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CULTUREL

(FACETS OF CULTURAL RISK MANAGEMENT: A STRATEGIC
PERSPECTIVE)

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Facets of cultural risk management: a strategic perspective

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EXECUTIVE SUMMARY

Recently, there has been an increase in the public focus on risks faced by firms caused by added uncertainties in the organizational environment due to the higher frequency of major risk events over the past decade, such as terrorism, political unrest, energy price shocks, large-scale involuntary migrations, natural disasters, and the recent COVID-19, among others. Risks stem from every activity a firm undertakes. Financial risks are not the only risks faced by organizations. Risks that are unrelated to credit or market are non-financial. While financial risks are well defined and accounted for in the company's records, many of the non-financial risks are less precise and thus much harder to describe, predict and measure.

This dissertation outlines a view of cultural issues, connecting it to the risk literature. In today's fast-paced, interdependent, interactive global economy, where individuals from different cultures are intermingled in organizations, culture as a risk driver can greatly affect various activities of firms, especially on their international operations. Cultural risks stem from the new economy with its instantaneous communications, its global reach, the scale and complexities of companies' cross-border involvements, and the multicultural teams as the new workforce of international business. If these risks are not identified, analyzed, and managed properly, they can negatively affect the firm's performance.

Culture as a firm's risk driver has not been fully explored. It is partly due to a lack of consensus in the academic field about the construct of culture. Scholars almost universally use the Hofstede cultural model to explain the importance of cultural

differences and how to measure them. Following a positivist perspective, most of the research views culture as measurable and objective, static and independent of the interactions with others – blind to the dynamic movement of cultural interactions or the heterogeneous nature of the culture construct. More exploratory research in this area was required to better understand a multifaceted construct of culture to help address its influence. Considering the above, this study primarily explores the components of cultural risk.

International business scholars tend to ignore either the external or the internal aspects of a firm's cultural environment, emphasizing only one side: either cultural issues within the organization or foreign market cultural challenges. Using strategic management, this study suggests that cultural risks should consider both 'out there' according to product-market-positioning concepts and 'in here' with the resource-based view of the firm, for both strategic aspects to capture the essence of the firm's cultural dynamics.

The complexity of the culture construct is difficult to capture with quantitative research. Thirty-four individual interviews (semi-structured and structured) were conducted with senior managers to collect the data. The findings served as a foundation for a unifying framework to assess cultural risks to better manage such risks. The suggested framework can serve as a tool to benefit researchers and practitioners.

SYNTHÈSE

L'attention que le public porte sur les risques auxquels les entreprises sont confrontées a augmenté ces dernières années. Cet intérêt peut s'expliquer par une incertitude accrue dans l'environnement organisationnel en raison de la fréquence plus élevée d'événements à risques majeurs au cours de la dernière décennie, tels que la COVID-19, le terrorisme, les troubles politiques, les chocs des prix de l'énergie, les migrations involontaires à grande échelle ou les catastrophes naturelles, pour n'en citer que quelques-uns. Le risque découle de chaque activité menée par une entreprise. Les risques financiers ne sont pas les seuls risques auxquels sont confrontées les structures. Les risques sont non financiers lorsqu'ils ne sont ni liés au crédit ni au marché. Si les risques financiers sont clairement définis et pris en compte dans les registres de l'entreprise, nombre de risques non financiers sont moins précis et donc beaucoup plus difficiles à décrire, à prévoir et à mesurer.

Cette étude présente une vision des problèmes culturels, en la reliant à la littérature des risques. Dans l'économie mondiale rapide, interdépendante et interactive d'aujourd'hui, où des individus de différentes cultures se mêlent au sein des organisations, la culture, en tant que facteur de risque, peut avoir un impact profond sur la diversité des activités d'une entreprise, en particulier sur ses opérations internationales. Le risque culturel découle de cette économie nouvelle avec ses communications instantanées, sa portée mondiale, l'échelle et la complexité des engagements transfrontaliers des entreprises, ainsi que l'équipe multiculturelle en tant que nouvelle main-d'œuvre du commerce international. Si ces risques ne sont pas identifiés, analysés et gérés correctement, ils peuvent avoir un impact négatif sur la performance de l'entreprise.

La culture, en tant que facteur de risque de l'entreprise, n'a pas été pleinement explorée. Cela est en partie dû à un manque de consensus dans le domaine académique sur la construction de la culture. Les chercheurs utilisent presque universellement le modèle culturel de Hofstede pour expliquer l'importance des différences culturelles et la façon de les mesurer. Suivant une perspective positiviste, une grande partie de la recherche considère la culture comme mesurable et objective, statique et indépendante de l'interaction avec autrui : aveugle au mouvement dynamique des interactions culturelles ou à la nature hétérogène du construit culturel. Des recherches exploratoires plus poussées dans ce domaine étaient nécessaires afin de mieux comprendre une construction à multiples facettes de la culture et aider à faire face à son influence. Compte tenu de ce qui précède, l'objectif général de l'étude était d'explorer les composantes du risque culturel.

Les spécialistes du commerce international ont tendance à ignorer les aspects externes ou internes de l'environnement culturel d'une entreprise, mettant l'accent sur un seul aspect : soit les problèmes culturels au sein de la structure, soit les défis culturels des marchés étrangers. En utilisant la gestion stratégique, cette étude suggère que le risque culturel devrait prendre en compte à la fois « l'externe » selon les concepts de positionnement sur le marché des produits et « l'interne » avec la vision de l'entreprise basée sur les ressources. Ceci, afin que les deux aspects stratégiques captent l'essence de la dynamique culturelle de l'entreprise.

La complexité de la construction culturelle est difficile à saisir avec une recherche quantitative. 34 entretiens individuels (semi-structurés et structurés) ont été menés avec des cadres supérieurs pour collecter les données. Les résultats ont servi de base au cadre unificateur servant à évaluer le risque culturel afin de mieux le gérer. Le cadre proposé peut servir d'outil au bénéfice des chercheurs, ainsi que des praticiens.

ABSTRACT

This dissertation outlines a view of cultural issues, connecting it to the risk literature. Culture, as a risk-driver of the firm, has not previously been fully explored. International business scholars tend to ignore either the external or the internal aspects of a firm's cultural environment, emphasizing only one side: either cultural issues within the organization or host country cultural challenges. Using strategic management, this study suggests that cultural risk should consider both out there according to product-market-positioning concepts and in here with the resource-based view of the firm to capture the essence of the firm's cultural dynamics. The study proposes a unifying framework where cultural risk management is a form of knowledge management based on Ashby's (1956) requisite variety principle where resource management would meet the required product-market cultures. The suggested framework can serve as a tool to benefit researchers as well as practitioners.

Keywords: Culture, Risk, Cultural Risk Management, Knowledge Management (KM), Strategic Management, Resource-based View (RBV), Product-market Positioning, Institutional-based View.

RÉSUMÉ

L'étude présente une vision des problèmes culturels, en la reliant à la littérature des risques. La culture, en tant que facteur de risque de l'entreprise, n'a pas été pleinement explorée. Les spécialistes du commerce international ont tendance à ignorer les aspects externes ou internes de l'environnement culturel d'une entreprise, mettant l'accent sur un seul aspect : soit les problèmes culturels au sein de la structure, soit les défis culturels des marchés étrangers. En utilisant la gestion stratégique, cette étude suggère que le risque culturel devrait prendre en compte à la fois « l'externe » selon les concepts de positionnement sur le marché des produits et « l'interne » avec la vision de l'entreprise basée sur les ressources. Ceci, afin que les deux aspects stratégiques captent l'essence de la dynamique culturelle de l'entreprise. L'étude propose un cadre unificateur où la gestion des risques culturels est une forme de gestion des connaissances basée sur la loi de variété requise d'Ashby où la gestion des ressources répondrait à la culture de marché. Le cadre proposé peut servir d'outil pour les chercheurs et les praticiens.

Mots clés: culture, risque, gestion du risque culturel, gestion des connaissances, gestion stratégique, management par les ressources, positionnement sur les marchés.

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ADN	Acide désoxyribonucléique
ASEAN	Association of Southeast Asian nations
BRIC	Brazil, Russia, India and China
CEO	Chief Executive Officer
CRAM	Country Risk Assessment Model
COSO	The Committee of Sponsoring Organizations of the Treadway Commission
CQ	Cultural Intelligence
CRA	Credit Rating Agency
EAR	Earning at Risk
ERM	Enterprise-wide Risk Management
EU	European Union
FDI	Foreign Direct Investment
FIRM	Financial, Infrastructure, Reputational and Market risks
GDP	Gross Domestic Product
HRM	Human Resource Management
IMF	International Monetary Fund
IP	Intellectual Property
IRM	The Institute of Risk Management
ISO	International Standards Organization

M&A	Mergers and Acquisitions
NASA	National Aeronautics and Space Administration
OECD	Organisation for Economic Co-operation and Development
PESTEL	Political, Economic, Social, Technological, Environmental and Legal risks
RBV	Resource-Based View
TPP	Trans-Pacific Partnership
SMA	Standardised Measurement Approach
SME	Small and Medium size Enterprise
S&P 500	Standard and Poor's 500
USMCA	United States-Mexico-Canada Agreement
VAR	Value at Risk

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At the beginning of my journey, I was naïve. I didn't know that the answers vanish as one continues to travel, that there is only further complexity, that there are still more interrelationships and more questions (Kaplan, 1996).

INTRODUCTION

This study considers cultural risks. It is a reflection of a changing world and marketplace. Due to fundamental changes in the business world during the last years, firms must operate in a complex and uncertain environment. These changes are related to globalization, as businesses are becoming increasingly interconnected and global. On a political map, country borders are as clear as ever. However, on a competitive map, trading, financial, and industrial activities across national boundaries have rendered those political borders increasingly irrelevant. As the world now faces what may be the largest crisis in generations, let us address the organizational challenges for today.

In 2020, the business world faced unprecedented uncertainty amid the coronavirus pandemic and its immense economic fallout. Organizations are now navigating in a VUCA (VUCA for the volatile, uncertain, complex and ambiguous nature of today's world) environment (Bennett and Lemoine, 2014). As the world fights the COVID-19 pandemic, maintaining international cooperation and keeping global markets open is more important than ever. This can facilitate access to medical products (World Trade Organization, 2020). Currently, there is a greater need for effective international cooperation, communication, and collaboration.

Before the pandemic, 2019 had been marked by strong trades and business activities. Despite the rising geopolitical tensions and slowing GDP growth in emerging economies, the exports of these emerging and developing economies grew faster than those of the developed ones. Asia and North America, having the fastest export growth, led the world to expand the international trade (World Trade Organization, 2020). Emerging markets could grow around twice as fast as advanced economies on the average and are projected to be the world's largest economies in 2050 led by China, India, and Indonesia (PricewaterhouseCoopers, 2017).

The emergence of regional trading blocs in the forms of the European Union, the Association of Southeast Asian Nations (ASEAN), the new United States-Mexico-Canada Agreement (USMCA), or the Trans-Pacific Partnership (TPP) has eased and increased trade and supported investments. The opening up of new markets has created business opportunities for the firms to access new customers to sell their products. Increased sales are the major motives for a firm's expansion into international business (Zahra, Ireland, and Hitt, 2017).

Similarly, the globalization of financial markets is a major driver of international trade and investment. During the past decade, the world experienced an unprecedented volume of cross-border mergers and acquisitions (M&A). In 2015, 47 new non-U.S. corporations coming from 18 countries raised $6.1 billion U.S. dollars by selling their shares on U.S. stock exchanges (PricewaterhouseCoopers, 2015). In 2018, the cross-border M&A was at record $1.6 trillion U.S. dollars despite the growing trade tensions and the anti-globalist rhetoric. Approximately 16% of U.S. deals in 2018 involved non-U.S. acquirors. German, French, Canadian, Japanese, and U.K. acquirors accounted for approximately 60% of the volume of cross-border deals involving U.S. targets, and acquirors from China, India, and other emerging economies accounted for approximately 10% (Harvard Law School, 2019).

The evolution of global competition has led manufacturing companies to look for different solutions to reduce costs and improve their competitiveness. Given the ever-changing boundaries of science and technology, innovations through partnerships have become unavoidable at both the national and international levels (Veilleux and Queenton, 2015). The decision to locate some activities in the specific countries reflects management's view that the foreign locations in question offer certain advantages compared with the locations where those activities are currently performed. One of these solutions is outsourcing part or the totality of production activities in emerging economies, where labor costs are relatively low.

Manufacturers also look to acquire resources, such as foreign capital, technologies, and information that they can use at home to reduce their costs. Acquiring resources can enable a company to improve its product quality and differentiate itself from competitors – in both cases potentially increasing market share and profits. Once the foreign operations are in place, the foreign resources, such as capital or expertise, may then serve to improve domestic operations (Daniels, Radebaugh, and Sullivan, 2004).

Additionally, to minimize swings in sales and profits, firms may seek foreign markets to take advantage of business cycle – recessions and expansions – differences among countries. While sales decrease or grow more slowly in a country with recessed economy, it increases or grows more rapidly in one that is expanding economically.

The implication for firms involved in international trade, cross-border M&A, or industrial activities is that they must work in new markets with employees, customers, suppliers, competitors, and creditors – all from different cultures. Culture is fundamental to managing firms engaged in global business. Although doing business

with these new emerging economies can open up new opportunities for businesses, it can also be accompanied by several difficulties related to cultural differences. Globalization is exposing many countries to more interactions and relationships with people and products from other countries, yet many people from different countries are unprepared to work, live, and cooperate in a global world.

Operating in foreign markets takes on additional cultural risks compared with what manufacturers normally face at home. These risks are sometimes insufficiently considered. This justifies the relevance of a study to target the identification and analysis of cultural risks related to international business, the understanding of their influence, and the exploration of actions required for reducing their impact for the success of global business. Specifically, this study explores the components of cultural risk and generates a theoretical model to address their influence.

The thesis is structured as follows:

- The research problem is set out. Cultural risk includes two elements: culture and risk. In Chapter 1, we review the extant research on culture, risk, and risk management to assemble the elements and to verify that the subject has not been fully covered elsewhere, then the main research question is spelled out.

- After the literature review, the first theoretical framework is defined in Chapter 2, and the methodology for the research is explained in Chapter 3.

- After which the results are presented in Chapter 4, followed by an analysis of the findings. After each set of data collection, the theoretical framework is updated, theorems are added and modified; the final theoretical framework provides an illustration on how the theory developed, how core categories were identified, extended or combined with others and how relationships between them were discovered and refined with each step; this was then shaped into a final unifying framework of cultural risk management.

Finally, the discussion of the unifying framework of cultural risk management in the context of existing research, its implications for practice and insights for future research in Chapter 5 conclude the thesis [1].

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[1] This study uses the sequence utilized in the English language research in North America.

CHAPTER 1- PROBLEM STATEMENT

International operations take on additional cultural risks. Cultural risks stem from the new economy with its instantaneous communications, its global reach, the scale and complexities of companies' cross-border involvements, and the multicultural team as the new workforce of international business. These risks, if not properly managed, may cause damage to a firm. The identification and further analysis of these risks can help organizations to better address their influence.

Culture as a risk driver has not been fully explored in the international business literature. In actual international business studies, researchers tend to ignore either the external or the internal aspects of a firm's cultural risk, emphasizing only one side: either cultural issues within the organization or foreign market cultural challenges. The unit of analysis of this research is the firm. Using strategic management, it explores both the internal and external sides of the firm's cultural risk to capture the essence of a firm's cultural dynamics. It refers to the organizational culture dynamics as the firm's internal cultural risk. External cultural risks relate to foreign market product-market-positioning issues. Accordingly, a unifying cultural risk management framework suggests considering both "out there" and "in here" views of the firm to address the cultural risk influence.

The work begins with a review of pertinent writings on culture, risk, and risk management.

1.1 CULTURE

The abstract sense of the word culture probably originated in Germany where the word Kultur was used as early as the eighteenth century to refer to civilization. The German Kultur and Finnish kulttuuri suggest the intellectual side of civilization and society (Koivisto, 1999). However, the principal meanings of the generic term culture are not entirely similar across languages. The Russian word kultura embraces the scientific meaning, referring to a milieu propagating micro-organisms (Grishina, 1993). The Japanese word bunka focuses attention on literary or artistic production, implying the creation of a sophisticated object and even an improvement of an earlier version. When the Japanese use their word for culture, it refers to the skilled production of artifacts after a master of the craft (Holden, 2002). This opposes the European languages that derive their word from Latin, where the basic meanings are associated with the cultivation of land and deities (hence cult).

Research on culture dates to Tylor (1924). Initially, the examination of culture was associated with anthropology focusing on the origins and composition of culture. The studies of Herskovits (1967) or Malinowski (1968) are good examples. As Malinowski (1968) stated:

> We have to base our theory of culture on the fact that all human beings belong to an animal species. No culture can continue if the group is not replenished continually and normally.

He develops the example of eating habits, which must be regarded as both biological and cultural:

> Cultural dimension is a familiar fact as regards hunger or appetite, in short the readiness to eat. Limitations of what is regarded as palatable, admissible, ethical; the magical religious, hygienic and social taboos on quality, raw

materials, and preparation of food; the habitual routine establishing the time and the type of appetite – all these could be exemplified from our civilization, from the rules and principles of Judaism, or Islam, Brahmanism or Shintoism, as well as from every primitive culture.

This demonstrates how the biological need of hunger may be influenced by aspects of culture.

Eagleton (2000) argued that we owe our modern notion of culture in large part to nationalism and colonialism, along with the growth of anthropology in the service of power. As time passed, for anthropologists, it no longer seemed possible to study culture as a self-enclosed, coherent, patterned field of meaning (Rosaldo, 1997). Other sciences rapidly followed anthropology by proposing a comparative approach between nations and cultures. The recognition that culture in the context of international business operations creates problems for firms has produced a sub-discipline of international management studies called cross-cultural management (Holden, 2002). The literature on cross-culture issues is not easily specified. Formal articles which directly treat cross-cultural management issues traverses in greater or lesser depth various disciplines of international management and business as well as organizational theory, and communication. The term "cross-cultural" is used for compiling research and practice of cross-national comparisons, intercultural interaction and multiple culture studies, including research that focuses on culture at the national, organizational, and sub-organizational levels (Primecz., Romani, and Sackmann, 2009).

1.1.1   The concept of culture

The concept of culture has produced various definitions. In the Anglo-Saxon world the abstract notion of culture came into widespread use at the beginning of the twentieth century with Tylor's (1924) definition of culture as that complex whole which includes knowledge, belief, art, law, morals, customs, and any other capabilities

and habits acquired by man as a member of a society. By this definition, culture is a result of a social life. From this perspective, there can be no culture without a society. This definition also makes it clear that culture is possessed by man alone and it is the product of behaviour and is not behaviour itself.

From the beginning, Tylor's definition of culture introduced some confusion by trying to bring together system of rules, traditional ways of behaving or beliefs, and acquired skills, experience, and specific internal properties of the individual. Following Tylor's research, many social sciences' scholars including sociologists and ethologists have also tried to build their own definition of the concept of culture to a point that Kroeber and Kluckhohn (1952) identified more than 160 different definitions of culture. Anthropologist Redfield (1948) defined culture as "shared understandings made manifest in act and artifact." Linton's (1945) definition of culture connects the individual to the social process where a culture is a configuration of learned behaviors and results of behavior whose component elements are shared and transmitted by the members of a particular society.

1.1.1.1   Culture as learned and shared by the members of a society

In keeping with Tylor's concept of culture, Kroeber and Kluckhohn (1952) defined culture as follows:

> Culture consists of patterns, explicit and implicit of and for behaviour acquired and transmitted by symbols, constituting the distinctive achievements of human groups, including their embodiments in artifacts: the essential core of culture consists of traditional (i.e., historically derived and selected) ideas and especially their attached values; culture systems may, on the one hand, be considered as products of action; on the other hand, as conditioning elements of future action.

It may safely be said that Kroeber and Kluckhohn's (1952) concept of culture is a fair representation of culture as essence, whereby:

- The members of a culture system share a set of ideas, and especially, values;

- These are transmitted (particularly from one generation to another) by symbols;

- Culture is produced by the past actions of a group and its members;

- Culture is learned;

- Culture shapes behaviour and influences one's perception of the world.

This definition is similar to that of Useem and Useem (1963) to whom culture has been defined in various ways, but most simply, as the learned and shared behavior of a community of interacting human beings. Although these definitions differ, the common characteristics can be identified as they seem to be based on the same ground where culture is learned, acquired, transmitted and shared by the members of a society.

1.1.1.2   Culture as the shared meanings constructed by its members

In the 1970s, both cultural anthropologists and psychologists studied behaviour mainly as the outcome of the physical and social environment in which people are living. A major shift occurred among anthropologists when culture came to be defined in terms of subjective meaning (Geertz, 1973). As a result of this shift, attempts to understand the behavioural pattern characteristics of people in a particular culture in terms of the prevailing external conditions were largely replaced by an approach of culture as the shared meanings constructed by its members during their interactions. A

similar shift can be found in cross-cultural psychology. In such research studying cross-cultural differences in modes of cognition (Peng and Nisbett, 1999) or the experiencing of emotions (Feldman-Barrett, Mesquita, Ochsner and Gross, 2007) external conditions receive little emphasis.

Goodenough (1971) viewed culture as a set of beliefs or standards shared by a group of people, which help the individuals decide what is, what can be, how to feel, what to do, and how to go about doing it. With this definition there is no reason for culture to be equated with the whole of one particular society. It may be more appropriate to activities shared by a particular group of people where individuals can share different cultures by interacting with different groups.

1.1.1.3   Culture as the essence of visible and invisible

In 1980s, Hall and Hall (1987) and Schein (1985) made a key distinction about culture. They were concerned with visible and invisible cultures. The significance of invisible culture has been emphasized by Hoecklin (1995), who argued that the essence of culture is not what is visible on the surface. It is the shared ways groups of people understand and interpret the world. These different interpretations that cultures give to their environment are critical influences on interactions between people working and managing across cultures.

Hall (1959), an anthropologist, was primarily concerned with foreign cultures. According to him, each type of culture is typified by its own broad communication style embedded in context where context is the information that surrounds an event. Context is inextricably bound up with the meaning of that event. The elements that combine to produce given meaning—events and context—are in different proportions depending on the culture. The cultures of the world can be compared on scale from

high to low context. Thus, a high-context communication or message is one in which most of the information is already in the person, while very little is in the coded, explicit part of the message. A low-context communication is the opposite where the mass of information is vested in the explicit code (Fig. 1.1).

Figure 1.1
High-context and low-context communication cultures
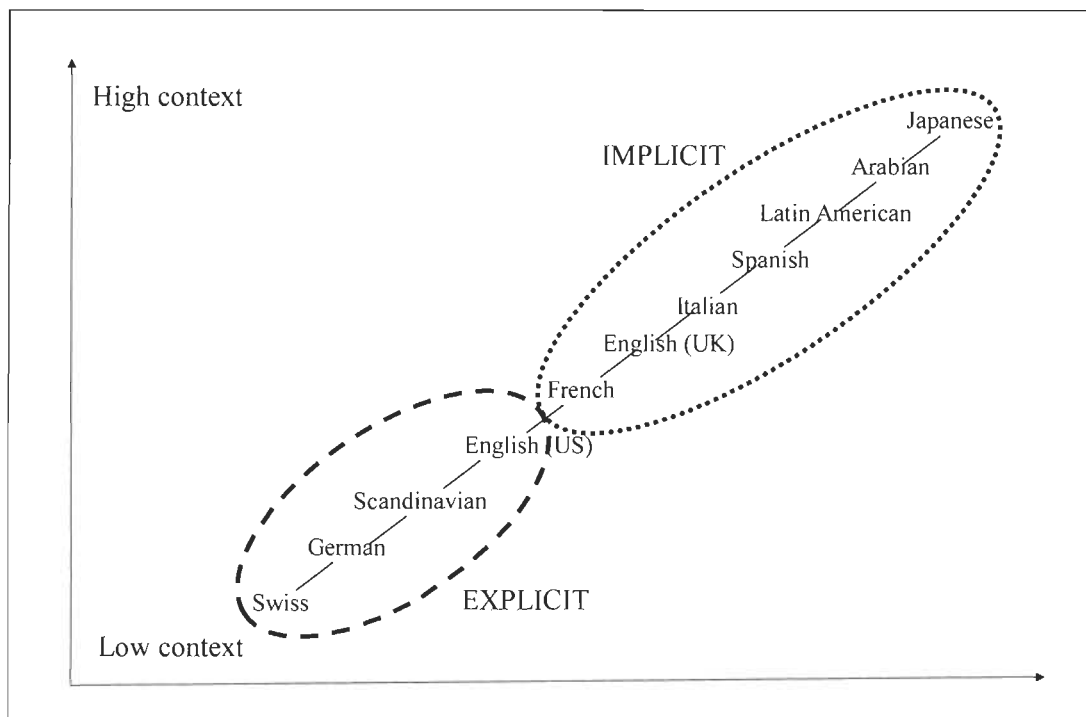
Source: Adapted from Hall and Hall (1987).

As Fig. 1.1 shows, Hall and Hall (1987) argued that Japanese, Arabs, and Mediterranean people, who have extensive information networks among families, friends, colleagues, and clients and who are involved in close personal relationships, are high-context. For most normal transactions in daily life, they do not require nor expect much in-depth background information. This is because they keep themselves informed about everything that has to do with the people who are important in their lives. Low-context people include Americans, Germans, Swiss, Scandinavians, and

other northern Europeans; they compartmentalize their personal relationships, work, and many aspects of day-to-day life. Consequently, each time they interact with others they need detailed background information. Swiss has become the exemplar of low-context culture and Japan an icon for high-context culture. Authors specify that within each culture, there are specific individual differences in the need for contexting—the process of filling in background data. It is, however, helpful to know whether the culture of a particular country falls on the high or low side of the scale, since every person is influenced by the context level.

Schein (1985), a social psychologist, distinguished three levels of culture: artifacts, values, and assumptions. Artifacts are the visible face of culture, but they are not necessarily decipherable to, and may be seriously misunderstood by, outsiders. They can be associated with three kinds of manifestations: physical, behavioural, and verbal. At the invisible level, Schein (1985) distinguished between assumptions that are associated with assumptions taken for granted by members of a particular group, and values which express themselves in the institutions of a society, such as family, religious faith, sport, political system, and so forth (Fig. 1.2, on the next page).

