [international business] literature, as well as our experience in working with managers in multinational organizations, suggests that there are very few instances where culture does not matter at all. Likewise, few people would argue to ignore national culture.” Indeed, culture has been shown to impact a great variety of variables, from the state of national economies (e.g., Harrison &
Huntingdon, 2000; Hofstede, 1980a, b; Landes, 1998) to poverty (Banfield, 1958), modernization (Myrdal, 1968), demographics, and business policies (e.g., Parker, 1997). Culture has been linked to the choice of a university major and a medical specialty, consumer purchases, cooperation and competition, and managerial behavior, among many other variables (Barnea & Schwartz, 1998; Bianchi & Rosova, 1992; Bond & Chi, 1997; Schwartz, 1996; Schwartz & Bardi, 2001; Smith et al., 2002; see also Javidan et al., 2006:899). For instance, Hofstede and Bond (1988) argue that the impressive economic growth registered by East Asian countries in the 1965 to 1985 period was attributable to the region’s Confucian cultural roots.

Before we assess the impact of culture on the theory and practice of business and management, a few caveats are in order. First, culture should not be treated as a residual variable, that is, as something that can explain and predict any observable variation in business behavior (Ronen, 1986). Examples such as Wal-Mart’s failure to adjust to Germany’s culture and its eventual pullout (Ghemawat, 2007; Lundby, 2010; Solomon & Schell, 2009) are enticing, but a closer look will reveal other explanations, e.g., the inability to take full advantage of scale and superior logistics due to regulations limiting store hours. The research norms governing the determination of causality (e.g., the consideration of alternative explanations) must not be forgotten. Since it is difficult to tease out the impact of culture from that of other variables (e.g., Farmer & Richman, 1965; Ghemawat, 2007), tracing the roots of cultural formation, as we discuss in the next section, can be helpful. Second, the impact of culture on managerial and business phenomena takes a myriad of forms and patterns, and differences between cultures is not the only source of impact. For example, research has found that the home culture of firms can determine their business behavior regardless of the host culture (e.g., Brock et al., 2008). To this, one can add the non-linear, asymmetric nature of many cultural impacts (Shenkar, 2001) as well as their complex and sometimes paradoxical impact. For instance, Japan is high on hierarchy yet is associated with participative management. Third, cultural differences can have a positive as well as a negative impact, so the tendency to emphasize the latter creates a certain bias. Stahl and Tung (2015) analyzed publications in the Journal of International Business Studies from 1989 to 2012 and identified a tendency to highlight “the adverse outcomes associated with cultural differences rather than the positive effects” (p. 391). It is important to note here that the cultural clustering we present is a neutral tool, and that while our clustering is relevant to this debate it would be beyond the scope of this book for us to take sides on the issue, except to acknowledge that cultural differences can have both
positive and negative consequences. Further, as we discuss later (see page 35 and on), clustering has the potential to overcome some biases and illusions inherent in the flawed “cultural distance” measure (Shenkar, 2001), reiterating the neutral and objective stance of our work.

**Culture and Business Theory**

Culture and theory intersect in at least three fundamental ways. The first is where theories predict the formation of distinct cultures – we address those issues in the next section and in Chapter 3 where we focus on the roots, or correlates, of culture, and therefore we do not dwell on them here. The second stream of culture-theory interface involves the universality, or lack, of social science and management (including not only organizational behavior and human resource management but also strategy, international business, economics, and finance, among others) theories, which have been ‘mobilized’ to explain and predict various organizational phenomena seemingly correlated with or impacted by culture or cultural dissimilarity. A third and probably least explored interface is the role culture plays in business-related theories, given that it is rarely fully incorporated into the layout of those theories and is typically represented by an existing theoretical construct serving as a proxy for culture. These issues are too complex and important to fully cover here; however, they are touched upon to the extent they are directly relevant to the subject at hand.

Given a disciplinary anchoring in the behavioral sciences (anthropology, psychology, and sociology), most culture-relevant business and management theories have their roots at the micro level. Thus, even where the eventual application is macro-intended, for example, the prediction of an MNE’s entry mode into a foreign market, the body of knowledge and the country scores on which the application rests can be traced to their micro origin. This is a major reason why we limit coverage beyond organizational behavior or human resource management in this book, though it should not distract from the potential applications of cultural variation at the broader business level, as briefly denoted in this chapter.

At the micro level, one can differentiate between two areas of cross-cultural theorizing: cognitive theories and theories concerned with social patterns of differentiation (Peterson & Smith, 2008). An additional thrust is the effort to replicate social psychological findings from US-developed theories in other national cultures, which raises questions about the cross-cultural validity of Western theories (and instruments) in areas ranging from leadership and conformity to group decision-making, attribution theory,
Delineating Culture and inter-group relations (Smith & Bond, 1993; Smith et al., 1996a). For instance, transaction cost economics and agency theory, both imported into management from economics and used also in finance, among other fields, are clearly embedded in American culture with its associated assumptions regarding key concepts, such as opportunism (Hofstede, 1993, 1996). Such observations were supposed to eventually lead to the development of context-specific theories, which would have overcome the national and cultural bias otherwise characterizing organizational theories, but we have clearly fallen short of that exalted endeavor. Thus most of the limited work on the cultural relativity of business theories identifies shortcomings but offers little by way of solution. Identifying cultural variations, an effort with which our book coincides, is a step forward on that front as well.

The challenges surrounding the cultural relativity of business theories are also rooted in their parent disciplines. Beugelsdijk and Maseland (2011) note the unease economics has had with the variable of culture. They identified four approaches to the treatment of culture by economists. First, the culture-and-economy approach looks to add culture to economic theory as is, without adapting conceptions of economics or of culture. Second, the economy-as-culture approach attempts an integrative framework, rejecting basic tenets of economic theory altogether. Third, the culture-as-economics approach reduces culture to economic principles. A fourth approach reflects on the practice of economics from a cultural perspective. These perspectives are important not only because they underlie the approach towards culture in finance, and to a lesser extent in strategy, but also because they provide inspiration to how culture is treated in management and in international business. They also articulate the challenge in capturing the theoretical position of culture in the broader world of business and management.

Among the most prominent economic theories imported into management is institutional economics, in particular North’s (1990) distinction between formal and informal institutions, where the latter is supposed to represent national culture but without much specification. Equally influential has been the sociological approach to institutions, where Scott’s (1995) distinction between three pillars, the regulatory (existing laws and rules), cognitive (i.e., schemas, frames, inferential sets, etc.), and the normative (i.e., values and norms), has served as a basis for the creation of a country’s institutional profile, or CIP (Kostova, 1999). Here too, little attempt was made to import and integrate knowledge from anthropology and psychology or even from sociology itself, such as the work of Max Weber, that extensively covered the comparative impact of religion, values, and various institutions on societies and organizations. Another import from economics is transaction costs economics (TCE) (Williamson, 1975), which has
been eagerly adopted in strategy and international business, in particular. Culture does not play an explicit role in TCE though its highly popular application to foreign direct investment (FDI) sees it as a proxy for uncertainty, a TCE variable. Presumably, the more different two cultures are, the higher the uncertainty, the taller the hurdles for the foreign investor, and the less likely the selection of hybrid governance (e.g., a joint venture) as opposed to full ownership will be. In TCE, as well as in most of the literature in economics, strategy, management, and related fields, cultural differences are considered detrimental to business performance, in line with the aforementioned bias towards highlighting the negative aspects of cultural variations.

Indigenous international business theories place culture and cultural differences more center stage, where they are typically positioned to predict four FDI phenomena: (a) the very decision to invest in a given country, (b) the sequence of FDI, (c) the entry mode selected, and (d) the outcome of that entry (that is, affiliate survival and performance). The first prediction is associated with the theory of familiarity (Ozawa, 1979; Yoshino, 1976), which holds that firms prefer to invest in culturally similar regions. For instance, Davidson (1980) attributed the large US investment in Canada and the UK – well beyond what their market size, growth, tariffs, and geographic proximity would have predicted – to cultural similarity. In our findings, both countries are members of the Anglo cluster (see Chapters 2 and 5), which would suggest similarly disproportional investment (other things being equal) in, say, Australia and Ireland, which are also members of the same cluster. The second and more popular application has been to predict the sequence of multiple foreign entries, a thesis closely associated with Johanson and Vahlne (1977) who noticed that Swedish firms progressively expanded from their home base into countries with greater “psychic distance” (cultural differences and to a lesser extent, other variables). The thesis, variably named “internationalization theory,” “the Scandinavian school,” or “the Uppsala model,” also predicts an incremental increase in investment commitment, rising from exports towards FDI as one veers away from areas similar to its own towards regions that are more different. A third application, entry mode, has been translated into a prediction that large cultural differences will lead to ‘internalization,’ that is, a preference for equity vs. contractual FDI and for wholly owned foreign subsidiaries over joint ventures. Both the conceptual argument and the empirical evidence have been inconsistent however (see Shenkar, 2001 for a review). In the fourth application, cultural differences have been taken to represent a hindrance to survival and performance, contradictory logic and inconsistent empirical evidence notwithstanding.
Culture and its Business Impact

The nature and ramifications of cultural variation have been addressed by areas ranging from cross-cultural psychology, which focuses on culture’s conceptualization and measurement (Smith et al., 1996a), to organizational behavior, human resource management, strategy, marketing, finance, and international business, among others (Inglehart & Baker, 2000; Tang & Koveos, 2008; van de Vliert, 2008). National culture has been shown to impact key business activities, from capital structure (Chui et al., 2002) to group performance (Gibson, 1999; Leung et al., 2005). A variety of management practices, including strategic decision-making, leadership style, and human resource management, have also been found to vary across national cultures (Brewster & Mayrhofer, 2008; Inglehart & Baker, 2000; Newman & Nollen, 1996; Tang & Koveos, 2008; van de Vliert, 2008), as were marketing and consumer behavior (Kirca et al., 2009).

