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# **The influence of culture on the economic freedom and the international business**

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# THE INFLUENCE OF CULTURE ON THE ECONOMIC FREEDOM AND THE INTERNATIONAL BUSINESS

## **Abstract:**

*The firms who decide to expand their business in an international environment must modify their management style through international management. Certainly, international management must adapt their on functions to the different framework of the business development. The culture is a cardinal factor, being an essential component in the success equation of multinational companies. The culture, the habits and the attitudes became points of major interests on the global market. Their importance is obvious through numerous "blunders" which find out in international trade and international. For the success of international business the economies must be free, but the economic freedom is influenced by the national culture. All the undertake activities of managers are accessible to cultural environment. The global firm is due to negotiate with different international organisms, and where through the negotiations to fall flat, the managers must understand the cultural environment of the negotiator and must have cross-cultural competence.*

**Key words:** culture, economic freedom, international business

**JEL Classification:** F23, M14, O57

Globalization is seen as a confrontation between the economic and financial interests (the capital market, the multinational corporations, the investors) and the national states as a culture, social, economic entities (you can see the Lexus and the olive tree of Thomas Friedman: How we understand the globalization, 2001).

The internationalization and the globalization of the business world offer different opportunities to the companies the entire world. The knowledgement of the different ways of thinking and culture facilitate the reciprocally understanding between persons involved in the development of different activities which are beyond the borders of a country or the limits of a culture (see Dan Anghel Constantinescu, Management comparat, 2002).

## **Geert Hofstede cultural dimensions**

**Culture** is a very important factor. The culture, the customs and the attitudes have become a major point of interest on the global market. Factors apparently without importance as the form and the colour of packing or literally translation of promotional phrases can cause major conflicts in an international transaction.

There are **some characteristics for the culture**: it has an acquired character; it has a commune character; it has a symbolic character; it has a persistent character; it has a dynamic character (Ioan Popa, Radu Filip, Management international, 1999).

All these suggest the importance of culture in the people act. Thus, a good working of any company depends on the acting way of the people interests. And when there are differences of culture, these have to be understood target the required behavior and results.

The **cultural dimensions** and their influence on the management had been evidenced by many experts but the remarkable and well-known are the one by Hofstede, like: the distance between great and small power (powerful and weak) individually/collectivity, male/female etc.

In a new perspective on knowledge based-society, synch as the information period, Hofstede creates new cultural dimensions in his book "Cultures and Organization – Software for the Mind" starting from the question "Are we a species condemned to a continuous misunderstanding and conflicts?" Of course, conflict caused by: **different cultures, dimensions or tolerance for ambiguity**.

On one side, the study of cultural differences starts from comparative analysis of the existing solutions, and on the other side it starts from values and the cultural dimensions.

Even so, national variables create the context for development and the perpetuation of the cultural value. The managers have to anticipate the consequences of the influence regarding the cultural particularities of each nation on the management practice of different cultures in which they are acting in different ways. It is necessary to develop a “culture profile” for each country, for each context, for each culture in which they are going to make business or to get involved in management domain.

**Table 1. Cultural dimensions of Hofstede**

<b>Country/Country Groups</b>	<b>Power distance index</b>	<b>Individualism</b>	<b>Masculinity</b>	<b>Uncertain avoided</b>
SUA	40	91	62	46
Japan	54	46	95	92
European Union	47	65	53	67
South East Asia	75	21	46	48
China	80	20	66	30
Latin America	67	27	56	81
Africa	63	37	50	52
Australia and New Zealand	29	85	60	50
Arabic World	80	38	52	68

Source: [www.geert-hofstede.com](http://www.geert-hofstede.com)

**The economic freedom – effect of the culture from a nation**

The economic integration and the political disintegration have characterized the world economy in the last part of the 20<sup>th</sup> century. Changes of such proportion have had a meaningful impact on the world well-being. Many specialists are thinking that the consequences of the growing trade force in the smaller countries can entail the improving of ruling quality (See Knack, Stephen, Azfar, Omar, Trade intensity, country size and corruption, Economic of Governance Review, 2003).

The business environment is the one that is taking over all the impulses which national cultures are bringing forth them. Many times a favorable business environment can diminish the culture differences which exist or can exist. However some questions come up: Are the multinational companies subjecting to the host country culture or are introducing the culture from the origin country to the host country? Are the multinational companies bearing the stamp of their national origins? In fact, can globalization increase the national differences, not eliminating them?

We consider that we can find the answers of these questions in the syntax: “economic freedom”. We measure economic freedom with the index of economic freedom calculated by the Heritage Foundation. This index is more than a set of empirical data, it represents a careful analysis of the factors which has the greatest influence on the institutional measures of the economic growth. More than that, it represents an essential factor which influences the business environment in a country.

This index includes 50 variables which are grouped under the following categories: Commercial policy; Fiscal task; Governmental intervention; Monetary policy; Foreign investment; Banks and finances; Salaries and prices; Ownership rights; Settlement; Black market (corruption).