Figure 1.2
Schein's model of organizational culture
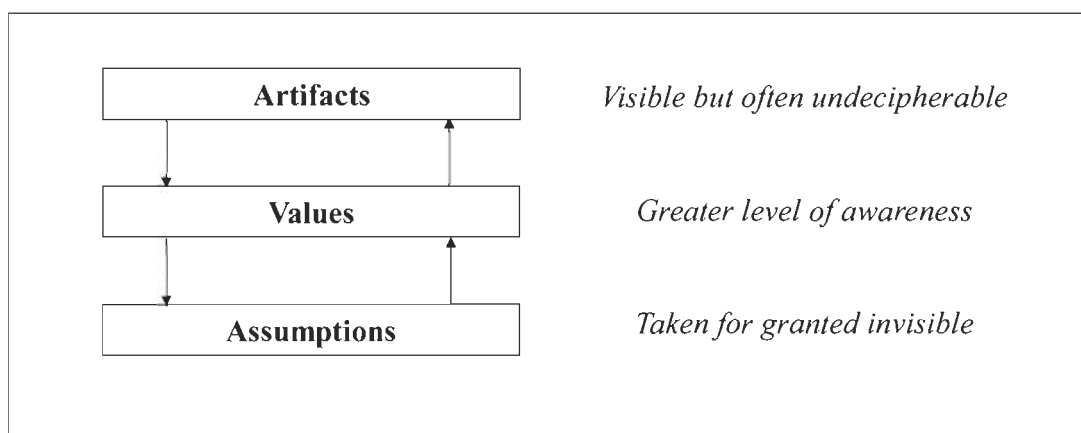
Source: Adapted from Schein (1985).

1.1.1.4   Culture as a collective programming

Hofstede (1991, 2001, 2010) defined culture as the collective programming of the mind. This implies that the packaging that members of one category of people share distinguishes them from another category of people. Although Hofstede acknowledged that such categories may reflect different types of cultural differentiations, such as organizational or gender cultures, the prime focus of his research has been putatively national cultural differences.

Specifically, Hofstede (2001) initially identified four, and a fifth and sixth, added later, universal values or differences in national value systems in the following areas: social inequality (including the relationships with authority), the relationship between the individual and the group, the concepts of masculinity and femininity (the social and emotional implications of having been born as a boy or a girl), the ways of dealing with uncertainty and ambiguity, which turned out to be related to the control of aggression and the expression of emotions, the long-term orientation, and the indulgence of a society that allows relatively free gratification of basic and natural human drives related to enjoying life and having fun. He called these differences the dimensions of cultures occurring to varying degrees in each country.

The Hofstede's framework translated the rather static idea of culture into a tractable construct amenable to empirical research. Recent literature reviews point to Hofstede's framework as the dominant culture paradigm in business studies inspiring thousands of empirical studies putting Hofstede into the ranks of the top three referenced international business authors.

The value-based Hofstede's model of culture has been subjected to several criticisms. Bond (1988) believed that the taxonomies developed by Western scholars

have a Western bias. In parallel to Hofstede, the Chinese Value Survey developed by Bond and others (Chinese Culture Connection, 1987; Bond, 1988) was an emic instrument explicitly centered on Chinese culture. Bond (1988) found four dimensions of cultural patterns: integration, human-heartedness, interpersonal harmony, and a group solidarity. The integration dimension refers in a broad sense to the continuum of social stability. If a person scores high on this dimension, he or she will display and value the behavior of tolerance, non-competiveness, interpersonal harmony, and group solidarity. Human-heartedness refers to the values of gentleness and compassion. People who score high on this dimension value patience, courtesy, and kindness toward others. Moral discipline refers to the essence of restraint and moderation in one's regular daily activities. If one scores high on this dimension, the behaviors valued are following the middle way, regarding personal desires as negative. The Confucian work dynamics refers to an individual's attitude and orientation toward work and life. According to Bond, the behaviours exhibited along this continuum agree with the teaching of Confucius.

To Javidan et al. (2006), the Hofstede's model has geographic limitations. For example, researchers operating Hofstede's indices have been limited to countries where his IBM sample had operations. Additionally, the richness and specificity of a culture of a multilingual country, such as Canada, Belgium, or Malaysia are not grasped. Some prefer to use richer qualitative techniques (MacSweeney, 2002; Schwartz and Bilsky, 1990), arguing that insufficient aspects of culture are considered.

In spite of these (and other) criticisms, Hofstede's model has gained widespread acceptance for multiple reasons. First, the data collected were sufficient to derive statistically based insights into culture that had not been possible before. Second, the set of values is collectively capable of describing all, not just a subset of, national cultures. So for researchers interested in explaining or describing any single culture or cluster of cultures, the framework is pliable for various needs. Third, the dimensions

have theoretical moorings. While the charge has been leveled that the framework is overly reductionist, a reading of Hofstede's work reveals some grounding in prior theoretical work done in anthropology, sociology, and psychology.

Many authors have followed Hofstede's positivist approach by refining either his cultural dimensions (Trompenaars and Hampden–Turner, 1998; House, Hanges, Javidan, Dorfman and Gupta, 2004), or his methodology (Sivakumar and Nakata, 2001; Schwartz, 2007; Yeganeh, 2011). With this essentialist paradigm of culture (Nathan, 2015), a singular national identity is often a determinant factor, and the culture is static, holistic, bounded, homogeneous, deterministic, and often used the term equivalently with nation-state. Values and norms are transmitted by socialization to the next generation. Moreover, it is seen as something that members of a cultural community, for example an organization or a nation, 'have' or 'belong to' (Holden, 2002). By virtue of the strong emphasis of sharedness, this view of culture also tends to entail blindness as regards social variation and diversity within a nation or an organization (Risager, 2001).

However, there are also those who believe that culture is not static but is rather located in a context of interaction. Singh (2010) argued that culture is the acquired knowledge that people use to interpret experience and generate social behaviors. Authors such as Sackmann et al. (1997), or Søderberg and Holden (2002) highlighted that other cultures than national culture are also active participants. To others (Holden, 2002; Gerhart and Fang, 2005; Dupuis, 2014), the cultural knowledge is relative and contextual, and the context must be considered. In this view, cultural studies are primarily the study of contexts rather than culture, insofar as contexts are produced in social practice (Denzin and Lincoln, 2000). With this new interactionism perspective, or a non-essentialist paradigm (Nathan, 2015), culture is dynamic with continuity and change, heterogeneous, changeable and with blurred boundaries (Table 1.1.).

Consequently, it is not easy to measure. These frameworks have not gained large popularity mostly because of the lack of measurement instruments.

Table 1.1

The concept of culture: the essentialist and non-essentialist paradigms

Essentialist paradigm, where culture is:	Non-essentialist paradigm:
- Static - Homogeneous - Holistic - Deterministic - Bounded	- Dynamic - Heterogeneous - Internally driven - Changeable - Blurred boundaries
"Culture as a set of universal values (cultural dimensions)" Hofstede (1984), Hofstede and Bond (1988), House, Hanges, Javidan, Dorfman and Gupta (2004) – GLOBE, Trompenaars (1993), Laurent (1983)	**"Culture as knowledge structures"** Briley (2009), Bruner (1990), D'Andrade (1984), Gioia (1986) **"Culture as an adaptive system"**Adair, Buchan, and Chen (2009), Hall (1959) **"Culture as a complex construct"** Leung and Morris (2015) **"Culture as internal or external to the person"** Berry, Poortinga, Breugelmans, Chasiotis, and Sam (2011) **"Culture as a nexus of interlinked subgroups"** Moore (2009) **"Culture as a risk driver"** Firsova, Vaghely, Arcand (2015)

Table 1.1 shows the research in both paradigms: the Hofstede's widespread model of culture where culture is viewed as a set of universal values and the beyond-Hofstede culture-frameworks extending the traditional semantic boundaries to embrace both national and organizational values and behaviours. Some researchers have

repeatedly observed that the beyond-Hofstede culture-frameworks are more nuanced and merit further attention (Earley, 2006; Kirkman, Lowe and Gibson, 2006).

Within the essentialist paradigm, researchers tend to focus on cultural encounters between what they perceive as well-defined and homogeneous entities, for example, a parent company and its subsidiaries in foreign countries. This perspective offers a limited view and does not capture the essence of a firm's cultural dynamics. Some scholars argue that the dynamic non-Hofstedean interpretations of culture are required to move the field of international business and management ahead (Nakata, 2009). This situation does not suggest that Hofstede's perspective, which has produced significant understanding, should be completely abandoned. Instead, it suggests that it is time to widen the horizons, so that other views are invited and considered, enriching the knowledge about culture and leading to greater insight for business. Within any organization, there may be a variety of cultures shaped by professional orientation, status, history, power, visibility, or other factors (Balthazard, Cooke and Potter, 2006). Some of these recently emerged frameworks and perspectives are presented in the following section below.

1.1.1.5 *Culture as knowledge structures*

Briley (2009) built on Bruner (1990), and D'Andrade (1984) worked on a loose network of domain-specific knowledge structures, and posited that culture is composed of knowledge structures activated in different ways depending on situational factors. Some of the types of knowledge structures included in this network are norms, schemas, implicit theories, goals, and motives. Individuals shift values on the fly and thus arrive at different judgements and decisions, contrary to the idea of culture as a fixed, irresistible force.

Cognitive research relates to how individuals process information bearing on culture. Cultural information has a greater impact if it can be embedded in existing, heavily organized, and interconnected knowledge structures (Kiesler and Sproull, 1982). Because of the individual's limited information processing capacity, attention demanding information (i.e. salient information) will only be incorporated into organized knowledge structures and long-term memory if it seems relevant to those structures. Discrepant information, on the other hand, will tend to be discounted and forgotten (Vaghely and Julien, 2010).

Organization members, in other words, do not actively process all culture-relevant informational cues anew in order to decide how to behave. Rather, they usually depend on a set of personal and consensual schemata to understand (and sometimes fill the gaps in) existing scripts. This is what allows them to respond to organizational situations with relatively little active information processing. Implicit assumptions about the importance of cultural information signals are part of such schemata (Vaghely and Julien, 2010).

Gioia (1986) defined schemata as a built-up repertoire of tacit knowledge used to impose structure upon, and impart meaning to otherwise ambiguous social and situational information to facilitate understanding. Well-established schemata enable the individual to process cultural information subconsciously, especially if a good match between the current cultural context and existing schema is achieved. This frees the person's cognitive capacity to handle other more pressing, novel or innovative demands. Gioia and Poole (1984) described cognitive scripts as schematic knowledge structures, held in memory, that indicate the appropriate culture-related behaviour or sequence of events in specific situations. This dynamic view of cultural influence is particularly relevant to understand the effects of situational forces on consumers' goals and motives. Similarly, Liu and Dale (2009) inserted dynamism into culture by offering a paradigm wherein individuals revise their mental models by interacting and forming

shared representations that help them make sense of and respond to situations as they arise.

1.1.1.6   Culture as an adaptive system

Adair et al. (2009) delineated the utility of Hall's (1959) framework, which observes that multiple forms of context, such as communication and space, alter people's behaviour. Hall (1959) proposed that cultures could be differentiated based on the relationship between communications in that culture and the interactants' reliance on the context in which it is presented. Hall suggested that people are embedded within a social context and that culture can be captured in different ways people communicate, specifically to the extent to which they rely on cues within their context to convey meaning. Culture is thus an adaptive system. This conceptualization goes beyond Hofstede's values and beliefs model that focus on culture as an ideation system.

1.1.1.7   Culture as a complex construct

From a situated dynamic perspective, Leung and Morris (2015) advocated the need to consider a more complex construct of culture. In the light of their recent study, perhaps researchers need to consider not just only the values in the construct of culture, notably Hofstede's values, but also to identify relevant schemas (Gioia, 1986; Gioia and Manz, 1985; Gioia and Poole, 1984; Vygotsky, 1962; Luria, 1976) and norms (Sherif, 1936; Asch, 1956; Fishbein and Ajzen, 1975; Buchtel and Norenzayan, 2008; Norenzayan, Smith, Kim, and Nisbett, 2002) that shape decision-making and intercultural interaction. Some other constructs of culture may also exist.

1.1.1.8   Culture as internal or external to the person

To what extent culture should be conceptualized as part of the person (internal culture), and to what extent as a set of conditions outside of the person (external culture)? In cross-cultural psychology, when we talk about European or Indian culture, we can refer to the mode of subsistence, or how people make a living (Berry, Poortinga, Breugelmans, Chasiotis, and Sam, 2011), the political organization of society and other aspects of the ecological and social context. This is external culture. We can also refer to the ideas, philosophies, and beliefs of the members of a culture. This is a culture internal to the person. Much of the language, religion, knowledge and beliefs of a person's social environment become internalized (Berry et al., 2011). The pre-existing features of one's culture become part of oneself in the process of socialization. External conditions include factors such as climate, economy, social institutions and practices, formal education, and influences resulting from contact with a new society, as in the case of migration.

1.1.1.9   Culture as a nexus of interlinked subgroups

At the organizational level, Moore (2009) depicted firms as nexuses of subgroups interlinked with one another and to external communities, near and far. Meanings are negotiated through these linkages and exchanges, generating a variety of discourses. Culture is thus not a static, fully formed entity, but instead evolves meanings of the organization, national identity, social class, work unit, and so on for groups and individuals.

While the static perspective of the concept of culture can be valid if we want to understand the characteristics of a particular cultural system, such as a country or a company, the dynamic perspective provides a richer description of cultural nuances and offers insight not captured by the positivist approach to culture. When, as in

everyday international business practice, cultures clash and fuse with each other in different ways, the static perspective is unhelpful as it is programmed to exaggerate the differences between cultures and to generate criteria to rank them competitively (Holden, 2002). Culture, including the interorganizational processes of international mergers and acquisitions, joint ventures and other strategic alliances, may be studied differently. However, it needs further development notably to address its measurement issues.

1.1.2   Levels of culture

Culture can be used to represent an organizing principle at different levels of organizational, the professional, the personal. For example, Hofstede et al. (2010) identified six such broad levels of culture:

- A national level according to one's country (or countries for people who migrated during their lifetime);

- A regional and/or ethnic and/or religious level and/or linguistic affiliation level, as most nations are composed of culturally different groups and/or ethnic and/or religious and/or language groups;

- A gender level, according to whether a person was born as a girl or boy;

- A generation level, which separates grandparents from parents and children;

- A social class level, associated with educational opportunities and with a person's occupation or profession;

- For those who are employed, an organizational or corporate level, according to the way employees have been socialized by their work organization.

Some scholars argue that the last point, organizational culture, can reflect several national cultures over and above all other elements. Alternatively, it can reflect nationality, besides other given elements such as demographic of employees and managers (Fink and Mayhofer, 2001). The organizational culture, which is informed by these various national cultures influence all internal process of the organization. Furthermore, organizational efforts to create customer value through the transformation of resources into customer benefits are embedded into the culture of the organization (Fink and Mayhofer, 2001).

Given these overlapping affiliations, in research on cultural differences, nationality, the passport one holds, should be used with care (Hofstede, Hofstede and Minkov, 2010). Each of these levels may be seen as spheres of interaction, where the social production of meaning contributes to a concept of culture, according to which culture is seen as determining and not just a determined part of social activity (O'Sullivan, Hartley, Saunders, Montgomery and Fiske, 1997).

It may safely be said now that the term 'culture' is notorious. However, Holden (2002) argued that one can distinguish in management literature three primary uses of the term:

- Culture referring to an aspect of a national or ethnic grouping, including summations of characteristics with reference to distinctive (culture-specific) management style or communication style;

- Culture referring to the special qualities of an organization (corporate culture);

- Culture referring to mental attributes, as in Hofstede's et al. (2010) formulation of collective programming of the mind.

Beyond that, various writers use the word 'culture' loosely so that it takes on acquired meanings. Viney (1997) argued that culture is an important, possibly the most important element in the competition for business supremacy. McRae (1995) wrote that culture will keep countries apart. Here, the word 'culture' has moved from its standard semantic range into a related area, namely, cultural difference. Scrutiny of management texts reveals that many writers use 'culture' to mean this and not culture in a broad generic sense. The next section presents the academic contributions in the cross-cultural management field.

1.1.3   Culture in the cross-cultural management literature

In the broad cross-cultural management literature, cultural difference is held automatically to arouse cross-cultural misunderstandings and clashes (Holden, 2002). Resultant unpleasant experiences are sometimes classed as culture shock, a term that has been described as psychologically disorienting experience (Ferraro, 1994). Taking the academic contribution to international cross-cultural management as a whole, the literature reveals a preoccupation with three manifestly dominant core problem areas which have challenged international businesses: the ethnocentrism, the cultural diversity issues, and the disorientating effects of culture shock – the reeling against the inexplicable, the confounding press of Adler's (1991) uninterpretable clues. The three core problems and solutions are presented in Fig. 1.3 on the next page:

Figure 1.3
Thematic model of core problems and solutions in the cross-cultural management
literature
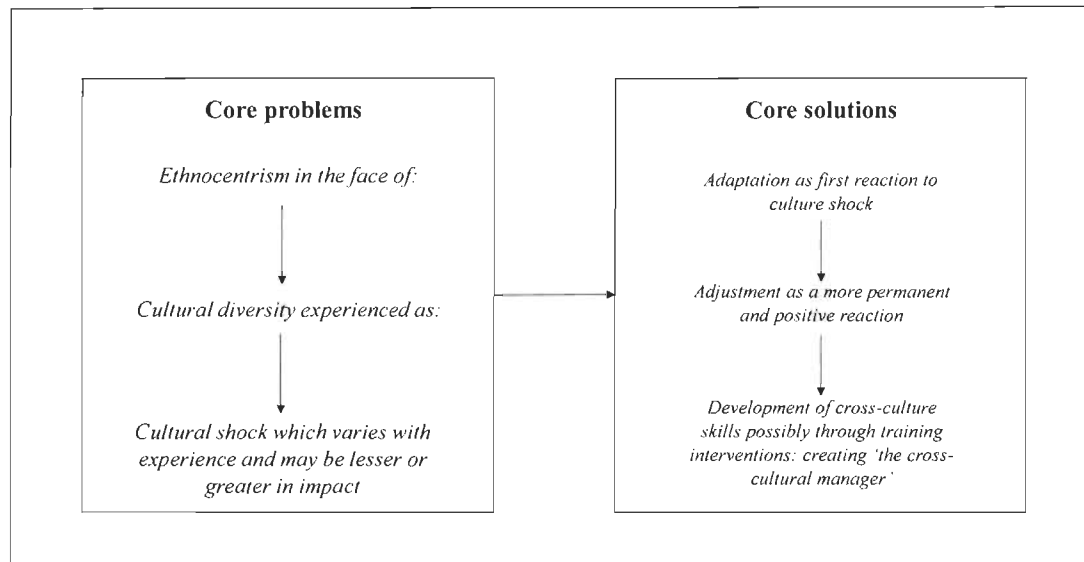
Source: Adapted from Holden (2002).

From Fig. 1.3, the literature in cross-cultural management argues that more knowledge about culture can allegedly induce cross-cultural sensitivity or awareness, which is the foundation for cross-cultural competence.

Ferraro (1994) argued that a general understanding of the concept of culture can provide a fuller appreciation of other cultures, regardless of where one might be doing business. Any concept of culture that focuses on itself can soften the blows of culture shock, let alone lead to any kind of cross-cultural break through in the business world. The last point was highly debatable. Hickson and Pugh (1995) regarded cross-cultural manager as someone who can cope with culture shock and for whom the learning experience in one culture helps with entry and effectiveness in another one.

Cross-cultural management appears to be primarily associated with human resource management (HRM). HRM emerges as the main mediator and developer of cross-cultural management competencies in companies across a whole range of international management functions which plainly call for cross-cultural awareness and related management competencies (Tung and Punnett, 1993).

Holden (2002) argued that there is more to cross-cultural management than coping with cultural shock, possessing cultural awareness and knowing how to manage cultural differences. There are trends in international business literature showing shifts from HRM towards the organizational performance as described in the next section.

1.1.4   Culture in the international business literature

In the international business literature, culture has long been viewed as a liability of foreignness (Hymer, 1976) and, as such, has become a central focus for theory building (Buckley and Casson, 1976; Caves, 1982; Dunning, 1977; Hennart, 1982; Mezias, 2001; Miller and Parkhe, 2001; Zaheer, 1995; Zaheer and Mosakowski, 1997).

Foreignness is taken to mean the dissimilarity, or lack of fit, in operating contexts of a firm's home and host environments (Kindleberger, 1969; Hymer, 1976). The Oxford English Dictionary defines foreignness as the fact of being not known and therefore seeming strange. Foreignness assesses the fit of what the parent company wishes to transfer abroad to the new host environment (Kogut, 1989; Kogut and Zander, 1992). If the parent company is significantly foreign from its subsidiary, the transferred firm assets may not fit the receiving context in the host country (Hymer, 1976; Kostova, 1999; Kostova and Roth, 2002).

The cultural factor tensions in the international business literature borrowed its theoretical foundation from economics (Brannen and Doz, 2010). Early contributors (Hymer, 1976; Caves, 1982; Dunning, 1977) understood the purpose of multinational companies as either market expanding or resource seeking including the pursuit of raw materials and cheap labor. Hymer (1976) building on Penrose (1959) laid the foundation of the multinational as being the use of firm-specific intangible assets to overcome the liability of foreignness. Therefore, the liability of foreignness represents the extra costs of doing business abroad incurred by a firm operating in an uncertain foreign market. These costs arise for a multiple reasons and include costs associated with distance from home, such as transportation, coordination, and control over time and space; firm-specific costs due to host country inexperience; and costs resulting from host country reception, such as lack of legitimacy of foreign firms (Zaheer, 1995).

Yet, a few organizational scholars have suggested that there are circumstances in which foreignness might be an asset to the firm (Kostova and Zaheer, 1999; Mezias, 2001; Brannen, 2004; Edman, 2016). To Kostova and Zaheer (1999), there can exist specific situations where being a multinational enterprise brings with it an initial level of legitimacy, rather than illegitimacy. Such situations might arise in environments in which local firms have lost their legitimacy from being overprotected by the government, as well as in countries where a long-standing sense of inferiority and xenophilia exists.

Brannen (2004) in Disney's study of theme park internationalization in Tokyo presented foreignness as an asset, not a liability. The owner of Tokyo Disneyland viewed the park as an exact replica of the original Disneyland in Anaheim, California because they wanted the Japanese visitors to feel they were taking a foreign vacation by coming there, and to them, Disneyland represented the best that America had to offer.

Caprar (2011) in his study on multinational corporation employees highlighted that in countries where host-country employees display a predominantly positive stance towards the home culture of the firm, the particular cultural profile of the host-country employees might represent a compensatory location advantage because in such locations the foreignness of the company might be an asset, not a liability. Similarly, Edman (2016) presented how organizations maintain and leverage minority identities by cultivating foreignness.

From the measurement properties of a foreignness, the construct of cultural distance (Kogut and Singh, 1988) has long been considered as a key indicator of firm foreignness (Zaheer, 1995; Barkema, Bell and Pennings, 1996; Child and Markoczy, 1993; Gomez–Mejia and Palich, 1997). It is a composite index based on the deviation along each of Hofstede's cultural dimensions, focusing on the cultural distance between countries which have been applied in international business to foreign investment expansion, entry mode choice, and the performance of foreign-invested affiliates, among others. The construct of cultural distance promotes a positivist view of cultural differences where culture is viewed as static, bounded, and deterministic.

While convenient and easy to use, the construct has issues in terms of conceptualization, including potential differences between national and organizational cultures and intra-cultural variety (Shenkar, 2001). Despite criticism, the indicator of cultural distance continues to be extensively used in international business literature and has become so entrenched that it has spawned followers with knowledge distance (Farjoun, 1998), institutional distance (Kostova, 1999), or technological distance (Vassolo, Anand and Folta, 2004), to mention a few.

Another stream of thought demonstrated that cultural friction, the new construct offered as a replacement of culture distance (Shenkar, Luo and Yeheskel, 2008), can be curtailed through a series of managerial actions around the points of cross-border

contact (Luo and Shenkar, 2011). Adopting a social constructionist approach, the cultural friction is a substitute construct centered on the actual encounter of cultural systems within a context of power relations and potential conflict between a multinational enterprise and its host country constituencies. Shifting away from viewing culture in terms of its differences, the cultural friction captures the magnitude of interaction between the cultural systems engaged in cross-border businesses (Luo and Shenkar, 2011). However, due to its dynamic nature, the indicator of cultural friction is not easy to use.

Some other scholars centered on culture investigating the relationship between cultures and institutions where culture is viewed as a part of informal institutions in the environment that underpin formal institutions (Redding, 2005; Singh, 2007). Due to the researchers increasingly probe into emerging economies whose institutions differ significantly from those in developed economies, there is an increasing appreciation from formal and informal institutions, commonly known as the rules of the game (North, 1990) more formally defined as the humanly devised constraints that structure human interaction. Scott (1995) defined institutions as regulative, normative, and cognitive structures and activities that provide stability and meaning to social behaviour. Institutions govern societal transactions, and nations differ in the areas of politics (e.g., corruption or transparency), law (e.g., regulatory regime, trade barriers), and society (e.g., ethical norms). Similar to culture, risk has also been defined and classified in various ways.

1.2 RISK

1.2.1 The definition of risk

The emergence of risk in the literature dated the eighteenth century when Condorcet (1784) introduced the first maritime insurance premium. Risk comes

originally from the Latin resecum, denoting that which cuts, it is related both to the Italian richiare, meaning to run into danger, and the Spanish riesgo, referring to that which a ship might literally run into, namely a reef.

Condorcet (1784) advised that with the development of maritime commerce, the merchant must be assured of having a "sufficient" probability that his losses would not drive him out of business, and of a "very large and continually increasing probability" that his profits would repay all troubles. Since then, risk has been widely studied, and the literature on the subject has grown. Somewhat surprisingly, there is still no broad consensus on the meaning of the term risk (Hillson and Murray-Webster, 2007).

The International Standards Organization (ISO) defines risk as the combination of the probability of an event and its consequence, noting that consequence may be either positive or negative. According to Lopes (1987), risk refers to situations in which a decision is made and whose consequences depend on the outcome of future events with known probabilities. Kendrick (2003) identified risk as the product of two factors: the expected consequences of an event and the probability that the event might occur. For Hillson and Murray-Webster (2007), risk is an "uncertainty that matters," where two elements of risk are uncertainty and its consequences, although uncertainty without consequence poses no risk. Hopkin (2012) defined risk as an event with the ability to impact the mission, strategy, projects, routine operations, objectives, core processes, key dependencies or the delivery of stakeholder expectations.

The ISO 31000 standard "Risk management—Principles and Guidelines" (ISO 2009) stated that risk is the effect of the uncertainty. The Standards Australia/Standards New Zealand (AS/NZS) (2004) stated that risk is the chance of something happening that will affect objectives, although they do note that a risk is often specified in terms of an event or circumstance and the consequences that may flow from it. Although all

these definitions differ, the common elements can be identified, as they are concepts that seem to be based on the same ground, despite differences in terminology. Overall, risk combines the uncertainty that surrounds future events, the probability that this event happens and its consequence.

