

# Informal Institutions

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## Chapter 3





UNIVERSITY of NORTH CAROLINA WILMINGTON

# Objectives for Chapter

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Where do informal institutions come from?

- Socially transmitted heritage

Two visible manifestations of culture

- Language and Religion

Three ways to understand cultural differences

- Context, Clusters, Dimensions

How to deal with ethical challenges

# Informal Institutions

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Institution based view comprised of:

- Formal institutions – politics, laws, economics
  - Based on regulatory pillar
  
- Informal institutions – ethics, norms, culture
  - Based on normative and cognitive pillars
  - More elusive than formal
  - Possibly more important

# Informal Institutions

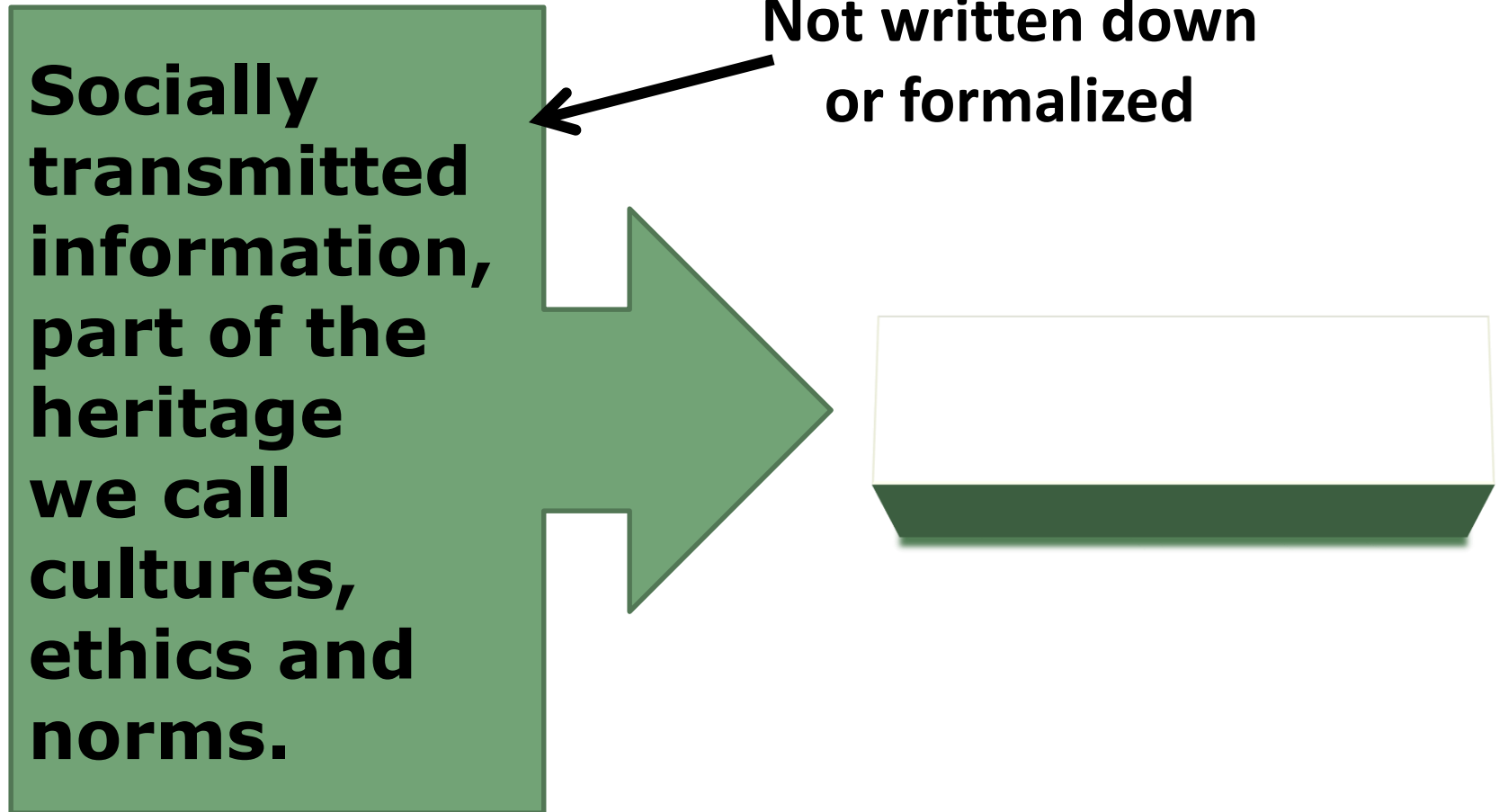
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Big point: Remember people are ethnocentric

- **Ethnocentrism** – a self-centered mentality held by a group of people who perceive their own culture, ethics, and norms as natural, rational, and morally right.

# Foundations of Informal Institutions

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# What is Culture?

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The collective programming of the mind which distinguishes the members of one group or category from another

- May not follow geographic borders
- Culture has many layers
  - Regional
  - Ethnic
  - Religious
- Firms, even depts., can also have their own cultures

# Belgium

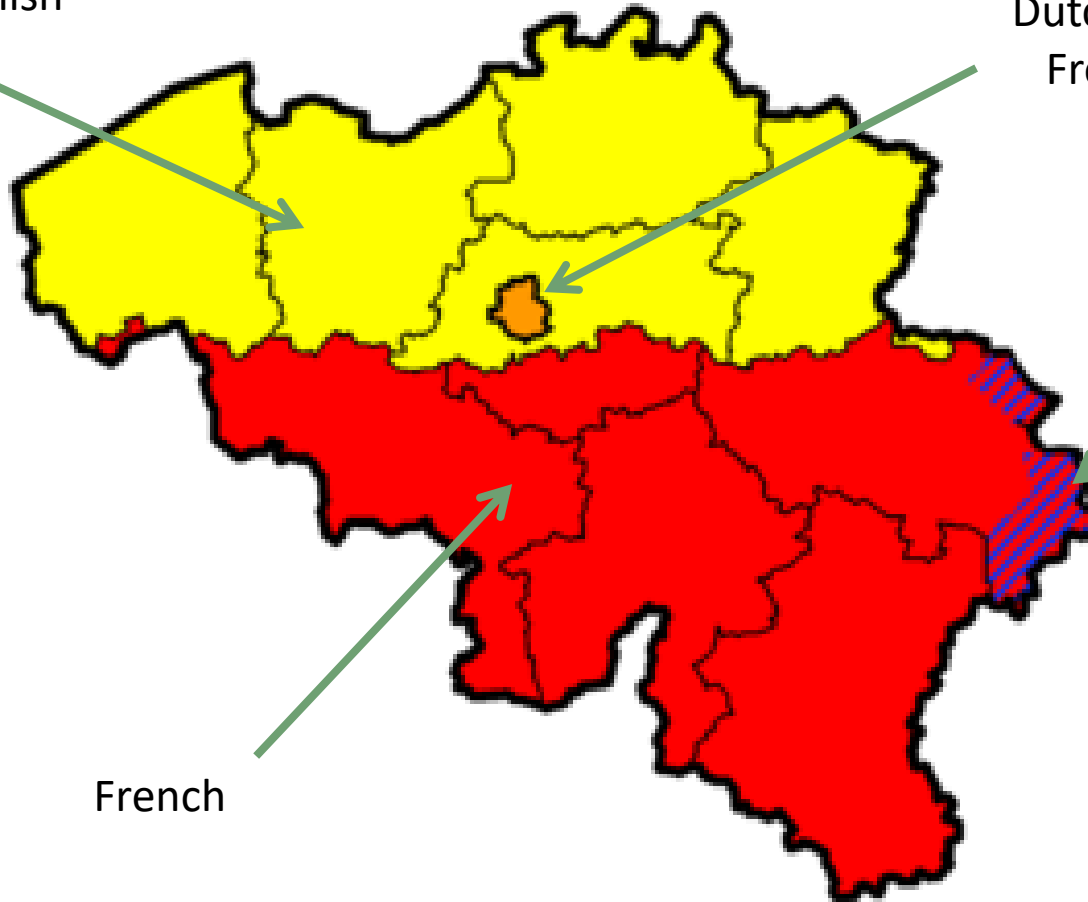
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Dutch/Flemish

