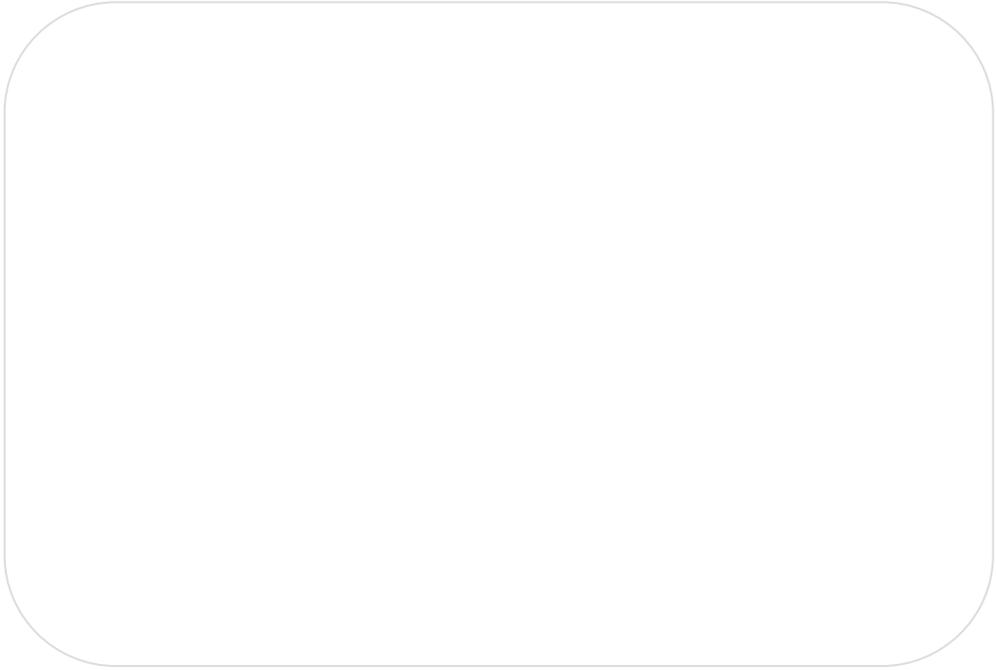




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An Interdisciplinary Approach of Culture and Business Competitiveness to
the Analysis of Western and East Asian Models

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June 2006

Abstract

Culture is becoming increasingly important in determining the competitiveness of firms in international business. Perlmutter first presented variables that focused on the primary attitudes among international executives, allowing an understanding of how cultural aspects affect the success and failure of a multinational corporation. Other scholars proposed various models of fundamental dimensions of culture. Among them, the Hofstede model is the most popular one. Almost all of studies on culture published in major business journals are based on this Hofstede model. However, the Hofstede model has some weaknesses, so studies on this model often produce conflicting results. The main goal of this paper is to develop a new cultural model, by correcting the problems of the Hofstede model, to identify East Asian dimensions of culture, and to give strategic guidelines for East Asian business.

Key Words: culture, Hofstede, OUI model, competitiveness, East Asia

Introduction

Krugman (1994) argued that economic growth that is based on expansion of inputs (the East Asian model), rather than on growth in output per unit of input (the Western model), is inevitably subject to diminishing returns. According to him, the East Asian model, which is input-based and perspiration-based, has a significant limitation, compared to the Western model, which is efficiency-based and inspiration-based. Krugman then predicted that the East Asian economies would never overtake the Western economies.

What are the fundamental differences between the Western and East Asian models?

Porter (2000) presented an interesting link between culture and economic success. He introduced a new term, economic culture, which is defined as the beliefs, attitudes, and values that bear on the economic activities of individuals, organizations, and other institutions. Studies on culture tend to focus on desirable cultural attributes such as hard work, initiative, and education. Porter argued that these generic attributes should be more specific: hard work is important but just as important is what guides the type of work; initiative is important but not all initiative is productive; education is crucial but so is the type of education. Porter proposed an essential need to provide specific cultural

dimensions, but he did not provide his own model for this purpose.

The main purpose of this paper is to link economic performance to culture and introduce a new cultural model by correcting the Hofstede model. For this purpose, the following equation can be formulated.

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 \dots$$

Where Y is the economic performance and X's are cultural variables. In this equation, three things are important.

- (1) The X's are significant variables for explaining economic performance (Y).
- (2) There should be minimum overlapping (or multicollinearity) between X's.
- (3) The signs of β 's should be consistent.

The most popular model regarding business culture is the Hofstede model, which has a set of cultural dimensions: Individualism/Collectivism, Power Distance, Uncertainty Avoidance, Masculinity/Femininity, and Long-term/Short-term Orientation. However, this model has problems by all these three criteria.