Scholars debate also addressed the question as to whether a risk should only have a negative connotation—a threat—as is understood in everyday use, or whether the term should also cover opportunities. Authors such as Kaplan and Garrick (1981), Andersen and Schroder (2010), emphasized the negative outcomes of risk. Kaplan and Garrick (1981) saw risk as a set of triplet-ideas that consists of a scenario, its probability and the consequences of such a scenario (i.e., the measure of damage). Paté–Cornell (2002) similarly saw risk as the probability and consequences of different outcome scenarios associated with a hazard, where hazard is a concept of danger. For others (Chapman, 2011; Hopkin, 2012), risk can have a negative or a positive outcome, and therefore may be related to an opportunity or a loss for an organization.

1.2.2   Risk attitude

The U.K.'s Cabinet Office Strategy Unit's report "Risk: Improving Government's Capability to Handle Risk and Uncertainty" (Cabinet Office, 2002) stated that risk refers to the uncertainty of outcome, whether positive opportunity or negative threat, of actions and events. It is the combination of likelihood and impact, including perceived importance. The important addition in this definition is that risk perception is brought into the definition.

Hillson (2010) provided an informal definition of risk as uncertainty that matters. He described attitude as a chosen response to a given situation affected by perception of the situation. He combined these two definitions to state that risk attitude

is a chosen response to uncertainty that matters influenced by perception. Using the expanded definition of risk, risk attitude becomes a chosen response based on perception to an uncertain situation, the likelihood of the situation, and the impacts (which can be positive or negative) that the occurrence of the situation would have on project success. Since the chosen response is based on perception, risk attitude is influenced by the person's perception of each of the components of risk.

1.2.3 Perception of the risk situation

Although it is difficult to separate the perception of a situation from its impact (Kahneman, Slovic and Tversky, 1982), this can be done by considering the affective factors associated with the situation:

1.2.3.1 Perception of the likelihood

There are numerous studies that show how people's perception of the likelihood of a situation can be influenced by cognitive biases: lack of understanding, wishful thinking, anchoring, affect, framing, group-thinking, confirmation bias, self-serving bias (Lee and Lebowitz, 2015; Bazerman and Watkins, 2004).

1.2.3.2 Perception of the effect

Envisaging the effect of a future situation often requires some form of storytelling or scenario analysis (Fahey and Randall, 1997). The way this is done can considerably affect a person's perception of what the situation would actually imply.

1.2.3.3   Perception of the impact

This falls into the domain of "utility theory." That is to say that each person's perception of a given objective impact is strongly conditioned by his or her circumstances. For example, a loss of $1000 on a $1 million project might be considered insignificant, whereas the loss of the same sum to an individual might be considered dramatic. The analysis of this area is covered by expected utility theory (Piney, 2003) as well as the variant, prospect theory (Kahneman and Tversky, 1979).

1.2.3.4   Perception of the objectives and the scope

Most projects have a number of stakeholders with different goals. Even when the stakeholders agree on the set of project objectives and the specified scope, they are unlikely to hold identical views on the importance of each individual objective or component of the scope. For this reason, their perception of the importance of what is impacted is very likely to differ considerably between stakeholders. Perception is as important in dealing with the risk once it occurs.

1.2.3.5   Cognitive biases

Additionally, research has shown various cognitive biases working against a balanced risk judgment and decision-making and indicated further that these biases can induce predictable surprises. Bazerman and Watkins (2004) summarized some of these biases:

First, individuals tend to have positive illusion, which mean that they have unrealistic expectations about the future, but not least that they tend to ignore or undervalue signals that contradict the perceptions. Second, individuals tend to interpret

events in an egocentric manner, which means that they tend to take a disproportionately large share of the credit for success, while accepting too little responsibility for failures. Going beyond this self-assessment bias, it further implies that individuals tend to interpret events in a self-serving and biased way. Further, the confirmation bias implies that individuals might cherry pick information that support their own preconceived beliefs. Third, individuals exaggeratedly discount the future in favour of immediate concerns. This, instead of evaluating various long-term options, individuals tend to focus on short-term considerations. Fourth, individuals tend to maintain the status quo, as they are reluctant to make changes. Fifth, individuals do not want to invest in preventing a problem that they have not personally experienced or witnessed through vivid data.

In addition to personal biases, the fact that sense making occurs in a social environment where people are not just sensitive to what is being said but also who is saying it means that most organizations are prone to adopt a uniform mindset and engage in group-thinking (Day and Schoemaker, 2006; Janis, 1973), a distorted style of thinking that renders group members incapable of making a rational decision.

1.2.4 Risk classification

Hopkin (2012) divided all risks into three categories: hazard (or pure) risks, control (or uncertainty) risks, and opportunity (or speculative) risks. The events that can only result in negative outcomes are hazard risks or pure risks. These risks may be thought of as insurable risks. Certain risks arouse uncertainty about the outcome of a situation described as control risks. The third type is the opportunity or speculative risk. Opportunity risks relate to the relationship between risk and return. There are risks associated with taking an opportunity, and there are also risks associated with not taking the opportunity. Organizations generally seek to mitigate hazard risks, manage control risks and embrace opportunity risks.

Hopkin (2012) further classified risks according to the timescale of the impact after the event occurs: short, medium, and long-term. Short-term risks are normally associated with unplanned disruptive events but may also be associated with cost control in the organization. They impact the ability of the organization to maintain efficient core processes that are concerned with the continuity and monitoring of routine operations. Medium-term risks can impact the organization following a short delay after the event occurs. They normally impact the ability of the organization to maintain efficient core processes that are concerned with the management of tactics, projects, and other change programmes. Long-term risks can impact the organization some time after the event occurs, and usually impact the ability of the organization to maintain the core processes that are concerned with the development and delivery of strategy. Classification of short, medium, and long-term risks represents the operational, tactical and strategic risks faced by the organization. Additionally, an analytical distinction between objective risk and perceived risk can be made.

1.2.4.1   Objective risk versus perceived risk

Objective risk is also called technical risk. Objective risk refers to statistical calculation of the probabilities of adverse events. In this approach, risk is characterized by its likelihood and impact. Risk refers to an exposure or probability of losses (Larson and Kusiak, 1996a; Remenyi and Heafield, 1996; Jaafari, 2001). A technical approach to risks is based on the formula R = P x M, where R is the risk, P is the probability exposure, and M is the magnitude (Tansey and O'Riordan, 1999). The purpose is to reduce the largest risks to which a population is exposed; alternatively, risk is predominantly about safety. The rational choices are guided by the utility principle which is central to economic rationalism (Pearce, 1994).

Perceived risk, on the other hand, refers how people subjectively understand the likelihood of adverse events. Perception implies a potential for bias away from some

presumed objective standard or stimulus (Pidgeon, 1991). The approach based on perceived risk finds that when people reason and make decisions about hazards they do so by paying attention to the social context, tacit knowledge, and the warrantability of ideas and actions. Sjöberg (2000) identified six larger factors affecting peoples' risk perception:

1. Technical estimate of risk which refers to real risk, or general risk, or risk of others. The risk is perceived by the average person, in a rather veridical manner. The individual's estimate is strongly related to statistical data if such is available;

2. Heuristics and biases where the risk perception is biased by factors, such as beliefs, values, and media exposure;

3. Risk target where people do different risk estimate when they rate the risk to themselves, to their family, or to people in general;

4. The psychometric model which is based on a number of explanatory scales (from 9 to 18) such as new–old or voluntary–involuntary. Based on factor analysis, the number of explanatory variables is reduced, and often three higher-level factors are sufficient to explain most of the variance of perceived risk. Often factors, such as new risk, dreaded risk, and many exposed to risk emerge;

5. Cultural theory which specifies that there are four types of people: egalitarian, individualistic, hierarchic, and fatalistic. These types of people will choose to be concerned with different types of hazards, and

6. Risk sensitivity, attitude, and specific fear. Risk sensitivity means that some people are very upset and worried about virtually all hazards, whereas others are quite indifferent and tranquil. Risk perception can be caused by attitude not the other way round, for example, one's attitude toward nuclear power. Specific fear

means that any hazard elicits thoughts about specific fear-arousing elements. For example, the perceived risk of flying elicits notions about falling from a great height or being killed by an explosion.

Perceived risk refers to how people think about and respond differently to hazards. According to Slovic, Fischoff and Lichtenstein (1980, 1984) this depends on whether the hazards are, for example, forced upon them or are voluntarily undertaken; known or unknown; controlled or beyond personal agency and influence; or understood to apply in general or on an individual level. Dake and Wildawsky (1990) addressed the need to predict and explain what kinds of people will perceive which potential hazards to be how dangerous. Fraser and Simkins (2010) classified risks according to their nature: financial and non-financial.

1.2.4.2   Financial risk versus non-financial risk

Financial risks. Financial risk involves the relationship between an individual (or an organization) and an asset or expectation of an income that may be lost or damaged (Vaughan, 1997). Financial risk reflects the company's profitability level, its debt load and interest coverage, the company's capacity for indebtedness, its financing contracts such as redemption dates and restrictive clauses, and the company's capacity for reinvesting by the current owners (St-Pierre and Bahri, 2006). Financial risk is related to credit or market.

Credit risk is a potential for gain or loss due to changes in the credit worthiness of a customer or counterparty (Fraser and Simkins, 2010). Credit risk is an inherent risk of money not coming back when the bank lends to a client. It is the possibility of the adverse condition in which the client does not pay back the loan amount (Hopkin, 2012). Market risk is the potential for gain or loss due to changes in market conditions such as interest rates, commodity prices, exchanges rates, and other economic and

financial variables such as stock prices or housing starts (Fraser and Simkins, 2010). Market risks are risks that occur due to fluctuations in the financial markets (Hopkin, 2012). Credit and market risks differ from other risks in the sense that credit and market risks are priced and observed in the capital markets (Fraser and Simkins, 2010). Table 1.2 on the next page shows an overview of the elements of these risks:

Table 1.2
A taxonomy of financial risks

1)   Credit risks:

Type of risk	Description
Customer credit or loan default	Risk that a customer cannot or will not pay an obligation or debt, whether it be through financial distress, dishonesty, or for legal reasons;
Sovereign risk	Risk that a sovereign, such as the government of a country, imposes an action, regulation, or law that effectively prevents an obligation from becoming fully payable in a timely fashion or else leads to an asset being expropriated in some shape or form;
Funding risk	Risk that the corporation itself cannot obtain sufficient funding in a timely fashion or at reasonable cost.

Source: Adapted from Fraser and Simkins (2010).

2)   Market risks:

Type of risk	Description
Currency risk	Risk that changes in exchange rates impact the expected cash flows of an entity;
Interest rate risk	Risk that changes in interest rates impact the expected cash flows of an entity;
Commodity price risk	Risk that changes in commodity prices impact the expected cash flows of an entity;
Equity risk	Risk that changes in equity prices impact the expected cash flows of an entity;
Liquidity risk	Risk that changes in market liquidity impact the ability of an organization to facilitate trades or trading strategies in an efficient manner and at reasonable costs due to shifts in market trading activity.

Source: Adapted from Fraser and Simkins (2010).

Table 1.2 shows a common outline and taxonomy for considering credit and market risks. Fraser and Simkins (2010) highlighted that the combination of these risks has far-reaching implications beyond the impact on an organization's cash flows. Credit and market risks directly affect the broader economy. They impact political, legal, and regulatory environment of businesses. Credit and market risks are not stand-alone risks. They impact on the other risks inherent in an organization.

(a) Market risk measurement. Market risk can be measured and managed. There are two distinct parts to measuring market risk: the first part comprises uncovering what risks exist, while the second component is determining the risk size. Many different techniques exist to calculate the size of a given risk; the financial markets themselves provide indicators of risks, for example, the stock market index, the market indices (S&P500) or the publicly traded futures. The volatility of prices in financial markets gives information about the uncertainty level. Following the volatility and

correlations of market and future prices indicates the direction of prices (Fraser and Simkins, 2010). A primary method to measure the impact of price changes on a firm is to run a regression of earnings against the price changes of various market variables, as the equation in Table 1.3 shows below:

Table 1.3
The impact of price changes on a firm

Regression	$E_t = A + CA_t + CB_t + FXA_t + FXB_t + \varepsilon_t$

In Table 1.3, E_t is the percentage growth of earnings in time period t, while CA_t, CB_t, FXA_t, and FXB_t are the percentage changes in the price of commodity A, commodity B, exchange rate A, and exchange rate B for time period t, respectively. A and ε_t are the intercept and error term, respectively.

When the size of the potential move in the market price has been determined, and the effect of a move of a market price has been calculated, the two can be combined into a measure called Earning at Risk (EAR), the corporate application of Value at Risk (VAR), which is used to measure the potential losses.

(b)Credit risk measurement. Compared to market risk, credit risk is mostly a downside risk; that is, unexpected credit events are almost always negative events:

Credit Risk = Exposure Size × Probability of Default × Loss Given Default

The size of credit risk comprises three parts: (1) the size of the potential exposure at the time of default, (2) the probability of a default or credit event occurring, and (3) the loss given that a credit event has occurred.

Non-financial risks. Financial risks are not the only risks faced by organizations. Risks that are unrelated to credit or market are non-financial. Events such as the September 11th terrorist attacks served to highlight that the scope of risks extends beyond market and credit. While financial risks are well defined and accounted for in the company's records, many of the non-financial risks, for example operational risks, are less precise and thus much harder to describe and predict (Andersen and Schroder, 2010).

Contrary to credit risk or market risk, operational risk is usually not willingly incurred nor is it revenue driven. Operational risk relates to the failure of internal systems, processes, technology, and humans, and to external factors such as natural disasters or fires. It was initially defined as being any form of risk that was not market risk or credit risk (Hopkin, 2012). It may thus englobe some other non-financial risks. This imprecise definition was replaced by Basel II (2004) with a definition of operational risk as "the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events." However, the Basel Committee recognizes that operational risk is a term that has different meanings and therefore, for internal purposes, financial institutions are permitted to adopt their own definitions of operational risk, provided that the minimum elements in the Committee's definition are included. The Basel II definition identifies only four types of risk categories: people, process, system, and external risks. The types of risks associated with the Basel II definition comprise internal fraud, including misappropriation of assets, tax evasion and bribery; external fraud including theft, hacking and forgery; employment practices and workplace safety; clients, projects and business practices; damage to physical assets; business interruption and systems failures; and execution,

delivery and process management. Table 1.4 shows the operational risks' taxonomy based on the Basel II (2004) Accord:

Table 1.4
A taxonomy of operational risks

Type of risk	Description
Internal fraud	Risks related to misappropriation of assets, tax evasion, intentional mismarking of positions, bribery;
External fraud	Risks related to the theft of information, hacking damage, third-party theft and forgery;
Employment practices and workplace safety	Risks related to discrimination, workers compensation, employee health and safety;
Clients, projects and business practices	Risks related to market manipulation, antitrust, improper trade, product defects, fiduciary breaches, or account churning;
Damage to physical assets	Risks related to natural disasters, terrorism, vandalism;
Business interruption and systems failures;	Risks related to utility disruptions, software failures, hardware failures;
Execution, delivery and process management	Risks related to data entry errors, accounting errors, failed mandatory reporting, and negligent loss of client assets.

Source: Basel II (2004).

Operational risk is not diversifiable and cannot be fully eliminated as long as people, systems and processes remain imperfect (Hopkin, 2012). It is also hard to quantify since loss histories are usually not available and some risks cannot easily be quantified. Although statistical approaches have been adopted and developed, a universally accepted approach is still unavailable.

Some non-financial risks, for example strategic and reputational risks are excluded in Basel II (2004). Hopkin (2012) suggested that other non-financial risks terms may be seen as potential consequences of operational risk events. For example, reputational risk, or a damage to an organization through loss of its reputation or standing, could arise as a consequence of operational failures – or from other events.

Nevertheless, operational risk classification is a subject of constant change. In March 2016, the Basel Committee on Banking Supervision proposed a revision to its operational risk framework. The Standardised Measurement Approach (SMA) for operational risk will replace the basic indicator approach and the standardized approach for calculating operational risk capital. If adopted, it may include other classes of risk, such as fraud, security, privacy protection, legal risks, physical, for example infrastructure shutdown, and environmental risks.

There are also emerging risks. As we live in a hypermodern era (Citot, 2004) characterized by the complex environment in constant change, organizations are concerned about changes in the external and internal contexts that arouse new uncertainties and opportunities (Fraser and Simkins, 2010). These changes can be considered to be the emerging risks facing organizations. Fraser and Simkins (2010) divided emerging risks into three categories:

- New risks that have emerged in the external environment, but are associated with the existing strategy of the organization – new risk in known context;

- Existing risks that were already known to the organization, but have developed or changed circumstances that have triggered the risk – known risks in the new context;

- Risks that were not previously faced by the organization because the risks are associated with new strategy, tactics or operations – new risks in the new context.

Some of these new risks are under control of the organization itself; however, there are many developing risks that are not within the control of an individual organization, including climate changes, sovereign debt, and national security or changing demographics. For the purposes of this work and to simplify the categorization of the risks, the emerging risks are integrated with the other non-financial risks. Table 1.5 in Appendix A summarizes these risks by considering the views of different authors that are often complementary to each other.

This concludes the classification of risks. We now turn to the literature review on risks associated with international business.

1.2.5 Risks associated with international business

Overall, scholars agree that all risks can be related to a firm's internal and external environment and thus can be classified as the firm's endogenous (internal) and exogenous (external) risks.

1.2.5.1 Firm's endogenous risks

Endogenous risks result from a firm's functioning and activities that are particular to a specific firm. They relate to a failure of internal systems, processes, technology, and humans (Hopkin, 2012). People risks include the failure to comply with procedures and the lack of a segregation of duties. Process risks include process failures and inadequate controls. System risks include the failure of application systems to meet user requirements and the absence of built-in control measures.

These risks are easier to control since their impact on the business can be managed by a firm's internal mechanisms. Their management, however, requires businesses to accurately identify all risks.

Management risks. Management risks are mainly related to the lack of knowledge, experience, or expertise in the international business of the senior leadership team (St-Pierre and Beaudoin, 2003). Management risks include all risks of a loss arising from a poor strategic decision, such as a thoughtless choice of partners in an emerging country (Elmuti and Kathawala, 2000), neglect of certain costs (Cronin, Catchpowle and Hall, 2004), or poorly calculated growth forecasts (Clegg, Burdon and Nikolova, 2005). Corporate predictions to reduce operational costs are, in most cases, exaggerated (Clegg et al., 2005).

Human resource management risks. Human resource management risks are derived from the cultural diversity of the employees. Culturally diverse workers have different opinions, thoughts, beliefs, norms, customs, values, trends, and traditions. Cultural diversity can affect the workplace in numerous ways. Positive effects include building a sound knowledge base with in-house talent, which can allow a smoother integration of the organization into foreign cultures (Martin, 2014). The growth of the knowledge-based society, along with the opening up emerging markets, has led companies to recognize now more than ever that human resources and intellectual capital are as significant as financial assets in building a sustainable competitive advantage (Quelch and Bloom, 1996). Negative effects, however, include miscommunication, creation of barriers, and dysfunctional adaptive behaviours (Martin, 2014).

Human resource management failures may be caused by the lack of managerial mobility, where careers are developed for both profitability and employability, and ethnocentricity, where firms concentrate on employing nationals of the headquarters

country (Quelch and Bloom, 1996). Black and Gregersen (1999) have estimated that about half of all expatriates are ineffective and that their assignments are costly failures.

Process risks. Manufacturing may take place in different locations around the world, and different styles and variations of the product line may be developed in each location. International activities may lead to some decrease in a firm's control over its overseas operations, which can negatively affect the firm's overall operations management (Elmuti and Kathawala, 2000). For firms engaged in international business, the risks associated with their global supply chain activities become more important because of several factors, including geographical distance (Tan, Lyman and Wisner, 2002). For instance, the lack of proper due diligence can decrease the quality of products or services and therefore reduces a firm's profit.

System or technology risks. System risks are related to problems with technology, systems, or technology development. System risks can result from human error, malicious intent, or even compliance regulations. Events such as data breaches, network failures, and electronic fraud can damage a firm's brand, before they result in fines and expenses and prevent the company from reaching business objectives or even lead to a lawsuit (Hopkin, 2012). The breakdown of software that controls the supply and demand of resources and products, a shortfall of the goods and services, and the lack of perfect logistics and inventory can induce inefficiencies in production.

Firm's exogenous risks. For their part, exogenous risks are those related to a firm's external environment. As these risks are usually subject to rapid change, they are very difficult to predict and control (Leonidou, 2004). The impact of exogenous risks varies according to context, but their consideration allows a firm to adopt strategies to reduce their negative impact. An uncertain economic environment, political unrest, increases in competition, changes in consumer behaviour or taste, increases in raw material prices, and non-respect for regulations or legal actions against

the company are examples of such risks (Andersen and Schroder, 2010). The exogenous risks presented below are based on a review of the present literature.

Political risks. A country's political environment has been emphasized in the political risk literature (Butler and Joaquin, 1998; Kobrin, 1982; Nigh, 1985). Political risks arise from political unrest that occurs in a country or from events such as acts of war, revolutions, riots, or military coups. These risks can be a threat to a person's safety (Clark, Marois and Cernes, 2001) and can negatively affect the cash flows of firms operating in foreign countries. Political instability can be caused by economic factors, such as low per-capita income, inflationary trends, large foreign debt, or societal factors, including religious fundamentalism, ethnic tension, or a high degree of corruption. Political factors such as an authoritarian regime, conflicts with neighbors, military controls or separatist movements are also risks. These factors can jeopardize a firm's operations abroad in various ways, namely, by the confiscation of property, the closing or suspending of activities, or the prohibition of repatriation of earnings (Leonidou, 2004).

Economic risks. Economic risk is often associated with a country's financial conditions. Economic indicator movements such as GDP growth, unemployment, purchasing power, and inflation are important measurements for economic risks. Poor or deteriorating economic conditions may erode real purchasing power and may negatively affect consumer behaviour (Leonidou, 2004) and impact a firm's potential cash flows. In some countries, economic risk is of a periodic nature and is associated with changes in national economic cycles.

Foreign currency exchange risks. Another risk endemic to international business transactions is associated with foreign currency exchange. While some countries maintain a currency peg against a focal currency, such as the US dollar, most currencies move freely and occasionally with high volatility that impacts expected cash

flows. Some of the alternatives to cope with foreign currency exchange risks include buying forward currency, using "spot prices" on the day of receiving an order, and agreeing with a foreign buyer to use a currency basket that is more stable (Czinkota and Ronkainen, 2001; Kotabe and Helsen, 2009).

Legal systems risks. The differences among legal systems around the world can materially affect the activities of a firm operating internationally. Unfamiliarity with a specific legal system may have serious repercussions, including the imposition of unnecessary legal actions and loss of court cases. Typical areas in which legal approaches vary around the world include freedom of contract, insolvency laws, the enforcement of property rights, the treatment of creditors, anti-corruption laws, and data privacy laws (O'Regan, 2010). In particular, the pragmatic, precedent-driven development of the common law systems of English-speaking countries can lead to legal decisions far removed from the principle-driven, statutory nature of the Napoleonic legal systems. In turn, both these legal cultures may be contrasted with Islamic legal systems or the BRIC countries' legal systems. Many emerging countries still have shortcomings in their judicial system, and in some cases, contracts are not strictly respected (O'Regan, 2010). Risk associated with intellectual property (IP) is another major concern, as some of a firm's subcontractors may also work with its competitors (Chopra and Sodhi, 2004).

Sociocultural risks. Examples of exogenous cultural risks introduced by the international business activities include foreign market approach strategies' failures, such as a lack of understanding of marketing and distribution channels in the host country (Doole and Lowe, 2008), differences in countries' consumer behaviour (Kotabe and Helsen, 2009), or a lack of knowledge of the local best practices and of the local competitive environment compared with local firms (Rugman and Verbeke, 2004; Rugman and Doh, 2008).

Cultural risk can be defined as the opportunity or loss faced by a firm related to a lack of understanding of its cultural environment (Firsova, Vaghely and Arcand, 2015). Being non-financial, cultural risk is less precise and more uncertain, often times ambiguous, which makes it harder to describe, predict, or measure. If these risks are not properly managed, they can lead to a low performance (Lu and Beamish, 2006; Nakos and Brouthers, 2002) and a high exit risk among foreign subsidiaries of multinational firms (Zaheer, 1995).

Other risks. A separate stream of research in international business focuses on country risk, such as macroeconomic and other financial shocks, as well as political risk (Kobrin, 1979). In addition, some researchers distinguish between overall economic and political risks and a country's governance infrastructure—its political, institutional, and legal environment—as an important determinant of foreign direct investment (FDI) (Globerman and Shapiro, 2002). Other researchers argue that corruption constitutes an important and independent source of risk, especially in the emerging markets context (Uhlenbruck, Rodriguez, Doh and Eden, 2006). One of the most commonly used frameworks in the international business literature is transaction cost theory (Williamson, 1985). As highlighted by Qu and Brocklehurst (2003), transaction cost theory is typically associated with manufacturing as opposed to services. However, it has recently been extended to services by Murray and Kotabe (1999) and Wang (2002). Transaction cost theory posits that costs can be divided into production and transaction costs. Production costs involve the cost of creating a good (or providing a service) and hence they include labor, raw material and capital costs. Transaction costs, by contrast, are the costs of overseeing, coordinating, enforcing, and managing an enterprise or undertaking. In the offshoring context, firms will offshore if the production cost savings due to offshoring functions exceed the additional transaction costs associated with offshoring.

Transaction costs associated with particular investments stem from the political and institutional environments in which both the government and private investor operate. Hence, these environments may be viewed as a set of parameters, changes in which will elicit shifts in the comparative costs of governance (Williamson, 1999). Indeed, recent research has shown that country-level risks increase transaction costs and cause firms to avoid such environments or alter their entry mode or governance structure (Delios and Henisz, 2003; Henisz and Delios, 2001; Henisz and Macher, 2004). While political risk researchers have noted that instability does not equal political risk (Kobrin, 1978) and that not all risks affect firms in the same way (Oetzel, 2005; Robock, 1971), overall country risk appears to be an important consideration for offshoring investment.