Dutch and French

German and French

French





# Cultural Intelligence

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Need to understand and adjust to new cultures

- Awareness
  - Recognize the differences
  
- Knowledge
  - Ability to identify symbols, rituals, and taboos
  
- Skills
  - Can teach in classroom but “learn” in world

# Rules of Thumb

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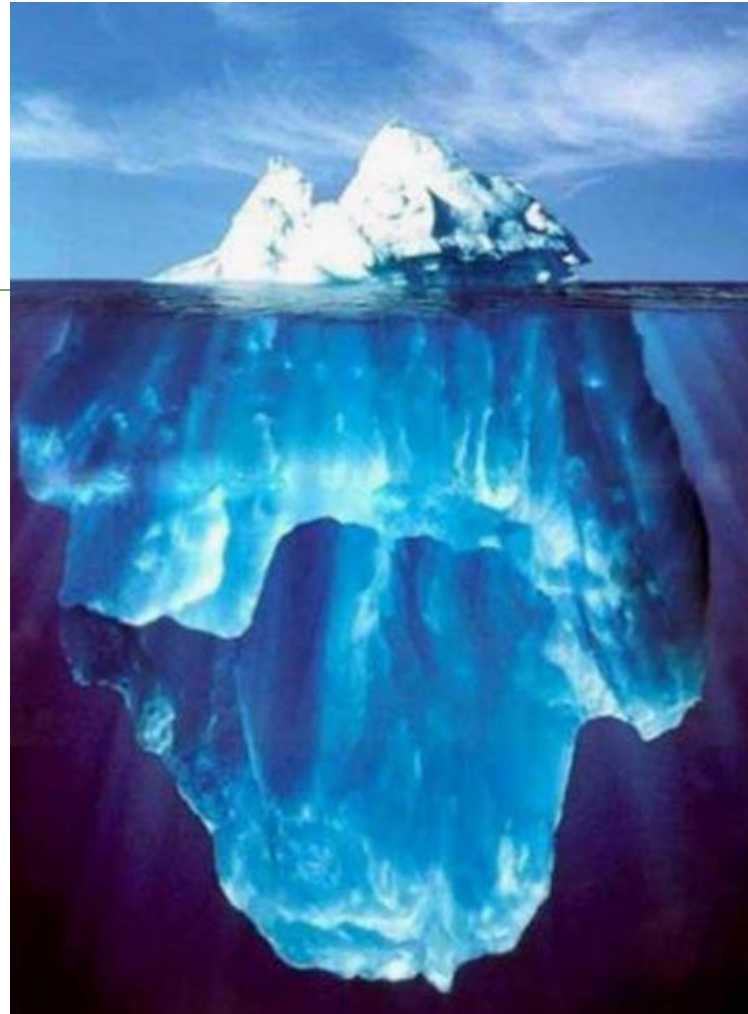
For cross culture business:

- Be prepared
- Slow down
- Establish trust
- Understand the importance of language
- Respect the culture
- Understand that no culture is superior

# Discussing Culture

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**Language**



**Religion**

**Societal  
Structure**

**Risk  
Tolerance**

**Decision  
Making**

**Objectives**

# Language

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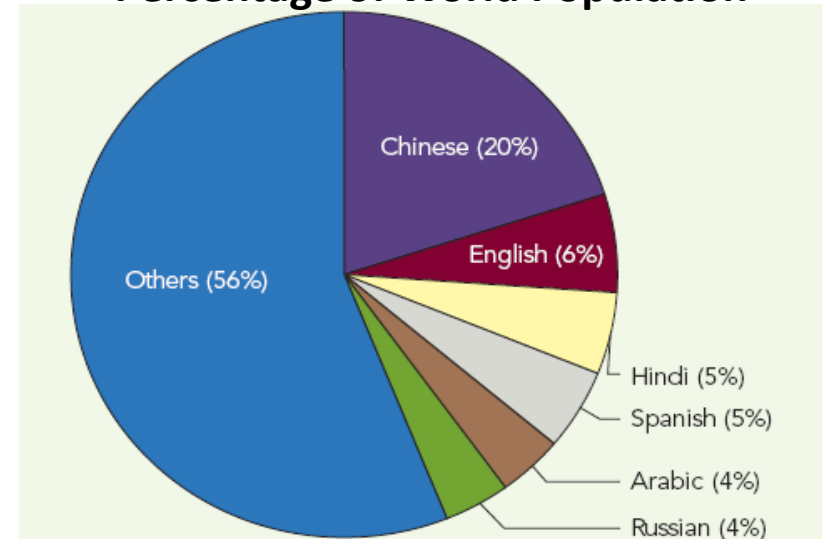
How many languages in the world?

- 6,000 Languages in the world

Percentage speaking English?

- English spoken by 6% of world pop

**Native Speakers of Top Six Languages as a Percentage of World Population**



Source: Peng, 2e

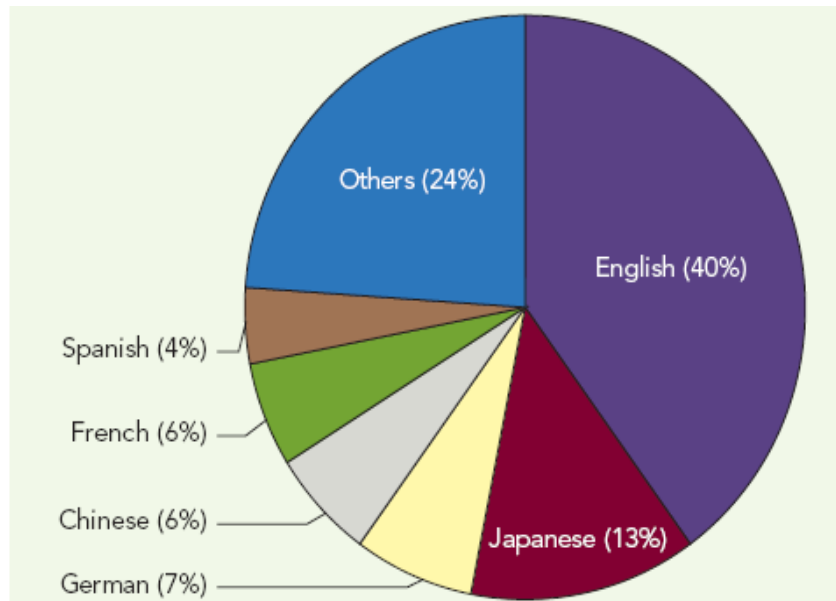
# Language

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6,000 Languages in the world

English spoken by those who produce 40% of world output

**Native Speakers of Top Six Languages as a Percentage of World Output**



Source: Peng, 2e

# Language

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## English second in number but first by output

- Has become Lingua Franca - language used for communication between those not sharing a native language
  - Global business language
  - Economic dominance of English speaking countries
  - Many products now sold worldwide in English

## Know English, off the hook?

- Locals may not speak English, miss subtleties
- Many lower level employees may not know English
- Products are more easily marketed in native language

# Global vs. Local

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## Standardizing:

- Reduces costs
- May not be effective, even for a single country

## Hispanic population in US is 45 million

- Better recall from *Spanish* ads
- Half watch Spanish language programming
- Univision is the 5<sup>th</sup> largest TV network in US

English commercials or extra cost of Spanish commercials?