Hofstede (2001:11) views the relationship between culture, values, and practices in the form of an “onion diagram,” claiming that cultural values drive practices (Javidan et al., 2006:899). He suggests that “for organizations, questions on practices explain almost twice as much variance as questions on values” (Hofstede et al., 1990:297). GLOBE, however, discovered that “for seven cultural dimensions, cultural values and practices are negatively correlated” (one dimension was insignificant and one had a positive correlation; see Javidan et al., 2006:901). We generally follow Newman and Nollen’s (1996:753–756) recommendation that MNEs “adapt their management practices to the national cultures in which they operate in order to achieve high business performance” and that, other things being equal, “work unit financial performance is higher when management practices in the work unit are congruent with the national culture.” Practices that are congruent with national culture values are likely to produce high performance (Denison & Mishra, 1995; Earley, 1994; Newman & Nollen, 1996).

Organizational Behavior and Human Resource Management

National culture is highly pertinent to the study and practice of organizational behavior (Gelfand et al., 2007; Leung et al., 2005; Ronen, 1986) and has been linked to various work-related variables (Gupta et al., 2002; Peterson & Smith, 2008). Research results have shown systematic national variation (Hanges & Dickson, 2006; House et al., 2004; Inglehart & Baker, 2000; Smith et al., 2008) that has been tied to workplace behaviors, attitudes, and other organizational outcomes (e.g., Hofstede, 1980a; Kirkman et al., 2006; Schwartz, 1992, 1994; Trompenaars, 1994), including organizational
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climate (van de Vliert, 2008), directing vs. coaching preferences (Brodbeck et al., 2000; Zander, 2005), and participation (Smith, 1997). For instance, collectivism was associated with more cooperation and positive attitudes towards teams at the individual (Bennett, 1999; Eby et al., 2000; Kirkman & Shapiro, 2000, 2001a, b; Steensma et al., 2000; Wade-Benzoni et al., 2002), group/organization (Chatman & Barsade, 1995; Eby & Dobbins, 1997; Kirkman & Shapiro, 2001b), and country levels (Schuler & Rogovsky, 1998; Steensma et al., 2000). Individualism was also associated with increased conflict at the individual (Gabrielidis et al., 1997) and group/organization levels (Chatman et al., 1998; Cox et al., 1991; Oetzel, 1998), as well as with the handling of such conflict using personal experience or training rather than formal rules at the country level (Smith et al., 1998). This may explain why team efforts often fail in highly individualistic countries such as the United States (Kirkman & Shapiro, 1997; Kirkman et al., 2006).

The impact of culture has been repeatedly demonstrated for training (Schneider & Demeyer, 1991), goal-setting strategies (Erez & Earley, 1987), trust (Doney et al., 1998; Earley, 1997), and job satisfaction (Huang & Van de Vliert, 2004), among other constructs. For example, Zander (1997) showed that Southern Europeans prefer directing while Northern Europeans prefer coaching. Similarly, Smith (1997) showed that people in Southern countries endorse participation and equality whereas their Northern counterparts encourage hierarchy and loyal involvement, and Brodbeck et al. (2000) found a gradient scale of interpersonal directness from Southern to Northern countries. The same is true for leadership style (Dorfman & Howell, 1988; Puffer, 1993) and human resource management in general (Luthans et al., 1993). Culture and cultural differences have been found to correlate with the process and outcome of cross-border alliances, mergers, negotiations, leadership, and motivation, e.g., the relationship between job satisfaction and job performance (Chakrabarti et al., 2009; Gomez-Mejia & Palich, 1997; Gould & Grein, 2009; Javidan & House, 2001; Ng et al., 2009; Oddou et al., 2009).

The HRM literature also deals with another challenge that will be addressed shortly, namely, the opposing forces of convergence and divergence under globalization. According to Rae and Rowley (2001), globalization creates pressures towards the use of HRM best practices that are likely to override existing systems in both local enterprises and MNE affiliates, and produce universalizing tendencies (Kerr et al., 1962; Peters & Waterman, 1982; Womack et al., 1990). Others, however, see nation-based HRM systems as more resilient, partly due to cultural and institutional forces. Hinds et al. (2011) found evidence that national cultural diversity is intertwined with performance, organizational climate, social identity,
work processes, and structure. A country’s institutional profile and other factors, such as organizational and relational contexts, are important in successful cross-cultural transfer of practices (Schneider, 1988; Schuler et al., 1993). Locke and Kochan (1995) concluded that the particular forms and the extent of diffusion varied considerably because of differences in local history and institutions and the strategic choices of actors (see also Erickson & Kuruvilla, 1998; Freeman & Katz, 1995; Golden et al., 1997). The consideration of these opposing forces leads, in turn, to contingency approaches, where human resources (HR) professionals decide which practices to “import” and which to preserve. Janssens (2001) offers them a choice between adaptive, exportive, or integrated international HR (IHR) approaches by employing three decision criteria, i.e., forces for global integration and local adaptation, the cultural component of HRM, and the power dynamics within the MNE. To develop an organization that values cultural differences, IHR professionals may choose a culturally synergistic approach to IHR management (IHRM).

Implications for Strategy and International Business

National culture is an oft-used variable in strategy though its treatment, as a concept, construct, and measure, tends to be relatively limited in scope and especially in depth. Unlike international business, where culture is a major construct, in strategy it is one more variable, typically a control. Early studies in strategy (e.g., Schneider, 1988; Schneider & Demeyer, 1991) looked at the impact of a home culture on the strategic decisions made by a firm. Thereafter, however, the focus shifted towards cultural differences, becoming an avalanche following the appearance of the Kogut and Singh (1988) measure of “cultural distance,” a deceivingly simple formula offering a tangible and convenient tool with which to bypass the complexities and intricacies of culture, yielding a quantitative measure to be employed in combination with other “hard” data but one that distorted the meaning of the concept of culture and undermined the validity and reliability of cultural differences (see Shenkar, 2001).

In strategy and marketing, cultural differences have been linked with key decisions such as entry mode, and while findings have been inconsistent (e.g., Stahl & Voigt, 2008 vs. Chakrabarti et al., 2009), this may be attributed to the aforementioned conceptualization and measurement issues. Also, some work in strategy is insensitive to the national unit, as in the lumping of European firms into a single group (e.g., Egelhoff, 1988; Malaska, 1985). Even when national affiliation is properly denoted, strategy studies rarely use cultural clusters, the focus of this book, to predict strategic behavior.
(for an exception, see Barkema et al., 1996a, who found a significant cluster impact on subsidiary longevity). Still, the strategy literature offers a number of relevant findings. For instance, Bartlett and Ghoshal’s (1988) comparison of Korean and US firms suggests that firms embedded in cultures that are tolerant of uncertainty and ambiguity are likely to be late entrants into a market. Likewise, Pan (1996) and Brock et al. (2008) show that firms hailing from cultures that legitimize hierarchy tend to maintain tight control over local subsidiaries. Similar findings are reported for individualism (e.g., Taggart, 1998) and time orientation (e.g., Doyle et al., 1992).

In international business, cultural identity has been suggested as the root cause of multiple problems (Brodbeck et al., 2000; Franke et al., 1991; Leeds et al., 1994; Shimoni et al., 2006). While international business scholars are generally more careful in the treatment of culture, they share an already mentioned tendency to look at cultural differences as fundamentally detrimental (Stahl & Tung, 2015). This is despite evidence that cultural diversity can contribute to the implementation and success of cross-border alliances and mergers and acquisitions (M&As) (Chakrabarti et al., 2009; Gomez-Mejia & Palich, 1997; Gould & Grein, 2009; Javidan & House, 2002; Oddou et al., 2009), among other phenomena, and despite increasing awareness of diversity as a potentially valuable asset.

Most international business and strategy scholars believe MNEs must balance globalization and localization, so the benefits of scale and standardization embedded in a global approach are counterbalanced by the need to adapt to local variations. It has been argued that MNEs adopt a global mindset (Doz & Prahalad, 1981, 1984, 1986; Evans et al., 2002; Javidan & House, 2001), reflected in management that is “both local and global in its orientation” (Evans et al., 2002:85). A global mindset was defined as one that “combines an openness to and awareness of diversity across cultures and markets with propensity and ability to synthesize across this diversity” (Gupta & Govindarajan, 2002:117). Bartlett and Ghoshal (1992) see the “transnational enterprise” as a firm that knows which value chain activities to centralize and standardize and in which to permit local variation and adaptation. However, seeking a balance between globalization and localization without knowing the similarities and dissimilarities across geographies is akin to navigating the oceans without a map. Cultural similarity is an essential layer of this map, facilitating the demarcation of balance points in the global and local topography in which management is formulated and practiced (Bartlett & Ghoshal, 1992; Doz & Prahalad, 1984, 1986; Gupta et al., 2002; Ronen, 1986).

Rugman (2005) found that most MNEs are “regional,” that is, their sales are concentrated in a single world region, confirming the enduring power
of local diversity. While presuming that each of the “triad” regions (the Americas, Asia, and Europe/Middle East/Africa) is relatively culturally homogeneous, no attempt has been made to support the assumption. This is again where clusters can come in. The MNE stands to gain should it discern the clustering map, as it should be a major input in deciding which value chain activities to standardize and which to have locally adapted (Bartlett & Ghoshal, 1992; Doz & Prahalad, 1986; Gupta & Govindarajan, 2002; Javidan & House, 2001; Ronen, 1986) in each location.

