INTERNATIONAL BUSINESS

BUS 305

CULTURAL DIFFERENCES

- WHAT IS CULTURE?

- Culture can be defined as a system of **values** and **norm**s that are **shared** among a group of people

(its dynamic and evolves over the year)

- SOCIETY:

-A group of people who share a common set of values and norms

CULTURAL DIFFERENCES

- DETRMINANTS OF CULTURE

-Social Structure

-Religion

-Language

-Education

CULTURAL DIFFERENCES

1. SOCIAL STRUCTURE

-a society's social structure refers to its basic social organisation

TWO DIMENSIONS ARE CONSIDERED:

-Individual

-Group

CULTURAL DIFFERENCES

- Individual; The individual is the basic building block of social organisation

-Emphasis is placed on individual achievements or performance rather that the firm they work for. (Western societies)

CULTURAL DIFFERENCES

- Group: The Group is the basic building block of social organisation

- One identifies with the group more than his/her individual performance

CULTURAL DIFFERENCES

- IMPLICATIONS FOR INTERNATIONAL BUSINESS:

➢ Individual:

Advantage

- high degree of managerial mobility exposes managers to different ways of doing business, which could benefit the company.

CULTURAL DIFFERENCES

Disadvantages:

-lack of loyalty and commitment: high tendency to move on to a better offer

-high degree of managerial mobility between companies may raise the cost of doing business

CULTURAL DIFFERENCES

- Group:

Advantages

-workers are loyal and committed

- low degree of managerial mobility between companies may reduce the cost of doing business

CULTURAL DIFFERENCES

2. RELIGION

A system of shared believes that are concerned with the realm of the sacred

FOUR(4) MAIN RELIGIONS DOMINATE:

-Christianity

-Islamic

-Hinduism

- Buddhism:

CULTURAL DIFFERENCES

3. LANGUAGE

Enable people to communicate with each other

-Spoken

-Unspoken

CULTURAL DIFFERENCES

- SPOKEN LANGUAGE:

-Verbal Communication

- The most widely spoken language in the world is English, followed by French, Spanish and Chinese

- English is increasingly becoming the language of IB

CULTURAL DIFFERENCES

- UNSPOKEN LANGUAGE

-Refers to nonverbal communication

Eg raising the eyebrows, is a sign of recognition in most cultures; while a smile is a sign of joy; thumbs up, a gesture in Europe and U.S to mean its alright.

CULTURAL DIFFERENCES

- EDUCATION

-Formal education

-Availability of a pool of skilled and educated workers

CULTURAL DIFFERENCES

- IMPLICATIONS FOR INTERNATIONAL BUSINESS

-Production facilities that require highly skilled labour should be based in countries where skilled labour pool is available

-Educational level of a country determines the kind of products that might sell there

ENTRY STRATEGIES OF IB

- ENTRY STRATEGIES:

-Which foreign markets to enter

-Which entry mode to use

ENTRY STRATEGIES OF IB

- **Which foreign markets to enter**:

-Political system

-Economic System

-Legal system

-Culture

ENTRY STRATEGIES OF IB

- **Which entry mode to use**?

-Exporting

-Licensing

-Franchising

-Joint Venture

-new wholly owned subsidiary

-Acquiring an established enterprise

ENTRY STRATEGIES OF IB

- **EXPORTING**

Involves producing goods in one country and shipping them to another country for sale

-Most manufacturing firms begin their global expansion as exporters and later switch to another entry mode

ENTRY STRATEGIES OF IB

- **Advantages**:

-Avoid substantial cost and risk associated with establishing operations in the host country

-Manufacturing products in a centralized location and exporting to other national markets helps the firm realize economies of scale.

ENTRY STRATEGIES OF IB

- **Disadvantages**:

-Exporting may not be appropriate if lower cost locations for manufacturing a product can be found in host country.

-High transport cost can make exporting uneconomical

-Tariff barriers can make export uneconomical

ENTRY STRATEGIES OF IB

- **Licensing**

A licensing agreement is an arrangement whereby a licensor grants the rights to intangible property to another entity (the licensee) for a specified period, and in return, the licensor receives royalty payments from the licensor.

ENTRY STRATEGIES OF IB

- **Advantages**

-Licensor is relieved of the cost and risk of establishing in a foreign market.

-Able to enter foreign markets despite barriers of entry

ENTRY STRATEGIES OF IB

- **Disadvantages**

-Licensor do not have direct control over the Licensee

- Limited profits for expansion

-Risk associated with licensing technological know how to foreign firms (loose control over technology)

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- **Franchising**

Is a specialized form of licensing in which the franchisor not only sells intangible property to the franchisee, but also insists that the franchisee agree to abide by strict rules as to how it does business.

Whereas licensing is pursued primarily by manufacturing firms, franchising is pursued primarily by service firms.

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Example:

- McDonalds is a good example of a firm that has grown by using a franchising strategy.

McDonalds strict rules as to how franchisees should operate a restaurant extend to: control over the menu, cooking methods, staffing policies, design and location.

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- **Differences**:

-Franchising involves long term commitments

-Franchisee must abide by strict rules and regulations

-Franchisor assists franchisee to run the business from time to time

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- **Advantages of Franchising**:

-Franchisor is relieved of the cost and risk of establishing a foreign market

- Able to enter foreign markets despite barriers of entry

ENTRY STRATEGIES OF IB

- **Disadvantages of Franchising**
- Limited profits for expansion
- Challenge with quality control

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- **Joint Venture**:

Establishing a firm that is jointly owned by two or more independent firms

- **Advantages of Joint Venture**:

- Cost and risk sharing
- Low risk of being subject to nationalisation
- Benefits from local partner's knowledge of host country

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- **Disadvantage of Joint Venture**

- Direct control over strategic decisions becomes difficult when firms don’t own majority part

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- **Wholly Owned Subsidiary**:

Owing 100% stake in a company

TWO (2) WAYS:

-Set up a new operation (Greenfield venture)

-Acquire an established firm in the host country

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- **Advantages**:

-Firms have tight control over operations

-Reduces risk of loosing technological know how to foreign firms

-100% share in profits generated in a foreign market

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- **Disadvantages**

-Most expensive method of entering into foreign markets

-Very risky