# Translations...

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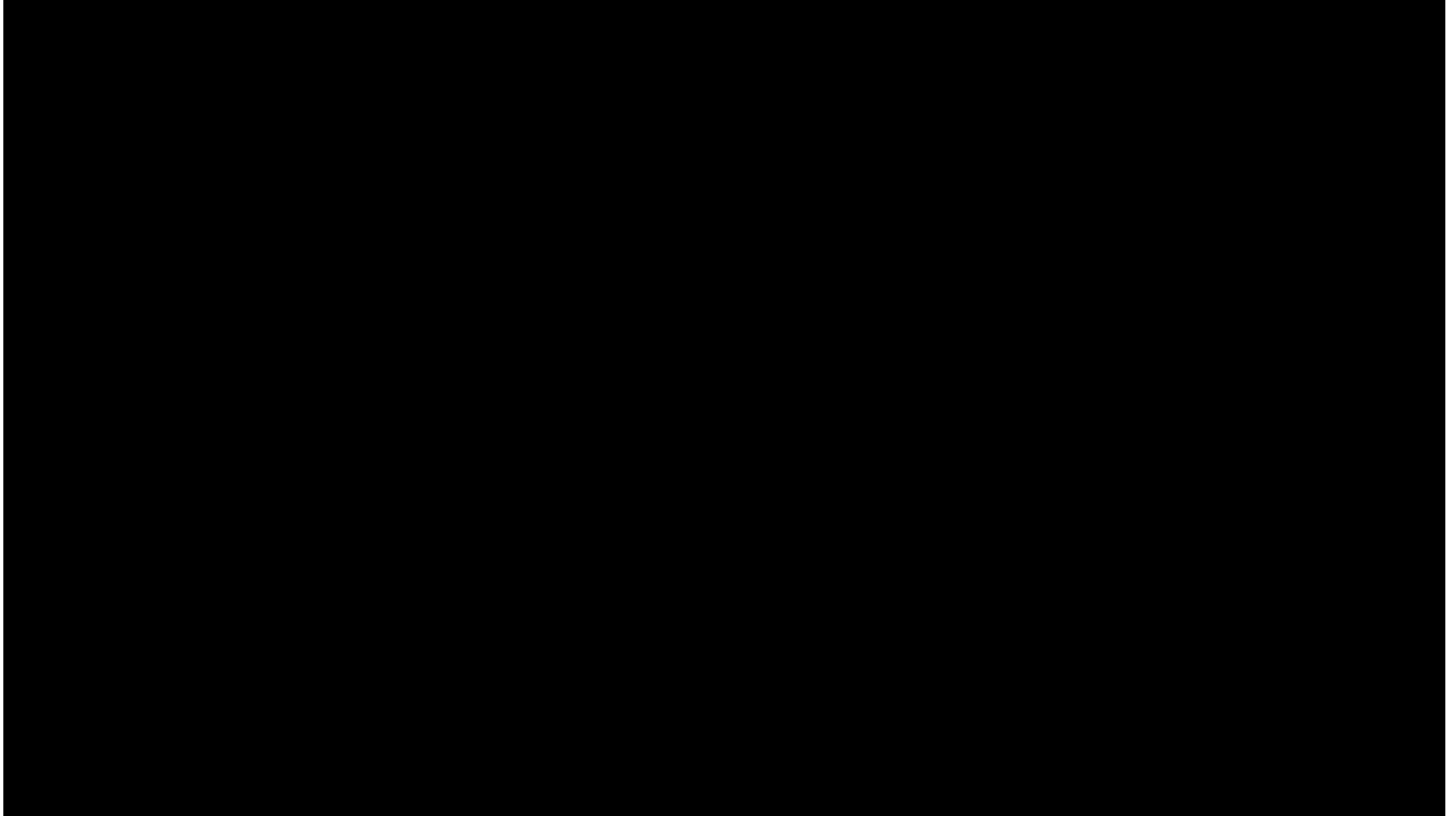






# Translation Problems

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# Translations

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## Be sure to use *Back Translation*

- When possible use a local, native speaker for translation
- Have your manuals, packaging, advertising translated back by another speaker to close loop

# Religion

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# Religion

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Religion is another major manifestation of culture

All managers must be familiar with different religions

## Largest Religions

- Christianity - 1.7 billion
- Islam - 1 billion
- Hinduism - 750 million
- Buddhism - 350 million

# Religion

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## Islam (largest faith after Christianity)

- Confession of faith
- Five daily prayers
- Charity
- Ramadan fast
- Pilgrimage to Mecca



## Hinduism

- Caste system
- Society is divided into four groups (plus the outcasts)
- Each is assigned a certain class of work

# Social Structure

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## How society is organized

- **Social Stratification** – the hierarchical arrangement of individuals into social categories such as classes, castes, or divisions within a society
- **Social Mobility** – the degree to which members from a lower social category can rise to a higher status
- Important consideration when making hiring and managing decisions
  - Put a lower caste member into management may torpedo morale!

# Making Sense of a Crazy World

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# Organizing the World

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Subtleties and informal institutions are difficult learn

However, can use three approaches to help understand how cultures are systematically different

- Context approach
- Cluster approach
- Dimension approach

# Context

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**Context** – the background against which interaction takes place

**Low context culture** – A culture in which communication is usually taken at face value without much reliance on unspoken conditions or assumptions

- Much more to the point than high context cultures
- “no means no”

# Context

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**High context culture** – A culture in which communication relies heavily on the underlying unspoken conditions or assumptions, which are as important as the words used.