Finally, while the full range of cultural impact is impossible to cover here, let us mention, if very briefly, entrepreneurship and marketing. For example, Hurry et al. (1992) find that compared to their US counterparts, Japanese venture capital firms prefer investing smaller amounts in more ventures, which would be consistent with differences in (in)tolerance for ambiguity (see Chapter 4 for our terminology) between the two cultures. Autio et al. (2013) found societal institutional collectivism practices (in our terminology, having the group as the focal actor – see Chapter 4) to be negatively associated with entrepreneurial entry, but positively associated with entrepreneurial growth aspiration. And while the concept of global marketing is appealing, thanks to promising scale economies in manufacturing, distribution, financing, strategies, and sales (Cavusgil et al., 2004; Day et al., 1988), it is limited by cultural diversity. For instance, it has been noted that “cultural similarity, in addition to economic similarity, is a necessary precondition for successful advertising standardization” (Sriram & Gopalakrishna, 1991:141). National culture has also been identified as underlying differences in consumer behavior (Lynn et al., 1993; Roth, 1995). For instance, Huszagh et al. (1986) found a substantial difference in product acceptability, even across five countries that were members of the same economic cluster (Sriram & Gopalakrishna, 1991). Here too, cultural clusters would be of help.

Implications for Finance

According to Hofstede (2001), finance has seen the least amount of cross-cultural research among all business functions. True to economic tradition, institutions, for instance, the protection of property rights and legal institutions, have taken precedence over culture as correlates of financial phenomena, and the relationship of institutions to culture is rarely explored. Still, religion, language, ethnicity, and geography have been used as proxies for culture in the finance literature, and a small subset have used Hofstede, Schwartz, and the WVS as measures of cultural variation. The interest in culture and cultural differences in finance
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is unique in its tendency to focus on portfolio investment, to be distinguished from FDI alone. There are several financial decisions for which the impact of culture has been considered, including, but not limited to, the decision to buy/hold/sell foreign financial instruments, the pricing of those instruments, decisions where to launch an initial public offering (IPO) or list publicly traded companies, and the premiums paid for M&A targets, among others.

The starting point for culture research on financial portfolios is the observation of home bias, that is, investors’ preference of financial instruments associated with their home region, a bias found domestically as well as internationally (Coval & Moskowitz, 1999; French & Poterba, 1991; Tesar & Werner, 1995). While proximity is often determined in geographic terms, it has been documented that cultural similarity also plays a role. For instance, Sarkissian and Schill (2004) find that cultural proximity (measured in terms of language and shared colonial heritage, and together with geographic, economic, and industrial proximity) plays a dominant role in listing decisions. Grinblatt and Keloharju (2001) find that cultural proximity, measured in terms of shared language and background of chief executive officers (CEOs), has a positive correlation with buying, selling, and holding of stocks. Mian (2006) finds that large geographic and cultural distances between a foreign bank’s headquarters and its local branches lead to the bank avoiding lending to financially sound firms.

Chui et al. (2010) found shares in individualistic countries to be higher in volume, volatility, and magnitude of profits when using momentum strategies. Shao et al. (2013) find that firms in individualistic countries invest more in long-term (risky) assets than in short-term (safe) assets. These firms also tend to invest more in research and development (R&D) (but not in physical assets), channeling excess cash (rather than increased dividends) towards growth opportunities regardless of internal financing. Beugelsdijk and Frijns (2010) find that uncertainty avoidance (tolerance for ambiguity in our terminology – see Chapter 4) and individualism have a significant impact on asset allocation. Other cultural dimensions can also be found in finance research, though to a lesser extent. When financing their activities, countries low on uncertainty avoidance tend to rely on stock markets, whereas those high on uncertainty avoidance (ambiguity intolerant) are more likely to rely on bank financing (Kwok & Tadesse, 2006). Countries low on “conservatism” and “mastery” tend to have low corporate debt ratios (Chui et al., 2002). Siegel et al. (2011) find egalitarianism (low deference, in our terminology – see Chapter 4) scores to have a significant impact on cross-border investment flows. Cultural clustering, we presume, could predict still more financial phenomena.
1.3 The Roots of Culture: Formation and Underpinnings

While recognized as a crucial organizational variable (Cavusgil et al., 2004; Gould & Grein, 2009; Leung et al., 2005), culture remains elusive, the complex and evolved product of multiple and diverse elements, ranging from the geographic to the historical, linguistic, religious, economic (Peterson & Fanimokun, 2008), and ideological (Ralston et al., 2008), and extended to such variables as climate (Cattell, 1950; Hofstede, 1980a, 2001; Ronen & Kraut, 1977; van de Vliert, 2008), colonization, and immigration (e.g., Huntington, 1993; Inglehart & Baker, 2000). Not only are the underlying roots an enigma, the process by which they shape culture remains obscure, sort of a “black box.” It has been claimed that the environment does not produce a culture but stabilizes it (Burton et al., 1996), but what does produce it is not at all clear. We should also keep in mind that variables such as “languages, religions, political institutions, national school systems, national or regional media, prevalent type of economy, level of economic development, climate, pathogen prevalence, or various historical factors” can have both a unifying and dividing impact on the national culture entity (Minkov & Hofstede, 2012:139).

To delineate culture, one seeks variables that correlate with it. This search, however, should be viewed within the broader quest for “context,” among the most challenging endeavors in the social sciences. Underpinning this quest is the search for meaning, the desire to identify extraneous factors and variables that can predict and explain social variations and which can be grouped or categorized under some overarching theoretical paradigm. On one side of this endeavor are people like Diamond (2005), who suggest that, in effect, humans are passive robots, helplessly programmed by climate, fauna, and flora. Taking this view, human evolution differs worldwide because some environments provide more starting materials and more favorable conditions than others. Sharing this view to some degree, Hofstede (2001) found geographic latitude to be the single most important factor explaining societal variation in certain cultural dimensions. Others see the interaction between humans, the environment, and culture as more complex, with culture representing an evolving adaptation to ecological and sociopolitical influences (Berry, 1976; Berry et al., 1986, 2002; Georgas et al., 2004). Psychological characteristics in a given population are hence seen as “adaptive to their cultural context as well as to the broader ecological and sociopolitical influence” (Leung et al., 2005:362).

Cultural markers can be evasive. Wilhelm Wundt (1832–1920), the father of cross-cultural psychology, proposed that comparative analysis across countries should concern language, myths, morals, religion, art, and
law. In addition to geography, Hofstede (2001) sees the origins of societal norms (values) in factors such as demography, economy, history, hygiene, nutrition, technology, and urbanization, listing several variables of concern to culture, including wealth, economic growth, latitude, and demographic characteristic. In discussing cultural forces that contribute to the formation of societal clusters, the GLOBE team (House et al., 2004) lists religious and linguistic commonalities, in addition to geographic proximity and level of economic development, noted above.

The effects of culture-related variables may be overridden through diffusion and migration within and across continents, provided ecological and geographic barriers were modest. Diffusion rates thus vary by area and population size, as well as by geographical conditions. For example, diffusion and migration occurred rapidly in Eurasia but were difficult and slow in Africa and across the Americas (Diamond, 2005). The potential of diffusion and migration would also be limited by climate, one of the most popularly studied factors among ecological variables. Thus Whiting et al. (1982) hypothesized that the special adaptations required by cold climates limited prehistoric migration between warm and cold climates. This perhaps explains why, “using language-family membership as an index of culture history, with one exception (Indo-European), language families tend not to cross the climate boundary defined by a mean winter temperature of 10°C” (Burton et al., 1996:87). Similarly, Dobson and Gelade (2012) showed that many of the known dimensions of national culture also correlate with geographic location or economic development (see also Chinese Culture Connection, 1987; Schwartz, 1994, 2008) while Van de Vliert et al. (1999) identified curvilinear relationships between climate (temperature) and domestic political violence across 53 countries, with domestic violence higher in moderately warm countries than in countries with extreme temperatures.

Still, the question remains, just how are cultures shaped by ecological and geographic conditions? A prominent example is the “rice theory,” which suggests that rice-growing populations are likely to have the group as their focal actor because of the imperative to cooperate on irrigation and cultivation, whereas wheat-growing populations exhibit individualism because such cooperation is not a necessity. Indeed, Talhelm and colleagues (2014) found such cultural differences between Northern China’s wheat-growing provinces and its Southern, rice-growing regions.

Only a few comprehensive frameworks explaining cultural formations are available. Among them is the eco-cultural framework (Berry, 1976, 2001; Berry et al., 1986; Georgas et al., 2004), which integrates ecological and social/political variables, establishing a context within which norms and behavior develop. The framework delineates the impact of such contextual
variables on human behavior via processes of acculturation (acquisition and assimilation of cultural values) and socialization (learning of norms and behaviors). Georgas and Berry (1995) see contextual variables, both ecological and sociopolitical, as one of three sets of variables, the other two being process variables (biological and cultural adaptation and transmission to individual members) and psychological outcomes, that is, consequences for a group’s members. In this book, we are guided by the eco-cultural framework; however, we do not utilize all the variables in this framework (mostly for lack of data or relevance) and incorporate additional variables that are consistent with the framework’s domain and have shown promise in prior research. In Chapter 3 we explore how ecological and sociopolitical variables are related to cluster formation, membership, and adjacency, thus making a significant contribution to what may be the most important function of clustering, namely, to require explanation (Hartigan, 1975).