In 1997, the Organisation for Economic Co-operation and Development (OECD) established a methodology for assessing country credit risk and classifying countries in connection with their agreement on minimum premium fees for official export credits. Under the OECD system, country risk encompasses transfer and convertibility risk (i.e., the risk a government imposes capital or exchange controls that prevent an entity from converting local currency into foreign currency and/or transferring funds to creditors located outside the country) and cases of force majeure (e.g., war, expropriation, revolution, civil disturbance, floods, and earthquakes). The country risk classifications are not sovereign risk classifications and therefore should not be compared with the sovereign risk classifications of private credit rating agencies (CRAs). The country risk classification occurs through the application of a two-step methodology: A quantitative model constructed specifically for this purpose: the country risk assessment model (CRAM) produces a quantitative assessment of country credit risk based on three groups of risk indicators (the payment experience reported by the participants, the financial and economic situations based primarily on the International Monetary Fund (IMF) indicators, and a qualitative assessment of the

CRAM results by country risk experts from OECD members in order to integrate factors not fully considered by the model.

This concludes the review of risks in the international business literature. The following section identifies how risks are managed in organizations.

1.2.6 Risk management

Trends such as globalization, the development of the technology and the rise of social media, as well as the increasing demands for greater corporate accountability worldwide, may reinforce the need for proper risk management (Hopkin, 2012). The responsibility for managing risk and the implementation of controls usually rest with the managers. If this responsibility is unaccepted, there is a danger that operational management is not fully integrated into the management of the organization, with negative consequences.

Risk management is defined as a holistic process initiated by an organization that integrates identification, analysis and treatment of risk (Aubert and Bernard, 2004). Risk management is seen as the ability to remove possibilities for underperformance while being cognizant of the upside gains associated with emerging business opportunities (Andersen and Schroder, 2010).

1.2.6.1 History of risk management

Making decision in uncertainty and risk probably began during the earliest human existence. A few philosophers in Greece tried to emphasize observation, deduction, and prediction, but they inevitably collided with the inertia of belief in the long-standing system of divine intervention as the explanation of misfortune as well as

good luck. In the early 400s BC, Thucydides proposed a new penetrating realism that removed the gods as explanations of the course of events (Fraser and Simkins, 2010). During the Renaissance, two changes encouraged the idea that we could think intelligently about the future. Bernstein (1998) described the first as follows: "The idea of risk management emerges only when people believe they are to some degree free agents." The second was the growing fascination with numbers. Renaissance's scientists and philosophers such as Pisano, Pascal, or de Moivre put forward the ideas of probability measurement and transformed the perception of risk from the chance of loss into opportunity for gain, from fate and original design to sophisticated, probability-based forecasts of the future (Bernstein, 1998).

In the 20th century, world wars and natural catastrophes continued to destroy illusions about the perfectibility of society and increased uncertainty of the future. Risk management became the idea of a logical, consistent, and disciplined approach to the future's uncertainties. Wars, earthquakes, tsunamis, and pandemics continue to devastate regions, and their increasing frequency stimulates new studies on causes, effects, and prediction – all part of risk management.

At the organizational level, recent corporate scandals such as the Maxwell group, Baring Brothers, WorldCom, Enron, Parmalat and so on have intensified the risk management processes that may be needed to circumvent the adverse of the economic impacts of such events (Andersen and Schroder, 2010).

Hence, corporate risk management has rapidly become an essential topic in academic research. Good risk management practices can excel corporate performance outcomes, and hence, risk management may be seen as a process that lets the organizations achieve its full potential and gain optimal economic returns. Risk can be interpreted as the volatility of performance outcomes in which risk management task is seen as the ability to remove possibilities for underperformance while being

cognizant of the upside gains associated with emerging business opportunities (Andersen and Schroder, 2010).

To use strategic language, effective risk management may be seen as a way to create a sustainable competitive advantage. Slywotzky and Drzik (2005) argued that there is a strategic element to the risk management concept that should also consider the potential for new opportunities arising from changes in the business environment and these may constitute some of the most important risk management concerns. While the nature of common downside risk events is well defined and accounted for in statistical records, many of the emerging strategic risks are less precise and thus much harder to describe and predict. Similarly, Knight (2006) specified that much of the contemporarily risk management literature is supported by calculable odds for identifiable risk events determined by analysing objective historical records. However, true uncertainty arises when one is unable to determine the odds or even foresee the future events. There seems to be a trend toward higher uncertainty due to the emergence of new risks caused by terrorist acts, political events, path-breaking technologies, and continuous innovation.

1.2.6.2 Risk management in organizations

Why is risk management important? It reduces the cost of financial distress, and the opportunity cost of projects forgone. With a prudent risk management programme in place, a company can gradually stabilize its profitability (Shimpi, 2001). In reality, true uncertainty arises when one is unable to determine the odds or even foresee the future risk events (Andersen and Schroder, 2010).

All too often, risk management in large organizations is compartmentalized. The treasurer manages financial risks, the project manager deals with operational risks

related to different projects, the chief financial officer strives to achieve an optimal capital structure, and yet other specialists manage pension assets (Shimpi, 2001). The various individuals responsible for shielding a firm from risk advance distinct agendas, use different techniques, and even speak different languages.

Consequently, there is no standard risk classification system that can be used by all types of organizations. An organization selects the number and type of risk categories to suit its size, purpose, nature, complexity, and context (Hopkin, 2012). As an example, Fraser and Simkins' (2010) model of the organizational risk presented in Table 1.6 comprises four elements: strategic, operational, financial and informational risks.

Table 1.6
Organizational risks

Type of risk	Description
Strategic	External and internal factor risks;
Operational	Process risk, compliance risk and people risk;
Financial	Treasury risk, credit risk and trading risk;
Informational	Financial risk, operational risk and technological risk.

Source: Fraser and Simkins (2010).

Protection and cost-savings have been a predominant driver for risk management (Andersen and Schroder, 2010). The companies pursue a more structured and formal approach when they are dealing with insurable hazards and financial market risks compared with operational disruption and strategic exposures. As a consequence of the rooting in conventional insurance and financial hedging approaches, risk management has often been organized in units, focusing frequently on the handling of

corporate insurance programmes under the auspices of the finance department. As there exist no standard framework for operational risk management, certain organizations are seeking to adopt its own risk management frameworks.

Various standards have been developed to help organisations implement risk management systematically. These standards seek to establish a common view on frameworks, processes and practice, and are generally set by recognised international standards bodies or by industrial groups, for example, IRM Standard or COSO framework. The most commonly risk management systems are COSO framework that includes strategic, operational, financial with particular emphasis on reporting and compliance risks, IRM Standard that includes financial, strategic, operational and hazard risks, FIRM that includes financial, infrastructure, reputational and market risks, and PESTEL model that includes political, economic, social, technological, environmental and legal risks.

The PESTEL model is used extensively by firms to analyse and monitor the external environmental factors that affect an organisation (Oxford College, 2016; Professional Academy, 2018). These factors include:

- Political Factors: These are about how and to what degree a government intervenes in the economy. This can include – government policy, political stability or instability in overseas markets, foreign trade policy, tax policy, labour law, environmental law, trade restrictions and so on;

- Economic Factors: They significantly affect how an organisation does business and also how profitable they are. Factors include – economic growth, interest rates, exchange rates, inflation, disposable income of consumers and businesses and so on. These factors can be further broken down into macroeconomic and

microeconomic factors. Macroeconomic factors deal with the management of demand in any given economy. Microeconomic factors are all about the way people spend their incomes;

- Social Factors: They are the areas that involve the shared belief and attitudes of the population. These factors include population growth, age distribution, health consciousness, career attitudes and so on;

- Technological Factors: They affect the way we do business in various ways, including new ways of producing and distributing goods and services and communicating with target audiences;

- Environmental Factors: These factors have become important due to the increasing scarcity of raw materials, pollution targets, carbon footprint targets set by governments, and

- Legal Factors: These include health and safety, equal opportunities, advertising standards, consumer rights and laws, product labeling and safety.

The model allows managers to identify the macroeconomic variables to consider the development of the business (opportunities vs. potential risks) for which the realization remains relatively uncertain. The model can also initiate the conceptualization of different scenarios based on these uncertain variables to better predict the future and make the effective decisions (Alanzi, 2018).

1.2.6.3 Enterprise-wide risk management (ERM)

Risk management has long been considered a standard management activity. The risk focus generally has been limited to those exposures that can be observed, measured and mitigated through insurance and other financial hedging products including derivative instruments, or through implementation of internal control systems (Andersen and Schroder, 2010). In the 1990s, risk management practitioners started talking about integrated risk management (Miller and Bromiley, 1990, Miller, 1992; Waring and Glendon, 1998; Shimpi, 2001). The universally accepted terminology for the broad application of risk management across the whole organization nowadays is enterprise-wide risk management, or ERM (Fraser and Simkins, 2010; Chapman, 2011). ERM is a set of components that provide the foundations and organizational arrangements for designing, implementing, monitoring, reviewing and continually improving risk management throughout the organization (ISO Guide 73, 2009).

ERM has been introduced with the purpose of assessing the corporate exposures more systematically, including operational risk, within an integrative framework, considering both the potential for downside losses and upside gains offered in an uncertain moment (Andersen and Schroder, 2010). The ERM framework considers the risk management cycle (Fraser and Simkins, 2010) comprising risk identification, analysis, evaluation and responses as a central process element. That is, ERM explicates how the risk management process should identify, analyze and respond to corporate exposures and explains how risk management responses should comply with overall corporate objectives.

ERM differs from a traditional risk management approach, frequently referred to as "silo" approach, where risks are often managed in isolation. Instead, ERM seeks to strategically consider the interactive effects of various risk events with the goal of

balancing an enterprise's portfolio of risks. When integrated with strategic management planning, ERM ensures that strategic risks are not overlooked, creating dangerous "blind spots" in strategy execution and risk management that can be catastrophic (Fraser and Simkins, 2010). The ultimate objective is to increase the likelihood that strategic objectives are realized, and value is preserved and enhanced.

1.2.6.4   Organizational culture and leadership in risk management

The previous section has demonstrated that a uniform way of organizing the company's risk management activities across the entire organization is generally needed to handle multiple and diverse risks effectively. Particularly, managing more unpredictable and unknown risk elements is challenging and requires combined risk management approaches. Central control frameworks such as ERM are appropriate and aim to enhance forecasts and thereby avoid material losses from major risk events. Additionally, scholars emphasize that creating a risk awareness culture aiming to enhance the observance of emerging events and facilitating internal responsiveness to such developments is essential to effective risk handling. Andersen and Schroder (2010) argued that implementing an ERM framework into the organization may require a change in managerial attitude supported by the full backing of senior executives and board of directors. It may require a change in the management culture to facilitate operational involvement in the risk management process from managers in all parts of the organization. The ERM framework starts at the top, with the board assuming an oversight role in line with its corporate governance responsibilities. The corporate executives are ultimately responsible for executing the risk management process. Weinstein, Blacker and Mills (2003) emphasized the role of the board of directors and their ability and managerial skills in supporting corporate risk management efforts to achieve successful risk management practices. Successful implementation seems to depend on the presence and support from the board, executives and managers of an organization with clear communication and a robust management culture of openness

and trust (Kleffner and McGannon, 2003a). Consider the following example that illustrates how an organization's culture can facilitate risk management.

In 2000, a lighting bolt hit a power line, causing a furnace fire in a semiconductor plant in Albuquerque, New Mexico, owned by Philips Electronics NV. The factory supplied ASIC chips to Nokia. Even though the fire was brought under control in minutes, the event was likely to disrupt supplies to the two companies. Nokia's internal process control systems detected shipment discrepancies within three days. The company increased monitoring of incoming supplies from weekly to daily checks. Nokia engineers flew to Albuquerque to help out at the Philips production site. In parallel, the company quickly ascertained the availability of alternative chips to be purchased to adapt its production line. Nokia observed the risk signals from the formal monitoring process and reacted promptly in the field on the signals they observed, involving a number of functional managers and eventually using corporate executives as a lever to bring the necessary contingency solutions into place. In competitive environments, the need to engage organizational members enhances the organizational ability to sense emerging threats and opportunities Andersen and Schroder (2010).

Butler (2007) emphasized the importance of having leadership skills and the ability of the senior management to communicate with honesty and transparency in risk situations. The following example will illustrate this.

In 2004, the Merlin Beach Hotel in Phuket, Thailand, suffered severe damages from the tsunami that hit the South China Sea. In contrast to many other hotels in the region that were waiting for government support, the Merlin Hotel was one of the first to begin the recovery process. The hotel general management acted quickly and was first with good transactions for local construction companies and showed commitment to the hotel personnel that the hotel would remain in business as usual in the future. All employees were offered a role in the recovery process and none was laid off. Hence,

the hotel re-opened for tourists only three months after the tsunami and was applauded for its speedy return to business. With hindsight, the general management believed that their prompt actions were driven by the overarching values and objectives established for the hotel as part of its planning process to maintain satisfied clients and achieve superior performance compared with peers in the industry.

These examples demonstrate the importance of the involvement of employees at all levels in risk management and are captured by scholars by the term "the right corporate culture" (Butler, 2007; Kleffner and McGannon, 2003a; Weinstein et al., 2003; Andersen and Schroder, 2010).

This concludes the risk management section. The following section will spell out the main research question.

1.3   RESEARCH QUESTION

The unit of analysis is the firm. Risk stems from every activity a firm undertakes. Financial risks are not the only risks faced by organizations. Risks that are unrelated to credit or market are non-financial. Events such as the COVID-19 (healthcare and economic risk), the Brexit or Trump vote (political and economic risk), the Fort McMurray wildfire (disaster risk), hacking and cyber-attacks (technology risk) or the Target commercial failure in Canada (cultural risk) serve to highlight that the scope of risks extends beyond market and credit. While financial risks are well defined and accounted for in the company's records, many of the non-financial risks are less precise and thus much harder to describe, predict and measure. Culture is non-financial risk which, if not properly managed, can greatly impact various activities of a firm, especially its international operations.

Textbooks and academic research commonly argue that business is considerably more difficult to conduct when the parties are from substantially different cultures and many examples of cultural mistakes made by practitioners have been documented. If these risks are not identified, analyzed, and managed properly, they can negatively affect the firm performance.

Existing research does not seem to resolve this issue—why? It is partly due to a lack of consensus in the academic field about the construct of culture. While there are multiple definitions of culture, they tend to be vague and overly general. This confusion is compounded by the multiple disciplines interested in this topic, which, while increasing richness, does not necessarily bring clarity. Anthropologists, psychologists, and others bring with them their specific paradigms and research methodologies. This creates difficulties in reaching consensus on construct definition and composition.

To date, more than 90% of the scholars reflect the U.S.-based research and theory (House et al., 2004). International business research almost universally uses the Hofstede cultural model to explain the importance of cultural differences and how to measure them. Following a positivist perspective, much of the research views culture as measurable and objective, static and independent of interaction with others – blind to the dynamic movement of cultural interactions or the heterogeneous nature of the construct of culture.

The Hofstede's model has its limitations. Its national cultural characteristics are too general and high a level of aggregation to help guide the day-to-day cross-cultural interactions that are characteristic of today's complex cultural organizational contexts. In the organizational study literature, the propensity to ignore the heterogeneous nature of the culture construct was first exposed in the 1980s critique of the corporate culture literature in which organizations were treated as predominantly monocultural entities

assuming a culturally homogenous workforce (Gregory, 1983; Martin and Siehl, 1983; Van Maanen and Barley, 1985). These studies illuminated the co-existence of multiple facets of reference of the construct of culture including national, organizational as well as subcultures and countercultures within them. All these facets are difficult to capture with quantitative research of the positivist paradigm.

In the light of recent studies (Leung and Morris, 2015), researchers may want to consider not just the Hofstede's values in the construct of culture, but also to identify the other components of culture, notably relevant schemas, norms, practices, formal and informal assumptions that shape intercultural interaction. Some other components may also exist. More exploratory research in this area is needed.

Considering the above, the general research question of this study is:

What are the components of cultural risk?

The results will serve as foundation to theorizing the findings of how to manage cultural risk.

CHAPTER 2- CONCEPTUAL FRAMEWORK

After an extensive survey of the literature on culture, risk, and risk management, we have not found a unifying conceptual framework to guide cultural risk management. Present research in international business tends to ignore either the external or the internal aspects of a firm's cultural risk, emphasizing only one side: the cultural issues within the organization or foreign market cultural challenges. As such, culture as a risk driver has not been fully explored. Therefore, this study addresses this issue by drawing insights developed by strategic management.

2.1   CULTURE IN DIFFERENT SCHOOLS OF THOUGHT

How does strategic management contribute to the development of a cultural risk management framework? We will begin by taking a brief look at the existing schools of thought in strategy and making several general points that will help us to answer this question. A special focus will be put on culture and how culture is viewed by different schools of thought. Table 2.1 on the next page shows the main authors in strategy according to their school of thought:

Table 2.1
Strategy's schools of thought

Dimension	Prescriptive schools			Descriptive schools						
	Design	Planning	Positioning	Entepr.	Cognitive	Learning	Power	Cultural	Environ.	Config.
Author	Selznick (1957), Andrews (1965)	Ansoff (1965)	Porter (1980)	Schumpeter (1934)	Simon (1975)	Quinn (1980), Lindblom (1959)	Allison (1971), Perrow (1970)	Normann (1977)	Hannan and Freeman (1977)	Chandler (1962), Mintzberg (1978)
Base principle	None	Systems & cybernetics	Industrial economics	None	Psychology	Psychology	Political science	Anthrop.	Biology	History
Vocab.	SWOT	Formalize, budget, program	Strat. analysis	Vision, leadership, innovation	Limited rationality	Learning theory	Power, coalition	Ideology, values	Reaction, selection, retention	Configuration archetype, life cycle
Key player	GM, administ.	Planners	Analysts	Leaders	Brain	Learners	Power holders	Commun	Challenges holders	CEO in context
Environm.	Opport. & threats	Stable and controlled	Plan expl.	Flexible, adaptive	Complexi-ty	Challeng.	Insoluble	Incedent.	Dominance determ.	Context
Strategy	Pr. of conception	Formal process	Analytical process	Visionary process	Mental process	Impl. patterns	Position,stands	Collect. persp.	Specific position	Integrate and transform

Source: Adapted from Mintzberg, H, Ahlstrand, B., and Lampel, J. (1998).

The number of publications in the field of strategic management has greatly increased in size over the last years (Volberda and Elfring, 2001). The strategy literature provides us with diverse lists of different schools of thought. A school of thought is understood to be the range of thought of a specific group of researchers, which has crystallized within the field of strategic management (Brown, 1993). The characteristic contribution of each school is often the result of a clear choice with respect to approach and assumptions about the content, the process and the context of strategy formation. The distinctive contribution of each school can also be related to its roots in a specific base discipline (Volberda and Elfring, 2001).

The schools of thought in strategic management fall into two categories: the schools prescriptive in character and the so-called descriptive schools. The prescriptive schools are the design school, the planning school and the positioning school.

As Table 2.1 shows, the design school sees strategy formulation as a process of conception. In this process, the internal situation of the organization is matched to the external situation of the environment. The planning school of strategy sees strategy formation as a formal process. In this approach, a rigorous set of steps is taken, from analysing the situation to executing the strategy. In the positioning school, strategy is viewed as an analytical process. This approach places the business with the context of its industry and looks at how the organization can improve its strategic positioning within this industry.

Each of the abovementioned schools has been subjected to several criticisms. Most criticism arises because the strategies fail when they are seen very narrowly. For example, while the design school is laid the foundation of strategic planning, it assesses strengths and weaknesses sometimes bypassing the learning (Hattangadi, 2017). With the plan in hand of the planning school, the management gets a direction to move ahead,

helping the company to move forward steadily. However, criticality arises when something happens out of plan.

The descriptive schools of thought are the entrepreneurial school, the cognitive school, the learning school, the power school, the cultural school, the environmental school and the configuration school.

The entrepreneurial school sees strategy as a visionary process. This process takes place within the mind of the charismatic founder or leader of the organization. It focuses on the CEO's vision as the key determinant of strategy where a leader has to be a visionary and the one who takes responsibilities of success as well as failure of strategies. It also relies heavily on intuition, judgement, wisdom, experience and insight.

Culture is particularly relevant to the entrepreneurial school since to some authors (Cox, 1994; Cox, Lobel and McLeod (1991) cultural diversity has performance advantages over homogenous work structures and can be exploited to gain a competitive advantage. Diversity has many dimensions and includes nationality, ethnicity, culture, religion, language, gender, education, experience, occupation, knowledge mix, industrial mix, and so on.

Entrepreneurs with a vision of the future determine the environment and are bringing new innovative products and services onto the market (Volberda and Elfring, 2001). Innovative products call for a diversity of perspectives, ideas, and skills to ensure that a broader set of resources, capacities, and capabilities are used and that multiple actors interact to bring together many types of knowledge, skills, and competences (Karlsson, Rickardsson and Wincent, 2019). A large set of empirical studies supports the view that there are positive effects of diversity on creativity

(Andersson, Quigley and Wilhelmsson, 2005), innovation (Ozgen, Nijkamp and Poot, 2012), and entrepreneurship (Rodríguez–Pose and Hardy 2015).

This approach is aligned with the cultural school of thought that says that human capital is most important in organizations. A positive culture in the firm harnesses innovations and entrepreneurial culture in organizations. Under the cultural school, strategy formation becomes subject to a company's unique values and subjective perspectives and styles of decision-making. The strategy formation is a process of social interaction which is based on the beliefs and understandings shared by the members of an organization (Holden, 2002; Boyle, Nicholas and Mitchell, 2012). An individual acquires these beliefs through a process of socialization within the organization. Strategy takes the form of perspective, rooted in collective intentions and which is reflected in the patterns by which the embedded resources or capabilities of the organization are protected and used for competitive advantage. Cultural school organizations emphasize the role of social values, beliefs and culture in decision-making.

Milliken and Martins (1996) argued that diversity can affect an organization's functioning through cognitive outcomes refer to an increase in creative decision-making and innovation. Advocates of the cognitive and learning schools, psychologists and sociologists, discuss different ways of acquiring knowledge through human cognitive models (Gioia, 1986; Gioia and Poole, 1984; Johnson-Laird, 1983; Plous, 1993). The cognitive school sees strategy formation as the mental process. It analyzes how people perceive patterns and process information. It concentrates on what is happening in the mind of the strategist, and how it processes the information. Gioia and Poole (1984) described cognitive scripts as schematic knowledge structures, held in memory, that indicate the appropriate culture-related behaviour or sequence of events in specific situations.

Information processing models of culture are organized into such abstract structures. These knowledge structures are the constructs against which new cultural information is tested for relevance. Schemata simplify cultural information processing and storage but, in the process, introduce biases. Such associative thinking leads to information expectations that are both well organized and resistant to new evidence. In this fashion, schema-based expectations affect judgment and memory, and also filter the use of new or innovative information from the environment. Motivational processes – such as external, vicarious or self-applied reinforcements – can provide incentives to enact a cultural-information-processing related script. In this sense, an organization might be viewed as a culture composed of a complex set of interrelated scripts that influence one another in both supportive and contrary ways (Gioia and Manz, 1985 in Vaghely and Julien, 2010).

Another strategy's school of thought, the power school, is power centered. The people who are in power take the decisions, and the power center ensures that there is lesser resistance for implementing the strategy. The power holders can be from different cultures and thus can have different values and views which can make the decision-making process difficult (Mazur and Bargłowski, 2010). The problem with the power school happens when the powerful people stop listening to feedback from others and stop implementing measures of improvement, and only focus on minor improvements. At such times, the power needs to change hands so that the company keeps moving forward.

More of a situational school of thought, the environmental school gives most of the importance to the environment. For example, in Information Technology industry, expertise of people matters and the knowledge of people needs regular upgrading; or, in a paper industry, wood plays a major role, and if the wood is scarce, the strategy formulation will have to be done based on wherever the wood is available. The environment can be a raw material or a major factor in the strategy of the company.

Finally, the configuration school says that the strategy needs to be configured. The strategy allows the firm to move from one position to another, hence a simple set of values will not help this movement. Instead, the strategy needs to consider a lot of thing which can go wrong and cannot be derived from simple set of values (Chandler, 1962; Mintzberg, 1978). Over a period of time, an organization forms various sets of values which have to be transformed so that the organization reaches the point that it desires. This school of thought tries to attain stability through various ways, and keeps transforming as long as needed.

Another path of culture in relation to the strategy is the firm's acquisition growth dynamics. The culture seems to be particularly relevant in the acquisition literature.

2.1.1 Culture in the acquisition literature

Organizational behaviour scholars, as Figure 2.1 on the next page shows, are concerned with the broad question of what effect acquisitions have on individuals and, as a consequence, on the organizational behaviour:

Figure 2.1
Research schools on acquisitions

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┌─────────────────────────────────────────────────────────────────────────┐
│                   ┌─────────────────────────────────────┐                 │
│                   │  The Organizational Behaviour School │                 │
│                   └─────────────────────────────────────┘                 │
│                                                                           │
│  ┌──────────────────┐    ┌──────────────────┐    ┌──────────────────┐    │
│  │ The Human Ressource│    │  The crisis school │    │ The cultural school│  │
│  │ Management Group   │    │                    │    │                    │  │
│  │                    │    │ Devine (1984), Jick│    │ Bastien and van de Ven│
│  │ Bastien (1987), Buono│  │ (1979), Marks (1982),│  │ (1986), Buono et al. │
│  │ and Bowditch (1989),│   │ Pritchett (1985)   │    │ (1988), Martin and Siehl│
│  │ Hayes (1979), Ivancevich│└──────────────────┘    │ (1983), Napier et al.│
│  │ et al. (1987), Leighton│                          │ (1989), Sales and Mirvis│
│  │ and Tod (1969), Levinson│                          │ (1985)             │  │
│  │ (1970), Marks (1982), │                           └──────────────────┘  │
│  │ Marks and Mirvis (1985),│                                                │
│  │ Pritchett (1987),   │                                                   │
│  │ Schweiger and Walsh │                                                   │
│  │ (1990), Shirley (1977),│                                                 │
│  │ Sinetar (1981) Walter│                                                  │
│  │ (1985)             │                                                   │
│  └──────────────────┘                                                     │
└─────────────────────────────────────────────────────────────────────────┘
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Source: Adapted from Volberda and Elfring, 2001.

Human resource management tradition has focused on the human resource impact of acquisition and how this impact can be managed (Bastien, 1987; Buono and Bowditch, 1989; Hayes, 1979; Ivancevich, Schweiger and Power, 1987; Leighton and Tod, 1969; Levison, 1970; Marks, 1982; Marks and Mirvis, 1985; Pritchett, 1987; Schweiger and Walsh, 1990; Shirley, 1977; Sinetar, 1981; Walter, 1985). While these studies examined the pre- and post-acquisition impacts, there is a tendency to over-concentrate on the negative aspects of the acquisition. Many studies focused on feelings of conflict and tensions (Marks and Mirvis, 1985; Sales and Mirvis, 1985; Sutton, 1983). Other studies (Princhett, 1985; Schweiger and Walsh, 1990; Walsh, 1988) focused on the relationship between acquisition and employee turnover. The issue of acceptance regarding new managers has also been examined (Graves, 1981; Shirley, 1977).