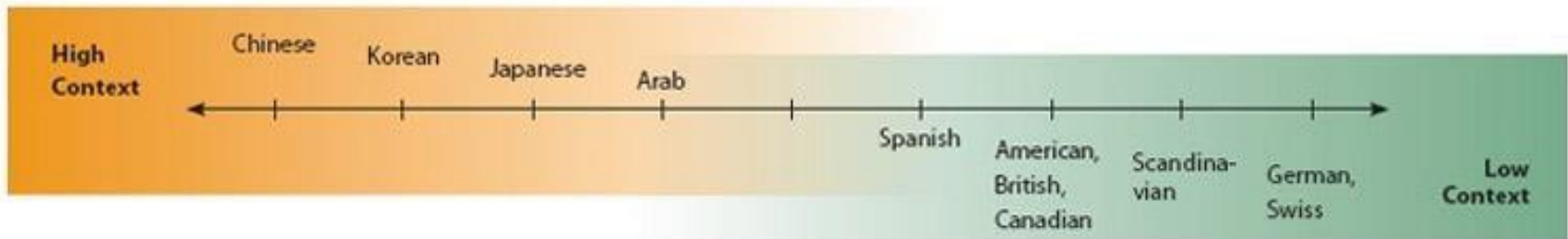
- Not told “no”, told “we’ll consider it”, “we will get back to you later”
- Supposed to understand the context
- Difficult for low context cultures to learn and understand subtleties of high context cultures
  - Women understand men but men don’t understand women

# Context

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Context is the background against which interaction takes place.

Where do Americans fall? High or low?



**Shorter Contracts**

**Lawyers late in process**

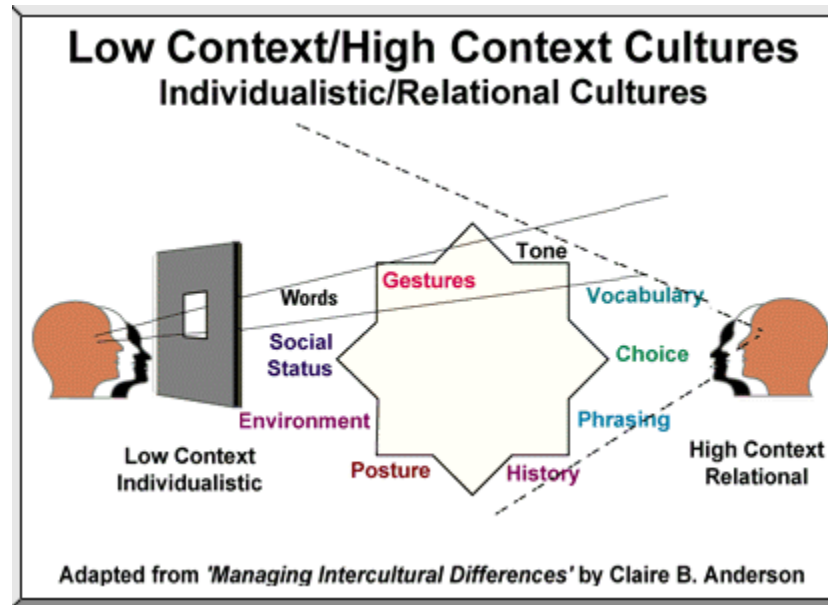


**Longer Contracts**

**Lawyers from start**

**Problem: Only one dimension to organize cultures along**

# Context in Pictures

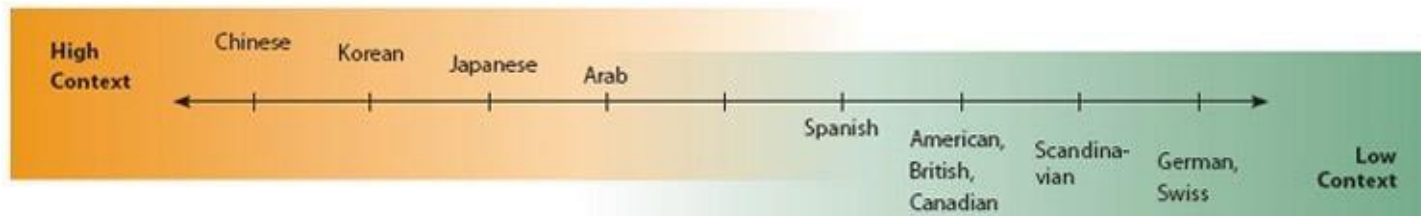


## *High Context*

Subtle, context of how it is said is very important

## *Low Context*

Blunt, communication taken at face value



Problem: Many more differences than context!

# The Cluster Approach

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Groups countries that share similar cultures into a **cluster**.

**Civilization** Highest cultural grouping of people and the broadest level of cultural identity people have

Ronen and Shenkar Clusters	GLOBE Clusters	Huntington Civilizations
Anglo	Anglo	Western (1)
Arabic	Middle East	Islamic
Far East	Confucian Asia	Confucian (Sinic)
Germanic	Germanic Europe	Western (2)
Latin America	Latin America	Latin American
Latin Europe	Latin Europe	Western (3)
Near Eastern	Southern Asia	Hindu
Nordic	Nordic Europe	Western (4)
Central and Eastern Europe	Eastern Europe	Slavic-Orthodox
Sub-Saharan Africa	Sub-Saharan Africa	African
Independents: Brazil, India, Israel, Japan		Japanese

# Cluster Approach

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## *Huntington's Civilizations*



Source: <http://europelostandfound.net/node/1075>

- Similarities within clusters, differences across clusters
- Problem: ignores the differences within clusters

# Cluster Approach

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Crossing borders *within* clusters is easier than *between* clusters

- Similar language, heritage, religion, etc.
- More work and prep to cross clusters

Ex: lots of books in English on doing business in China and vice versa

- Not so many on doing business in Canada



# Dimension Approach

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## Problems:

- Context – only one dimension
- Clusters – differences within clusters

## Hofstede's dimensions of culture

- Rates countries on 5 dimensions
  - Power Distance
  - Individualism vs. Collectivism
  - Masculinity vs. Femininity
  - Uncertainty avoidance
  - Long-term orientation

# Hofstede's Dimensions

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**Power Distance** – the extent to which less powerful members within a culture expect and accept that power is distributed unequally

- US – relatively low power distance
  - Address bosses by first name
  - All professors called professor
  - Input into decisions of management
  - Etc
- High power distance countries
  - Do not expect to be part of decision process
  - ex: France, Italy, Egypt, Russia, Turkey
  - Asking subordinates for input is a sign of weakness and/or ignorance

# Hofstede's Dimensions

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## Individualism vs. Collectivism

- **Individualism** – individual's identity is fundamentally his/her own
  - Individual achievement and freedom highly valued
  - Individual responsibility
    - 401Ks, IRAs, etc
  - More entrepreneurship
- **Collectivism** – individual's identity is fundamentally tied to the identity of his/her collective group
  - i.e. family, village, company, church, etc.
  - Collective accomplishment sought after
  - Loyalty to group expected to be rewarded
    - Pensions, healthcare, no layoffs, etc.