- (1) The variable of gender (Masculinity/Femininity) may not be a significant variable.
- (2) Some variables such as Collectivism, Power Distance, and long-term Orientation are overlapping
- (3) Both “Masculine” Japan and “Feminine” Scandinavian countries are rich. So, the sign of β , whether it is plus or minus, is not consistent.

We will first make an in-depth critical analysis on the Hofstede model in the next section and then we will introduce a new model by revising the Hofstede model in the following section.

Critical Analysis on Hofstede’s Cultural Dimensions

There are several models on business culture (e.g., Schein 1992, Hall and Hall 1990, Trompenaars and Hampden-Turner 1998). However, Hofstede (1983, 1993, 1997) is the most popular model. Chapman (1997) says:

...Hofstede's work became a dominant influence and set a fruitful agenda. There is perhaps no other contemporary framework in the field of "culture and business" that is so general, so broad, so alluring, and so inviting to argument and fruitful disagreement...

There are several criticisms on Hofstede's approach (McSweeney 2002, Hampden-Turner and Trompenaars 1997, Hofstede 2002) as follows:

1. Surveys are not a suitable way of measuring cultural differences.
2. Nations are not the best units for studying cultures. For example, although the state: "Great Britain" is composed of at least three nations: England, Scotland and Wales – Hofstede treats it as a single entity with a single "national" culture.
3. A study of the subsidiaries of one company cannot provide information about entire national cultures.
4. The IBM data are old and therefore obsolete. Hofstede's primary data was extracted from a pre-existing bank of employee attitude surveys undertaken around 1967 and 1973 within IBM subsidiaries in 66 countries.
5. There may be other dimensions.

However, these criticisms are not very serious, except the fifth problem, and do not significantly downgrade the contribution of Hofstede. This paper will deal with more fundamental problems of the Hofstede model, i.e., the significance of variables, multicollinearity, and consistency of signs, as stated above.

First, are the two dimensions, Individualism/Collectivism and Power Distance, truly independent of each other? Second, is the fourth dimension, Masculinity/Femininity, an important factor in the present world? Third, Hofstede measured Uncertainty Avoidance through three means of security – technology, law, and religion. But are these variables appropriate in measuring economic and business performances? Fourth, is Short-term/Long-term Orientation really an independent and unique dimension compared to the others? Isn't this a part of Individualism/Collectivism?

To begin with, the term Power Distance should be considered as an element of Individualism/Collectivism instead of as an independent variable, because the unequal distribution of power and control within a society is an indicator of whether a culture is individualistic or not. The more individualistic a culture is, the less inequality can be

found in the distribution of power. In a related matter, the term Individualism/Collectivism can be shortened to simply Individualism, because if a culture is collectivistic, it can be deemed low in Individualism.

Masculinity/Femininity is an inappropriate factor in measuring culture for a society. For example, According to Hofstede (1983), Japan is the most masculine society among the 52 countries measured. However, the Japanese consider “small to be beautiful,” are modest, and have high regards for helping others and for the preservation of the environment; so the Japanese are also “feminine”. Also, the elements of Masculinity such as promotion in one’s job, high recognition and earning for one’s performance can be included as elements of Individualism while Femininity, which includes good relationship with others, cooperation among group members, work security along with desirable living environment, can be seen as elements of Collectivism.

Hofstede (1997) added a new dimension, Short-term/Long-term Orientation, to his original model. Confucian dynamism, another term for this dimension, has been postulated to explain the rapid economic growth and development of some of the Asian countries, especially the “Five Dragons” that consisted of China, Hong-Kong, Japan,

South Korea, and Taiwan. The key principles of Confucianism, which “deals with a society’s search for virtue,” make up this dimension. It includes the principles of morality such as perseverance, honoring of one’s elders, obeying the opinion of the group, and so on. Such characteristics can be found in the collectivistic societies of Asia. Therefore, Confucian dynamism can be said to comprise an element of Collectivism.

Hofstede (1983) classified three types of uncertainty: nature, human behavior, and death. Technology is used in a broad sense to control nature and other uncertain aspects of the environment, as well as to avoid the risks and dangers that might occur because of the unpredictability of the natural world. Laws, including principles and rules, are used to prevent crime and to preserve peace and order – in other words, to control human behavior. Religion allows people to avoid fear of death and the after-life. It represents absolute truth, saving us with messages that transcend uncertainty. Of these three types of uncertainty, nature and religion do not directly relate to economic and business performance, which constitute the major concern of this paper. Therefore, only law, principles and rules will be considered among the three avenues of security, as exemplifying human behavior that influences the decision-making and performance of business.