The crisis literature views the negative consequences of acquisitions to some extent as rites of passage, a necessary organizational crisis requiring individuals to progress through several stages akin to the grieving process: shock, defensive retreat, acknowledgement and finally adaptation (Devine, 1984; Jick, 1979; Marks, 1982). The organization of appropriate mourning periods has been prescribed by some consultants (Princhett, 1985).

The cultural compatibility school sees acquisition integration primarily as a culturally driven phenomenon. Drawing on research that examines interorganizational and intraorganizational cultural differences (Martin and Siehl, 1983), these researchers argue that in a decision regarding an acquisition, much emphasis should be placed on the idea of cultural compatibility between the organizations (Sales and Mirvis, 1985).

Historically, acquisition outcomes have been seen as a result of achieving both strategic and organizational fit between the two firms (Volberda and Elfring, 2001). These two perspectives have recently been called into question with numerous acquisitions not yielding the expected results. In response, a series of studies emerged that sought to understand better the factors associated with successful or unsuccessful acquisition strategies. One of these studies is the Daimler–Benz Chrysler merger failure because of a gap in organizational cultures' fit. Daimler–Benz is a German company that could be described as conservative, efficient, and safe, while Chrysler is known as daring, diverse, and creative. Moreover, Daimler–Benz was much more imposing and tried to dictate the terms on which the new company should work (Appelbaum, Roberts and Shapiro, 2009). It was this failed partnership between Daimler-Benz and Chrysler that first rang the alarm bells that cultural factors cannot be ignored on a global level, especially not in mergers and acquisitions.

Jemison and Sitkin (1986a) research was among the first to recognize that the acquisition process itself (the interactions between members of both organizations and

the problems and facilitating factors arising in the process) is a potentially important determinant of acquisition outcome. In response, the process perspective has arisen. This school retains the role of strategic and organizational fit but adds consideration of how aspects of the decision and integration process can affect the final acquisition outcomes (Jamison and Sitkin, 1986a). A number of scholars have since espoused a process view or addressed process-related issues (Jemison and Sitkin, 1986b; Haspeslagh and Jemison, 1991).

The culture, as mentioned above, seems to permeate many schools of thought in strategy, for example, the entrepreneurial school or the cognitive school. However, none of them can provide both the internal and external views of the firm's cultural dynamic.

Lawrence and Lorsch (1967) of the contingency school investigated the relation between organizational characteristics and their environment. They stipulated that an organization's economic performance is determined by its ability to meet integration and differentiation requirements according to their environment. An optimum course of action for a firm depends – is contingent – on the external and local conditions in which an organization is inserted. This represented an alternative to most assumptions from scientific management and shifted attention of organization scholars beyond internal dynamics to the external environment of an organization.

Strategy's resource-based view (Prahalad and Hamel, 1990; Barney, 1985) and product-market positioning (Porter, 1979, 1980) opened up perspectives on internal and external views of cultural risk to capture the essence of the firm's cultural dynamics. Such opening provides opportunity and compels combined research in strategic and risk managements. This, in turn, can help to theorize some strategy-based paths for cultural internal and external risk management.

2.2   CONTRIBUTION FROM STRATEGIC MANAGEMENT

Contributions from strategic management can help to articulate concepts that have previously gone undetected. Strategy's resource-based view (RBV) and product-market positioning open up internal and external perspectives. Viewed as internal strategic resource, culture, if it is not properly managed, can generate internal cultural risk to the firm (Pelled, Eisenhardt and Xin, 1999). External cultural risks can include foreign market product-market-positioning issues (Zou and Cavusgil, 2002). A unifying cultural risk management conceptual framework (Figure 2.2) suggests considering both "out there" and "in here" views of the firm:

Figure 2.2
Firm's internal and external cultural risks
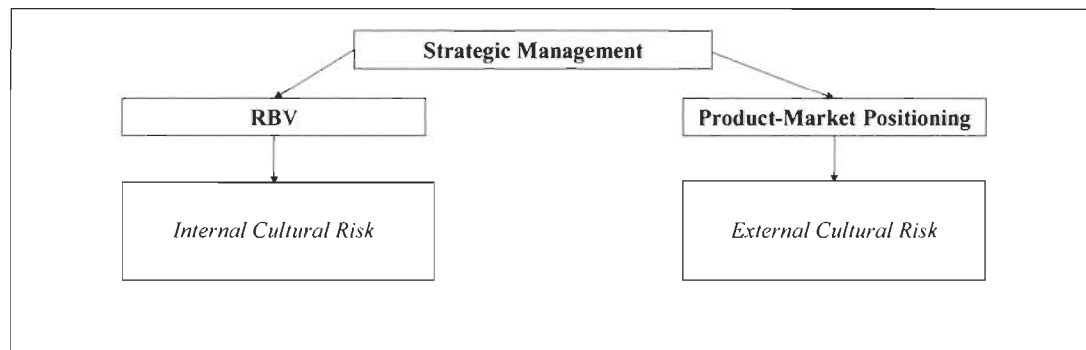
The attempt to integrate culture in strategic management is not new. The strategic management's institutional-based view suggests that culture is a substratum of institutional arrangements (Peng, Wang and Jiang, 2008; Hofstede, Van Deusen, Mueller and Charles, 2002; Scott, 1995; North, 1990). According to the institutional-based view model, strategic choices are not only driven by industry conditions and a firm's capabilities but are also a reflection of the formal and informal constraints of a particular institutional framework that managers confront (Carney, 2005; Chelariu,

Bello and Gilliland, 2006; Zhou, Tse and Li, 2006; Hill, 2007). Alternatively, institutions directly determine what tools are available as they struggle to formulate and implement strategy, and this helps them to create a competitive advantage (Ingram and Silverman, 2002). Culture, according to this view, is part of the informal institutions in the environment that underpin formal institutions (Redding, 2005). Although the numbers of scholars integrating the institutional-based view is constantly growing, the major shortcoming of this perspective is that it mostly focuses on emerging economies, and particularly on China.

There has also been a growing body of research in the neo-institutional theory where institutions are defined as cultural rules (Meyer, Boli and Thomas, 1987), rules and shared meanings …that define social relationships, help define who occupies what position in those relationships and guide interaction by given actors cognitive frames (Fligstein, 2001, cited by Lawrence and Suddaby, 2006). Lounsbury and Crumley (2007) define institution as sets of material activities that are fundamentally interpreted and shaped by broader cultural frameworks such as categories, classifications, frames, and other kinds of ordered belief systems. The field has drawn attention to the link between the individual organizational and broader field and societal environment.

This work is built on two well-established strategic perspectives: the resource-based view (RBV) and the product-market positioning with their cultural equilibrium based on Ashby's (1956) requisite variety principle where internal resource management variety meets the required external product-market cultural variety.

Since the early 1990s, a perspective-relevant debate in strategy has been driven by two opposite but not necessarily conflicting perspectives on how to acquire competitive advantage: either through the firm's positioning in the marketplace or by the firm's internal resources; a debate between Porter's (1979, 1980) activity-based

view and the resource-based view (RBV), inspired by Prahalad and Hamel's (1990) article on the core competencies of organizations.

According to Porter (1979, 1980), the superior performance of a company is derived from its competitive advantage in its unique product-market positioning in the industry's relevant marketplace, this, in terms of product-cost and market-differentiation. Such product-market positioning is based on the activities of the company operating in specific industries with specific value-chains. Going through the value-chain of organizational activities will add more value to the product and services than the sum of added costs of these activities, and thus, the company will gain marginally superior rent-value for that product or service. If these activities run efficiently, the company gains cost-competitive advantage on the product or service.

The resource-based view, a firm-internal strategic perspective, suggests that resources, dynamic capabilities, and competencies of the firm (Sanchez, 2001) help to achieve superior performance. Porter's product-market or external positioning, in comparison, attempts to clarify the understanding of the impact of a firm's external environment on performance.

Similarly, from a strategic management perspective, it is helpful to think that cultural risks can have two different perspectives: the first, a firm-internal cultural risk, that is the resource-based view (RBV) driven and related to firm's internal practices, values or norms, and the second, a firm-external cultural risk, that is product-market driven and related risks possibly mitigated by Ashby's requisite variety principle, where resource management would meet the required product-market cultures. The next section presents a review of pertinent writings on internal and external cultural risks.

2.3   INTERNAL CULTURAL RISKS

Building on strategy's resource-based view (RBV), the internal cultural risk includes the management of organizational culture inside organizations. Organizational culture can be characterized as the glue that holds organizations together (Goffee and Jones, 1996). Culture can support linkages between technology adoption and organizational growth (Chatman and Jehn, 1994); it can be a critical success factor in implementing manufacturing strategy (Bates, Amundson, Schroeder and Morris., 1995) and can play a crucial role in determining the success or failure of mergers and acquisitions (Weber, Shenkar and Raveh, 1996; Javidan, 2001). On a more micro level, researchers have found significant relationships between the "fit" of employees and the prevailing organizational culture and a number of important outcomes such as job commitment and turnover (O'Reilly, Chatman and Caldwell, 1991; Kotter and Heskett, 1992).

Social interactions shape all forms of human conduct within and between organizations and their partners. Regardless of professionalism and professed or assumed goal sharing or congruency, organizational members may not behave in ways that promote efficiency and effectiveness if doing so is inconsistent with their reference prevailing culture. Within any organization, there may be a variety of cultures shaped by characteristic differences in professional orientation, status, history, power, visibility, or other factors (Balthazard et al., 2006). Consider the following example that illustrates how an organization's culture can foment risk.

In the aftermath of the Columbia space shuttle accident, we learned that there were people inside NASA who were discussing critical information with each other, but not with senior decision makers. This life-saving knowledge might have saved the spaceship and its crew. Following the earlier Challenger accident, a nine-year study of NASA's standard operating procedures regarding risky decision-making – in which

technical anomalies were repeatedly considered to be of "acceptable risk" – showed that the organizational culture created an environment in which conformity to the rules led to fatal errors (Vaughn, 1996, 2003). The causes of the Columbia and Challenger disasters were not due to intentional managerial wrongdoing, safety rule violations or any type of conspiracy. Rather, the nature of NASA's organization was such that the decisions to launch Challenger and land Columbia were inevitable – and inevitable mistakes. NASA's organizational culture, routines and systems were designed to allow for a process of normalizing signals of potential danger. Thus, known technical problems become an operating norm and did not prevent NASA managers from giving the go-ahead to proceed with problematic operations (Vaughn, 1996, 2003).

This example, and others like the more recent public scandals, such as SNC-Lavalin or Bombardier, portray how elements of an organization's culture can lead to dysfunctional outcomes, even when those organizations are peopled with earnest and capable members.

In contrast, regarded as a firm's strategic resource, organizational culture, if well managed, is of a potential use for the organization and contains all elements that organizations can use in order to create value (Holden, 2002). For example, cultural diversity, one of the major elements of the organizational culture, viewed as a firm's strategic resource (Van Knippenberg, De Dreu and Homan, 2004; Holden, 2002; Boyle et al., 2012), relates to human resource management, a strategic function of organizations (Schuler and Rogovsky, 1998) enabling the organization to better perform.

Cultural diversity has been defined as the representation in one social system of people with distinctly different group affiliations of cultural significance (Cox et al., 1991). Cultural diversity management is relevant to individuals who are expatriated but also to those who come in contact with individuals from other national cultures in, say,

management team members. This internal view includes managerial roles in a multinational context, with a particular emphasis on global team management, as in multinational teams working on international projects.

In the international business literature, cultural diversity is often associated with conflicts, misunderstandings and low performance in organizations (Bivens and Lowell, 1966; Killing, 1983; Shenkar and Zeira, 1992). Cultural differences, if not properly handled, can lead to management frustration, costly misunderstandings, and business failures (Hoecklin, 1995). Hall (1959) highlighted that cultural differences are important enough to ruin a partnership that otherwise makes perfect economic sense.

Culturally diverse work groups have a higher level of conflict (Pelled, 1996), and less cooperation and cohesiveness (Jehn et al., 1999), and an inability to define common goals and aspirations (O'Reilly, Snyder and Boothe, 1993). Other studies explore cultural factors as an advantage in a business environment, on the condition that they are well managed (Thatcher and Jehn, 1998; Van Knippenberg et al., 2004). A multicultural organization is better suited to serve a diverse external clientele in a more increasingly global market. Such organizations have a better understanding of the requirements of the legal, political, social, economic and cultural environments of foreign nations (Adler, 1991).

Cultural diversity in management has been studied in both laboratory and field settings. In general, laboratory studies, grounded in the value-in-diversity perspective, have indicated that diversity within work groups increases their effectiveness (Cox et al., 1991; Watson, Kumar and Michaelsen, 1993). In contrast, field studies guided by social identity and related self-categorization have suggested that diversity is associated with negative performance outcomes (Pelled et al., 1999; Tsui, Egan and O'Reilly, 1992).

Cultural diversity management is particularly relevant to the strategic management since strategy formulation and implementation involve individuals at all levels and across all functional areas of management (Burgelman, 1983). Some curvilinear relationships between cultural diversity and firm performance can be observed in firms with specific strategic contexts. For example, Richard, Barnett and Chadwick (2004) demonstrated that firms with highly innovative strategic postures with high group heterogeneity were associated with higher productivity than firms with moderate group heterogeneity. However, it needs to be noted that the existing diversity-performance research does not offer a sufficient explanation to suggest that cultural diversity and performance have a simple, linear relationship. It shows that it is more complex than that captured by either rubric "greater diversity equals better/poorer firm performance." This is partly because management-level diversity studies usually focus on nonvisible types of diversity, such as the functional background and job tenure of top managers (Finkelstein and Hambrick, 1996).

The next section will present the internal cultural risk elements derived from the review of the cross-cultural management and international business literature.

2.3.1   Internal cultural risk elements

The internal cultural risk relates to the complex culture construct and may comprise many elements. These elements can manifest themselves severally. Hofstede et al. (2010) described manifestations of culture as symbols, heroes, rituals, and values, where symbols represent the most superficial, and values are the deepest manifestations of culture, with heroes and rituals in between.

- *Symbols* are words (language) but also gestures, pictures, or objects that carry a particular meaning that is recognized as such only by those who share the culture.

New symbols can be easily developed, and old ones can disappear; symbols from one cultural group are regularly copied by others;

- *Heroes* are persons, alive or dead, real or imaginary, who possess characteristics that are highly prized in a culture and thus serve as models for behaviour. Captain America and Mickey Mouse in the United Sates or Asterix in France are good examples of heroes;

- *Rituals* are collective activities that are technically superfluous in reaching the desired ends but are considered socially essential within a culture. Examples include ways of greeting and paying respect to others, as well as social and religious ceremonies. Rituals include discourse, or the way language is used in text and talk, daily interaction, and communication beliefs.

Hofstede et al. (2010) subsumed symbols, heroes, and rituals under the term practices. They are visible to the observer, but their cultural meaning is invisible and lies in the way these practices are interpreted by the insiders. When organizational participants interact with one another, they use common language, and rituals related to deference and demeanor (Singh, 2010).

Similarly, Schein (1985) suggested that culture has three levels, although they differ slightly from the Hofstede's model. Schein's levels range from visible artifacts to testable values and invisible assumptions.

- *Artifacts* are most visible and accessible cultural symbols in the physical and social work environments. To understand culture through artifacts lies in figuring out their meanings. Among the artifacts of culture are personal enactment (individual behaviour), ceremonies and rites, stories and rituals.

- *Assumptions* are the deepest and most fundamental level, the essence of culture. They are strongly held in an individual behaviour in a fashion that one would violate them unthinkably. Another characteristic of assumptions is that they are often unconscious. Individuals may not be aware of their assumptions and may be reluctant or unable to discuss them or change them. Assumptions guide behaviour and tell individuals how to perceive and think about things.

2.3.1.1   Values and the value-based approach

Both Hofstede and Schein have values in their respective models, but their meaning differs. To Schein, values are the second level of culture, lying in between artifacts and assumptions. Values reflect a person's inherent beliefs of what should or should not be. They are often consciously articulated, however, there may be a difference between a person espoused values (what the individuals say they value) and their enacted values (values reflected in the way individuals actually behave).

To Hofstede, values represent the core of a culture. Values are broad tendencies to prefer certain states of affairs over others and are acquired early in life. Values are implicit. They belong to the collective programming of the mind, a customary term for culture, discussed in the previous section of this study.

As values, more so than practices, are the stable element in a culture, social scientists have taken a logical step by attempting to identify what values are common basic problems worldwide, with consequences for the functioning of individuals within those societies. Inkeles and Levinson (1954) suggested that the following issues can qualify as common: the relations to authority, the relationship between the individual and society, the individual's concept of masculinity and femininity, and the ways of dealing with conflicts, including the control of aggression and the expression of feelings.

Hofstede et al. (2010) identified six differences in national value systems: individualism, masculinity, power distance, uncertainty avoidance, long-term orientation, and indulgence. These six basic problem areas listed in Table 2.2 represent the dimensions of culture:

Table 2.2
Definitions of the cultural dimensions by Hofstede

Dimension	Definition
Individualism versus collectivism	Degree of interdependence a society maintains among its members
Masculinity versus femininity	Preference in society for achievement, heroism, assertiveness and material rewards for success
Power distance differences	Degree to which the less powerful members of a society accept and expect that power is distributed unequally
Avoidance of uncertainty	Degree to which the members of a society feel uncomfortable with uncertainty and ambiguity
Long-term versus short term orientation	Degree to which the members of a society maintain some links with its own past while dealing with the challenges of the present and the future
Indulgence versus restraint	Degree to which a society allows relatively free gratification of basic and natural human drives

Source: Adapted from Hofstede et al., (2010).

As Table 2.2 indicates, the fundamental issue addressed by the Individualism dimension is the degree of interdependence a society maintains among its members. It has to do with whether people's self-image is defined in terms of "I" or "We". In individualist societies, people are supposed to look after themselves and their direct

family only, while in collectivist societies, people belong to 'in groups' that take care of them in exchange for loyalty.

A high score on Masculinity-Femininity dimension indicates that the society will be driven by competition, achievement and success, with success being defined by the "winner" or "best-in-the-field." This value system starts in school and continues throughout one's life – both in work and leisure pursuits. A low score (Feminine) means that the dominant values in society are caring for others and quality of life. A feminine society is one where quality of life is the sign of success and standing out from the crowd is not admirable. The fundamental issue here is what motivates people, wanting to be the best, or masculine, or liking what you do (Feminine).

The Power Distance dimension deals with the fact that all individuals in societies are not equal – it expresses the attitude of the culture towards these inequalities amongst us. Power Distance is defined as the extent to which the less powerful members of institutions and organisations within a country expect and accept that power is distributed unequally. It has to do with the fact that a society's inequality is endorsed by the followers as much as by the leaders.

The dimension Uncertainty Avoidance has to do with the way that a society deals with the fact that the future can never be known: should we try to control the future or just let it happen? This ambiguity brings with it anxiety, and different cultures have learned to deal with this anxiety differently. The extent to which the members of a culture feel threatened by ambiguous or unknown situations and have created beliefs and institutions that try to avoid these is reflected in the score on Uncertainty Avoidance.

The Long-Term Orientation dimension describes how every society has to maintain some links with its own past while dealing with the challenges of the present and future, and societies prioritise these two existential goals differently. Normative societies which score low on this dimension, for example, prefer to maintain time-honoured traditions and norms while viewing societal change with suspicion. Those with a culture which scores high, on the other hand, take a more pragmatic approach: they encourage thrift and efforts in modern education as a way to prepare for the future.

Finally, the Indulgence stands for a society that allows relatively free gratification of basic and natural human drives related to enjoying life and having fun. Restraint stands for a society that suppresses gratification of needs and regulates it by means of strict social norms.

A more recent alternative to Hofstede's dimensions was proposed by Schwartz and colleagues, which incorporates three dimensions at the country level: conservatism/autonomy, hierarchy/egalitarianism, and mastery/harmony (Schwartz, 1997).

The GLOBE model established by House et al. (2004) expanded the Hofstede's six value dimensions to nine. It maintained the labels Power Distance and Uncertainty Avoidance. It split Collectivism into Institutional Collectivism and In-group Collectivism, and Masculinity-Femininity into Assertiveness and Gender Egalitarianism. Long-term Orientation became Future Orientation. It added two more dimensions: Humane and Performance Orientations. The GLOBE researchers measured culture in terms of the practices and values that exist at different levels of industry and complete the model by examining complex effects of culture on leadership, organizational effectiveness, economic competitiveness of societies, and the human condition of members of the societies studied.

One of the critical notes about the GLOBE research project is that the questionnaires were designed based on a U.S. concept of leadership (Minkov, 2007, 2008). Hofstede (2006) criticized GLOBE for having formulated the questions in researchers' jargon instead of using the respondents' daily terminology, making it difficult for respondents to guess what answers meant.

Overall, the value-based approach is built on a trait perspective on behavior. Despite the vast influence of this approach, the recent research (Leung and Morris, 2015) reveals other elements of the construct of culture that demonstrate their usefulness in accounting for cultural differences in the behavior of managers, employees, and consumers.

2.3.1.2 Other elements

First, there are schemas. Individuals with the same value priorities may exhibit different judgments and behaviors as a function of the schemas conferred by their cultures. Culture is viewed as the cognitive lenses or templates that guide people's interpretations, expectancies, and responses (Gioia, 1986; Gioia and Manz, 1985). Individuals look at the world through cultural lenses, act coherently and coordinate with others by following cultural scripts.

The schema approach greatly differs from the value (trait) approach regarding predictions about the generality and stability of cultural patterns of behavior because schemas exert an influence on behavior only at moments when they are activated, or put into use as a filter for one's information processing (Vaghely and Julien, 2010). Its activation depends on many factors, such as accessibility, applicability, and judged appropriateness (Higgins, 1996). Cultural schemas can be primed indirectly by images,

sounds, or even smells and tastes reminiscent of a culture, even though these stimuli have no semantic connection to the schemas (Leung and Morris, 2015).

Then, there are norms. Compared with value and schema approaches based on the individual's subjective beliefs, the norm-based approach locates the source of cultural influence in the surrounding group and the individual's perceptions of it (Leung and Morris, 2015). It roots in the social psychology's group assimilation studies (Sherif, 1936; Asch, 1956) where individuals conform their thoughts to a group norms or seek to avoid negative judgement by others. Norms are frequently confused with best practices. They include but are not limited to business etiquette (bows, handshake) and gaffes (dos and don'ts). As a result, its negative impact has long been underestimated and cross-cultural management scholars have too often been delegated the role of court jester. Meanwhile, recent studies (Buchtel and Norenzayan, 2008; Norenzayan et al., 2002) have found that vast differences in judgment and decision-making can arise from norm-following.

This work gives more details about existing elements and hopefully to identify some new ones. Additionally, it identifies which cultural element represents the highest risk of the firm. Some definitions and clarifications of the firm's external cultural risks are examined below before the presentation of research questions.

2.4   EXTERNAL CULTURAL RISKS

A firm's external cultural-risk management is focused on risks related to the product-market positioning generated at the market level where a company competes. The external cultural risk is the probability and its cost consequences that a business will go wrong as a result of a lack of understanding about performing in a new, culturally foreign market (Firsova et al., 2015). It relates to the dynamics of product

packaging, distribution, and branding in international markets (De Mooij, 2010; Usunier and Lee, 2009; Kotabe and Helsen, 2009; Theodosiou and Leonidou, 2003). The external cultural risk occurs when a particular product or service is introduced to a new market without knowing a market's context, way of doing business, or how a product or service will be perceived by the customers. Ultimately, the external cultural risk may lead to productivity and efficiency losses, which emerge as a result of the management's inability to operate effectively in a foreign market environment.

The examples come from the industry, such as the Home Depot commercial flop in China. A strong economy in China had created a middle class with money to spend, which led to a housing boom. Looking to expand internationally, Home Depot spotted a big opportunity in the Chinese market. However, all of its efforts failed largely because of considerable cultural problems. Unlike North America where labor costs are high, labor is cheap in China and so people tend to hire contractors to do everything. Therefore, the cheap labor do-it-for-me culture in China eliminated the do-it-yourself culture that Home Depot was built on.

Like Home Depot, the online auction eBay saw a very attractive market in China. Its global strategy is to grow through acquisitions. The company entered the Chinese market in 2004 by purchasing a local online trading company called Eachnet.com – which enjoyed a 90% market share in China at the time. eBay took over the site, redesigned it to conform to eBay's look and functionality, then spent millions of dollars on advertising to maintain the previous site's market share. Meanwhile, Alibaba, the business-to-business auction site and eBay's major rival in China, decided to defend its turf by launching a competing consumer auction site. They called it Taobao – which was Chinese for "digging for treasure." The company knew one critical thing: in China, goods are bought and sold based on personal bonds and mutual obligation. The Chinese call this guanxi. Taobao's auction platform offered guanxi in the form of a chat feature that allowed buyers and sellers to get to know each other. On

Taobao, buyers spent an average of 45 min using the instant messaging to ask sellers about themselves and their products before purchasing. eBay did not appreciate the importance of guanxi and had no mechanism for encouraging it. Consequently, in two years, their market share shrank from 90% to 10%, and the company pulled out of China.

A product-market positioning issues have been widely discussed in the international business literature. Originating from the contingency theory concept of fit (Venkatraman and Camillus, 1984; Parnell, Wright and Tu (1996), the research has spread to international business literature focusing on how a firm should approach a country market successfully (De Mooij, 2010; Usunier and Lee, 2009; Kotabe and Helsen, 2009; Theodosiou and Leonidou, 2003; Zou and Cavusgil, 2002). The term international market strategy has been used broadly to refer to any involvement outside the firm's home market.

The first international market strategy can be traced in foreign markets entry mode research, which investigates how a firm should successfully compete abroad. It starts with a degree of resource commitment to the foreign market (Hill, Hwang and Kim, 1990), such as the firm's export and contractual agreements (e.g. licensing), and ultimately moving towards strategic alliances, joint ventures, or foreign subsidiaries (Pan and Tse, 2000). It also explores the risks that a firm may bear in the host country (Hill et al., 1990; Hill and Kim, 1988) and the level of control a firm can exercise over its foreign activities (Anderson and Gatignon, 1986).