# Hofstede's Dimensions

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## Masculinity vs. Femininity

- **Masculinity** – strong societal sex roles, men tend to work jobs that reward assertiveness and women tend to work in caring professions
  - Ex: Japan
  - Females treated differently, sexual harassment tolerated
- **Femininity** – relatively weak societal sex roles, more women occupy roles that reward assertiveness
  - Women more likely to be politicians, scientists, managers...
  - Men more likely to be teachers, nurses, Mr. Moms, etc.
  - Ex: Sweden
  - Need to be careful that new managers from masculine countries understand the culture and rules

# US a few generations ago.....

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<https://www.youtube.com/watch?v=DxZ3A9giyIo>

<https://www.youtube.com/watch?v=SsBiLCD173w>

# Top-Toy Group Gender Roles

## Sweden



Boys and girls playing with “feminine” toys

## Denmark



Only girls playing with “feminine” toys

# Hofstede's Dimensions

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## Uncertainty Avoidance

- The extent to which members of a culture accept or avoid ambiguous situations and uncertainty
- High uncertainty avoidance – Greece
  - Job security
  - Retirement benefits
  - Resistant of change
  - Managers rely on rules
- Low uncertainty avoidance – US, Singapore
  - Willingness to take risks
  - Managers rely on experience and training

# Hofstede's Dimensions

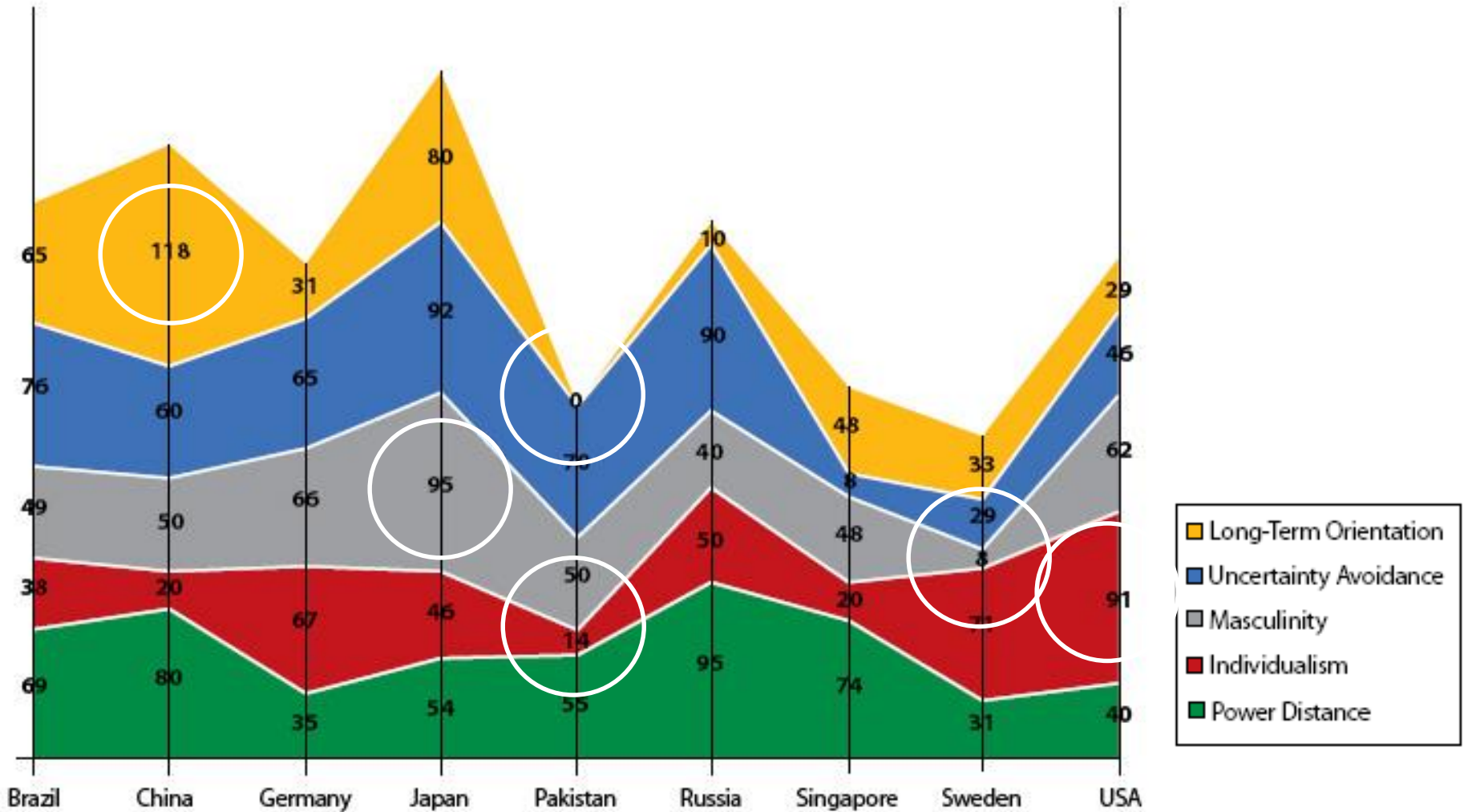
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## Long-term Orientation

- Emphasizes perseverance and savings for future betterment
  - Long term:
    - China – high savings rate
    - Japan – Matsushita has a 250 year plan!
  - Short term:
    - Pakistan – quick buck and instant gratification
    - US – sometimes only worrying about quarterly profits