Score 1 represents the highest degree of economic freedom; and 5 represents the lowest degree of economic freedom. The countries which have a score close to 5 are countries deprived of economic freedom.

In a way or another, all these 10 factors reflect the culture of a nation, starting with the trading policy which can be protectionist/free. Countries with a high corruption are, also, those strongly masculinized with a large distance towards power.

In fact, the economic freedom represents an institutional and political substantial environment which influences the economic growth through the growth of investments efficiency. The critiques related to the economic freedom refer to the fact that a market economy entails the inequality of the earnings, to the environment degradation, to poverty, to precarious conditions to work. The market economy upholders assert that without a measure of economic freedom, the answers to the key questions are evasive, able to create more confusions.

The absence of a economic freedom, will entail the spoiling of the business environment, the decline of direct foreign investments, the decrease of the access to resources and technologies, to corruption.

Most of times, the managers are acting taking to account the efficiency principals and there are in a continue searching of competitive advantages.

Business orienting of firms is played taking into account all game rules regardless the culture of the nation and this is why the economic freedom represents the measure imperative of business internationalization.

Manager's act being in titled to extend the business by taking into consideration efficiently and they are looking forward to competitive advantages.

As one might expect capitalist countries highly industrialized with a favorite business environment have a high economic freedom as compared to socialist/communist countries.

**Table 2. Index of Economic Freedom**

Country/ Country Groups	Index of economic freedom (Year 2006)
SUA	1,84
Japan	2,26
European Union – Average	2,12
South East Asia – Average	2,88
China - Average	3,34
Latin America - Average	2,99
Africa	n/a
Australia and New Zealand	1,84
Arabic World	3,20

Source: Index of Economic Freedom, The Heritage Foundation, Wall Street Journal, 2006

We want to calculate with help of the Kendall and Spearman coefficients the influence of culture on economic freedom.

$$K = \frac{2(P - Q)}{n(n - 1)}$$

Where,

K –Kendall coefficient

P – number of variable higher then a given variable

Q – number of variable smaller then a given variable

n – number of variable

$$C = 1 - \frac{6 \sum d^2}{n(n^2 - 1)}$$

Where,

- C – Spearman coefficient
- d – distance between variable
- n – number of variable

Correlation	Power distance index		Individualism		Masculinity		Uncertain avoided	
	Kendall	Spearman	Kendall	Spearman	Kendall	Spearman	Kendall	Spearman
Economic freedom	- 85%	- 95%	78%	90%	14%	10%	-7%	-5%

We notice that, more the distance toward the power is growing, the economic liberty falls down, manifested through an intense reversed connection between both variables.

In countries where the distance toward the power is higher, the economic liberty is reduced which mean the existence of constraints through the business environment from the states' institutions and a powerful intervention in the economy.

The powerful individualistic countries enjoy a great economic liberty, establishing a direct and powerful connection. Powerful collectivistic countries are countries without economic liberty or countries where the liberty in reduced, as it is China with an individualistic index of 20.

A 14% outcome respectively 10 % between masculinity and economic liberty reveals a weak connection. This result is a normal one if we take into consideration the high femininity rate in Finland and Sweden where the economic liberty is high, or Japan which although is characterized by a strong masculinity , has also high economic liberty.

Between the avoidance of uncertainty and economic liberty there is the same weak connection, to opposite poles are USA and Japan which, however, have close economic liberty indexes.

Although the South-East Asia countries don't have an equal USA economic liberty, Japan and European Union, tend to become "the others Japans" or "the new industrialized countries". All countries from the South-East Asia form a regional network based on naval transport, modern communication, information provided by trade companies. As well as Mediterranean Sea was the past sea, the Atlantic is the ocean of the present, the Pacific will be the ocean of the future.

In such cultural diversity of action the managers are submitted to unprecedented challenges, challenges that start premises of some international business truly global.

**The impact of culture on the international affairs**

Globalization and especially economic environment tendency of expansion is in the middle of affirmation. New technologies have made globalization possible whereas multinational companies have transposed it into practice.

Through adopted decisions in the acquisitions, production and investment domain, were created global markets and was offered the impetus for the growth of interdependencies.

Multinational companies bring to consumers and to worldwide economies huge benefits. Developing economies have progressed faster than the access to capital and to technology associated with direct foreign investment. All in all, multinational companies represent extensive economic power

concentration and, alike all vast and powerful social institutions, they may adopt corrupt, arrogant and irresponsible attitudes. Where power is, there is also an abusive use of it. Competition between firms contributes at diminishing unwanted behaviours and antitrust national politics. Even through an international regime may be favourable, there is no easy and permanent solution for problems generated by wealth and power concentrations in economical, social and political affairs, in this way it is necessary a constant vigilance for the abuses foresight.

For many times, multinational companies had been hooted by the government hostess countries, whereas on the other times they were lionised by them. Most of the multinational companies have tried to maintain their cultural organization but, the national culture impact have changed the company culture. Many times the cultural dimensions of a country have been powerful than the cultural values of companies.