A New Model

Excluding Masculinity/Femininity and Short-term/Long-term Orientation, and incorporating Power Distance as an attribute of Individualism, the Hofstede model can be abridged into two dimensions: Individualism and Uncertainty Avoidance. In addition, a new dimension, Openness, needs to be added for a correct understanding of cultural differences. Openness is particularly important to understand the changing competitiveness of East Asian countries. Each of these three variables is further classified into two sub-variables to allow for a more precise concept and accurate measurement of culture.

We will highlight cultural differences between Western and East Asian countries. However, the new model introduced in this paper can be applicable to any culture in the world.

Individualism

The concept of Individualism will be extended and specified as the degree to which a person is given *responsibility* and *reward* for performance on an individual basis. The lower the level of Individualism an organization has, the more people focus on the “we are one” concept, i.e., Collectivism.

As sub-variables of Individualism, we will consider how much responsibility an individual is given, and whether or not an individual is fully rewarded for time, work, and effort. In a culture with high Individualism, people are given full responsibility for their work. If a person is able, devoted, and diligent, a bonus, promotion, vacation, or higher reputation is rewarded. People within the society are motivated by the prospect of receiving higher rewards. There will be strong and active competition among people, which will lead to the development of new ideas, a high standard and quality of technology, and so on. In contrast, if both responsibility and reward are low, there will be no progress.

In the case of high responsibility and low reward, people will not put much effort into their work, because there is nothing given in return for excelling – praise and rewards are typically given only to people of higher status or age within the group. On the other

hand, in a culture that gives high rewards with low responsibility, moral hazard will commonly occur. In such a case, people can receive rewards, which are disproportionate to the effort they have invested. These different types are illustrated in Figure 1. The Western business culture is pretty much balanced between reward and responsibility, while the Eastern business culture is biased toward responsibility, rather than reward, as contrasted in this figure.

Place Figure 1 here.

What is then an implication of this difference? This does not mean that Western culture is superior to its Eastern part in every aspect. The superiority actually depends on the level of economic development. At the initial stage of economic development, people may have to sacrifice their rewards for the benefit or responsibility of the whole society. However, as the economy grows, i.e., the pie expands, people will ask for more rewards. Otherwise, they will show minimum efforts or go on strike. The serious labor problem in Korea is thus a result of this cultural characteristic of high responsibility and low

reward. It was a very efficient culture when Korea was a fast developing country but not a good one for further takeoff as a fully developed country.

It should be very important to distinguish Individualism from egoism. Egoism is characterized by lack of cooperation, commitment, and loyalty. By contrast, Individualism is to maximize individual's productivity with a balance of responsibility and reward. In almost all of the fully developed countries, the culture is individualistic and in all fast developing countries, the society emphasized more responsibility than reward. Therefore, the most appropriate culture depends on the level of economic development.

It is interesting to compare Korean firms that have changed their cultures to Western culture to the Korean firms that still keep their traditional cultures. Almost all of the firms that have severe labor problems now in Korea are those that have traditional collectivist cultures. These firms, such as Hyundai affiliated firms, were the fastest growing in the past but nowadays are the most problematic ones with regard to labor-management relations. The workers of these companies believe that they have been sacrificed and exploited for the benefit of the group. The firms should change their

cultures before they move up to the next stage.

So far, East Asian firms have benchmarked the Japanese collectivist system but now they have to change it to a more Western system. Even Japan has to change its business culture. The collectivist nature of Japan hinders its business system. Japanese firms are the world's best in terms of production, marketing, and related & supporting sectors, but not good at their strategies and structures. Firm strategies are still in many cases not for profit but for market share of the group. Their governance structures are not clear in terms of responsibility and reward, and often discourage the most capable individuals. The most efficient culture at one time may become an obstacle to further development at another time. Therefore, the following proposition can be formulated.

Proposition 1

At the catch-up and fast-growing stage of economic development, *Collectivism*, emphasizing responsibility more than reward, is efficient. However, at the fully developed stage, high *Individualism*, emphasizing both responsibility and reward, is important.

Uncertainty Avoidance

The second dimension, Uncertainty Avoidance, concerns the degree to which people in a country prefer structured situations to unstructured ones (Hofstede 1993). In other words, it is the extent to which a culture feels threatened by uncertain or unknown events and therefore, creates laws and standards, and refuses to take risks or challenges. People can be either offensive or defensive with regard to present and future events. However, Hofstede has explained only the defensive side of Uncertainty Avoidance, i.e., *disciplinism* and a new sub-variable, i.e., *frontierism*, is needed to allow for a complete explanation of the dimension.

