

CROSS CULTURAL CHALLENGES WHILE DOING BUSINESS IN INDIA

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ABSTRACT

With the globalisation of world business, India has become an appealing market for foreign investors. The problem of cross-cultural management arises as the cooperation between India and its culturally different Western partners continues to increase at an unprecedented rate. The 21st century is an era of the globalisation of world economy. Cross-national business is facing great challenges in cultural differences.

In one survey entitled What is the major barrier in doing business in the world market, cultural differences ranked first in all eight items including "law, price, information, competition, language, delivery, foreign currency, time differences, and cultural differences. Hofstede (1993) believes that the spread of businesses onto the global stage brings the issue of national and regional differences to the fore. "There is something in all countries called 'management', but its meaning differs to a larger or smaller extent from one country to another" (Hofstede, 1993).

This paper presents an understanding on the general cultural differences between India, America and China by applying the cultural dimensions of Hofstede and Bond. It also discusses the impact of these cultural differences on their management practice from five aspects: cooperative strategies, conflict management, decision-making, work-group characteristics, and motivation systems

INTRODUCTION

The 21st century is an era of the globalisation of world economy. Cross-national business is facing great challenges in cultural differences. In one survey entitled What is the biggest barrier in doing business in the world market, cultural differences ranked first in all eight items including "law, price competition, information, language, delivery, foreign currency, time differences, and cultural differences. Hofstede (1993) believes that the spread of businesses onto the global stage brings the issue of national and regional differences to the fore. "There is something in all countries called 'management', but its meaning differs to a larger or smaller extent from one country to another" (Hofstede, 1993).

It can also be observed that most of the failures faced by cross-national companies are

caused by neglect of cultural differences. The globalisation of the world economy, on one hand, has created tremendous opportunities for global collaboration among different countries; on the other hand, however, it has also created a unique set of problems and issues relating to the effective management of partnerships with different cultures.

With the increasing importance of the India market in the world economy, many international companies rushed and planned to enter India to explore business opportunities. They enter the huge market by forming joint ventures or participating in mergers and acquisitions. This has spurred the need for cross-cultural research in India. It was reported that the great barriers caused by cultural differences like difficulty of communication, higher potential transaction costs, different objectives and means of cooperation and operating methods, have led to the failure of many Sino-foreign cooperation projects. The questions like "how to understand India" and "how to do business with Indian people" have occupied the minds of international business people who are planning to enter India.

General Cultural Differences between the West and India

India, as the largest market and possibly the most appealing market in Asia, is entering into global collaboration with a wide range of foreign partners. . It seems necessary to investigate the cultural differences between India and its international business partners in North America and Europe.

To clarify the differences between India and the West, we will refer to Hofstede's four cultural dimensions and Bond's fifth dimension. Among researchers who have given a variety of definitions of culture, Hofstede is one of the first to adopt a pragmatic problem-solving approach in the field and relates culture to management. He defines culture as a kind of "collective programming of the mind, which distinguishes the members of one category of people from another" (Hofstede, 1980). He explained that culturally-based values systems comprised four dimensions: power distance, individualism/ collectivism, masculinity /femininity, and uncertainty avoidance. Further research by Michael Bond (1989) identified a fifth "Eastern" dimension called long-term/short-term orientation.

By comparing some Western countries and India along these five dimensions according to their cultural dimension scores (Data source: Hofstede, 1991), some tentative conclusions may be drawn. First, Western countries seem to be generally lower (United States of America 40, Canada 39, United Kingdom 35, Germany 35, and France 68) than India (80) in power distance.

Second, in terms of individualism, Western countries are generally much higher (United States of America 91, Canada 80, United Kingdom 89, Germany 67, and France 71) than India (20). Third, Western countries seem to have short-term orientation while India is considered to be long-term oriented.