In this way, a question is asked:” do the global firms need global managers to know the countries’ national cultures in which they activate?”

The answer of this question results from the analysis of truly global companies. Although there are many multinational companies, in 2001 only 9 of them were truly global in the opinion of Alan Rugman that means they possess the “triad power”.

A company is global if it acquires incomes from all those three big areas which are worldwide delimited: North America, West Europe and Pacific-Asia. If a company wants to be truly global it must obtain more than 20% from each one of those three regions of their incomes but no more than 50% (See Rugman Alan, The Regional Multinationals: MENs and Global Strategic Management, 2005).

**Table 3. Global firms and their income from every region of triad**

No.	Global firms	Region (Country)	Total Sales mld. USD	Sales in North America (%)	Sales in Europe (%)	Sales in Asia-Pacific (%)	Sales in other regions* (%)
1.	Canon	AP (Japan)	23,9	33,8	20,8	28,5	16,9
2.	Coca-Cola	AN (SUA)	20,1	38,4	22,4	24,9	14,3
3.	Dior (Christian)	EV (France)	11,3	26	36	32	6
4.	Flextronics International	AP (Singapore)	13,1	46,3	30,9	22,4	0,4
5.	Intel	AN	26,5	35,4	24,5	40,1	0
6.	LVMH	EV (France)	11,0	26	36	32	6
7.	Nokia	EV (Finland)	27,9	25	49	26	0
8.	Royal Philips Electronics	EV (Nederland)	29	28,7	43	21,5	6,8
9.	Sony	AP (Japan)	60,6	29,8	20,2	32,8	17,2
	<b>Total</b>		<b>223,4 mld. USD</b>	<b>Media 32,2%</b>	<b>Media 31,5%</b>	<b>Media 28,7%</b>	<b>Media 7,6%</b>

\* „Other regions” are from East Europe, Latin America, Middle East and Africa

The total income of the **9 global companies rises** to the sum of 223.4 billions USD and it comes from 2 American companies, 3 companies from Pacific-Asia and 4 European companies. Even though there are only two American companies, higher incomes are obtained in North America- 32.2%, whereas Europe obtained 31.5% and 28.7% Pacific-Asia.

The explication of this aspect can be put on **the cultural differences** that exist, but we should not forget that the North America is a powerful, individualistic and masculinity region, where they put stress material values rather than spiritual ones.

After analyzing the data above mentioned, it is clear that 3 out of the **9 initial companies** don't manage to obtain the largest income in the regions from where they come from. On the one hand, in this situation there are Canon and International Flextronics from Pacific-Asia and obtain the highest

incomes from North America, and on the other hand, there is Intel from North America which obtains the highest incomes from Pacific Asia.

All these 9 companies have a **high economic liberty and a low distance toward power**. The culture of those countries had a significant influence on them, indicating the existence of convergence between companies' national and organizational culture. When those two cultures are divergent and the economic liberty is low, the chances to succeed in international affairs are practically minimal.

In the 2006 "Doing Business" report, the first 15 countries are the northern ones- Norway, Denmark, Finland, Sweden, all these advanced by New Zealand- a country where is easier to do business because it represents a Greenfield, Singapore and USA. Japan is placed on the 10<sup>th</sup> position outrunning a significant part from the European Union countries. Arabian countries remain hard to be conquest but not impossible.

We can say that a company is considered truly global only if she can face every countries **cultural challenges** where they activate, the success from this point of view having as a result incomes from areas or countries where is harder to do business, like Egypt which occupies the 141st place.

### **Conclusions**

Culture is, in most of the cases, the principal explication of this fact that some countries are developing faster than others. A country development may be influenced by its culture, but there is no cultural model that can assure the success, that means that there is no possible combination of Hofstede's cultural dimensions, which applied can guarantee the country develop.

American culture, characterized by a strong individualism, reduced distance toward power, medium masculinity, does not represent, for other countries, a way of success. For example, the Japan success is guaranteed by a high masculinity, collectivism and a great uncertainty control.

Within this context, the convergence between national cultural and economic liberty is the one which creates positive effects in general on business environment and especially on companies. In a country with a very big distance toward power and a marked character of collectivism, the economic liberty is substantially reduced. Without an economic liberty multinational companies can not become global because they come against the cultural barriers of the hostess country.

The failure of many international businesses is laid on the lack of the cross-cultural competence in international business. It is needed to outline a model of cultural intelligence that involves abilities, knowledge and imperious attributes needed for the cultural competence of managers.

Countries that not so many times ago were conservatory are opening the doors of international affairs being aware that cooperation relationships have opportunities. For example, Arabian countries, where the distance toward the power is higher, have an average economic liberty that offers possibilities to expand despite cultural differences that exist.

Under such conditions, we can state that the forth area is being shaped-Middle East besides those 3 mentioned- North America, West Europe and Asia-the Pacific. A company will be truly global when it obtains incomes from all these 4 regions, amounting to 20% from each one.

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