The stages theory of internationalization was developed by Johanson and Vahlne (1977) and was based on a study of the pattern of internationalization of Swedish firms. The study argued that the perceived risk associated with international expansion leads firms to enter proximate, more familiar markets first. They then gradually expand into more distant markets as experience is gained in operating in

international markets. Alternatively, the firm's operations evolve over time as the firm gains experience and expands into international markets.

Another stream of thought looks at consumption patterns. It deals with the influence of culture on consumer behaviour. The international business literature provides a method of inquiry that favors the discovery of significant differences in how consumers behave across cultures and offers insights into the way consumers invest meaning into their purchases. Existing business literature contains four separate perspectives of underlying consumer behaviour theories: the global perspective, the imported perspective, the ethic consumption perspective, and the cultural meaning perspective (Usunier and Lee, 2009).

The global perspective assumes consumers to be universal (Levitt, 1983). This perspective misses the specific consumer insights from particular markets. In the imported perspective, offerings are tailored to the local markets, but behavioural intention models are assumed to be universally applicable (Lee, 2000; Lee and Green, 1991). The ethnic consumption perspective allows the researcher to identify a small ethnic target to promote ethnic products, such as ethnic food or restaurants. Bouchet (1995) described ethnicity as a matter of shared beliefs about a common ancestry. Finally, the cultural meaning perspective applies specific theories to specific consumers.

As a consequence, some contributors looked at the product element for foreign markets. Should products be adapted for foreign markets or standardized? Perhaps the most developed view of international market strategy is the standardization-adaptation dimension. A standardization strategy (Jain, 1989; Levitt, 1983; Ohmae, 1985) views a firm as pursuing a global markets' strategy by applying the uniform marketing mix elements (product design, pricing, promotion, and distribution) across different

national markets. According to this view, customers in distant parts of the world tend to exhibit similar preferences and demand the same products.

In contrast, an adaptation strategy adapts marketing mix elements to the needs of each market. Proponents of adaptation (Rugman and Verbeke, 2004) believe that markets can be sensitive to the local culture, and thus, marketing must be done to conform to local traditions.

2.4.1 External cultural risk elements

Hofstede et al. (2010) distinguished three kinds of cultural differences between countries: identity, values, and institutions, all three rooted in history (see Fig. 2.3 on the next page):

Figure 2.3
Sources of differences between countries
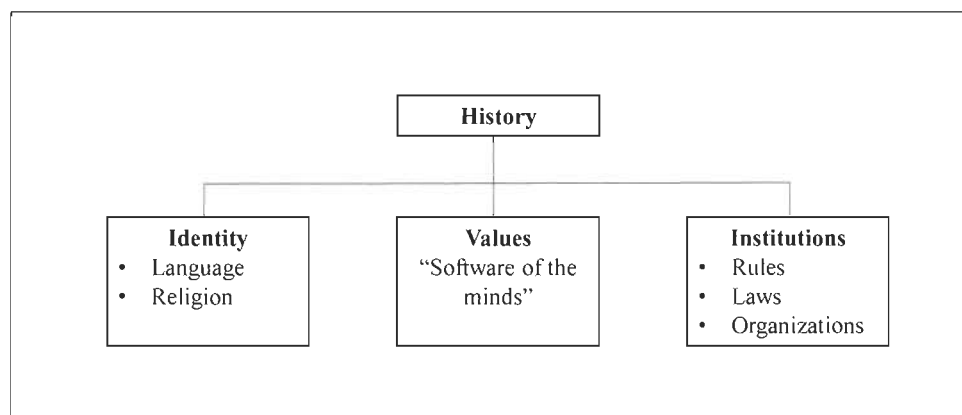
Source: Adapted from Hofstede et al. (2010).

Identity is rooted in language and/or religious affiliation and is visible and felt both by the holders of the identity and the environment that does not share it. Identity

is explicit and can be expressed in words such as a woman or a Canadian citizen. Identity differences are rooted in practices (shared symbols, heroes, and rituals), not necessarily in values.

Values distinguish the members of one group or category of people from others. Groups across countries that fight each other based on their different identities may very well share basic cultural values. The Catholics and Protestants in Northern Ireland or the Catalan and Castilian speakers in Spain are good examples.

Countries also differ in terms of their historically grown institutions, which comprise visible rules, laws, and organizations. To Hofstede, a country's values are strongly related to the structure and functioning of its institutions and much less related to differences in identity.

Institutional distance, as an indicator of cultural distance, has been used extensively in the international business literature. Institutional distance (Solomon and Wu, 2012; Kostova, 1999) describes institutional differences across countries. When institutions are similar across countries, for example, with the United Kingdom and Australia, the institutional distance is relatively small, even if the geographical distance is great. When institutions differ substantially (e.g., with China and India), the institutional difference is great.

Usunier and Lee (2009) described the cultural elements with influence on consumer behavior in foreign market:

- Hierarchies of needs, which shape demand across product categories. Culture influences Maslow's hierarchy of needs on at least two levels: psychological

needs (the lowest or the most fundamental level), and safety needs, such as being sheltered and protected from dangers in the environment;

- Culture-based values, especially individualist or collectivist orientations, which influence purchasing behaviour and buying decisions;

- Institutions, which influence consumer behaviour, given that most consumption is rooted in social life, a large part of which is institutionalized.

Both Hofstede and Usunier and Lee (2009) have values and institutions in their respective models. To Schein, values are the second level of culture, lying in between artifacts and assumptions. Values reflect a person's inherent beliefs of what should or should not be. They are often consciously articulated, however, there may be a difference between a person espoused values (what the individuals say they value) and their enacted values (values reflected in the way individuals actually behave).

2.4.1.1 Other elements

The economy literature relates to local legal practices and political regime as elements of cultural market-related risk. These elements are often incorporated into the country risk analysis, where country risk refers to the volatility of returns on international business transactions in consideration of several facts associated with a particular country (Feinberg and Gupta, 2009; Timurlenk and Kaptan, 2012; Coface, 2016).

Therefore, there are two different views on cultural risks. The external-cultural-risk view analysis can help to fuel strategic decisions at the market level. It emphasizes where a company should compete, and what's culturally important when it does

compete there. Internal analysis, like core competences, for example, is less based on foreign market specificities and more on specific internal resource leveraging, organizational culture being one of them. It emphasizes how a company should compete. Since cultural risk cannot entirely be avoided it is important to consider how best to reduce it.

The two views require different approaches to perform analysis to mitigate the risk. This study primarily explores the internal and external elements of cultural risk. A secondary objective is to measure the impact of cultural risk and to explore the practices to manage such risk. In the next section, methodology, we formulate the research questions that this research will attempt to answer.

CHAPTER 3 - OPERATIONAL FRAMEWORK

3.1   RESEARCH QUESTION

Culture as a risk driver has not been fully explored. More exploratory research in this area will help to better understand a multifaceted construct of culture to address its influence. The main research question is:

- What are the components of a firm's cultural risk?

Complementary question is:

- What is the importance (impact) of cultural risk compared with other risks?

In view of the main research question and because of the exploratory nature of this research, we chose the inductive method in social constructivist paradigm where specific observations are used to construct general scientific principals. To address the main research question, we will use qualitative techniques (semi-structured interviews) to explore the components of cultural risk. We will also use quantitative data from a structured questionnaire to address the complementary research question and to add to the findings resulted from the qualitative data. Based on the findings of the study, we will then suggest unifying conceptual framework to help manage cultural risk. Some clarifications are recalled to better understand the choice of this approach.

3.2   RESERCH METHOD

Social research can be conducted in different ways. There are two methods of scientific enquiry namely hypothetico-deductive method and inductive method. Hypothetico-deductive method starts with hypothesis formulation from generalized principle or theory. This hypothesis is subjected to verification by deduction and comparison with available data. Then the hypothesis is further tested by series of step by step procedures finally leading to either adoption or rejection of formulated hypothesis. The inductive method begins with specific observations and then analysis of data leading to the formulation of general principle.

In light of this, and because of the exploratory nature of the research, this work will use the inductive method.

3.3   RESEARCH PARADIGM

Similarly, social research traditionally falls into two broad research families, commonly referred to as quantitative and qualitative research (Robson, 2011). As the label suggests, quantitative research typically relies on collecting data in numerical form, while qualitative research data are typically non-numerical, often in form of words. Quantitative and qualitative research have traditionally been considered as different research families (Kuhn, 1962) in the sense of distinctive belief systems carrying with them clear philosophical assumptions. The quantitative research family has been historically linked to positivism or post-positivism paradigm, where the researcher and the researched person are independent of each other. Positivist knowledge is based on natural phenomena and their properties and relations, interpreted through reasons and logical observation. Positivist thinkers adopt scientific method as a means of knowledge generation. Hence it has to be understood within the framework of the principles and assumptions of science. Positivism is aligned with the

hypothetico-deductive model of science that builds on verifying a priori hypotheses and experimentation by operationalizing variables and measures.

Social constructivism paradigm asserts that social properties are constructed through interactions between people, rather than having a separate existence (Robson, 2011). The paradigm believes that reality is multi layered and complex and a single phenomenon is having multiple interpretations. In social constructivism, the nature of knowledge is the individual reconstructions coalescing around consensus, the knowledge is accumulated through more informed and sophisticated constructions, and the control is shared between inquirer and participants (Denzin and Lincoln, 2000). Social constructivism is aligned with the inductive model of science.

Cultural studies are primarily the study of contexts where contexts are produced in social practice (Denzin and Lincoln, 2000). The emphasis is on deriving an understanding of how people perceive and interpret the phenomenon in the context of the social world. Exploring cultural risk in the context seems to be difficult to capture with positivist paradigm. A social constructivism paradigm, offering a more social angle, is the chosen one for this study.

Social constructivism of the non-numerical qualitative approach offers a detailed view of the complex construct of culture, an essential element of cultural risk. According to Creswell (1998), qualitative research is:

> An inquiry process of understanding based on distinct methodological traditions of inquiry that explore a social or human problem. The researcher builds a complex, holistic picture, analyzes words, reports detailed views of informants and conducts the study in a natural setting.

The qualitative data collection and analysis will be followed by a phase of quantitative data collection and analysis. Using both approaches is a common practice and non-controversial (Robson, 2011). Combining qualitative and quantitative approaches generated many benefits to the research. Qualitative research is very much concerned with the aspects that cannot be quantified and is, however, not much concerned with the numerical representativity. In quantitative research, the data can be quantified. In this research, quantitative data from a structured questionnaire will be used in the second phase of the study to strengthen the findings of the qualitative data and to address the complementary research question. Additionally, using more than one method permits triangulation and enhances the validity of findings (Robson, 2011). It also produces a completer and more comprehensive picture of the cultural risk.

3.4 RESEARCH DESIGN

Social research design can be divided into two major types, referred to as fixed and flexible designs (Robson, 2011). Research design is viewed as the logical sequence that connects the empirical data to a study's initial research questions and, ultimately, to its conclusions (Yin, 2014). Fixed design of the study is predetermined at an early stage of the research process. The experiment and the survey are the prime examples of this type of research. Flexible design includes an ethnographic approach, a case study or a grounded theory. The main research question calls for qualitative approach, therefore flexible design fits well to better understand the complex and puzzling elements of cultural risk.

In such a manner, we initially decided to use a case study. A case study of the qualitative comparative analysis (QCA) using Boolean algebra to implement principles of comparison is often used by researchers engaged in the qualitative study. By formalizing the logic of qualitative analysis, QCA makes it possible to bring the logic and empirical intensity of qualitative approaches to studies that embrace more than a

handful of cases – research situations that normally call for the use of variable-oriented, quantitative methods. Boolean methods of logical comparison represent each case as a combination of causal and outcome conditions. These combinations can be compared with each other and then logically simplified through a bottom-up process of paired comparison. was relatively discreet about the selection process of variables. The researcher can use the deductive approach and propose the variables identified by the literature or the inductive approach in which the variables emerge from the case study (Ragin, 1987).

However, when we started interviewing people and the first data emerged, we realized that the profile and extensive professional experience of our respondents would be better used with a grounded theory by Glaser and Strauss (1967). To leverage from their background and knowledge, we chose a grounded theory where theory was derived from data gathered and constantly analyzed through the research process. The constant comparative method of coding and analysis was first described by Glaser and Strauss (1967) and subsequently elaborated by Glaser (1978). Table 3.1 in Appendix B describes the sequence of events the researcher undertakes:

In Table 3.1, incidents are defined as text units, comprising the individual, self-contained topics or subjects in interviews' documents. The first four steps are iterated until the theory emerges from the data. It is important to highlight the essential procedural element within the grounded theory design - the principle of theoretical sampling.

It demonstrates a change in the logic of the method, as Glaser (1978) highlighted: "Grounded theory research involves alternating between inductive and deductive logic as the research proceeds ... theory [development] is inductive: a theory emerges after data collection starts. Deductive work is used to derive from induced codes conceptual guides as to where to go next for which comparative group or subgroup, in order to sample for more data to generate the theory." This is shown in Figure 3.1 below:

Figure 3.1
The theory development path in the grounded theory
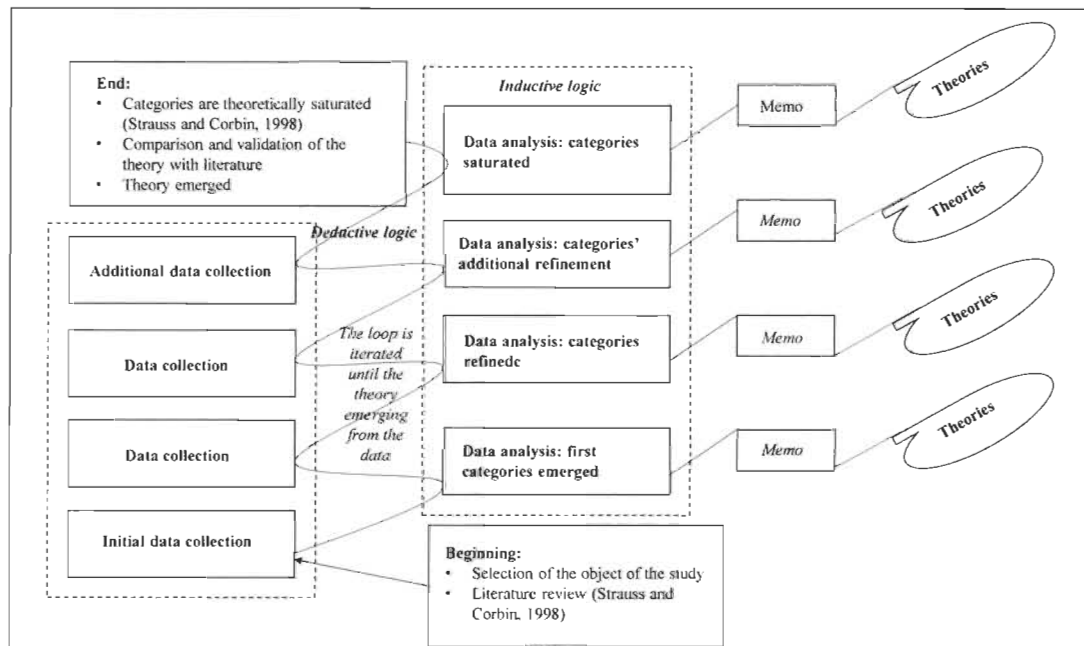
Source: Adapted from Glaser (1978).

Additionally, the grounded theory design is more heuristic (Denzin and Lincoln, 2000) compared with formulaic procedures of other designs. The method, while flexible, is systematic and coordinated, and is particularly useful in novel areas of research (Robson, 2011). Furthermore, grounded theories, because they are drawn from data, are likely to offer insight and provide a meaningful guide to action (Strauss and Corbin, 1998) to the professional world; this research approach is focused on problems and issues of direct relevance to the business world.

One of the objectives of the study was to allow the theory related to cultural risk management to emerge from the data. By 'theory' we mean a set of well-developed concepts related through statements of relationship, which together constitute an integrated framework that can be used to explain the phenomenon (Strauss and Corbin, 1998). The theory definition adapted for use in this study is Whetten's (1989) four

component framework where a theory comprises (1) concepts, which are linked in (2) relationships for which the theory provides (3) explanations, albeit within its (4) boundaries. A theory must address each of the following:

1. *What* factors, variables, concepts, should be included in the theory? They are judged by their comprehensiveness and parsimony;

2. *How* are the concepts related? This introduces the relationships between the what objects and both (objects and relationships), form the domain or subject of the theory;

3. *Why* are the factors behaving like they do? This aspect of a theory supplies the plausible, cogent explanation for why we should expect certain relationships in the what and how data; and

4. *Who, where, when* are the temporal and contextual factors that set the limit on the theory's range determine how generalizable it is.

The data were collected and analyzed during the field work, particularly in the actions, interactions and processes of the interviewees involved. In grounded theory, data collection, analysis, and eventual theory stand in close relationship to one another, and a researcher does not begin a study with a preconceived theory in mind (Strauss and Corbin, 1998). Consequently, we began the research with a scope of the study, which is the cultural risk management. Our main research question focused on understanding by the interviewees of the concept of cultural risk and its components.

3.5   DATA COLLECTION

A theory in the grounded theory design emerges when the initial data collection starts. The first "slice of data" was gathered and scrupulously analyzed, the first categories emerged, more focused data were needed to add depth to refine the categories. When the relationships between categories were formally subsumed into theoretical framework, more and more focused data were needed to add depth to this first theory to make it more expressive. These steps were iterated until the saturation achieved. While coding and comparative analysis were used by several methods (e.g., case study), the continuous selection of the next "slice of data" for its potential theoretical contribution was specific to the grounded theory method.

Perhaps the most critical aspect of any research is the choice of its participants. The reliability and statistical power of the findings of a study depend on choosing this element well. The following section will explain the choice of the respondents of this study.

3.5.1   Recruitment

Respondents of this study were selected based on three characteristics: (a) they were judged to be decision makers, (b) they were judged to have significant managerial experience acquired in international operations, and (c) they had potential to add the "slices of data" needed to firm up on propositions or to provide new insights.

Research participants were men and women of different nationalities and ages ranging from 35 to 65. For more details of respondents' profile, see section respondents' profile in chapter 4.

3.5.2   Level of analysis

The level of analysis of this study relates to the way the initial question is defined. The level of investigation specifies whether it focuses on the collection of data about individual people, groups, organisations, movements, institution countries, and so forth (Neuman, 2006; Zikmund, 2003), as presented in Table 3.2:

Table 3.2
Level of analysis

Level of investigation	Type
Country level	Multiple (international)
Organizational level	Large, small and medium size enterprises (SMEs)
Individual level	Managers, decision makers

Source: Adapted from Yin (2014).

At the country level, multiple countries were investigated. Canada, USA, France, Mexico, Iran, Brazil, China, and Russia were among the countries of this study. At the organizational level, we included the companies of different sizes operating internationally: the large, medium, and small firms were examined. At the individual level, we recruited the firms' managers as they were decision makers for the firm's international expansion operations (e.g., general managers, business development managers, sales managers, global operations managers), a vital factor that contributed to the success of this study.

We prioritized industries in which culture affects consumers' product preferences. For example, industries where products carry country-specific quality associations (food, wine, textile or footwear, linguistic content). Culture is a crucial consideration for any consumer good or media company but is much less important for

a cement or steel business. This limitation was derived from a preliminary discussion in October 2016 with a manager of the Canadian steel company operating abroad.

Overall, we interviewed 34 managers in the middle of their careers, men and women, from both corporations and SMEs. Most respondents were interviewed twice. The first 15 interviewees were recruited in the researcher's professional network. Each participant was sent a letter describing the study in detail. Of the 20 respondents, 15 became research participants, and five declined to participate for personal reasons. To increase the number of respondents, we then used the snowball technique where the interviewees recommended other interviewees. We understand that there is a degree of error as we are dealing with a selected sub-sample of a population and not the entire population.

3.5.3   The conduct and tools

3.5.3.1   Preliminary interviews

Since we entered the field having a general notion about cultural risk, a good way in which to begin was to do some preliminary interviews during a residency in a company in 2016. To begin with, an interview canvas based on the literature review was used to structure an interview with a potential candidate. This initial study pursued to find out what people do, think, feel or believe about the cultural risk.

We interviewed 5 managers during our stay in residence. These preliminary interviews were more like conversations than formal events with predetermined response categories. Kahn and Cannell (1957) described interviewing as "a conversation with a purpose." Interviewing varies in terms of a priori structure and in the latitude the interviewee has in responding to questions. Patton (2002) classified

interviews into three general categories: the informal, conversational interview; the general interview guide approach; and the standardized, open-ended interview. Qualitative interviews typically are much more like conversations than formal events with predetermined response categories.

It seemed necessary to us to frame a research question in a manner that would provide the flexibility and freedom to explore a phenomenon in depth. Thus, the initial question started out broadly: "Tell me about your international experience." The initial question's objective was to "give voice" to respondents. Specifically, it meant hearing what respondents have to say about their experience, seeing what they do, and encouraging them talking.

Additionally, these 5 preliminary interviews were supplemented with gathering and analyzing documents and notes. The review of documents is an unobtrusive method, rich in portraying the values and beliefs of participants in the setting (Marshall and Rossman, 2006). Minutes of meetings, announcements, formal policy statements, public records, letters, and so on were all useful in developing the structure of the future interviewees' canvas. For example, briefing notes of a memorandum of understanding agreement with an international partner of a company "X", was a testimony evidence of participants' values and beliefs' differences.

Overall, these preliminary discussions during our stay in residence have significantly contributed to the understanding of the research problem. They also clarified the information and data needed to be collected and helped to develop specific research questions and the final interview grid.

3.5.3.2 *Field interviews*

The field interviews started in 2017 and lasted for 24 months. The preliminary interview's grid became progressively narrowed and more focused during the research process as concepts emerged and the interrelationships were discovered.

Through the focused semi-structured interviews, we interviewed 34 executives of the firms operating internationally to identify the initial elements of the construct of cultural risk. All interviews were conducted by the researcher. We met 8 executives in person; 26 interviews were conducted over the phone or skype. To facilitate the interview, we sent a list of questions in advance. By sending the questions in advance, rapport/trust with respondents was established, which facilitated their willingness to become further involved in the research. In the email, we thanked them for their time and explained the purpose and the conduct of the study.

In the initial meeting, participants were asked to share their international experience. The second question followed the respondent's answer, and it then became progressively narrowed and more focused during the interview process as some key concepts started to appear. Probing questions—such as "Could you be more specific?" or "What exactly does that mean?"––were asked to clarify something that had already been said or to learn more detail about a topic. As some key concepts appeared during the conversation, paraphrasing questions were used to check and clarify understanding.

Several back-and-forth visits were necessary to collect data. The data were examined and systematically analysed after each visit. The categories that started to emerge and take shape served as prototypical examples of central tendencies later developed central categories about the cultural risk. We were gathering information until we reached diminishing returns and we were not adding to what we already had.

The data comprised more than 75 h of recordings, which documented more than 50 h of interviews, and 25 h of follow-up interactions with participants.

3.5.4 Ethical considerations

All interviews were recorded and transcribed verbatim. We assigned each participant with a number in place of his or her name and removed any information that would identify individual respondents. All respondents were informed that the interviews were confidential and that they had the right to withdraw from the process at any time. The University of Quebec in Trois-Rivieres granted ethical approval for this study, a copy of the ethics certificate is attached in Appendix E.

3.5.5 Questionnaire

Based on an investigation of the initial elements of cultural risk, we retained the relevant variables to proceed with the structured questionnaire to complement the findings and to address the complementary question. These questions were used to measure the risk influence using the operational definition of risk, which is R (risk) = L (likelihood) × I (impact) (Schuyler, 2001). In the first section of the questionnaire, we asked the respondents to name three major risks associated with international development, which allowed us to assess the overall awareness and perception of cultural risk.

In the second section, we enumerated the risk factors associated with international operations identified in the literature and asked the participants to (1) indicate whether the risk was relevant to their business operations, (2) indicate the likelihood of occurrence of such risk, and (3) to assess the impact of the enumerated risk on their company's performance on a continuous rating scale of 10 cm long. To

avoid the error of central tendency, we decided not to display the numbers from 0 to 10 on the scale. Instead, participants were asked to draw an "X" on the scale where it best indicates their assessment, as such:

Example: In your organization, the off-site activities are:

X

├───┤

Not at all established   Very well established
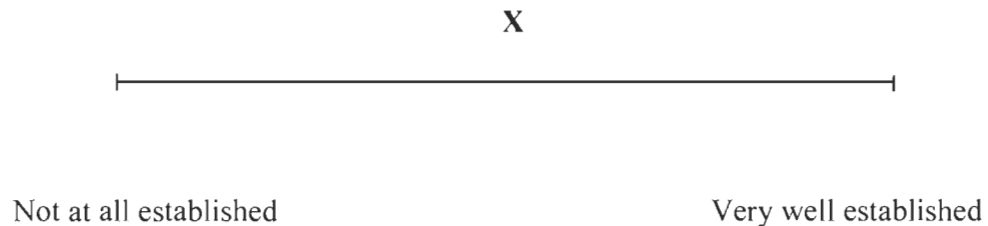
3.5.6   Research validity

By producing a detailed, in-depth analysis of the respondents' answers, this research revealed the complexity of the cultural risk. Yet, the important question remained: how was validity assured? According to Rubin and Rubin (1995), qualitative researchers judge the credibility of their research by how the research demonstrates transparency, consistency coherence, and communicability. With respect to transparency, three steps were taken:

1. *Literature review.* A detailed literature review was conducted on culture, risk, and risk management to assembly the elements and verify that the subject has not been fully covered elsewhere;

2. *Field notes.* During and after each interview, detailed field notes were taken;

3. *Transcripts.* The individual interview transcripts, field notes and memo writing were all coded after each interview and constituted data for this research study. That way the context was not lost during data analysis.

Consistency was accomplished through the process of inductive coding. According to Strauss and Corbin (1998), coding represents the operations by which data are broken down, conceptualized, and put back together in new ways. It is the central process by which theories are built from data. Once codes are developed, they are grouped at a higher, more abstract level termed categorization. Categories are generated through the same analytical process of making comparisons to highlight similarities and differences used for coding. Categories provide the means by which theory can be integrated (Strauss and Corbin, 1998). More details on coding are available in the data analysis section on p.129.

With respect to communicability, we used in-depth interviews to allow for "prolonged engagement" (Lincoln and Guba, 2000) with respondents. By interviewing the same person more than once and interviewing respondents for an extended period of time, ideas, and themes of how they interpreted their context began to emerge more fully. To ensure communicability of this thesis, each individual interview lasted from 60 to 90 min.