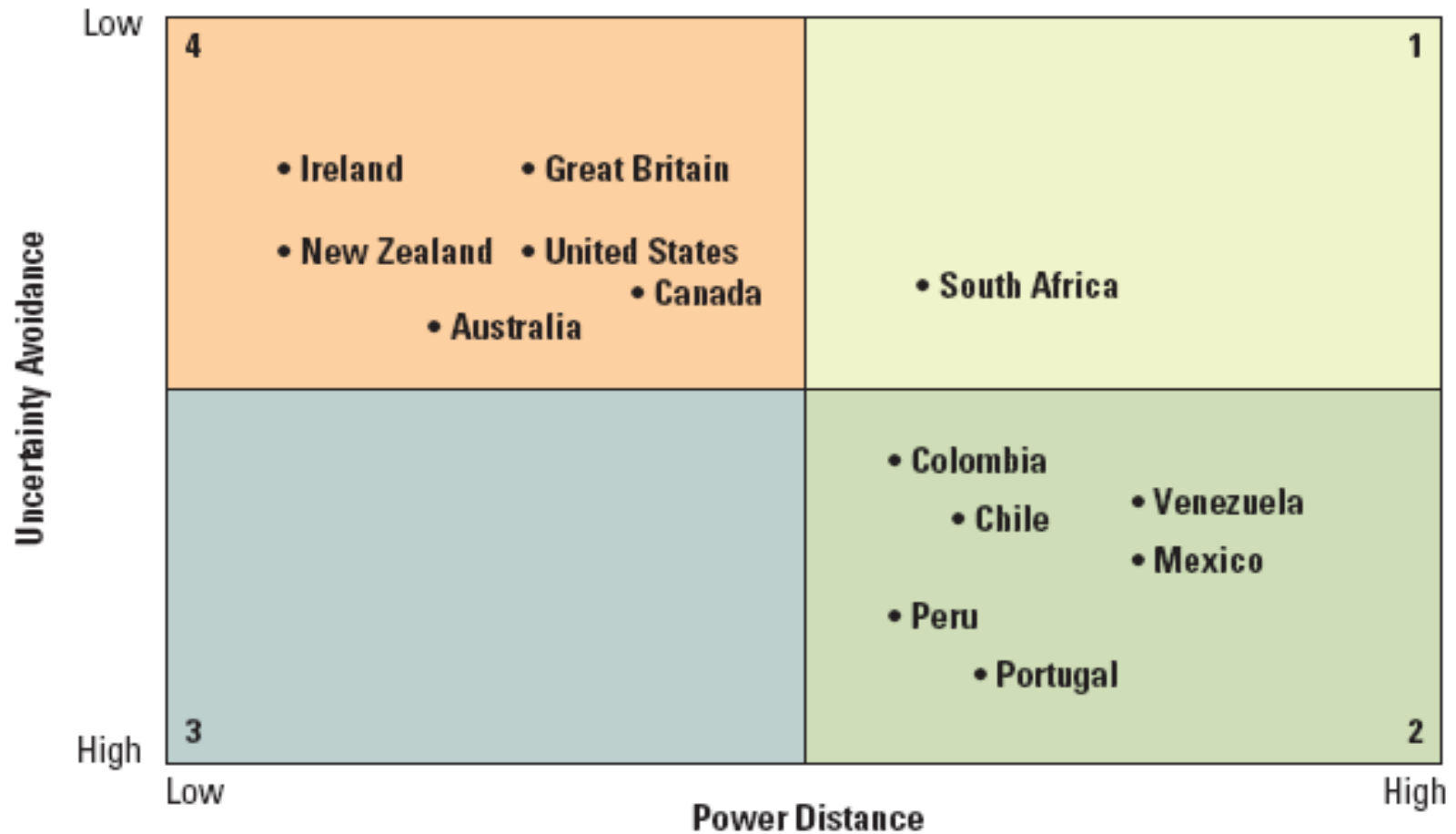


# Hofstede's Dimensions

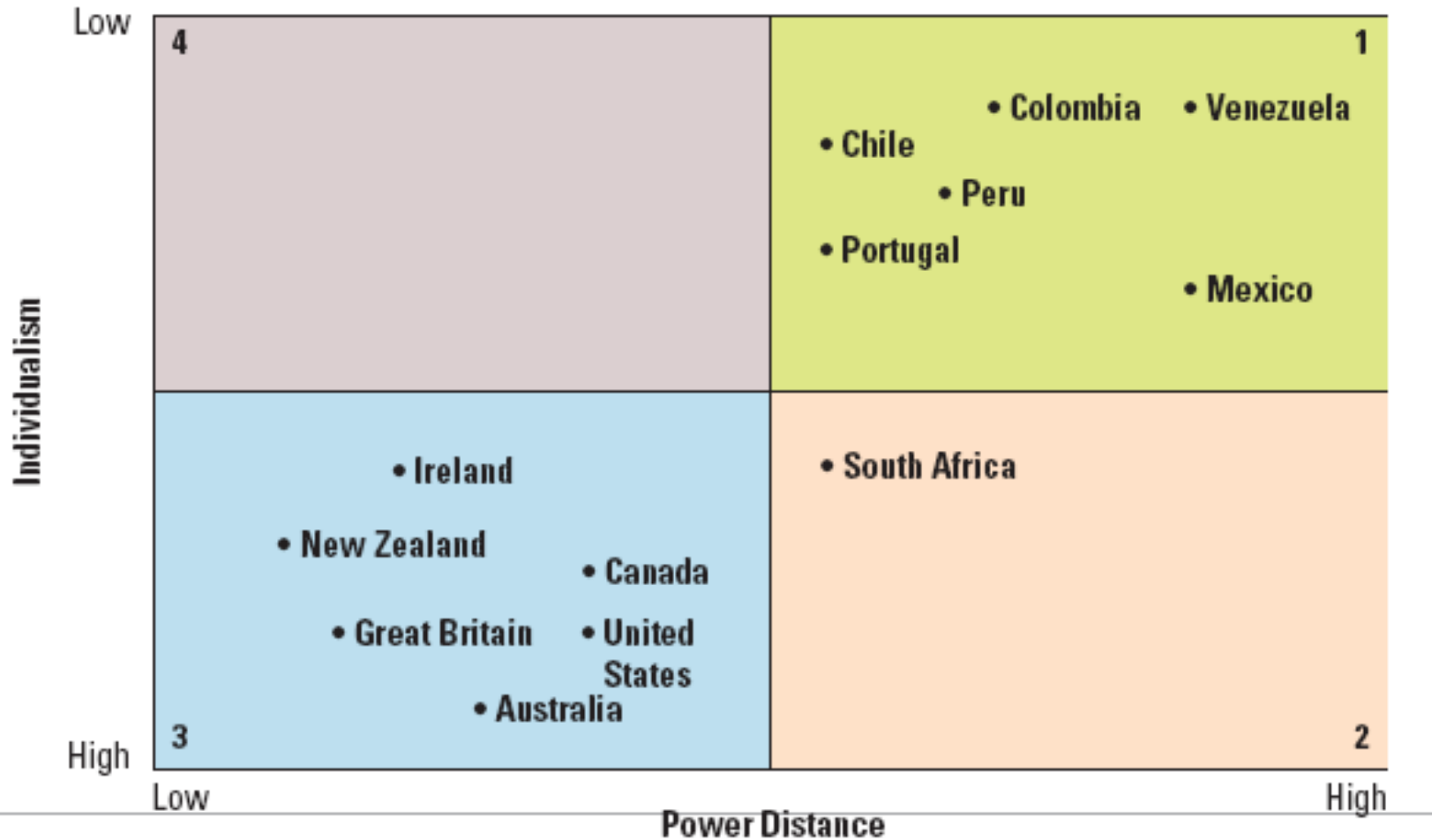


# Power Distance and Uncertainty Avoidance

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# Individualism and Power Distance



# Ethics

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# What is ethics?

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**Ethics** – principles, standards, and norms of conduct that govern individual and firm behavior

- Overlap between what is ethical/legal and unethical/illegal
- Lots of grey area between
- Businesses putting in place **codes of conduct** – set of guidelines for making ethical decisions
  - Keep up appearances
  - Self-motivated to do what's right
  - Guides employees in decisions making and help profitability

# Ethics

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## Managing ethics across cultures

- **Ethical Relativism** – perspective that all ethical standards are relative
  - When in Rome do as the Romans do
    - Okay to pay bribes in Russia?
    - Okay to degrade women in masculine cultures?
  
- **Ethical Imperialism** – absolute belief that “there is only one set of Ethics, and we have it”
  - Sexual discrimination is wrong in US, wrong everywhere else too!
  - Questionable payments should be prohibited everywhere!

# Ethics

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Neither one of these is realistic

- Relativism – accepts any local practice
  - News crosses borders!
  - What happens in Vegas...
- Imperialism – ignores local culture and may lead to backlash

# Ethics

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## Private Sector:

- Codes of Conduct need a middle ground approach
  - Respect for human dignity and basic rights
    - Some minimal standards for operations worldwide
  - Respect for local traditions
    - i.e. gifts
  - Respect for institutional context
    - Keep things in context, again, what's a bribe?

John Abele on Boston Scientific's rules for behavior...