Ecological and Geographical Roots

Geography and related ecological conditions are of a particular interest to business as working with a geographically distant party creates moral hazard problems, while geographic distance increases the difficulty and cost of monitoring, controlling, and integrating target firms and operations (Markusen, 1995). Malhotra and Gaur (2014) note that relatively little attention has been paid to spatial geography. They partially attribute this inclination to the popular belief that advances in communication and transportation have diminished the impact of distance (Friedman, 2007), even as academic research suggests the opposite (Ghemawat, 2007; Nachum & Zaheer, 2005). Geography often appears as an addition to culture rather than a predictor of cultural formation, whereas increased globalization has prompted interest in strategic decision-making by MNEs in a broad geographic context (Beugelsdijk et al., 2010; Mudambi, 2008). Scholars find an impact for geography on firms’ location (Mudambi, 2008) and entry mode choices, for example, between export and FDI or between wholly and partially owned affiliates (Nocke & Yeaple, 2007; Yeaple, 2009). Still, the role of geography in international business and strategy literature remains obscure (Beugelsdijk et al., 2010; McCann & Mudambi, 2005; Rodríguez-Pose & Zademach, 2003).

Religion and Language Underpinnings

Jain (1996) suggests that religion can serve as a surrogate for culture as it reflects on societal values and outlook. Confucianism, Buddhism, and Taoism, among the primary religions (and concomitantly, philosophies) of East Asia, placed emphasis on the importance of the group in society
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(Waley, 1938). In contrast, the Judeo-Christian tradition, the primary religious influence in the West, emphasizes personal achievement and individual self-worth (Furnham, 1984; Ralston et al., 2008; Wayne, 1989). Simon (1996) believes that the importance of language has been grossly underrated; he found that the “hidden champions” of the world saw language as one of the most obvious barriers to globalization and thus a critical factor that must be proactively approached if one desires to operate worldwide. The potential of language as a surrogate for culture is explored by cognitive theories, suggesting that unconscious cognitive structures are connected to language and to the shared elements of cultural heritage, which, in turn, are linked to a language (e.g., Nisbett et al., 2001; Whorf, 1956). Davidson and McFetridge (1985) found that similarity of language and of religion among countries was associated with internal technology transfer within MNEs. US firms were more likely to transfer technology to foreign divisions when the host country was predominantly English speaking and where the dominant religion was Protestant or Roman Catholic (see also Gomez-Mejia & Palich, 1997). However, a factor limiting research on the impact of both religion and language is that quite a few countries have multiple official and unofficial languages, as well as multiple religions, making it difficult to use the nation-state as a unit of analysis.

The Economy: A Driver of Culture or its Product?

The impact of the economy on culture is expressed in various forms, ranging from economic ideology and the economic system prevalent in a nation, to economic development and growth. While some view economic ideology as a cultural force (Ralston et al., 2008), driving and defining cultural values (Eisenstadt, 1973; England & Lee, 1974; Kordonsky, 1992; Pascale & Maguire, 1980; Shmelev, 1991; Yip, 1992), others contend that underlying values remain unchanged regardless of a national economic ideology (Cole, 1973; Evans, 1970; Lincoln et al., 1978; Ricks et al., 1990; Shaw et al., 1991; Shmelev, 1991; Vance & Zhuplev, 1992). Hofstede (2001, 2006) argued that differences in societal values that can be accounted for by economic variables do not need to be explained by cultural factors, which led to the control of wealth in his analyses. He suggested that the economy is affected by cultural factors, in particular individualism and low power distance (deference in our terminology – see Chapter 4), among other dimensions (Hofstede, 1980a, 2006). Economic prosperity (Hunt, 2000), theorized Max Weber a century ago, was associated with Protestantism, thus explaining differences, for example, between Northern and Southern
Europe (Weber, 1904). Concerning another part of the world, Hofstede and Bond (1988) concluded that Confucianism was associated with the rapid economic growth characterizing East Asia in the second part of the twentieth century. Inglehart and Baker (2000) argued that wealth could be explained by ecology, economy, education, use of media, and population (Georgas et al., 2004).

1.4 Culture Under Globalization: Convergence vs. Divergence

Having described the roots of culture, many of which are anchored in a country’s physical layout and embedded in its religion and language, it is fair to ask whether these roots, deeply seated as they may be, are still relevant in the modern age. For instance, if one buys into the “rice theory,” would it still be meaningful in a modern society where the vast majority of people are not engaged in agriculture? In particular, the challenge to existing forms, patterns, and variations of culture comes from a tidal wave that threatens to wash away the sand castles of culture that prior generations have built, that is, globalization. Now among the most used (and abused) terms, the word globalization was coined in 1962 by The Economist, but took years to take hold (as late as 1997 the term had not been included in dictionaries); it would quickly become one of the most recognizable monikers of the twenty-first century. We define globalization as the geographical dispersion of the value chain, overlaid on increasing intra-regional and inter-regional flows of people, goods, companies, and ideas, and their respective interdependencies.

The question of cultural convergence vs. divergence is, in essence, one of similarity. Do cultures grow more alike over time in the face of globalization (convergence), or do they rather maintain their uniqueness or even grow more distinct from each other (divergence) (Ronen, 1986)? Researchers who acknowledge the importance of the convergence–divergence continuum agree that the world is currently somewhere in the middle (Figure 1.1). They ask which of these forces will prevail in the long run and (as depicted in Figure 1.2) where will we be in a decade, two decades, or half a century from now? Considering the element of time, forces of convergence and divergence probably operate simultaneously, though not necessarily in tandem. In addition to questions of form (which trend, convergence or divergence, will prevail) and pace (how fast will the change take), there is the question of process and outcome, namely, whether the opposing forces will yield varying hybrids representing both change and continuity, something presently labeled as “crossvergence” (Ralston et al., 1993) (see below).
Contrary to the popular image of an unstoppable march, globalization has suffered more than the occasional setback. For instance, the volume of international trade, as a share of global output, took more than half a century to recover from its World War I era collapse. Over the last several years, trade and FDI have been growing at a lesser pace than global economic growth, and barriers to both have been dismantled at a markedly slower pace than in the preceding quarter of a century. Still, in recent decades, globalization
has been on a steady advance. The Globalization Index (Kearney, 2005) shows rises on all indicators from economic integration (trade and FDI) to personal contact (travel, tourism), technological connectivity, and political engagement (number of international treaties ratified). The KOF Index of Globalization, developed to measure the economic, social, and political dimensions of globalization (Dreher, 2006; Dreher et al., 2008), rose almost 50% between 1980 and 2007 and, despite the dampening impact of a global economic crisis, the Economist Global Connectedness Index rose by close to 5% between 2005 and 2013.

Yet at least one highly popular interpretation of globalization can be deceptive. The vision of a “flat world,” inhabited by universal and homogeneous actors, sharing values, attitudes, and behavior, may or may not come to be. So far, there is no solid evidence to support the homogenization view, and a multitude of data points suggest that, desirable or not, it has not taken place, at least not yet and not to a full extent. It has been said that not even 10% of the world’s population has fully “globalized” and that globalization applies only to the elites (Leung et al., 2005). Huntington (1993, 1997), who hypothesizes that culture, not ideology or economics, will be the main fault line dividing humankind, mocked the “Davos culture,” after the Swiss resort that annually hosts world luminaries but is anything but representative of the world at large, whose component civilizations remain far apart.

Accelerating globalization has boosted culturally embedded flows, augmenting points of contact and intensifying intercultural interaction. Yet while potentially engendering greater similarity, cultural interaction has the potential to trigger the precise opposite via intensifying cultural consciousness and increasing awareness of differences and animosities, reinforcing one’s own culture (Greider, 1997). Nor is it clear that globalization entails transition to Western values such as individualism and concern for human rights (Peterson & Smith, 2008:41), the apparently universal consumption of mostly Western European and American popular culture notwithstanding. Decades ago, having witnessed how Japan and other Asian societies rose without shedding their cultural identity, modernization scholars concluded that modernization did not equal Westernization. Would they still think so today? What would be the outcome of the epic battle between what Webber (1969) called convergence and divergence?

**Convergence Forces**

Many forces have coalesced to produce pressure towards the convergence of national cultures (see Figure 1.3). Some, like colonization, have been with us for ages; others, like travel, have historically been the privilege of a
select few but have become a mass pursuit in recent generations; and still others, like cheaper and broader access to information, have accelerated exponentially in recent years as electronic media, such as the Internet, have revolutionized information access and processing. Newly minted international institutions, from the World Bank to the World Trade Organization, have brought together officials and executives under an international umbrella reaching beyond national boundaries, and institutions such as the International Organization for Standardization (ISO) have supplemented, though not supplanted, national certification. Political and trade blocs such as the European Union (EU), the North American Free Trade Agreement (NAFTA), and MERCOSUR (Spanish: Mercado Común del Sur, Southern Common Market) have lowered the barriers to trade, investment, and, in cases like the EU, mobility. Institutes of higher education have seen an unprecedented rise in foreign student admission, and exchange programs enable many domestic students to experience life abroad. People are constantly on the move, and thus exposed to different cultures and value systems (Gelfand et al., 2007; Govindarajan & Gupta, 2001).

It should not come as a surprise that the convergence thesis would find adherents among those who believe that economics drives cultural values. If national cultural values correlate with national wealth, one can reasonably assume that at least some cultural dimensions have changed over time (Tang & Koveos, 2008:1046). This often translates into a belief that managers in industrialized nations will embrace common values regarding economic and work-related behavior (England & Lee, 1974; Pascale & Maguire, 1980), and, since industrialized nations, until recent decades,
have been Western capitalistic countries, convergence would mean adopting the values of Western capitalism, e.g., individualism (Dunphy, 1987; Kelley & Worthley, 1981; Kordonsky, 1992; Negandhi, 1975; Shmelev, 1991; Webber, 1969; Yip, 1992). Inglehart and Baker (2000) examined value changes in three waves of the WVS, finding that economic development was associated with shifts away from traditional norms and values towards values that are increasingly rational, tolerant, trusting, and participatory.

