

## Managing in a foreign country: The influence of culture in management decisions

**Autoria:** Nuno Rosa Reis, Manuel Portugal Ferreira, João Carvalho Santos

### ABSTRACT

Firms, as other organizations, are increasingly open systems evolving from closed systems, with multiple interactions with the surrounding environment. The environment provides firms with the resources and offers opportunities for market and product expansion, but also imposes constraints. The world's increasingly global economics is well documented fact. Globalization means people worldwide are becoming more similar, but there are still very important differences. Culture is a key element of the environment, and it is the most important factor that makes two countries unlike. In this paper we present three conceptual propositions on the effects of culture in management. We posit that culture has a determinant impact on the firms operating abroad, at three different levels (corporate, business and functional). We present the effects at three different levels, the strategic/corporate level, the business level and also the functional/operational level. We argue that culture plays influences the management decisions at all three levels, affecting the firm's success. Our arguments contribute to the essential questions in business and international strategy, such as: "why are firms different" and "what accounts for firms' different performances". It is likely that the factors that make firms different – in our argument the different cultural pressures - underlie a competitive advantage.

**Keywords:** Culture. Decisions. International Business Environment.

### 1 INTRODUCTION

Organizations are open systems with multiple interactions with the surrounding environment (Aldrich, 1979; Nelson & Winter, 1982; Scott, 2002). Firms are increasingly open systems (Yasin, Bayes & Czuchry, 2005) evolving from closed systems. While a closed system firm focused on its competences, viewing a firm as a system takes into account the multiple interactions within the company (Smith, 2007) and also the interactions between the firm and the environment (Grover & Saeed, 2007). The environment provides firms with the resources and offers opportunities for market-product expansion, but also imposes constraints. So, a firm can be defined as an "unique blend of technology, people and organizational know-how" (Yasin *et al.*, 2009, p. 374).

The strategy literature has tried to answer the questions of why firms differ and why there are performance differences between firms (e.g., Hawawini *et al.*, 2003; Mackey *et al.*, 2007; Sirmon *et al.*, 2007). The international business literature, on the other hand, seeks to explain the impact of national and regional culture in management (e.g., Nes *et al.*, 2007; Ralston *et al.*, 2008; Zutshi & Tan, 2009). This paper integrates both areas and suggests that one of the reasons why multinationals differ is that they face different cultures.

The world's increasingly global economics is well documented fact. Arguably one of the most popular (albeit non-academic) references to this phenomenon is Thomas Friedman's (2005) '*globalization 3.0*'. But this is not a recent interest. Publications concerning the globalization of markets (Levitt, 1983), the international life cycle of product (Vernon, 1966), the behavior of multinational corporations (MNCs) in performing FDI (Knickerbocker, 1973) or the choice of the entry mode in a foreign market (Johanson & Vahlne, 1977) are well known from the basis of the research in International Business (IB).