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LES50NS  
[www.fiftylessons.com](http://www.fiftylessons.com)

# Compared to other organizational approaches

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<https://www.youtube.com/watch?v=a9AESC-wcq8>

# Government Corruption

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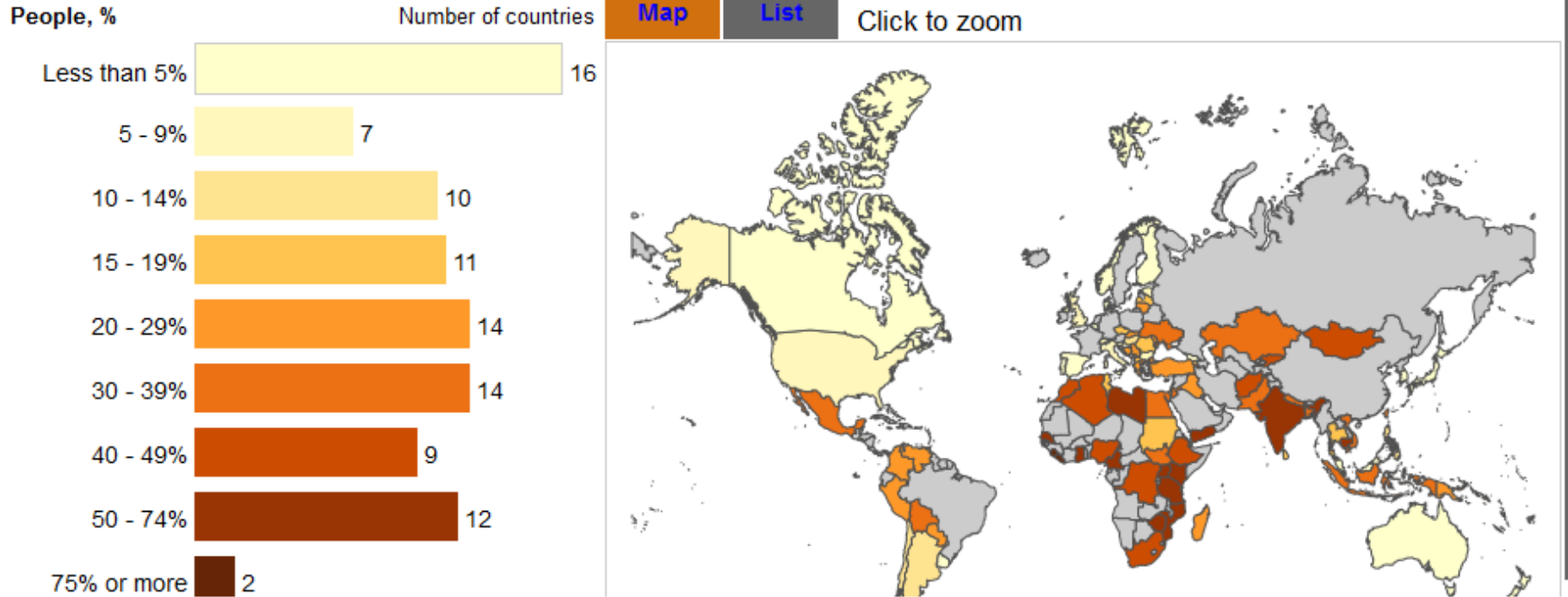
# Fighting Corruption

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## Public Sector:

- Attempt to combat **corruption**, or the abuse of public power for private benefits usually in the form of bribery, in cash or in kind.
  - Corruption inversely related to economic development
  - Difficult fight corruption: if not fought everywhere as the normative pillar may be to pay bribes

## Population who have paid a bribe



Source: Transparency International, Global Corruption Barometer, 2013

# Foreign Corrupt Practices Act

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Enacted by congress in 1977

- Prohibits bribes by US firms around the world
- Allows for “grease” payments

Problem: Bribes are supported by the normative pillar

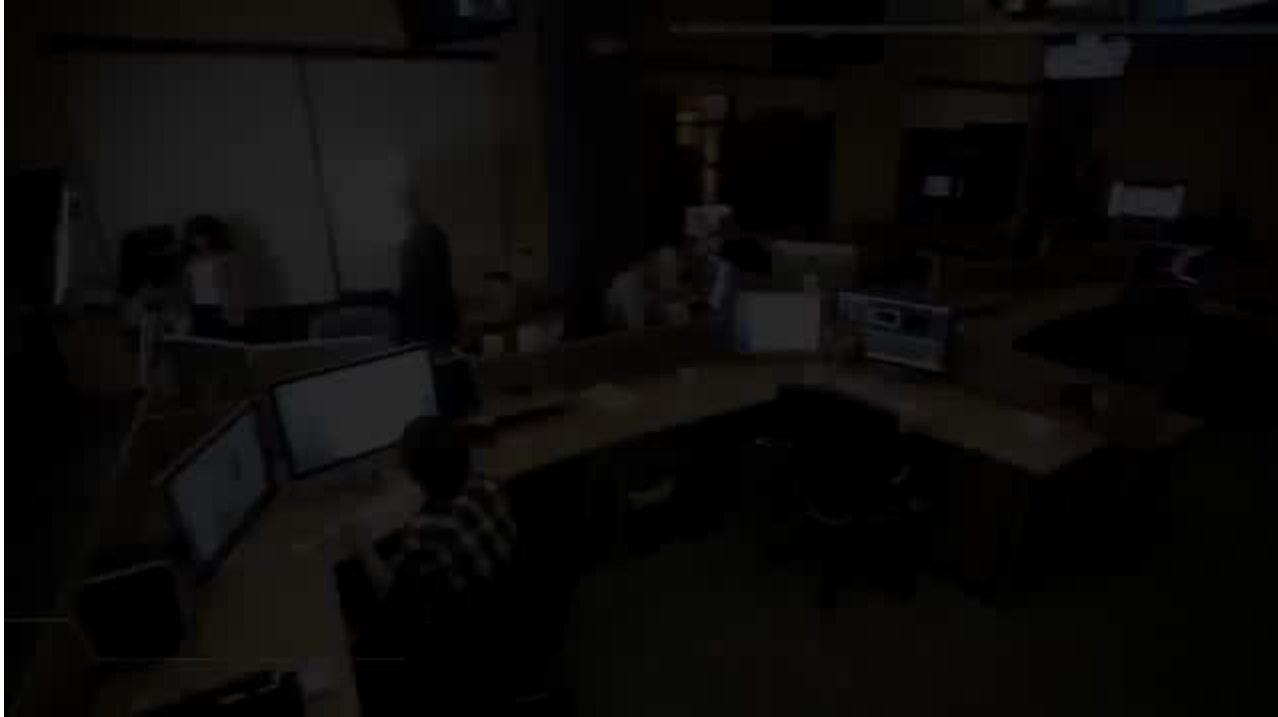
Some countries even allowed for tax deductibility of bribes

- May be no cognitive opposition

Late 90's saw an international push to reduce bribery by OECD and UN but yet to see the results

# Wal-Mart

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# Responses

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# Responses to Ethical Challenges

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## Four strategies


- **Reactive** – passive response that involves denial and belated action to correct problems
  - Typically denial
- **Defensive** – response that focuses on regulatory compliance
  - “We followed all the regulations”
- **Accommodative** – response that involves accepting responsibility
  - Accept responsibility, try to rectify situation
- **Proactive** – strategy that anticipates and addresses problems before they happen
  - i.e. “green” regulations

# Reactive Response

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BUSINESS | 7/25/2013 @ 12:48PM | 3,302 views

## The Glaxo-China Bribery Scandal: A New Policeman Walks The Beat

 **Robert Radick**, Contributor

[+ Comment Now](#) [+ Follow Comments](#)

When it comes to allegations of foreign bribery, what a difference a week can make. Just over ten days ago, a new player in the world of international bribery – the Chinese [Ministry of Public Security](#) – announced that it was investigating senior executives in the Chinese division of British pharmaceutical company [GlaxoSmithKline](#) for allegedly offering bribes to officials and doctors in order to boost company sales. GSK responded at the time with the respect and deference that one would anticipate, stating that it takes “all allegations of bribery and corruption seriously” and that it would fully cooperate with the Chinese authorities. Regarding the merits of the allegations, however, GSK stated that the company had already conducted an investigation and “found no evidence of bribery or corruption of doctors or government officials.”