Lastly, to ensure trustworthiness of the data, we relied on the process of triangulation, the use of multiple data sources converging on the same phenomenon. To guard against the concern that a study's findings might simply be an artifact of a single method, single source, or single investigator's biases, we compared and cross-checked the consistency of information derived at different times and by different means. It entailed one or more of the following: (a) comparing questionnaire data with interviews' data, (b) checking for the consistency of what people said about the same thing over time, and (c) comparing the perspectives of people from different

environments. Specifically, the last point means triangulating SME manager views, global corporation manager views, CEO, board member and intermediate level manager views, and views expressed by Canadian, Mexican, Iranian, French and Russian managers. As a result, different kinds of data gave us different views of vantage points from which to understand a category and to develop its properties.

At the level of generalization and external validity, it is important to specify that since the research is exploratory by nature, it does not make any claims of truth or generalizability. Thus, we are not looking for a statistical generalization but for an analytical generalization of this study.

Additionally, since the interviewer in a qualitative interview takes a very active role in determining what data are collected, there is a higher probability that he or she may inadvertently bias the results of the study. Those biases will be described in detail later in this work, see section limitations on p.132.

3.6   DATA ANALYSIS

3.6.1   Method and tools

Analysis in grounded theory begins early. It is an iterative process by which the researcher becomes more and more "grounded" in the data to develop concepts or models of the phenomenon being studied (Denzin and Lincoln, 2000). We used the content analysis to analyze transcripts. The content analysis is a method used to determine the presence of certain words, themes, or concepts within the collected qualitative data (Krippendorff, 2004).

We first analyzed the qualitative data resulting from the five preliminary interviews. Starting with listening to all data repeatedly to achieve immersion and obtain a sense of the whole, we then transcribed the data and read it word by word to derive the preliminary codes. First, by highlighting the exact words from the text that appear to capture key thoughts or concepts. Next, by making notes of the first impressions, thoughts, and initial analysis. The interpretation of the preliminary interviews helped us to clarify the research problem and develop the final version of the interview grid for the field interviews.

With the field interviews, we started again with listening to the recordings, but this time with the following questions in mind: were there similarities/differences between recordings? Were there similar ideas that cut across each of the recordings? When were the ideas similar/different? What were the initial impressions and how have they been substantiated and unsubstantiated? Was there a central idea with a series of subplots or was it more like a series of ideas and thoughts described by the respondents? Answers to these questions (which eventually led to more detailed questions) were highlighted in the margins of the transcripts when we started writing them. This exercise helped boosting analysis early in the process.

As the process of coding continued with the field interviews, labels for codes emerged that were reflective of more than one key thought. They came directly from the text and then became the initial coding scheme. Codes were then sorted into categories based on how different codes were related and linked. These emergent categories were used to organize and group codes into meaningful clusters. Next, definitions for each category, subcategory, and code were developed.

With the help of a software program NVivo, we then coded data to analyze the presence, meanings and relationships of certain words, themes, and concepts. The objective was to identify categories and concepts that emerged from the text. In a

process called "open coding," we identified potential themes by pulling together examples from the text. A starting point was searching for patterns, insight, or concepts that seemed promising. They emerged as we manipulated the data, for example by juxtaposing data from two different interviewees.

The analysis of the data collected in grounded theory involves three sets of coding: developing categories of information (open coding), interconnecting the categories (axial coding), and selective coding building a story that connects the categories (selective coding) (Denzin and Lincoln, 2000; Creswell, 1998; Strauss and Corbin, 1998). It ends with a discursive set of theoretical propositions (Creswell, 1998). Table 3.3 below summarizes this:

Table 3.3
Coding in grounded theory
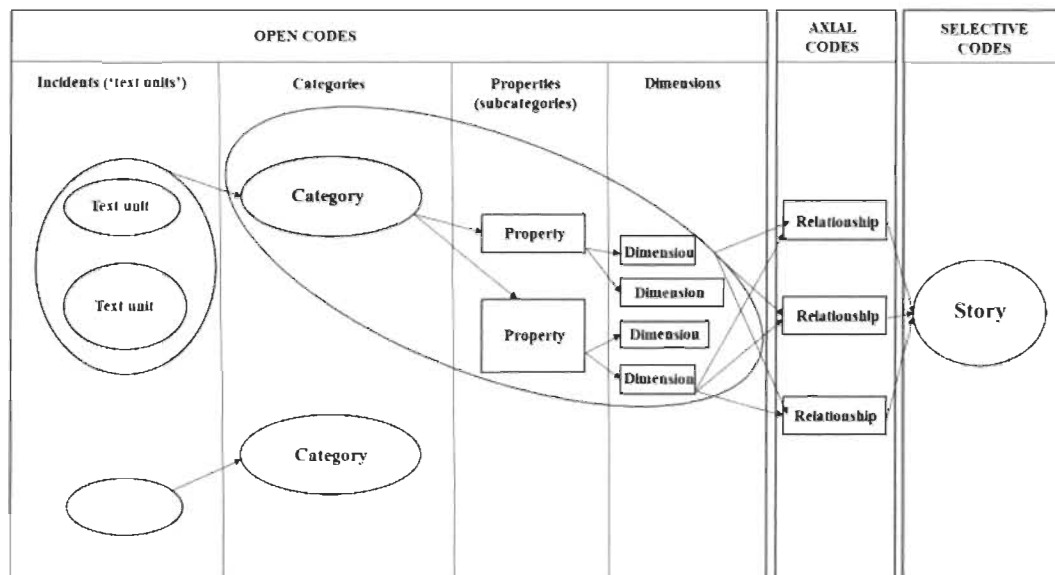
Source: adapted from Strauss and Corbin (1978)

Sequential analysis
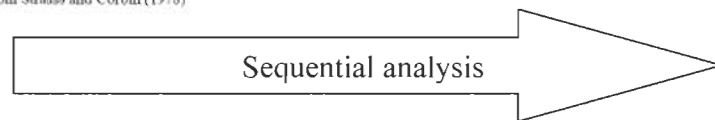
The open codes proceeded through examining each line of data and then developing the initial categories of information. Within the categories, there were several subcategories, referred to as properties, representing multiple perspectives about the categories. Properties, in turn, were dimensionalized. Line-by-line coding led to the refining and specifying the concepts and offered guidelines for building conceptual frameworks specifying the relationships among categories. Overall, this was the process of reducing the database to a small set of themes or categories that characterized the cultural risk.

The axial coding involved assembling the data in new ways after open coding and began to explore the interrelationships of categories. A coding paradigm, otherwise known as a logic diagram, was then developed which identified a central category, explored categories of conditions that influenced the central category, and specified

actions and interactions that resulted from the central category, called central phenomenon.

Lastly, the selective coding involved integrating the categories in the axial coding model. In this phase, conditional propositions or hypotheses were presented.

3.6.1.1 *Inconsistencies*

In this thesis, every attempt was made to understand the reasons for the possible differences in data. Consistency in overall patterns of data from different sources and explanations for differences in data from divergent sources contributed to the overall credibility of our findings. As described earlier, various methods of triangulation were incorporated to ensure the trustworthiness of the data collected and analyzed.

3.6.2   Limitations

The flexibility and openness of the qualitative approach, while beneficial, can also be linked with a fair amount of ambiguity. The qualitative approach has traditionally been a subject of criticism because of its absence of "standard" means of assuring reliability and validity, such as checking inter-observer agreement, the use of quantitative measurements, explicit controls for threats to validity, the testing of formal hypotheses, and direct replication (Robson, 2011).

The second possible limitation is the potential bias of the researcher. As Hofstede (1994) mentioned, each researcher is influenced by his or her culture, origins, but also by experience and the external environment. Alternatively, objectivity, which is necessary to arrive at an impartial and accurate interpretation of events (Strauss and Corbin, 1998), can be an issue. When interviewing, the researcher introduces a bias

either in the manner of asking questions, for example, by using specific terms, or by interpreting the participants' answers in a way that supports his or her existing position (Robson, 2011).

One of the measures to minimize subjectivity intrusion that we used was benchmarking. By comparing one piece of data to another, this study could stay grounded in them. Another technique for gaining distance that we used was recommended by Strauss and Corbin (1998). It suggests obtaining multiple viewpoints of an event, that is, in attempt to determine how the various actors in a situation view it.

The objectivity issue lies in line with cognitive research that, as said before, relates to how individuals process information bearing on culture. Cultural information has a greater impact if it can be embedded into existing and interconnected knowledge structures (Kiesler and Sproull, 1982; Vaghely and Julien, 2010). Because of the individual's limited information processing capacity, attention-demanding information (i.e., salient information) can only be incorporated into organized knowledge structures and long-term memory if it seems relevant to those structures. Discrepant information, on the other hand, will tend to be discounted and forgotten (Vaghely and Julien, 2010).

Additionally, sampling in flexible design is purposive, which differs from a typically representative sample of a known population in fixed design (Robson, 2011). A sample is built up, and the principle of selection relies on one's judgment as to typicality or interest. Following the interpretivist approach, the notion of the researcher being separate from the subject of research is neither desirable nor possible.

As qualitative researchers, we understand that no matter how faithfully a researcher adheres to scientific methods (qualitative or quantitative), research

outcomes are neither totally objective nor unquestionably certain. Since the study is exploratory by nature, its conclusions must be descriptive and only tentatively generalized to larger population.

CHAPTER 4 - RESULTS

The previous chapter described qualitative research and grounded theory, the process of data collection and analysis. The following chapter describes the results of the interviews with 34 managers, and the questionnaire completed by the managers. In order to better understand the respondents of the study, we will first present the profile of the respondents, followed by the results from a series of questions about respondents' perceptions and overall risk assessment.

4.1 PROFILE OF RESPONDENTS

Table 4.1
Profile of respondents

Profile	Respondents
Gender	**5** women (15%), **29** men (85%)
Age	**1** respondent of 30-35 y.o., (3%) **6** – 36-45 y.o. (18%), **12** – 46-55 y.o. (35%) and **15** – 56+ y.o. (44%).
Last position held	**12** Manager/Sr. Manager or Director (35%), **8** VP or Sr. VP (24%), **12** CEO/President or Founder (35%), **2** Consultant or Special Advisor (6%)
Number of years in international operations	**4** respondents with 5 to 10 years (12%), **9** – 11 to 15 years (26%), **2** –16 to 20 years (6%), **9** – 21 to 25 years (26%), **2** – 26 to 30 years (6%) and **6** – 30+ years (18%), **2** – missing information (6%)
Languages spoken	**4** respondents speak 1 language (12%), **10** – 2 languages (29%), **12** – 3 languages (35%), and **7** respondents speak more than 3 languages (21%), **1** – missing information (3%)
Highest degree achieved	**8** respondents achieved Bachelor's degree (24%), **20** – Master's degree (59%), **3** – PhD (9%) and **3** – missing information (9%)

As Table 4.1 shows, research participants were 29 men (85%) and 5 women (25%), with ages ranging from 35 to 65, and 44% of respondents were 56 years old or older. All respondents had managerial experience, 35% were CEOs, Presidents or Founders of the company, and 26% of respondents had more than 20 years' experience in international operations, and 18% had more than 30 years. Participants' educational levels ranged from completion of the bachelor's degree (24%) or a master's degree (59%) to having a PhD (9%). All respondents speak English, and 21% of respondents speak more than three languages.

4.1.1 Risk aversion and perception

To better understand the overall risk aversion, we assessed the respondents' risk aversion based on a risk-taking situation (see question 8, section 1 of the questionnaire in Appendix D). For example, when asked "if you invest in stocks, they are...," respondents were invited to choose among "very low," "low," "medium," "high," or "very high" risk. Most respondents (71%) answered "medium risk." To assess the respondents' risk perception, we asked if they think the international activities were risky (see question 9, section 1 of the questionnaire in Appendix D), and 29% of respondents answered "yes." Table 4.2 summarizes the findings below:

Table 4.2
Risk aversion and perception

	Respondents
Degree of risk aversion	1 respondent with a very low risk (3%), **2** – low risk (6%), **24** – medium risk (71%) **3** – high risk (9%), **1** – very high risk (3%), and **3** – missing information (9%)
Risk perception	**10** respondents answered "yes" (29%), **6** – "no" (18%), **16** – "to some extent/moderately/could be", or other (47%) and **2** – missing information (6%)

Overall, the international activities are perceived as moderately risky. The situation seems to improve if the risk is "well advised," "calculated," or "mitigated."

For the overall risk assessment question (see section 3 of the questionnaire in Appendix D), we asked respondents to name the three major risks associated with international operations. The question was open-ended to allow for nuance in respondents' answers. The results are set out in Table 4.3 below:

Table 4.3

Major risks assessed by respondents

Type of risk	FRQ[1](N=117)	%
Financial and Economic (currency, exchange trade, non-payment, protectionism)	26	22%
Cultural (communication, language, local practices)	26	22%
Legal (laws, regulations, policies, taxation)	21	18%
Political (political uncertainty, instability)	18	15%
Insufficient intelligence / knowledge about the market	10	9%
Ethical (corruption, IP, reputation)	8	7%
Other (lack of operational expertise, lack of skillful workforce, quality)	8	7%

[1] FRQ = frequency of occurrence.

Respondents could give more than one response to answer this question. Using content analysis, we coded and then grouped the answers based on their frequency of occurrence into clusters of what we judged as common response. For instance, the separate answers, such as "currency," "exchange trade risk," "risk of payment recovery," and "protectionism measures" appeared to have a degree of commonality. We grouped these common answers together and assigned this group a cumulative

description such as "financial or economic risk." We understand that this is a subjective call and one in which bias might be injected but it allowed us to group the data into clusters with common characteristics. This group had the highest frequency of occurrence – 26. We continued with the cultural risk that comprised "difficulties in communication," "language," "different way of doing business" that we called "local practices" and "difficulties in interpreting." The "cultural risk" group had the same highest frequency – 26.

"Local laws," "regulations," "policies," "taxation," and "lack of respect of contractual obligations" were grouped into "legal risk." Together, they had 21 occurrences, the second highest frequency. Political risk had 18 occurrences that included "political uncertainty," "political unrest," or "instability." We grouped "invalid assumptions about the market," "poor understanding of the constraints and needs of new market customers," "complexity of a geography market," "overestimation of the market potential," "market difference," and "need to fully understand the region (market) in question" into a group that we called "insufficient intelligence/knowledge about the market." Together, these answers had 10 occurrences.

The "ethical risk" group had 8 occurrences and comprised "corruption," "ethical issues," "reputation issues," and "risks of copying one's intellectual property." The remaining answers, such as "lack of operational expertise," "lack of skillful workforce," or "lack of quality" were grouped into "other risks" and had 8 occurrences.

This exercise was a first attempt of assembling some elements of the cultural risk. This assembly was further developed and refined according to the grounded theory principles of constant comparative method of coding and analysis. Next, we asked the respondents to describe the cultural risk. The question was open-ended to allow for nuance in respondents' answers. The respondents' answers were rather abrupt and laconic (see Table 4.4 in Appendix C). They were, nevertheless, coded and further developed along with the answers from the field interviews.

To assess the importance of cultural risk compared with other risks, we first needed to assess perceptions of the strategic risks related to international activities. The enumerated risks were based on the literature review explained in chapter 2 and were selected after the preliminary interviews' analysis. We first used a risk-taking situation to evaluate the likelihood of occurrence of such risk and estimate its impact (see section 4 of the questionnaire in Appendix D). If a respondent answered affirmatively to "do you think that [risk elements] can negatively impact the company's performance...?" She or he then was invited to evaluate the importance of such risk.

Next, we then proceed with the cultural risk assessment. The respondents were asked to name the elements of cultural risk to assess the respondents' understanding of cultural risk's components (see question 5, section 4 of the questionnaire in Appendix D). We then asked them to estimate the impact of the enumerated elements to assess respondents' perceptions of the importance of cultural risk. Lastly, we compared the respondents' perceptions of cultural risk with the other risks' perception scores by inviting participants to rank each risk on a scale 0–10 according to their views on both "impact" and "likelihood of occurrence" to their organisation. The results of this benchmarking exercise are presented in the table below. To simplify the presentation, we retain here the average score of the impact and the likelihood of occurrence of each risk.

Table 4.5
Impact of the cultural risk compared with the other risks

Type of risk	Average Score Impact (n=34)	Average Score Likelihood of occurrence (n=34)
Political	7.9	5.3
Economic	7.1	5.8
Legal	6.5	5.5
Judicial and ethical risk	6.9	5.8
Cultural	6.5	6.9

The table was created using MS Excel. We removed the missing information (code 99) and focused on the data we wanted to share: the average score of impact and likelihood of occurrence of the enumerated risk. As Table 4.5 shows, the impact of the cultural risk was perceived to be medium low compared with other risks. On a scale of 10, it obtained the same score of 6.5 as the legal risk. This was the lowest score among all risks. However, it ranked first in terms of the likelihood of occurrence with the highest score of 6.9 specifying how costly it can become not to manage cultural risk within the organization, as shown in Fig. 4.1 on the next page:

Figure 4.1
Cultural risk ranking
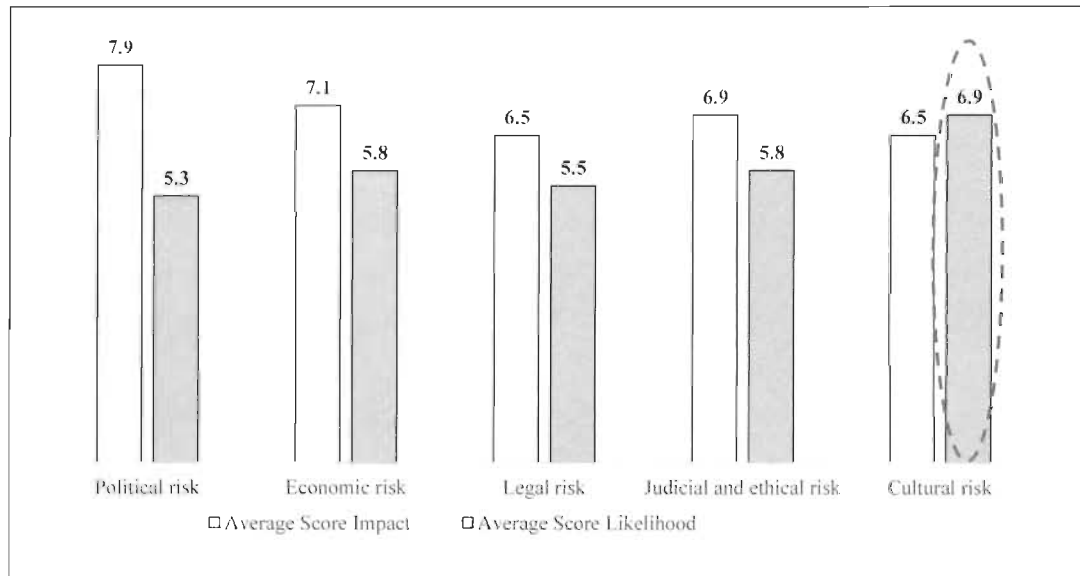
This concludes the results of the first section entitled respondent's profile and risk perceptions. The following section will present the results from the main section of the questionnaire, section 4, question 5 of the questionnaire in Appendix C.

4.2 ELEMENTS OF CULTURAL RISK

To explore the components of cultural risk, the verbatim was initially coded into 17 primary categories. Primary categories, in Glaser and Strauss (1967) terminology, are the main influences that shape the "text" – or parts thereof. They are the building block objects of the theory-to-be-discovered and their interrelationships form the statements of the theory. The further content analysis reduced the 17 primary categories to just 2 major categories: the organizational culture and the foreign market. We need to recall the social sciences, specifically anthropology and sociology, to better explain the rationale of this choice.

4.2.1   In-group and out-group

Social scientists use the terms 'in-groups' and 'out-group' (Taijfel, 1970, 1974; Triandis, 1995; Summer, 1906). Summer (1906) first introduced the notions of in-group and out-group perspectives when he described the characteristics of the American people. In-group refers to what we intuitively feel to be 'we,' while out-group refers to 'they.' Humans have a persistent need to classify others in either group (Taijfel, 1974). Triandis (1995) argued that the perception of in-groups and out-groups is one of the major aspects that differentiate people's behavioral patterns in diverse cultures.

In-group, by definition, is a special class of the membership group characterized by a potent internal cohesiveness among its members (Neuliep, 2015) for whom people feel concern and are willing to cooperate (Triandis, 1995) with strong and deep commitment (Lustig and Koester, 2006) and unquestioned loyalty (Hofstede and Bond, 2001) while sharing freer and deeper talks (Gao and Ting–Toomey, 1998) among members. Out-group, in contrast, is a group of individuals that people see as separate and different from them (Sorrells, 2013) who can be led to stereotyping and prejudice (Klyukanov, 2005) while being perceived as a source of threat (Neuliep, 2000); thus, communicating with them may cause uncertainty and anxiety (Gudykunst and Kim, 2003). Since the introduction of this concept, in-group and out-group perspectives have been studied and applied in psychology (Brewer, 1999; Mummendey and Wenzel, 1999), sociology (Branscombe, Wann, Noel and Coleman, 1993), communication (Hogg and Reid, 2006), business (Husted and Allen, 2008), and other academic and practical fields. The we-they dynamics is largely used for family members versus in-laws; in sports, for our team versus the opponents, and in business for domestic versus foreign market.

We found the similar we-they dynamics in most of respondents' answers. They relate to we for "firm," "our company," "our business" and use "new markets," "foreign country," or "local authorities" for they. Below are some examples:

It is important to understand how business works in <u>foreign markets</u>.

How you adapt yourself [a firm] to be considered by the buyer in the *foreign country*.

The second element is understanding the *local business* practices and trying to balance those practices with *your company* policies. Is there a fit between our culture and the one in *the country*?

Governments of *those companies* should be well perceived by the *local authorities*.

Those were indicators that pointed to what was later developed into the two major categories that we labeled the organizational culture and the foreign market. In the following sections the two major categories are described in detail.

4.2.2 The organizational culture

Organizational culture is defined as the shared beliefs, values, and assumptions that guide sensemaking and action in organizations (Ott 1989), it can be viewed as organization resource (Holden, 2002). Organizations can be seen as sensemaking systems (Weick, 1979, 1995), systems of shared meaning (Smircich, 1983), focusing devices (Nooteboom, 1992a, 1996b), or interpretation systems (Choo, 1998). To

Nooteboom (2000), the categories of perception, interpretation, and evaluation, lying at the basis of shared meanings, are closely associated with the Schein (1985) notion of culture defined as basic assumptions and beliefs, which form the basis for values that produce overt behaviour. According to Schein (1985), the basis categories that constitute organizational culture concern the following:

- The relationship to the environment: Does one dominate it or is one subjugated? Is the primary focus technological, economic, political, or socio-cultural? The domination/subjugation distinction is similar to the notion of locus of control: Does control lie in oneself or outside?

- The nature of physical and social reality and truth: Is one pragmatic or does one seek validation in a general philosophy, moral system, or tradition? Does one avoid uncertainty or does one have tolerance for ambiguity? How does one perceive time and space? For example, does one move towards the future or does that move towards one, or is time past duration? Is truth universal or context-dependent, absolute or relative, subjective or objective?

- The nature of human nature: Is it good, evil or both? Are people active or passive, perfectible or not? What are sources of motivation?

- The nature of human activity: Is it oriented towards being or towards accomplishment? Is it self or other – directed?

- The nature of human relationships: views on power, influence, hierarchy; on intimacy, love, peer relationships' coercive, utilitarian, aimed at goal consensus; degree and source of authority.

Cultural paradigms consist of shared, coherent patterns of such categories, applied to and reproduced in interaction between people (Nooteboom, 2000).

Weick (1979) argued that conditions in the environment cannot be separated from perceptions of the environment. This view places uncertainty and the environment within the decision-maker's head:

> It is not the variation of the environment stimuli per se to which organizations react but rather organizations' perceptions of the stimuli. Stimuli pass through perceptual filters so that an organization responds not to what is but to what is perceived. In this sense, organizations enact their environments.

Accordingly, enactment is a key filter of organizational learning. It conditioned perception (Holden, 2002). Using this terminology, we may regard organizational culture as an available intangible resource. As one of our respondents specified:

> Les responsables des pays n'étaient pas les nationaux. Moi j'étais Président en France (un Canadien), un Italien qui était Président au Canada, il y avait un Suisse qui était Président en Italie, donc il y avait une espèce de mélange des cultures qui diminuait beaucoup l'influence des nationalités. Pour l'entreprise c'était très positif. C'était très factuel. Il y avait une multitude de nationalités aussi mais la cuture nationale était moins prononcée avec cette structure. On pensait à la performance organisationnelle, comment on investit, comment on gère le capital, comment on devient compétitif ou on ajoute de la valeur aux clients. Avoir différentes nationalités au tour de la table a beaucoup aidé. Ceci a enrichi la discussion.

This is aligned with the recently developed view of culture as one of organizational resources and the core task of management is transforming various resources into customer benefits (Holden, 2002).

4.2.2.1 Categories and subcategories

In the organizational culture main category, the data revealed 8 subcategories that can also be seen as different organizational layers. This is aligned with Hofstede's et al. (2010) and Schein's (1985) view who argued that the organizational culture has different layers. Some layers are visible to the observer, but their cultural meaning is invisible and lies in the way they are interpreted by the insiders. The emerged subcategories are set out below:

Artifacts. Artifacts are the most visible levels of culture (Schein, 1985) that emerged first. Artifacts manifest themselves differently, such as rituals, practices, stories or objects with meaning shared by organizational members. Here is an example of a ritual given by one of our respondents:

> I thought we should meet them, shake hands and socialize with them formally. So, they arranged an appointment with another customer of theirs, an X bank. When we had our meeting there was a very specific seating. I was the head person from our side. So, I had to sit to the opposite of the person from the head person of their side. That was quite unusual, but I was told it was the usual setting.

Another respondent said that his former employer provided a prayer room in order "to protect religious convictions and their practice" in the workplace:

> Dans un des centres d'appel, il y avait une salle de prière et on m'avait dit : "Passe, it worked well, don't even ask." Finalement, ça a bien marché, en bonne harmonie. T'apprends aussi que c'est très important la culture.

Another example of a cultural artifact was given by a manager working in a multinational firm with structured organized eating habits:

In company X where I work, we have 1 hour for a lunch and all team members eat together. We bring our meals, we eat and chat together, discuss news. It is symbolic, more like a ritual or something.

The data revealed different examples of artifacts in the form of rituals, habits and organizational customs from the respondents. They all had a shared meaning or interpretation. For example, the newcomers admitted to "follow the others" in their rituals and ceremonies. They admitted those habits with time became an attitude at almost automatic level.

Values. Values are a deeper and more stable level of culture (Hofstede et al., 2010, Schein (1985). They are basic and fundamental beliefs that guide or motivate attitudes or actions reflected in the behaviour of individuals. In the organizational setting, values can manifest themselves in the artifacts. As one of our respondents mentioned:

There were some wrong assumptions of a mindset and behaviour of our partners. Honesty related to delivering to deadlines was not met.