A popular mantra among MNEs has been to transform themselves into “truly global organizations.” To do that, they have internationalized their board of directors (admittedly from a very low level and with a strong preference for members of the same cultural cluster) and adopted “global management,” characterized by high mobility and cross-cultural teams that would transcend national boundaries (Boeker, 1989; Brodbeck et al., 2000; Chatman & Jehn, 1994; Ralston et al., 2008). “Global organizations,” says George Yip, “must now learn to integrate these diverse value systems to create their universal corporate culture” (Ralston et al., 2008:9). The shift was consistent with the view of convergence proponents that cultural diversity is eroding (e.g., Cowen, 2002) or rapidly changing (e.g., Leung et al., 2005), with some going as far as claiming that geographical distance is no longer a major factor in global business (Cairncross, 2001; Govindarajan & Gupta, 2001). This view is associated with popular bestsellers such as Thomas Friedman’s *The World is Flat* (2007) or Francis Fukuyama’s *The End of History?* (1989); but is it accurate? As we shall see, proponents of the divergence thesis accept the reality of greater and more intense flows of people, goods, and ideas, but see something very different emerging from those flows.

**Divergence Forces**

Divergence proponents believe that cultural variations are here to stay because of how deeply rooted they are. Some go further and argue that globalization may reinforce cultural identities as those are threatened by incursion of foreign cultures (Huntington, 1997). Contrary to common assumption, they believe that enhanced cultural interaction may actually intensify cultural consciousness, as awareness of differences triggers animosities and reinforces one’s own culture (Greider, 1997; Huntington, 1993, 1997). After all, recent decades have seen the disintegration of multicultural national entities (e.g., the Soviet Union, Yugoslavia, Czechoslovakia) and the establishment of new nations (e.g., Kosovo) along cultural and ethnic lines. Europe, a collection of 25 countries up to the 1980s, now comprises some 40 countries with 45 official languages and multiple diversity factors...
(Brodbeck et al., 2000; Diamond, 2005). New contenders for national independence, e.g., the Basques and the Catalonians in Spain, or Scotland in the UK, are lined up.

One criterion for deciding if a phenomenon represents culture is whether it is stable (Minkov, 2013), and there is some agreement that culture is something relatively stable, accounting for durable differences between societies (Hofstede, 2001; Inglehart, 2008; Inglehart & Baker, 2000; Minkov, 2011, 2013). As Lundby notes, “we not only do not find evidence of convergence – we actually find that the gap between value systems of rich and poor countries has been growing, not shrinking” (Lundby & Jolton, 2010:23). Technology, too, has the power not only to converge but also to sustain cultural divergence. Information and knowledge flows will continue to march ahead, but they are still filtered by linguistic barriers and other obstacles. In an effort to limit the flow of ideas, some governments will censor anything from Internet traffic to academic content in the classroom. Even democratic nations (e.g., Canada, France) limit cultural imports (e.g., movies, television content) and form ministries for cultural heritage whose main purpose is to solidify a nation’s cultural identity and defend against “foreign encroachment.” Information and communication flows that are permitted or make their way in are still interpreted via cultural lenses (Bhagat et al., 2002).

Proponents of divergence argue that national culture, not economic ideology, drives values, and that even if a country adopts a free market or a democratic system, the value systems of the workforce will remain largely unchanged (Lincoln et al., 1978; Ricks et al., 1990); individuals will retain their diverse, culturally determined values (Cole, 1973; Evans, 1970), and norms will be at least partially resistant to change (Zander, 2005). Consequently, Eastern countries with a history of socialism will not shift their work values towards those held in Western capitalistic countries, regardless of economic transition (Ralston et al., 2008:11; Shaw et al., 1991; Shmelev, 1991; Vance & Zhuplev, 1992). For example, one study found Chinese students to be significantly more left-brain oriented than US students, implying that the underlying fundamental differences between these two societies are not subsiding (Jacobs et al., 1993).

As Huntington observes, elite de-Westernization and indigenization of elites is taking place in many non-Western countries “at the time that Western, usually American, cultures, styles and habits become more popular among the mass of the people” (Huntington, 1993:27). The very notion of “universal values” is a Western idea at odds with the particularism of many Asian and African societies who, as China, like to reiterate their special characteristics. In Kishore Mahbubani’s phrase, “the West
and the Rest,” contact may actually result in isolation from corrupting Westernization, “band-wagoning,” or joining the West, or seeking ways to “modernize without Westernizing.” A dialectic approach would also have us consider a reaction to globalization and Westernization that is anything but positive. Developing countries may strongly oppose globalization on account that it does more harm than good to their prospects and values (Leung et al., 2005). As noted, increasing cultural interaction may intensify cultural consciousness and awareness of differences, increasing animosities and reinforcing one’s own culture, threatening profound cultural content that is viewed as embedded in the national character (Greider, 1997).

On that ground, there is little by way of solid evidence to suggest that the hazards encountered by firms and individuals who venture away from their home market are eroding. The number of “global” MNEs may have modestly grown; however, “regional” MNEs whose sales are concentrated in a single or at most two world regions remain by far the dominant group (Rugman, 2005, 2013), suggesting that the “liability of foreignness” will be with us for a long time. Not only are Western MNEs increasingly diverse, but more trade and investment are undertaken by small and mid-size enterprises that are firmly rooted in their home country and less likely to adopt a “global culture.” Also, non-Western firms have been the fastest growing group of MNEs and, if anything, are likely to spread their own culture rather than “global Western values.”

Finally, as we have recalled, if history is a precedent, a halt or slowdown in globalization is not impossible. And, even if convergence forces prove unstoppable, the impact might take many years, perhaps generations, to take hold (Hofstede, 2001; Huntington, 1993, 1997; Peterson & Smith, 2008; Ralston et al., 2008). This means that for most managers, full-fledged convergence is not a scenario they should plan for. Still, it is possible that we will see a variety of hybrids combining evolving continuity and change, as we explore below.

**Partial Globalization Scenarios**

New developments and changes, globalization included, can produce contrasting effects, a hybrid scenario aptly described as “semi-globalization” (Ghemawat, 2003) or an “intermediate degree of globalization” (Giessler Asmussen, 2009). Forces such as computer-mediated communication may be powerful, but they have the potential to increase both cultural convergence and divergence; technology in general has the power not only to converge but also to sustain cultural divergence (Hofstede, 2001). Various studies find evidence for both continuity and change (e.g., Inglehart &
Leung et al. (2005) observe that whereas consumer values and lifestyles show signs of convergence, significant cultural divergence persists; even where economic development is concerned, country-specific modes are likely to produce cultural variants. Institutions have their own traditions and cultures, which mediate outside influences (Bamber & Lansbury, 1998), and their endurance provides a foundation for cultural stability; this produces variable impact for individualism, long-term orientation, and power distance (deference, or respect for hierarchy) on the one hand, and uncertainty avoidance (tolerance for ambiguity) and masculinity (gender marking, in our terminology – see Chapter 4) on the other, since the latter reflects stable institutional traditions, such as language, religion, and climate, that are less likely to change over time (Tang & Koveos, 2008).

As Smith et al. (1997) opine, the adoption of some shared values does not indicate that the world is converging, since it is possible that those values will evolve via interaction with other cultural values as well as through contact with institutional and other host country-level variables. Exposure to other cultures is unavoidable, the authors acknowledge, but the curiosity and fascination associated with, say, consuming ethnic foods, should not be confused with adopting the set of values, or, in particular, work-related values, associated with that ethnicity. But which values will change? Will they be those that are least important, least central? This, too, is impacted by culture: as Triandis (1989) put it, the values that are the most important in the West are often the least important worldwide.

The findings above suggest the possibility of “crossvergence,” a meeting of convergence and divergence that will drive unique value systems as well as commonalities (Ralston et al., 1993, 2008). Crossvergence proponents see integration of cultural and ideological influences that will result in value systems that borrow as much from national culture as from economic ideology. But is crossvergence itself a transitional state, a temporary phase in the life of a culture on its way to converge with other cultures? Will some cultures converge while others will not? And will the end game be a single global culture or a reshuffled map of similarity and dissimilarity? Simply put, we do not know. What we do know is that even if convergence forces are sustainable, their impact will take a long time to take hold and that the influence may be superficial, having but a minor effect on beliefs, norms, and ideas. Or, it may have divergent outcomes for different levels of cultural entities. Child (1981) observed that studies showing convergence tend to include macro-level variables, such as structure and technology, while divergence studies target micro-level variables, such as the organizational behavior, with the latter more resistant to change because of their embedment in deep-seated beliefs.
One semi-globalization force is immigration. Ethnic groups, many retaining their home languages, make up over half of the US population. Most European nations are now considerably less homogeneous than just a few decades ago, and this is before massive immigration flows, mostly but not only from the Middle East, have been heading towards the continent as this book goes to print. The melting pot seems to have been replaced with a mosaic, where immigrants retain much of their former culture or develop bicultural identity (Ryder et al., 2000; van de Vijver & Phalet, 2004). This has rendered obsolete the old unidimensional models, which were based on the perception that as individuals spend more time in a second culture, they become more oriented towards that culture and relinquish their heritage culture (e.g., Cuellar et al., 1980; Huynh et al., 2009; Suinn et al., 1987). They were replaced, or at least supplemented, by a bidimensional (bilinear) acculturation model, which proposes that individuals may have independent orientations towards their heritage culture and the host or dominant culture, that is, independent cultural orientations (Berry, 2003; Cuellar et al., 1995; Ryder et al., 2000; Stephenson, 2000; Tsai et al., 2000).