Among these Western countries, America is frequently investigated in cross-cultural research, partly because of its economic power, partly because of its cultural representativeness. To a certain degree, the United States is considered as representing the so-called "Western culture". Therefore, a comparison between USA and India seems to help clarify the cultural differences between the West and India and related cross-cultural challenges.

India and USA differ greatly with regard to their economic systems, political systems, social values, and laws, despite the substantial changes that have occurred in India during recent years. Table 1 shows the cultural dimension scores of USA and India (Data source: Hofstede, 1993). Some differences can be found. First, in terms of power distance, the scores of India are twice as those of USA, which indicates that India is centralised (though it has shown some tendency toward decentralised power) while USA is relatively decentralised. Second, USA ranks first in individualism (strong individualism) while India is low in individualism (strong collectivism). Third, USA has higher value than India in masculinity, which indicates that USA is medium masculinity while India is medium femininity. Fourth, India has higher values for uncertainty avoidance than USA, which shows that Indians are relatively risk-avoiding while Americans are relatively risk-taking. Last, USA has a short-term orientation while India has a long-term orientation.

It has been widely accepted that cultural differences greatly affect human thinking and behaviour and thus business organisations in which people interact on the basis of shared values. Management is embedded in a wider societal setting, and is heavily influenced by local historical and cultural norms (DiMaggio and Powell, 1983). The significant differences between USA and India seem to affect some aspects of their management practice.

Impact of Cultural Differences on Cooperative Strategies

Because entrepreneurs mature within a societal context, their attitudes toward cooperation are likely to be influenced by the underlying values of their society (Weaver, 2000). As discussed, USA is strong in individualism and medium masculine. They rely on their own view to determine what they should do. They tend to work alone and are reluctant to cooperate because their individualism and masculine culture view cooperation in general as a sign of weakness and place a high value on independence and control. India is strong in collectivism and medium femininity. The Indians depend more on groups or institutions to determine what they should do and emphasis loyalty to the group. They are more likely to cooperate with others to avoid risks and reduce responsibilities. Their value systems appreciate duty to the group and harmony among its members while pursuing personal goals is viewed rather negatively in India.

In addition, in the process of cooperation, Americans place greater importance on contractual safeguards than the Indians. They believe that contracts can ensure that their partners' tendencies to focus on individual goals and aspirations do not interfere with their own individual goals and aspirations. But the Indians don't consider contracts as seriously as the Americans. They think there will always be changes and the contracts can be reasonably modified according to changes. Instead, they tend to pay more attention to relationships than contracts.

The two phenomena seem to be consistent with Weaver's findings. In his study of a group of seven-nation entrepreneurs about their attitudes toward cooperative strategies, he found that entrepreneurs from societies that are masculine and individualistic have a lower appreciation for cooperative strategies as compared to entrepreneurs from societies that are feminine and collectivist in nature. He also found that entrepreneurs from individualistic societies placed greater importance on contractual safeguards for maintaining effective cooperation than did those from collective cultures (Weaver, 2000).

Impact of Cultural Differences on Conflict Management

The Indian and Americans tend to resolve conflicts in different ways. Since the Indian come from a strong collectivism and medium feminine society in which harmony and personal relationship are emphasised, they will try to use indirect ways to avoid direct and open conflict. When they face conflict, they prefer to use authority to suppress it, or settle things in private. They prefer to resolve conflict through negotiation and compromise. Individualistic and medium masculine American managers are used to confronting problems directly and bringing things out in the open. To resolve differences, American managers will prefer to use tactics that involve directly confronting others with rational arguments, factual evidence, and suggested solutions (Ting-Toomey, 1985). It is also consistent with the pragmatic short-term orientation and moderately low power distance in USA. Indian managers use those tactics less than American managers, because using the tactics will provoke overt disagreement, which is considered highly undesirable.

In addition, American managers are reluctant to invest the time and effort required to enlist the help of other people (Yukl, Falbe, and Youn, 1993), when they have conflicts or problems with another party. In contrast, the strong collective orientation and uncertainty avoidance values in India encourage Indian managers to use indirect forms of influence that involve the assistance of a third party (Bond, 1991).