As a sub-variable of Uncertainty Avoidance, *disciplinism* is the preciseness in rule-orientation. A disciplined culture prizes precision and accuracy, and requires its people to be diligent and hardworking. Rules are made as a defensive mechanism, to prevent and avoid damage, casualties, and risks. The less a country exhibits *disciplinism*, the greater the chance of corruption, bribery, and crime. *Disciplinism* is basically focused on preserving and strengthening laws and standards, and explains Hofstede's

perspective of Uncertainty Avoidance, which is past/present-oriented.

By contrast, frontierism is the mindset to innovate, invent, and invest in building a more certain future. It is the willingness to change and to create something better in order to avoid future uncertainties. Therefore, a culture that is frontieristic is dynamic and future-oriented. Frontierism is similar to entrepreneurship in its goal of maximizing return through avoiding uncertainty by means of innovativeness. Entrepreneurship is defined as *an activity of creating supernormal values for individuals, organizations, and society by creating reward minus risk, i.e. increasing reward, reducing risk or both* (Moon and Peery Jr. 1997).

As seen in Figure 2, when frontierism and disciplinism are both high, a nation is heading toward advancement. People not only keep the rules and are diligent but also develop new skills and abilities. However, if both are low, a condition exists similar to that of the pre-historic period wherein no well-established laws, rules or regulations exist, the fundamental factors of life (food, shelter, and clothing) are the overriding concerns of life, and there is no progress.

Place Figure 2 here.

But an abundance of one factor combined with a dearth of the other can create problems as well. With high frontierism and low disciplinism, a nation can fall into turmoil or chaos. People will act on their own, and will take unnecessary and counterproductive risks, for there will not be any significant rules to regulate such acts. If frontierism is low and disciplinism is high, the decision-making process and its results will show slow progress, as people will feel bound to do things according to existing laws and standards. In the Western society both frontierism and disciplinism are high, while both are low in the Eastern society. In particular, Korea and China are located at the low disciplinism because “rule by virtue” or “rule of great person” was historically emphasized over “rule by law,” and people in those countries compared to Westerners, usually do not show disciplined behavior. Therefore, the following proposition can be formulated.

Proposition 2

At the catch-up and fast-growing stage of economic development, low *Uncertainty*

Avoidance, such as “rule by virtue” or “rule of great person”, is efficient. However, at the fully developed stage, high *Uncertainty Avoidance*, emphasizing both disciplinism, such as “rule by law,” and *frontierism* for the future security.

Openness

The new dimension that is added to the Hofstede model is *Openness*. Openness is the ability to accept and understand the diverse characteristics and behaviors of different cultures. *Aggressiveness* and *attractiveness* are the two sub-variables, which can be used to characterize two different ways of opening a country. A country demonstrates attractiveness when it creates an environment that encourages the inflow of foreigners, foreign goods, and foreign investments [inbound orientation]. On the other hand, a country is aggressive when it prefers to go out into the world through emigration, exports, and foreign investments [outbound orientation]. These differences are contrasted in Figure 3.

Place Figure 3 here.

The Openness of a country, both inbound and outbound, can be related to Perlmutter (1969)'s EPG Profile. If a country is high in both attractiveness and aggressiveness, people will have the willingness to accept and change according to need, leading them to have an open global mindset. However, when a country lacks both of these factors, people become negative and narrow-minded, closed within them with no thought for or interest in what lies outside their borders. They act according to their emotions and are considered nationalistic and protective. Countries can be either outbound- or inbound-oriented in their way of thinking or doing business, but there needs to be a balance between the two variables because if there is not, an imbalance will arise in the flow of capital, goods, and services. As shown in Figure 3, the East Asian culture is biased toward aggressiveness, while the Western culture is well balanced between aggressiveness and attractiveness with higher degrees than those of the East Asian culture.

Westerners often neglect the importance of Openness for economic success because they are relatively open-minded. But compare North Korea and South Korea, for

example. How can we explain the big gap in economic development between the two? Traditional economic variables such as natural resources, labor and capital cannot explain the gap because North Korea was as good as or better than South Korea by any of these criteria. The most significant difference between North Korea and South Korea is their attitude toward outer world – Openness. North Korea is notorious for its isolationism, i.e., lack of Openness. However, East Asian countries, including South Korea are relatively less open than their Western counterparts. In order to become major players in the global business, the East Asian countries should be more open-minded. The Openness described in this paper is not applied just to nations or societies. Its definition can be broadened to incorporate other units of analysis such as individuals, teams, and organizations, as well as nations. Specifically, all of businessmen, firms, and government officials should be more open-minded to enhance their competitiveness in this era of globalization. Therefore, the following proposition can be formulated.