Semi-globalization is also likely to vary based on the level and scope of involvement with international activities and exposure to global forces. For instance, the HR consultancy Hewitt (2009) distinguishes between multinational enterprises (have cross-border operations that are primarily decentralized and autonomous), international enterprises (have a headquarters that retains some decision-making control but the organization is still largely decentralized), enterprises transitioning to global (taking steps to form worldwide strategies and policies), and truly global enterprises (develop strategies and policies on a worldwide basis and share resources across borders). This implies a higher probability for adopting universal values for the more global firms. The cultural clustering we present in this book provides at least a partial answer to the convergence/divergence/crossvergence dilemma. It is introduced next.

1.5 The Clustering Solution: Grouping Cultures by Similarity and Dissimilarity

Having established that culture and cultural similarity or dissimilarity matter, and that cultural variations (even if they were to evolve) are here to stay at least in the foreseeable future, we turn to the question of how to handle cultural variations. How do we take advantage of national culture rather than be overwhelmed by it? How do we find a golden path between treating the planet as a uniform entity of universally shared values, beliefs, and behaviors on the one hand, and the impracticality of addressing each
country as its own unique universe on the other? One way to answer this question is to examine how countries group together based on their relative similarity regarding such denominators as history, religion, or legal origin, or, more directly and manifestly, based on work-related variables. This is where the notion of cultural clustering comes in.

Clustering is as ancient as human thought, employed in such diverse fields as biology, medicine, zoology, botany, meteorology and climatology, psychology and psychiatry, sociology, anthropology, marketing, artificial intelligence, and information retrieval, among others. The origin of cultural grouping can be traced to the century-old concept of “families of nations” that was in vogue a century ago in political science, sociology, and law, and which stirred a heated debate in social circles and the media of the time (e.g., Castles & Flood, 1991; Glendon, 1987). The goal behind identifying such families was “to trace back their roots to commonalities shared by group of nations in virtue of a shared history, culture, legal tradition and language”; its practical application was “to comprehend the variety of policy outcomes to be found in modern states” (Castles & Flood, 1991:279; see also Glendon, 1987; Hofstede, 2001; House et al., 2004). Unfortunately, with the objective recalibrated to show “that cross-national variation is substantially attributable to the impact of structural variables, whether of a social, economic, demographic or political nature,” “historical continuities and their attached cultural and legal dimensions” came to be neglected (Castles & Flood, 1991:279).

Over time, cross-national clustering developed based on legal system commonalities (e.g., Obinger & Wagschal, 2001), social histories, consumer preferences, and government policies, among others. These were used in a variety of fields (e.g., La Porta et al., 1998 in finance), though their correlation with culture was rarely addressed. In organizational behavior, clustering studies started with Haire et al. (1966), followed by Sirotta and Greenwood (1971), Ronen and Kraut (1977), Hofstede (1980a), and project GLOBE (House et al., 2004), among others, who grouped countries on the basis of the relative similarity of employee attitudes and behavior.

Why Clustering?

Cluster analysis is primarily a parsimonious tool to aid the human mind deal with the infinite universe in light of its information processing limitations. It is essentially utilitarian, designed to reduce complexity and aid data and information manageability (Ball & Hall, 1967; Bijnen, 1973). Cluster analysis can bring together multiple variables (Ketchen & Shook, 1996); in analyzing assembled data concerning an object as a whole, it provides
information that separate variables do not (Bijnen, 1973). This reductionist principle is also at the heart of interpreting order relations among data (Ronen et al., 1979). At the price of losing some information, clustering offers a way to summarize similarities and differences (Bailey, 1994; Estes, 1994; Obinger & Wagschal, 2001). The minimization of within-group variance and maximization of between-group variance is especially appropriate for our purposes given that cross-national variance in individual values is greater than within-nation variance (Hanges & Dickson, 2006).

As noted by Hartigan (1975), clustering has a number of purposes, including to name, display, summarize, predict, and require explanation. Naming, or labeling, of groups renders the members of each cluster easily discernable, understood, and differentiated. It is especially important where the similarity/dissimilarity continuum is blurred, as in the case of countries, and where cultures are linked, as is increasingly the case because of migration, trade, FDI, and other variables discussed earlier.

Labeling makes the members of each cluster easily recognizable, memorable, understood, and differentiated from non-members. It also increases the ease of prediction, as inference can be made to a wide range of information generally lacking in single attribute measurement (Lorr, 1970). Cluster labels stand for behavioral and attitudinal corollaries that transcend corporate and individual variations and whose congruence has performance ramifications (Newman & Nollen, 1996; Pearce & Osmond, 1999).

The display function implies the identification of patterns not unearthed before, for example, that the “big five” personality dimensions are replicable among non-US samples (Church, 2001; McCrae & Costa, 1987; Schmitt et al., 2007; Smith et al., 1995). By clustering the cultures geographically, researchers “uncovered several distinctive patterns and geographic regularities in personality traits across cultures” (Schmitt et al., 2007:205). The display function is of special importance given our experience with the widely cited 1985 map (see Figure 1.4 on page 37), now augmented by additional information, e.g., regarding cluster adjacency (see Chapter 2).

The summary function pertains to cluster-related information but is especially important given our synthesis of diverse sets of dimensions, which we briefly discuss later in this chapter and in more detail and depth in Chapters 2 and 4. This function represents the value of clustering in providing fact-based parsimony, that is, a summary that captures essentials and minimizes information loss. The predictive function (Glazer & Beehr, 2005) implies the ability to place countries not currently in our dataset in
their proper cluster based on co-variation in contextual variables (correlates) and assign them organizational behavior manifestations.

Prediction is fundamental to science and to the value of the cluster solution as a theoretical statement. For example, from a transaction cost perspective (Williamson, 1975, 1985), cultural clusters can be said to reduce the cost of transactions undertaken within a region as compared to those cutting across cluster boundaries. Similarly, from a learning perspective, obtaining and absorbing knowledge should be easier within a cluster than across clusters. Equally, from a contingency leadership perspective (Fiedler, 1967), operation across clusters would add to the ill-structured nature of a task, impacting the requisite leadership profile.

Finally, as Ronen and Shenkar (1985:447) note, “to require explanation,” that is, to initiate a search for the underlying reasons for proximity (Hartigan, 1975), may be the most theoretically significant function of clustering, exemplified, for instance, in the need to interpret order relations among entities (Ronen et al., 1979). A case in point is our discussion of correlates as well as the consideration of “odd bedfellows,” namely, cluster membership that cannot be culled from the correlates that appear to predict the placement of most members. Incidentally, this makes it all the more important that group boundaries are empirically rather than intuitively drawn, as we are able to do in a departure from past practice.
Classification, or the ordering of entities into groups of classes assumed to be homogeneous (Bailey, 1994), is not merely a methodological tool, but also a complex theoretical statement, which sets a foundation for sense-making, reasoning, and conceptualization, and necessitates the definition and testing of construct boundaries, turning it into a major theory building tool (Bailey, 1994; Doty & Glick, 1994). In the same way that a typology is more than a filing system, breaking the organizational world into “discreet and collective categories” (Rich, 1992:758), the clustering of cultures can be viewed as the parsing and ordering of culturally meaningful environments in which organizations and people are embedded, a process we call cultural mapping. Properly construed, such mapping has the potential to move us beyond the debate on the universality of management theories, as well as produce a number of potential contributions, as follows.

Cultural clustering, and its resulting mapping, provide an empirical classification (Doty & Glick, 1994) of cultural types that goes beyond tentative, crude classifications such as that of the triads as well as existing clustering sets that are limited in scope and depth, intuitively drawn, and lacking such key information as similarity levels and cohesiveness, but also supplies important inputs that are relevant for theory building as much as for practice. And the nature of the data is such that we should be able to pinpoint countries and regions where change occurs and where it does not. While elements of our clustering map, like geographic adjacency, may seem commonsensical, a closer look will reveal that other correlates are at play in a complex fashion, activating the all-important theoretical function of clustering as seeking explanation (Hartigan, 1975). The identification of reliable dimensions of cultural variation helps researchers a priori select cultural groups based on their position on relevant dimensions (Bond, 1988; Leung et al., 1990). Clusters may be used to guide sampling strategies in cross-cultural research, an important task since “judicious sampling within and across societal clusters can test potential boundary conditions for management theories and interventions” (Gupta et al., 2002:11). When studies compare two (e.g., Fischer & Schwartz, 2011; Wade-Benzoni et al., 2002), three (e.g., Roe et al., 2000; Tinsley, 1998), four (e.g., Glazer & Beehr, 2005; Price et al., 2001) or more countries, cluster affiliation enables predictions based on similarity in member attitudes (e.g., Glazer & Beehr, 2005).

Clustering better captures the challenges involved in reaching across a region than traditional distance measures (Ghemawat, 2001, 2003). With a measure of inter-cluster differences, clustering permits a better estimate of the difficulties involved in shifting from a regional to a bi-regional and a global MNE. By avoiding assumptions regarding equivalence and additivity, clustering techniques are instrumental in avoiding some fundamental
errors in conceptualizing and measuring cultural differences, especially the use of the cultural distance formula (Kogut & Singh, 1988; Shenkar, 2001). Given the centrality of cultural differences as a predictor, clustering promises a more rigorous capture of the magnitude and form of differences, which is further facilitated in our case by the use of hitherto unavailable or rarely used statistics, such as those pertaining to cluster adjacency. Clustering can also contribute to the emerging use of friction as a substitute lens with which to capture the sophistication and complexity of the cultural encounter and its impact (Shenkar et al., 2008).