To deal with a difficult or controversial request, indirect forms of influence are preferred by Indian managers to avoid losing face and damaging others. When their Western partners propose to use direct and open ways to deal with the conflict, they may feel embarrassed. On the other hand, Western partners may get totally confused by the roundabout way the Indian use to solve seemingly simple problems. The different ways that Indian and American managers resolve conflicts seem to find support from Weaver's finding that feminine societies prefer to resolve conflict through negotiation and compromise (Weaver, 2000).

Impact of Cultural Differences on Decision-making

Risk-taking/Risk-avoiding

Indian and American managers differ greatly in the attitudes toward risks when they make decisions for their different values in uncertainty avoidance. High uncertainty--avoidance Indian managers usually lack the adventurous spirit and the sense of risks. They dare not make immediate decisions if they feel the circumstance is uncertain, which may deprive them of the opportunity to compete in the market. In most cases, they would like to make comparatively safer and less risky decisions at the expense of the business opportunity. In contrast, low uncertainty-avoidance American managers are more likely to consider risks as natural and are volunteer to take the risks, especially in terms of developing new products, open a new market and applying new technology.

Levels of Participation in Decision-making

Managers from an individualistic or a collectivistic country prefer different levels of participation in decision-making. Another related cultural dimension is power distance. Individualistic American managers prefer making decisions individually or deferring to their supervisors instead of consulting with others. They come from a low power distance culture, and they value personal equality and believe in decentralisation and empowered

subordinates. But the situation in India is a little complicated. Some researchers propose that decisions are typically participatory in collectivistic-high power distance countries (Smith et al, 1994). Other researchers think that employees in those countries should readily accept decisions handed down by their supervisors, and even resist participation in decision-making because of their unquestioning attitudes toward their supervisors (Graf et al, 1990).

In fact, the second phenomenon described by Graf et al (1990) predominates in Indian society while the first opinion is also true to a certain extent. That depends on many factors, the most important of which is "what kind of decisions are going to be made". Many Indian managers, especially those in state-owned enterprises, adopt the nonparticipatory approach to decision-making. Final decisions are usually made by higher level superiors without consulting their subordinates. Since some characteristics like high formality, low disclosure and openness as well as centralisation are common in most companies, Indian employees seldom have the chance to really participate in the decision-making process. Fortunately, things are getting better after 20 years of reform in India. Participatory decision-making is beginning to be adopted in a number of modern Indian companies.

Impact of Cultural Differences on Work-group Characteristics

India is a relational-oriented country in which people place great importance on personal relationship. Indian managers may initially focus more effort on building social and interpersonal relations before entering into business or contractual relationship. They would like to spend time developing and maintaining guanxi during the process of interaction and consider it as a prerequisite to do business. In contrast, American managers may encourage their group members to learn from each other, to focus on task rather than on social and interpersonal relations, and to build the confidence required for superior performance (Sosik and Jung, 2002). They place a much higher importance on the task or business deal and hope to focus very quickly on specific business matters. They are achievement oriented, that is "work first". They don't think establishing personal relationship is necessarily involved in the work.

Living in a collectivism society, the Indian view people differently as "in-group" and "out-group". They have much higher confidence in "in-group" members than "out-group" members. But the passing of time, and the development of guanxi, the out-group members may turn into in-group members. If American managers want to do business with Indian managers, they should give their Indian partners enough time to know themselves and develop a personal relationship with them. Only when Indian managers believe that they can trust their partners and consider them as part of the in group, will the business deals follow smoothly.

In contrast, individualists who exercise short-term thinking place more emphasis on pursuing hedonistic goals and may be unwilling to commit to long-term relationships developed through group interactions (Shamir, 1990). Many American managers are not patient enough to build personal relationships with Indian partners when they invest in India. They cannot understand how important the relations are to the Indian and their business.