Now, in a story that continues to evolve rapidly, GSK appears to have acknowledged the misconduct that the Chinese authorities alleged. On Monday of this week, [Abbas Hussain](#), the President of Emerging Markets for GSK, issued a [statement](#) indicating that “certain senior executives of GSK

# Accommodative Response

**Forbes** · **New Posts** **Most Popular** **Lists** **V**  
The WhatsApp Billionaires The Business Of Nascar Oly

TECH | 12/12/2013 @ 7:15PM | 5,159 views

## Apple's Supplier Labor Practices In China Scrutinized After Foxconn, Pegatron Reviews

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10 Share

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2 +1

0 Submit

34 comments, 5 called-out [+ Comment Now](#) [+ Follow Comments](#)

Nearly two years after Apple called on the Fair Labor Association to assess working conditions and labor practices at its partners' facilities in China, the FLA said it's completed its inspections of the company's largest supplier, Foxconn, which assembles the iPhone and iPad.

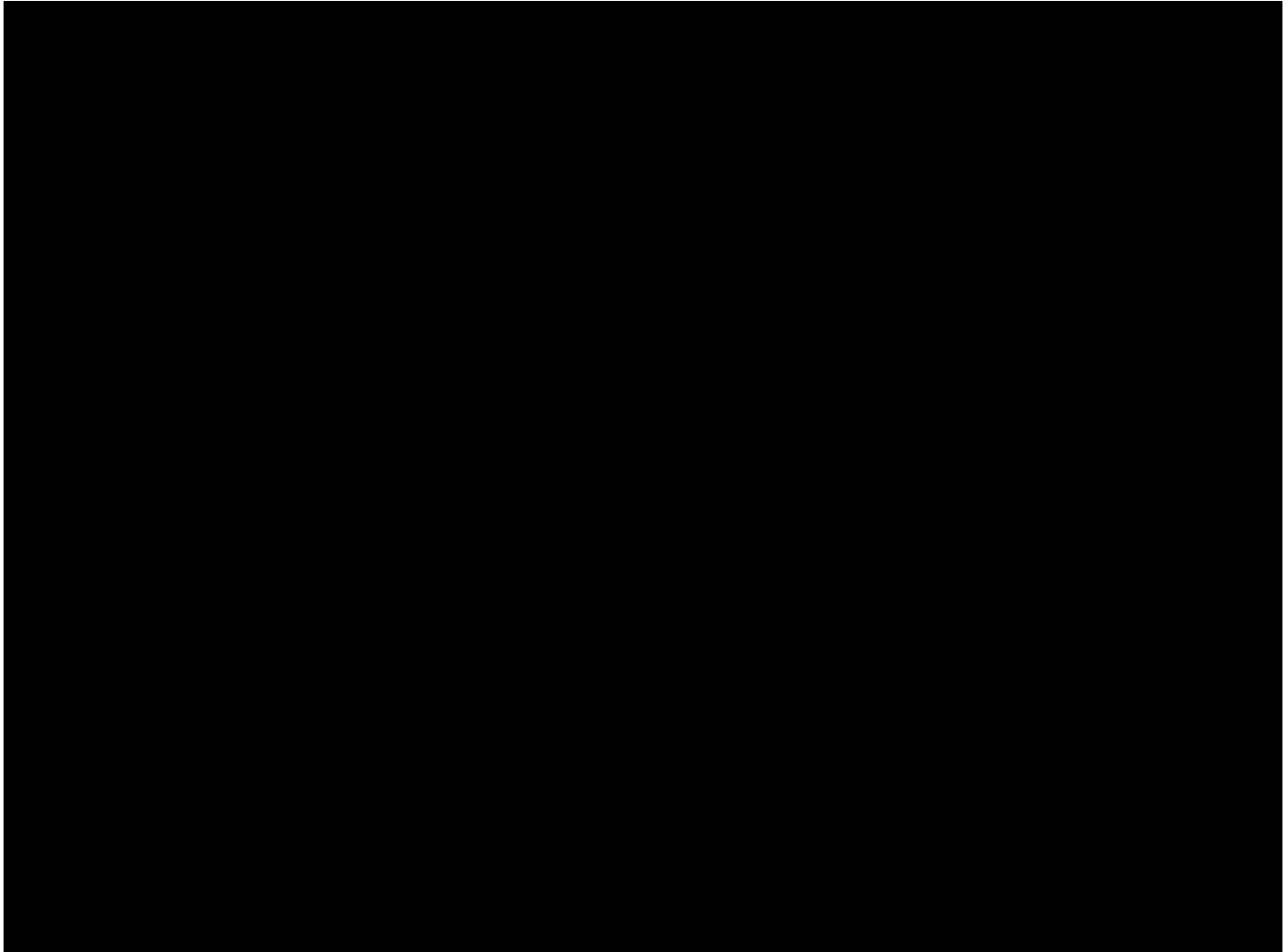
And while working conditions have improved for an estimated 170,000 workers at three Foxconn facilities in Longhua, Guanlan and Chengdu, working hours, specifically the overtime hours workers rely on to supplement their salary, continued to exceed legal limits.

This week Apple also said that a medical team sent to China to discover the cause of death of a 15-year-old boy working at plant that makes the new iPhone 5c found that the death wasn't related to working conditions.

First, a recap from the FLA. The monitoring organization said it found that Foxconn workers are "largely" not required to work more than a 60-hour work week after the company "significantly" reduced working hours. However, Foxconn fell short in complying with limits on overtime. Between March and October 2013, more than half of the workforce on average had worked beyond the Chinese legal limit of 36 overtime hours per month in all three facilities.

# Proactive Response

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# Takeaways

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Cultural differences are important but often difficult to observe

- Differences in language and religion

Be prepared

Find a good local partner you can trust

Understand we are all ethnocentric

Basic awareness -> knowledge -> skills

# Debate

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# Nike

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In the mid 90's Nike was involved in controversy about working conditions and human rights

Nike doesn't own any production facilities

Outsource to over 900 factories in 50 different countries.  
660,000 workers.

- CBS news reported workers struck in head, pinched or forced to stand, kneel, or run in sun as punishment.



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UNREGI  
STERED



# Nike Press Forum

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## Televised discussion over Nike's activities in Indonesia

- Questions:
  - Should Nike's behavior be regulated?
  - Who should regulate it?
- Reps. of the following groups were invited to take place in discussion:
  1. Nike
  2. Manager's/Owners of Nike's Regional Subcontractors
  3. Indonesian workers
  4. Reps of Indonesian national gov't
  5. AFL-CIO – American Labor Union
  6. Agents of Michael Jordan and Tiger Woods

<http://opendorse.com/blog/2016-highest-paid-athlete-endorsers/>

# Nike Press Forum

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