Finally, we partially answer the question posed by Osegowitsch and Sammartino (2007:46), namely, “why, in an age of purported globalization, many of the world’s largest firms appear to have barely ventured beyond the confines of their home region,” and, in so doing, contribute to the still lacking systematic theory explaining regionalization (Banalieva & Dhanaraj, 2013). At the human resource level, clusters offer specific guidance that is of significant value to an increasingly culturally diverse workforce (House et al., 2004); for example, where to apply 360 degree feedback (Shipper et al., 2007). Or, at the firm level, cultural clusters add to variables such as tax and logistics as a major input into the MNE decision on how to structure its operations, especially where it operates under a geographic design (Ronen & Shenkar, 1985).

Our clustering boasts a number of additional advantages. First, it benefits from an aggregated database of over 400,000 respondents across 18 studies over 40 years, possibly the largest ever assembled; it covers 115 countries (not all are displayed here so as to meet extra rigor requirements – see Box 2.1 “Explaining the varying number of countries throughout this book” on page 68), 11 of which represent much of the industrialized world economy, permitting an exploration of a number of little-researched nations. Second, as discussed in Chapter 2, the data come from multiple though partially overlapping work-related dimensions, which should add to robustness and rigor; it likewise benefits from the reliability that comes from the inclusion criterion of a country being studied by at least two of the input studies. Third, our clustering provides a three-layered nested analysis and display (see Chapter 2) that offers a more refined and nuanced distinction of similarity and dissimilarity than hitherto available, enabling more accurate research and practice. Fourth, we import a novel statistical technique from medical and epidemiological research that enables a calculation of vital measures such as cluster adjacency (and hence a rigorous rather than intuitive marking of cluster boundaries) and cohesiveness that are calculated for all clusters at the three layers, carrying theoretical and practical significance. Fifth, we examine the relative explanatory power of major context
variables for each country and cluster (see Chapter 3), providing insights into cluster formation; showing the explanatory power of each variable enables us to speculate regarding the susceptibility of given countries and clusters to future change. Sixth, we attach values, beliefs, and expected behavior to each cluster and not just each country, extending the relevance of the clustering solution (see Chapter 5). Seventh, by providing a rigorous map of cultural similarity and dissimilarity, we facilitate future research in business areas as well as in the social sciences and humanities. Eighth, by touching on areas such as strategy and finance, we extend the relevance of the clustering map and offer additional theoretical and practical insights. Ninth, leveraging our 1985 study as a base line, we are able to validate the notion of cultural clustering as well as offer a rigorous test of convergence vs. divergence (as it applies to the structure of cultural clusters), raising the debate from the conceptual and ideological to empirical grounds (see Chapter 2). Finally, through the above, we hope to contribute to interdisciplinary research in the social sciences (e.g., political science) and humanities (e.g., religion), while also shedding some light on the grand science question of human evolution.

**Limitations of Clustering**

Its increased popularity notwithstanding, cluster analysis has been the subject of criticism by several scholars (e.g., Barney & Hoskisson, 1990; Ketchen & Shook, 1996; Meyer, 1991). The first criticism of clustering is that it involves loss of data and richness, such as in-group diversity (Ketchen & Shook, 1996). Science, however, fundamentally entails parsimony and as long as it is arrived at in an organic, rigorous, and theoretically meaningful fashion, it augments understanding of individual components by showing their commonalities and distinctiveness. In other words, clustering enables us to see the forest and not just the trees. As in other types of research, this limitation should be considered against the enhancement of data manageability (Bailey, 1994; Ball & Hall, 1967; Bijnen, 1973), something especially important in an area like business and management where applications are expected from both researchers and practitioners (indeed, this has been our experience with the 1985 clustering). In our current endeavor, we minimize information loss via the use of a three-layered nested clustering, preserving a measure of complexity and detail unavailable in previous efforts.

A second criticism of clustering is that it is atheoretical (that is, not based on an existing theoretical framework), devoid of a priori, theory-driven hypotheses that can be empirically tested (that is, there is no statistical test that can tell us if the results are statistically proven). Ketchen and
Shook (1996) note that a large body of clustering studies are inductive, that is, they are not theoretically deduced but simply represent empirical findings. Clustering dimensions seem to be haphazardly selected (Reger & Huff, 1993) and may not reflect real conditions but rather some simple statistical variation across organizations (Thomas & Venkatraman, 1988). In fact, cluster analysis is powerful enough that it will produce clusters even if no meaningful groups are embedded in the sample (Barney & Hoskisson, 1990). It can therefore yield inaccurate depictions of the groupings in a sample or even impose groupings where none exist. Our effort is, however, theory guided by the eco-cultural framework as well as by other theoretical inputs, and therefore cannot be described as being atheoretical.

A third criticism is that unlike statistical techniques such as regression and analysis of variance, cluster analysis does not provide a test statistic that enables researchers to support or reject their hypotheses; researchers must thus rely instead on intuitive, subjective judgment (Ketchen & Shook, 1996; see Gupta et al., 2002 for a GLOBE example). As a result, methodological guidance is often unclear (Ketchen & Shook, 1996). Indeed, techniques employed to determine clusters involve visually inspecting a dendrogram, change in agglomeration coefficient, and cubic clustering criteria. Here, however, to arrive at the cultural map that we introduce in Chapter 2, we imported statistical instruments from epidemiology and medicine, providing us with objectivity on key measures such as the cohesiveness of clusters and the adjacency among them. We also use a tool imported from the fields of operational research and information systems, namely, the algorithm voting technique, to indicate the ideal number of clusters for our data among different clustering techniques. In past management work, this information has been unavailable or intuitively drawn. We further fortify the results by supplementing our research with several other analyses, providing additional information, depth, and reliability.

A fourth criticism, specifically targeting country clustering, is the presumption of homogeneity of national units and the neglect of intra-country heterogeneity (Cavusgil et al., 2004; Jain, 1996; Kale & Sudharshan, 1987). Much of that criticism has been addressed earlier when we discussed the selection of the nation-state as our unit of analysis (see page 6), so we will not repeat it here. We should add, however, that our analysis of correlate variables (see Chapter 3) embodies elements of intra-country heterogeneity in considering the proportional mix of languages and religions within a country. This, in turn, suggests that the cluster solution we offer has external validity, that is, it is representative of the general population of interest (Cook & Campbell, 1979), whereas criterion-related validity, namely, usefulness for the prediction of important outcomes (Kerlinger, 1986; Ketchen
Delineating Culture

& Shook, 1996), is met by our discussion of work-related attitudes and behaviors, which are, in effect, not only representations of culture but also its outcomes.

Two takeaways emerge from the preceding review. First, is the importance of using multiple clustering variables as a way to maximize the likelihood of discovering meaningful differences and at least partially overcome the shortcomings of each (Ketchen & Shook, 1996). Truly, the inclusion of multiple variables is sometimes deemed as much a flaw as an advantage, since variables are randomly selected. However, the variables we use come from a single, well-defined “world of content” (Guttman, 1968) and cannot be said to be random or unrelated; results are synthesized from studies that formed meaningful cultural work-related clusters, and complementary techniques (triangulation, i.e., application of multiple techniques to a single research problem) are employed, adding reliability. Our limitation is rather that in choosing studies based on scale and geographic reach we could not screen them for adequate dimensional representation, so a few dimensions were overly represented, creating a small degree of bias when forming clusters. We were thus caught in a dilemma between including fewer studies or including eligible studies in which conceptions (variables and dimensions) are imbalanced. We opted to proceed with an expansionary approach as a way to extend the scale and scope of data and also because we felt that it was important to test the validity of existing cultural clusters against the clusters that would emerge in the synthesis. Even with this restriction, the resulting groupings are considered to be polythetic classes, as they contain cases that are not identical in variables (monothetic) but rather group cases by overall greatest similarity (Bailey, 1994). Should our synthesis show (as it does) consistency in the presence of some or all clusters, then we can claim that employing a variety of dimensions – though not equally balanced – was indeed useful.

A second takeaway is that for the potential of cluster analysis to be fully realized, a strong methodology is required with respect to the selection of variables, their standardization, the handling of multicollinearity issues, the selection of appropriate clustering algorithm, the determination of the number of clusters, and the validation of clusters. Triangulation will help strengthen the results by reducing potential methodological artifacts (Ketchen & Shook, 1996), which we partially do following empirical literature on variation in work-related behavior. Several ways have been proposed to combine clustering with other procedures, such as a two-stage procedure involving hierarchical and non-hierarchical methods used in tandem (Aldenderfer & Blashfield, 1984; Hair et al., 1998; Hartigan, 1975; Ketchen & Shook, 1996; Milligan, 1980; Punj & Stewart, 1983). We used
several supplementary techniques such as multidimensional scaling (MDS) and stability analysis to verify our clustering results and fine tune any ambiguities.

To summarize, despite some shortcomings, clustering is a useful technique when properly used with theoretical guidance, and when using multiple clustering variables that are subject to rigorous, objective, multi-method statistical analysis. Still, we agree with Gupta et al. (2002) that there can be no perfect clustering of countries and that different societal clusters may be equally valid given the uses for which the process was developed or the starting point, namely, the underlying glue and country membership in the analysis. While we thus make no presumption that we might find a magic formula by which all clusters may be described, surely we aim to make the most of all available findings to come close to such a formula.