Impact of Cultural Differences on Motivation Systems

The method of distributing pay to motivate employees may also depend on cultural values (Leung, 1997). As Aguinis (2002) stated, employees can be rewarded according to their

performance (principle of equity), equally (principle of equality), or based on their needs (principle of need). In general, the equity principle is common in individualistic cultures while the equality principle is widely used in collectivistic cultures.

According to Triandis (1995), the basic distinction between collectivism and individualism is based on four universal dimensions. One is that the definition of the self is independent in individualism and interdependent in collectivism. Another is that personal and communal goals are not aligned in individualism but closely aligned in collectivism. These two may account for the great difference in motivation systems generally preferred by American companies and Indian companies, pay for performance in American companies, and pay equity in Indian companies.

In American value systems, great emphasis is placed on individual achievement, and they are expected to achieve success only by their individual efforts. They value competition, achievement and personal goals, and therefore, desire to have plans that recognise individual contributions. They generally see success as contingent upon their own efforts, so they prefer "pay for performance" systems which imply that an individual is solely responsible for what he has accomplished even though he may have had help from others. They consider these systems as effective means to motivate employees. The talents and job performance of employees will be considered first by their superiors for salary increases and promotion.

Collectivistic cultures emphasise cooperation, interdependence, and group goals, and thus prefer plans that support group harmony (Aguinis, 2002). The Indian believe that the sense of belonging to the group and devotion to the group are important. They hold the view that one's success is mainly based on group work, so one cannot claim the reward just for oneself. In that case, the equality principle is reflected in the motivation system. When setting salaries, Indian managers will pay more attention to the working experience and academic qualifications of employees. In terms of promotion, one's political quality, history, and interpersonal relationship are given primary consideration.

CONCLUSION

By applying Hofstede's and Bond's cultural dimensions, a cultural comparison between America and India is made. The two countries differ greatly in nearly all the aspects. Based on the cultural differences, inferences are postulated on the impact of Sino-American cultural differences on some aspects of management is made in terms of cooperative strategies, conflict management, decision-making, work-group characteristics, and motivation systems. There are several findings from this cultural comparison. First, Indian managers are more likely to favour cooperative strategies than American managers and American managers place greater importance on contractual safeguards than Indian managers. Second, when faced with conflicts, Indian managers tend to use indirect forms of influence that involve the assistance of a third party while Americans prefer to use direct and open forms. Third, Indian managers tend to make less risky decisions than American managers. They tend to adopt the non participatory approach to decision-making. Fourth, the Indian pay more attention to build social and interpersonal relations than Americans. Last, the equity principle is common in American companies while the equality principle is widely used in Indian companies.

Table 1. Cultural Dimension Scores of United States and India

	<i>Power</i>	<i>Individualism</i>	<i>Masculinity</i>
	<i>Distance</i>		
<i>United States</i>	40	91	62
<i>India</i>	80	20	50
	<i>Cultural Dimension Scores</i>		
	<i>Uncertainty</i>	<i>Long-term</i>	
	<i>Avoidance</i>		<i>Orientation</i>
<i>United States</i>	46	29	
<i>India</i>	60	118	

Table 2. Cultural Differences between America and India

<i>Cultural Dimensions</i>	<i>USA</i>	<i>India</i>
<i>Individualism/Collectivism</i>	<i>Strong</i>	<i>Strong</i>
	<i>Individualism</i>	<i>Collectivism</i>
<i>Power Distance</i>	<i>Medium</i>	<i>Centralised,</i>
		<i>tendency toward</i>
		<i>democracy</i>
<i>Uncertainty Avoidance</i>	<i>Risk-taking</i>	<i>Risk-avoiding</i>
<i>Masculinity/Femininity</i>	<i>Medium Masculinity</i>	<i>Medium</i>
		<i>Femininity</i>
<i>Long/short-term Orientation</i>	<i>Short-term</i>	<i>Long-term</i>
	<i>Orientation</i>	<i>Orientation</i>

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