Proposition 3

At the catch-up and fast-growing stage of economic development, low *Openness*, such as protectionism, may be efficient. However, at the fully developed stage, high *Openness*, emphasizing both outbound and inbound, is important.

Conclusion

Although culture must be a crucial factor in business, it has been difficult to find a precise relationship between culture and business. Existing cultural models, including the most popular Hofstede model, are not satisfactory to solve this question. We have used the Hofstede model for a long period, even if we have been frustrated by its limitations. Thus, scholars as well as managers in strategy/international business have long been looking forward to any significant improvement on existing models on culture. For this purpose, this paper has introduced a new model by correcting the Hofstede model and incorporating a new variable. Using this model, this paper has contrasted the differences between Western culture and East Asian culture. Scholars and practitioners will find useful implications from the results of this research. Among others, the arrows in the three figures can immediately show strategic guidelines for the East Asian firms in the process of business transformation and overcoming the cultural problems.

An important implication of this paper is that the East Asian countries have to consider

adopting Western culture in the new business environment. This does not imply that Western culture is much better than East Asian culture in every respect at any time. East Asian culture has its strengths, but only at the stage of catch-up and fast growing stage. Collectivism (low Individualism), bypassing rules (low Uncertainty Avoidance), and protectionism (low Openness) could be an efficient culture or way of doing business for the East Asian countries in the past. However, the strengths of this culture will be obstacles to becoming the first-rate, major players in the global economy. Business managers as well as government officials in the East Asian countries have to change their once-successful culture to a new paradigm in this new business environment.

This paper can be further developed. Based on the new cultural model and propositions developed in this paper, various statistical tests can be conducted. It would be also interesting to compare the Hofstede model and the new model of this paper with a new set of data, and their managerial implications. The scope of analysis can be very broad, including individuals, firms, and nations. Culture is a very important topic. We need to spend more time and effort on finding managerial implications from culture.

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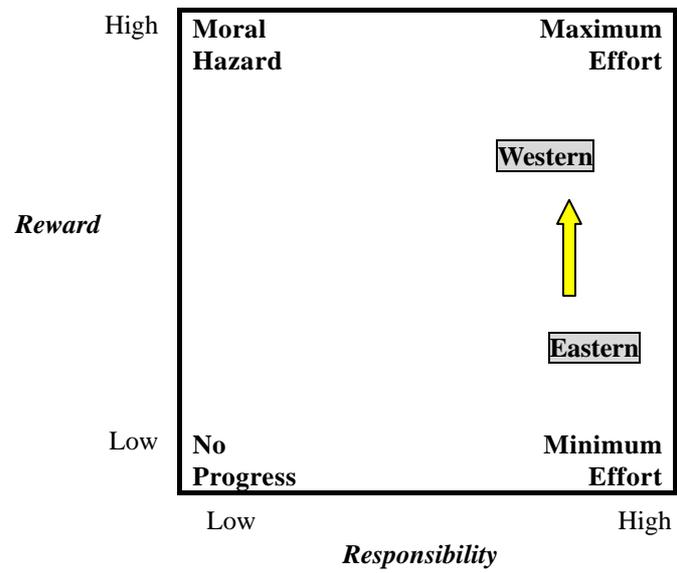
Figure 1. Individualism

Figure 2. Uncertainty Avoidance

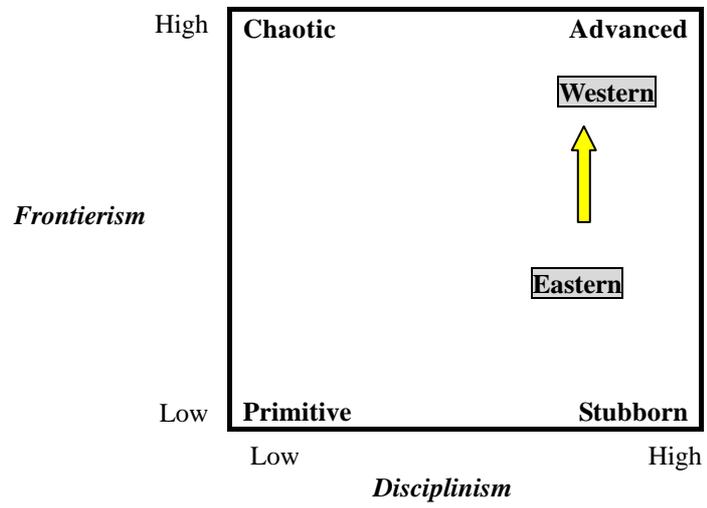


Figure 3. Openness