Building Blocks: Clustering Dimensions

Comparative studies of culture seek underlying dimensions with which to capture cultural variation. The earliest most recognized of those is Hofstede’s (1980a), whose dimensions have been consistently studied, but not always validated (see Kirkman et al., 2006 for a list of 180 studies based on these dimensions). These dimensions have also been used to predict differences, including locus of control (Smith et al., 1995), work-related issues, such as the sources of guidance on which managers relied (Smith et al., 2002), as well as such variables as capital structure (Chui et al., 2002; Leung et al., 2005). Subsequently, alternative sets of dimensions have been offered (e.g., Bond, 1988; Bond et al., 2004; House et al., 2004; Schwartz, 1992, 1994). We follow Javidan et al. (2006) in viewing this abundance as an opportunity as much as an obstacle.

A review of the literature on culture and its relationship with behavior and practice illustrated that “almost all recent researchers measure national or societal culture through a set of values reflecting what is important or desirable in any culture” (Javidan et al., 2006:899), and results have been by and large replicable (e.g., Bond, 2006). As just noted, we hold that the inclusion of diverse dimensions is justified since, while only partially overlapping, they all belong in a similar world of content; further, we follow Peterson and Smith (2008) in the position that obtaining similar outcomes using diverse dimensions actually makes our results more rigorous and robust. The Ronen and Shenkar (1985) clustering was based solely on variables related to work values and goals; the resulting clustering map was thus strongly rooted in high construct validity. While it may be argued that an extension of the range of variables to include more managerial aspects
may dilute its focus and thus decrease construct validity, we concur with Gelfand et al. (2007) that grouping countries on multiple dimensions simultaneously provides an opportunity for a more useful clustering process. Such a process provides for a more acceptable judgment of relative similarity within individual clusters and allows researchers who compare only a few countries to associate them with relevant clusters.

Our analysis rests upon some 60 variables and dimensions, all of which are rooted in organizational behavior and can therefore be considered to come from the same “world of content” (Guttman, 1968) in addition to being partially overlapping. Still, to enhance reliability, we check cluster robustness using alternate sets. For example, Smith et al. (1996a) identified two culture-level dimensions from an analysis of managerial values: Egalitarian Commitment vs. Conservatism; and Utilitarian Involvement vs. Loyal Involvement. Smith and Bond (1998) found that results from these two different value surveys converged, supporting the validity of the cultural dimensions originally identified by Hofstede. Hofstede identified two factors that he labeled individualism and masculinity. A further two dimensions of national culture labeled power distance and uncertainty avoidance emerged from a so-called eclectic analysis, combining items largely on the basis of theoretical explanations (refer to Chapter 4 for our terminology and description of related values). Individualism–collectivism refers to the extent to which the identity of members of a culture is shaped primarily by personal choices and achievements or by the groups to which they belong. Masculinity–femininity corresponds to a “tough–tender” dimension; in masculine cultures, values such as competition, success, and performance are prevalent whereas in feminine cultures there is more emphasis on values such as social relationships and quality of life. Uncertainty avoidance alludes to the degree to which members of a culture are uncomfortable with uncertainties and ill-structured situations.

Ecological data regarding individualism-collectivism seem the most popular. Triandis (1990) reports that all of the studies he reviewed have yielded a factor related to individualism–collectivism. Parallel individual-level concepts have also been shown to have predictive validity within cultures. It is often inferred that this dimension is “the most important yield of cross-cultural psychology to date” (Smith et al., 1996a:237). According to Hofstede (1980a), individualism represents a model of psychology in which people operate as unique and autonomous actors who pursue self-relevant goals. Collectivism describes a model in which actors are interdependent and inherently embedded within their social contexts, resulting in a sacrificing of self-interests for the sake of the collective. While Hofstede assumed individualism and collectivism to represent a single dimension, later research
suggested the two cultural orientations are not mutually exclusive and are better understood as orthogonal personality-level dimensions. This implies that persons in all societies may display both individualist and collectivist tendencies, even though the expression varies across situations, relationships, and cultures. Triandis (1995; Singelis et al., 1995) listed four independent dimensions associated with individualism and collectivism, collectively termed horizontal–vertical individualism–collectivism (HVIC). Horizontal collectivism (HC) refers to a cultural orientation in which the self is perceived as equal to other in-group members and in which social harmony is highly valued. Vertical collectivism (VC) refers to an orientation in which the self is hierarchically positioned within an in-group, such that people tend to sacrifice personal desires for the superordinate aims of their in-group. Horizontal individualism (HI) describes a model of selfhood that is autonomous, which in turn fosters a propensity to value uniqueness and social equality. Lastly, vertical individualism (VI) describes the autonomous self that garners gratification through competition and personal achievement.

It would be pretentious to suggest that even the multiple dimensions we use represent all of the elements of work-related culture. For instance, our input studies do not include recent dimensions added to their underlying frameworks, such as Hofstede’s indulgence vs. restraint. We are also unable to cluster cultures based on enduring classifications such as high and low context (Hall, 1976), or more recently, Gelfand et al.’s (2006; see also Gelfand et al., 2011) dichotomy of tight vs. loose cultures, which reflects societal differences in tolerating deviation from societal norms. Nor do we address practices (“is”) as opposed to values (“should be”), as was done by GLOBE (House et al., 2004; Javidan et al., 2006). We are also unable to examine cultural intelligence (Ang & Van Dyne, 2008) or the global mindset (Gupta & Govindarajan, 2002) among recent approaches. Still, we believe that the dimensional structure of our data is sufficiently broad and diverse to provide adequate if not superior representation of value-based similarity and dissimilarity.

In the same vein, we restrict our analysis to value dimensions, which have been the dominant construct guiding cross-cultural research, rather than the general beliefs that may be viewed as “generalized expectancies” (Rotter, 1966). These beliefs are pitched at a high level of abstraction and hence are likely to relate to social behaviors across a variety of contexts, actors, targets, and time periods. Following Leung et al. (2005), such beliefs can be called social axioms in the sense that they represent basic premises that people endorse and use to guide their behavior in different circumstances. They are axiomatic because they are assumed to be true as
a result of personal experiences and socialization but not as a result of scientific validation. Social axioms also serve four major functions of attitudes: they facilitate the attainment of important goals (instrumental), help people protect their self-worth (ego-defensive), serve as a manifestation of people’s values (value-expressive), and help people understand the world (knowledge). In sum, we agree that social axioms play a central and organizing role in people’s belief systems, and that their major function is to enhance the survival and functioning of people in their social and physical environments (see also Schwartz, 1992); however, we do not see them as a substitute for the cultural values utilized in our data.

Clustering and the Convergence–Divergence Debate

As part of the convergence–divergence debate, predictions have been made regarding the continuous viability of cultural clusters, as they exist today. For instance, Huntington (1993, 1996) predicted the endurance of seven or eight major civilizations, including the Western, Confucian, Japanese, Islamic, Hindu, Slavic-Orthodox, Latin American, and possibly the African. While we only have two time points, the opportunity to contribute to the convergence vs. divergence debate is substantial. Our time periods are a generation apart, perhaps not a long time in evolutionary terms but sufficient as far as expecting inter-generational differences to surface; this is especially true in light of the intense globalization during the period. So if convergence proponents are correct, we should expect to see a meaningful shift towards greater similarity between countries and clusters. Further, the nature of the data is such that we should be able to pinpoint countries and regions where change occurs and where it does not. Down the road, this should put us in a position to research, for example, whether a correlate (e.g., religion) makes a region more or less immune to change.

At the same time, we should emphasize that we are not testing the entire possible spectrum of the convergence hypothesis but only a portion thereof, albeit an important one: group membership, in other words, the preservation of group structure. We should bear in mind that finding no change in cluster composition and membership does not necessarily exclude the possibility of changes within countries in response to political, technological, economic, or other influence. Such a shift, had it occurred, would not have necessarily resulted in different cluster formation (Inglehart & Baker, 2000). However, while we do not attempt to capture longitudinal change in any particular country, the possibility envisioned by some semi-globalization advocates – that the rate of change will vary across countries given their different heritage and geographic location (Tang & Koveos, 2008:1048) – would
likely be manifested in a shift in cluster membership structure and hence would be at least partially captured by our longitudinal analysis. Similarly, while we do not address the possibility that convergence and divergence vary pending on the practice at hand, as demonstrated, for instance, by the debate surrounding leadership styles and preferences (e.g., Brodbeck et al., 2000; Den Hartog et al., 1999; Dorfman et al., 1997; House et al., 2004) or ethical behavior (Ralston et al., 2009), the patterns and location of change or, alternatively, finding no change, in the clustering solution would enable some insights into such specifics.

Stability of the cluster structure, if we were to identify it, would have substantial value; for example, for cultural learning, it would indicate that it is worthwhile to have expatriates immerse in cultural knowledge so their posting “is not simply another assignment in a progression of positions or jobs, but an opportunity to acquire, create, and transfer valuable knowledge, both upon expatriation and repatriation” (Oddou et al., 2009:182). If we were to find meaningful differences, as convergence proponents expect, it would likewise be interesting and valuable to identify the nature of those differences at both the scholarly and practical level. For example, specific differences over time may pinpoint the nature, direction, and channels for MNE globalization (Oh & Rugman, 2012), helping firms that try to move abruptly from “misguided global standardization” to little-understood localization (Ghemawat, 2007:28). Identifying changes, or lack of, will also impact the regional boundaries of MNE geographic divisions (Ronen & Shenkar, 1988), and possibly alter the parameters for familiarity and internationalization theories (e.g., Johanson & Vahlne, 1977, 2009), among other theories and applications, and overall shed light on broad scholarly questions of context and evolution.

Indeed, as we head deeper into the twenty-first century, we are reminded of the bigger question of human evolution and change. In a very modest way, we believe that cultural clustering can provide yet another glimpse into the diversity of the human race, its origins, its manifestations, and its potential future path. If we are able to embark on that fascinating journey while simultaneously supplying today’s managers with a map and a compass with which to navigate the global mosaic, then we have achieved our purpose.