Yes, legal obligations are part of the boundary, certainly, and can be benchmarks. It is the bottom line of our values. It can be the bases, but our values go beyond. We have this reflected in if you do not like gifts or the entertainment policy. I think we have to make sure that we do not want to give any experience of conflict of interest, and then, in some areas we do not want to go beyond the actual legal obligations.

One respondent gave an example of his company's compensation system. He specified that his firm "favours individual effort" with "a strong emphasis on productivity and performance." He added that his compensation plan reflected that.

The first two subcategories, artifacts and values, form the structure and serve as basis for understanding the cultural risk at the organizational level. They have been extensively described by scholars (Schein, 1985, Hofstede, 1992, Hofstede et al., 2010) and further developed by more recent research (Leung and Morris, 2015; Boyle et al., 2012; Brannen, 2004). The data revealed more subcategories. They are set out below with a description and examples:

Norms. Norms are standards for behaviour that exist within a group of people (Hofstede et al., 2010). Social psychologists have long found that people assimilate their thoughts to the group norm because peers' responses are an influential source of information (Sherif, 1936) andthey seek to avoid negative judgments by others (Asch, 1956). While norms and expectations are closely related to values, (Cooke and Rousseau, 1988) suggested that they have a more direct impact on the day-to-day activities and work situation of organizational members. Results from the study of Balthazard et al. (2006) suggested that behavioral norms and expectations can supplement the semiotic facets of organizational culture which is based on shared norms and behavioral expectations at the individual and organizational-unit levels. Some examples below demonstrate this:

Si j'appelle mon employé à 3 heures du matin, et on est les derniers à appeler le Président ou moi, c'est qu'il y a une raison. On attend qu'un employé réponde. Si on appelle c'est pour comprendre pourquoi le problème n'est pas encore résolu, c'est pour comprendre où est le maillot faible de la chaine.

Je me rappelle, il était midi en Chine et il y avait un problème d'équipement. J'ai appelé ma personne responsable et elle m'a répondu. Il était minuit ici. L'employée sait que s'il passe 3 heures à régler les problèmes à l'international, on lui permet de reprendre ces 3 heures dans les semaines qui suivent s'il a besoin.

Ethics. Ethics it is narrowly defined as the standards of behavior the society accepts. Business ethics (also corporate ethics) is a form of applied ethics or professional ethics that examines ethical principles and moral or ethical problems that arise in a business environment (Moriarty, 2017). It applies to all aspects of business conduct and is relevant to the conduct of individuals and entire organizations. Organizations guide their actions and behaviour with code of ethics or conduct. These examples emerged from the interviews:

> And then you must draw a line at times, you know, like where you cannot make any compromise. It is not an "easy go." It is illegal because you have legislations in countries in which we operate that can be different from the legislations in Canada. But you, as the foreign official, you know, there is bribery Act... And you are responsible in terms of Canadian law for actions that you undertake in international markets.

> I think it is more like putting the right systems in place, the right training as well. For us to guarantee as a large organization, we have sixty-six thousand employees, and everybody will live to the same standards as there should be no bad apple in our basket as we aim to that. So, we have a code of conduct, and if we hire international agents or work with international partners, they must have the same obligations as well.

> What I mean is that we have to operate under the highest standards, and these standards can go beyond legal obligations. We do have our policies that are renewed regularly like the code of conduct. It is the reputation of the company and it is critical for the long-term sustainability of the company.

Dynamic. Dynamic capability: it is the firm's ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments (Teece, Pisano and Shuen, 1997). Dynamic capabilities can be distinguished from operational capabilities, which pertain to the current operations of an organization. Dynamic capabilities, in contrast, refer to "the capacity of an organization to purposefully create, extend, or modify its resource base" (Helfat and

Peteraf, 2003). In the organizational setting, the firm specific capabilities can be a source of advantage (Teece et al., 1997). The basic assumption of the dynamic capabilities' framework is that core competencies can be used to modify short-term competitive positions that can be used to build longer-term competitive advantage. As per respondents' answers:

Il faut garder au maximum toute la flexibilité dans l'organisation. La flexibilité nous a fait que nous sommes les meilleurs en tant que filiale internationale du groupe. Notre marge nette est de 20% et on est très transparent.

Quand on est à l'international, on a besoin de la flexibilité. La culture organisationnelle interne peut-être un frein. Si l'employé appel pour dire qu'il faut adapter le produit aux besoins locaux, il faut qu'il y ait une réaction à l'interne.

Mais quand tu as des différentes nationalités au tour de la table, c'était très différent. La discussion était plus au mérite des différents solutions au lieu de la mérite des individus. Et ça change la dynamique complétement. Ça crée de la dynamique constructive.

La flexibilité et la capacité organisationnelle nous a aidé dans la plupart de nos dossiers internationaux. Beaucoup de réactivité et de la flexibilité organisationnelle. Il m'appelle, je réponds, je te donne la réponse immédiate.

Knowledge. Knowledge the company's collective knowledge is a portfolio of core competencies about how to coordinate diverse production skills and technologies (Prahalad and Hamel, 1990). Examples include the firm's absorptive capacity (Zahra and George, 2002), its know-how (Vaghely, Julien and Cyr, 2007), information and expertise, and knowledge. An organization cannot possess or create knowledge by itself (Nonaka and Takeuchi, 1995). Firm knowledge is composed of knowledge sets controlled by individual agents (Easterby–Smith and Lyles, 2011). Cultural knowledge

is expressed in the assumptions, beliefs, and norms used by members to assign value and significance to new information or knowledge (Choo, 1998). It is held by individuals but is also expressed in regularities by which members cooperate in a social community, say, group, organization, or network (Kogut and Zander, 1992; Nonaka and Takeuchi, 1995; Easterby–Smith and Lyles, 2011). Knowledge creation in firms, where knowledge is a firm resource, lies at the heart of a competitive advantage (Nonaka and Takeuchi, 1995, Von Krogh, Ichijo and Nonaka, 2000; Nonaka and Von Krogh, 2009; Easterby–Smith and Lyles, 2011). Distinct knowledge gives the firm a competitive advantage, and the way in which the firms manage their knowledge resources is crucial to persistent advantages (Easterby–Smith and Lyles, 2006). Thus, to get sustained competitive advantage, the firm's principal goal is to have a distinct knowledge management process of acquiring, protecting, and leveraging knowledge. Some examples emerged of this from the data:

> Well, there is passive knowledge and then there is active knowledge. Passive knowledge obviously is when you do your research based on publicly available information. Active knowledge is determining whether you have the right people in your team.

> And it is not the experience, you can have experience. Look, I am advising company X these days. They said they had a very strong team and they have been successful in many markets, 40 or 45 markets in the world. But when they looked to do something in X, my impressions were that they made a whole bunch of assumptions about the market. Based on the fact that they had a very experienced international team, and also based on the fact that they were selling their products in X since the early 90s. And so, there was an assumption that they knew the market so when they decided to do some local manufacturing. But they did not go that extra step in order to investigate the environment not for selling imported products, but for building locally how to do it. They still have excellent people with great experience, but they did not take the necessary steps to investigate beyond what they believed they knew.

> Alors, ce qui va faire la performance d'une organisation, ce n'est pas la culture locale. C'est plus l'expertise des gens qui sont là, peu importe que

soit leur nationalité, l'expertise de ces gens-là va faire en sorte que l'organisation va évoluer. C'est comme prendre quelqu'un qui est compétant dans sa job et tu le mettre dans un job semblable, il va avoir l'impact. L'incompétent va créer l'incompétence de l'autre côté. L'expertise des gens versus d'où ils viennent.

Innovation. Innovation conceiving of the organization in terms of core competencies widens the domain of innovation (Prahalad and Hamel, 1990). Innovation, which is a key form of organizational knowledge creation (Nonaka and Takeuchi, 1995), cannot be explained sufficiently in terms of information processing or problem solving. Innovation can be better understood as a process in which the organization creates and defines problems and then actively develops new knowledge to solve them. As one of our respondents stated:

L'international est l'idéale pour l'innovation organisationnelle. Quand on est à l'international, on a besoin de produits qui sont adaptés localement. Par exemple, à Dubaï, il y a une membrane de la fondation pour empêcher l'eau d'entrer dans les fondations. Dubaï est unique au monde, il y a le plus de pression hydrostatique : plus on descend plus on est au niveau de la mer, et eux ils n'aiment pas faire un étage en bas. On a un projet 7 étages, à travers le monde il n'y a jamais personne qui s'est rendu à 7 étages. Ils nous ont demandé de trouver la solution. On a travaillé, on a dépassé les normes, on a dépassé le produit, on a dépassé les solutions autant avec des équipes intérieures qu'avec les partenaires ici. On a trouvé la solution. Aujourd'hui, c'est un produit X qui nous apporte énormément de marge, de la profitabilité. On a répliqué ça au Canada, aux États Unis, en Turquie, en Afrique, en Europe, en Chine... partout dans le monde. L'innovation à partir d'un pays, on peut l'adapter rapidement.

International was a huge incentive, a booster for us because if you look at the X business globally, it is 1,500 vehicles a year now, all of a sudden someone saying will triple that just as a simple customer so there is more than a hundred companies building new products.

Leadership. Leadership it is narrowly defined as the process of guiding and directing the behaviour of people in the work environment. Hogan and Kaiser (2005)

suggested that leadership is the ability to build and maintain a group that performs well relative to its competition. It follows that the personality of a leader affects the performance of a team. As some respondents explained:

> C'est le CEO qui décide. C'est un facteur majeur. C'est lui qui va décider comment ça marche. Ou est-ce qu'on va et comment. Le CEO arrive, il regarde le business… ça ne marche pas, je garde le choix 1 et 2 et on ferme le reste. Il ne se pose pas la question sur la culture… La culture en découle. C'est dévenu partie d'un ADN dans notre organisation pendent des années.

> The smartest CEOs are those who are prepared to listen to a junior person who may understand these issues better. Maybe not globally, but for the new market that you are looking at.

As said earlier, organizational culture can be regarded as a form of organizational resource that encompasses values and beliefs held by individuals. However, it is an unused resource until its value and utility are recognized as knowledge. Once it is recognized as knowledge then it forms a part of organizational capabilities to be further converted into core competencies to drive innovation.

As a category, the organizational culture category encompasses all the above-mention elements that form the subcategories. All these subcategories are deep-seated. They interact with each other within the organizational culture category and, more significantly, with the other categories within the second major category, the foreign market.

4.2.3 The foreign market

The second main category, the foreign market, was expressed in words, such as "international market," "region," "Middle East," or "host country." The foreign market

includes countries but is not limited to the country level. It comprises 5 subcategories. They are numerated below:

4.2.3.1   Categories and subcategories

Identity. Identity it is the largest category in terms of attributable occurrences in the major category. Identity answers the question "to which group do I belong?" and is often rooted in language or religious affiliation (Hofstede et al., 2010). As emerged from the data, the core of this category is made up of two subcategories: language and religion.

a) Language: it is a means for communicating with the outside world (Vygotsky, 1962). Linguistic communication depends upon an intentional act of the communicator and conventional signs that owe their very existence to man's ability to generalize, abstract, conceptualize. Sapir (1956) noted that no two languages are ever sufficiently similar to be considered as representing the same social reality. The worlds in which different societies live are distinct worlds, not merely the same world with different labels attached. Similarly, Usunier (1998) highlighted that language uniquely expresses culturally specific patterns in context-embedded situations, such as consumption or work relationships.

For Knapp (2014), most of the meaning in a message is conveyed through nonverbal communication. Holden (2002) saw language as a mental experience and as such is invisible.

As emerged from the data, in the foreign market, "communication differs," "language and meaning can completely differ," "not the same language is spoken" and the "body language and nuances" can differ. As per the respondents' comments:

Communication is fundamental because there is not just like linguistic differences. There are different modes of communication. Communication, the way you communicate, what you mean. It is a building block. But you can behave one way and communicate it in a different way. If you do not know that in a cultural environment, this is something that happens a lot, then you are going to make a mistake.

Language, unique to individuals, is variegated in its systems for encoding and articulating meaning, and reflecting a distinctive worldview (Holden, 2002), and is shown to be a highly complex factor to handle in foreign market. Caroll (1956) cited Benjamin Whorf who maintained that language learned in a native community shapes and structures individuals' world view and social behaviour.

Data showed that language can influence business attitudes and behaviours, including punctuality, opening times, or the respect of the overall timeline. As one manager explained:

Les agents en Inde sont des connaisseurs techniques. Mais dans les résolutions des problèmes, notamment pour les téléphones ou pour Internet, leur anglais était difficile à saisir. J'avais dû vérifier ce qu'ils ont fait durant la journée. Des retards et des délais prolongés ont eu lieu.

For instance, some Asian cultures, unlike most Western cultures, cannot say 'no' to a question or a request. In countries such as India, Pakistan, Bangladesh, and Sri Lanka, not saying 'no' is an important part of politeness. As another manager explained:

There are some places where people never say no to you. It is the way they say 'yes,' that really means 'no,' and you need to understand those cultures. So in my work environment, I always did that at the beginning and it made it very easy to facilitate a relationship over time.

In India, they would say 'yes,' whether they were going to do it or not. They would say 'yes' and just not do it sometimes. But they never say 'no.' They always say 'yes.' And that seemed false to a Western ear.

Translation is another important element. Some respondents specified that even a good translation of a message into country's language does not guarantee uniform comprehension. The meaning attributed to certain words depends on association norms that can differ cross-culturally. As one of our respondents noticed:

Do you know that the English 'risk' can be translated differently in the northern China versus in southern China? To Chinese from the South, the word 'risk' has two meaning, one is related to the 'magnitude' and the other to 'strength.'

b) Religion: it is a system of symbols (creed, code, cultus) by means of which people (a community) orient themselves in the world with reference to both ordinary and extraordinary powers, meanings, and values (Albanese, 2007; Geertz, 1973). The religious habits of daily life play a role, particularly those that are related to what is locally considered polite or sacred. As explained by one respondent:

Another example for some Muslim countries is the holy period. For example, Ramadan is a four-week fasting period when locals do not work. They do not drink or they do not eat during the day from sunrise to sunset. So if you are there during Ramadan and you invite them out for drinks, well, actually that is a really bad example because Muslims do not tend to drink, but if you choose to invite them out for lunch during Ramadan, they will not take [that] well. You need to be aware of the environment you are working in.

The influence of religion although strong is not uniform across markets. Many differences depend on the religious belief held by individuals and groups. Furthermore, the official religion doctrine and real local culture do not always go hand in hand. For instance, the Iranian religion system is unique in the sense that it identifies law with

the personal command of the "one and only god, Almighty." Iranian laws, known as Sharia, are the framework to which all legislation, existing and proposed, is referred and with which it must be compatible. The Sharia is a comprehensive code governing the duties, morals and behaviour of all Iranians, individually and collectively in all areas of life, including business. There are strict taboos, such as alcohol, gambling, cheating, idol worship, usury, adultery and so forth. For example, alcoholic products are banned. Promotions involving games of chance are illegal. However, these strict regulations and policies do not reflect the reality. As one respondent explained:

> Je peux dire que toutes les entreprises qui apportaient des produits cosmétiques avaient beaucoup de succès dans un marché sous-terrain en Iran. C.à.d. officiellement elles n'avaient pas le droit de vendre ces produits. Le casino serait un autre exemple. On n'a pas le droit de faire le casino en Iran. C'est interdit. Mais il y a des gens qui ont transformé leur appartement en casino. Tu peux y aller. Il y a une autre vie, la vie 'sous-terraine'. Par exemple, boire de l'alcool est interdit mais je peux te dire qu'il y a de tout. Dans deux heures, on va te livrer tout ce que tu veux.

The general observation from the data related to language and religion is that in foreign market, words, gestures, beliefs, symbols or objects with meaning are recognized as such only by those who share them and that are "different from others."

Institutions. Scott (1995) defined institutions as regulative, normative, and cognitive structures and activities that provide stability and meaning to social behaviour. Institutions govern societal transactions, and nations differ in the areas of politics (e.g., corruption or transparency), law (e.g., regulatory regime, standards), and society (e.g., ethical norms). This subcategory was largely represented in the data, as per a respondent's comments:

> Les autorités Chinoises refusaient presque la totalité des systèmes importés de la Floride. Ce sont les standards qui sont différents. Tous les systèmes

doivent être approuvés par les normes très strictes en Chine. Les façons d'approuver sont différentes. Il y a une association gouvernementale qui fait l'approbation de tous les normes (China Association). On a passé par eux pour approuver tous nos systèmes.

Institutions evoke the behavioral pattern that shapes individual behavior (Leung and Morris, 2015). As stated by one of our respondents:

La plupart de temps, en Chine ou au Brésil, c'est la personne de la douane en face de toi qui a l'autorité. C'est à elle de décider comment interpréter la norme. Ça peut être aussi aujourd'hui j'interprète la norme comme ça et le lendemain mon interprétation change. Donc il faut connaitre notre canal d'entrée, et il faut savoir qui est notre personne en arrivant donc il faut préparer tous les documents en avance et fournir la paperasse et la documentation avant pour savoir si on se fait refuser avant donc tout ce concept douanier est assez intense.

Prenons, par exemple, le cas du Brésil. On envoie en janvier 5 conteneurs qui partent au Brésil avec le code XX qui est très bien défini. Mais le Brésil a décidé de changer son interprétation des codes au mois de février. Donc eux, ils ont passé le code X comme Y. Donc au lieu de payer, par exemple, on s'attendait à payer 8 % de douane, on a payé 24 % de douane. Selon eux, on a fait une fausse déclaration donc on a des frais de 1,000 dollars par jour tant qu'on ne règle pas ça!

Institutions include political systems and regimes. For instance, when the Berlin Wall fell in 1989, many people in western democracies assumed that the teetering Soviet Union would quickly transform into an efficient free market economy. In reality, other than a tiny minority that profited from dubious processes of privatization, most of the former Soviet bloc, including Russia, has been in economic crisis throughout the 1990s and 2000s. As one of the respondents specified:

There were many opportunities but that was a question of political culture. You can look at the other side of the coin at the Russian political culture

that shows the lack of introspection and the lack of transparency – all that currently keeps Russia back.

Political regimes encourage individuals to comply with rules. People obey rules because of a whole system of societal beliefs, values and norms. These rules are not static and vary from one region to another. For instance, the Saudi political system follows the Islamic Laws Sharia. Women are allowed to work in Islam, subject to certain conditions. As one respondent said:

> Fin des années, X Canada a établi le réseau en Arabie Saoudite. C'est un pays qui était très rigide sur les lois des femmes. Elles n'avaient pas le droit de travailler dans le temps.

However, to add to what was said earlier, the official political regime and real local culture are not necessarily aligned. For example, in Iran, applying makeup like women in the West is unapproved by the regime. Yet, Iranian women put a lot of make-up as a form of a protest. As explained by one manager working in the region:

> Se maquiller comme des femmes à l'Occident au niveau du système n'est pas très bien vu. C'est un peu paradoxal mais entre-temps ceci ouvre un autre marché, un marché sous-terrain. Il a grandi en opposition des gens contre le régime. Par exemple, une femme qui mets un rouge à lèvres très foncé montre qu'elle ne respecte pas le système. C'est une forme de protestation. Il y a un message politique derrière.

Numerous illustrations of differences in institutions were given by respondents. From the general observation of data, institutions can be understood as the rules that make ordered society possible, such as norms, human rights, and laws. Institutions help individuals understand how to behave in a given situation, such as when driving in traffic, going through customs or doing business.

Local practices. They are the second largest subcategories in terms of attributable occurrences. They comprise visible artifacts and implicit values and are narrowly defined as activities with meaning that are recognized as such only by those who share them. In foreign market, these activities are visible to an outside observer; their meaning, however, is invisible and lies only in the way these practices are interpreted by the insiders. They relate to foreign market and are expressed in words related to a country or a region, such as "in India," "Chinese buyer," "in Latin American countries," or "here, in North America." Some examples from the data can demonstrate this:

> But in different places politeness is sometimes shown as weakness and sometimes it is not. Other times, what you think you are doing is nice. In India, for example, there was quite a high up woman in the operations, and we were leaving a meeting and we both came to the door and about the same time and I sort of stood back and said 'after you' what I thought was being 'gentlemen'. And she said: "Who are you to tell me when and what to do? I will go when I decide to go." I was shocked. My custom of trying to be a gentleman obviously did not fit well with her.

> If you are working with a Chinese buyer, it is not the same as working in North America. You must develop the relationship to a point of trust. China is a very good example of that. Whereas in North America, you can have a direct relationship and enter contract and you do not really know who the other party is. That would never happen in China because they want to get to know whom they are dealing with first. You must go there many times at first. You must gain a level of trust between both parties from a social standpoint to be able to then start a commercial discussion. That can take anywhere from a few months to a few years. China can be very long.

> In the Middle East people buy from somebody they trust. Personal relationships are stronger in Egypt or in Saudi Arabia.

> The notion of time may be different as well. We have done business and in some parts of the world where people relate to time very differently and

that can have an impact on the pace at which you are doing business and as a public company you have some objectives with the timelines.

Have you heard of the manana culture in the Latin American countries? There is not as much sense of urgency. I can only imagine and the reaction of a Canadian company or any Western Anglo-Saxon type company who goes to Central or Latin America for the first time. These people do not know that time is money!

Climate. It is another subcategory that emerged from the data. The data showed that in some markets people learned how to plan outdoor activities in accordance with the air temperatures. Montesquieu (1742) set out a theory that climate differences help to shape human societies. Based on pre-modern medicine, he believed that cold air constricts the body's "fibers" and increases blood flow, while warm air relaxes those same fibers thus making people more vigorous in cold climates. As explained by one respondent:

En Iran, on commence à travailler très tôt. 6 h ou 7 h. On s'arrête à 13 h parce qu'il commence à avoir chaud. Après, on revient travailler vers 20 h. On fait ça en fonction du soleil.

Another observation concerning climate: some respondents from France, a unified country from a linguistic, ethnic, religious and institutional perspective, referred to their country as of 'North' and 'South'. Their lifestyle of a southern town seems to differ from a northern city. This difference does not seem to be strongly perceived by foreigners, who are more aware of their own differences from French and French as a whole.

History. It is another subcategory that data revealed. History and culture are two interrelated subjects (Hofstede et al., 2010). The cultural heritage held by previous

generations can affect how respondents view and understand the market. Some examples from the data:

> Culture in a broader sense is knowing something about Russian history or about the post-soviet development since 1991. That helps in understanding their behaviour. Some parts of the Soviet culture have not died yet. It is an inheritance to the newer generation, it is in what they do and how they do.

Social classes may be another distinctive social element inherited from the past, to a greater or lesser degree, depending on the country. As one respondent specified:

> In France, the way one speaks immediately reveals his social class. Or in England. We do not have this here, in Canada. I have not noticed this in the Scandinavian countries neither. I guess, it differs.

France, where there are traditions of inequalities, social class can be a distinctive element of culture. In India, this difference is even greater. As described by one of our respondents:

> It is sometimes hard to understand why in India some people are treated so badly. This is because they are from a different class, the castes. It is hard to understand from the area where you would not do it but, I guess, it is because of their past.

That concludes the description of the subcategories in foreign market category. The subcategories fairly reflect the reality which does not favour the emergence of a culture in a nation-state. This, in turn, may lead to a confusion of culture with country and the treatment of market-country as a geographical culturally unified segment. The subcategories of the foreign market include countries but are not limited to the country level. They rely on more cohesive sociodemographic elements, such as language, religion, climatic and historical homogeneity, institutional and political homogeneity.

The following section will explore the interrelationships of categories. The interrelationships of the categories are the building blocks of the theory-to-be-discovered. Specifically, as we will discuss later in the chapter, the interrelationships form the explanatory statements of the theory of cultural risk management. In the next section, we will first describe the interrelationships within each major category, starting with the category of the organizational culture.

4.2.3.2 Category interaction in the organizational culture

In organizational culture, some categories interact directly with the other major category, the foreign market. Other categories shape them and determine the nature of the interaction between the major categories. Figure 4.2 below summarizes the relationships of the first five elements: artifacts, values, norms, ethics and leadership:

Figure 4.2
The relationships of the artifacts, values, norms, ethics and leadership
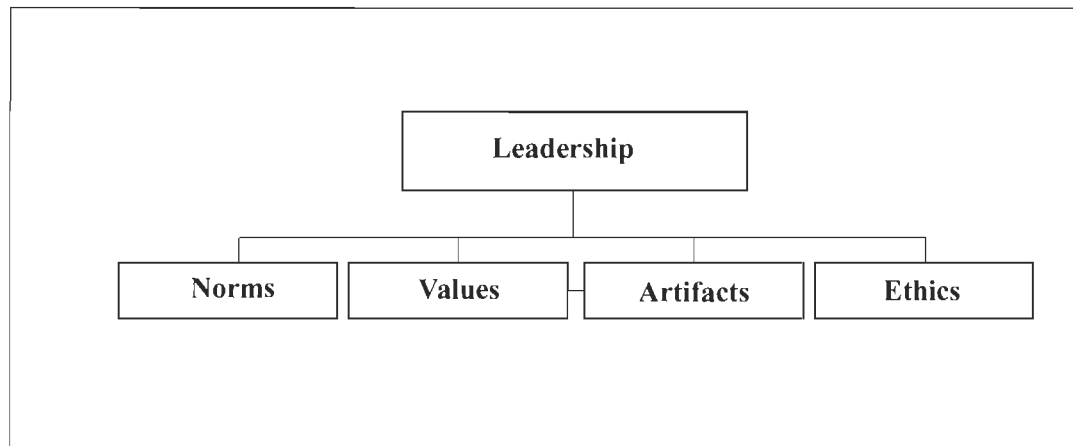
The first observation from the data was that values were interrelated with the artifacts. Values reflect a person's inherent beliefs of what should or should not be

(Schein, 1985) and manifest themselves in the behaviour of individuals, which is an artifact of culture. At an individual level, values could include concepts such as caring, empathy, or trust. At the organizational level, examples of values might include accountability, customer service, or safety. As one of the respondents explained:

> Il faut savoir à qui tu peux faire confiance. Par exemple, tu engages un chauffeur. Il faut comprendre ce qui se passe dans sa tête mais aussi comment il va réagir avant de donner la clé de ta voiture à cette personne.

> More important is to know that the company will stand by you if something goes wrong. They will not just drop you and go away if [there is] a problem. So, the trust is built between the company and the project manager and to build that trust you need to pass by people the customers trust.

Another observation is that artifacts, values, norms and ethics are all related to leadership. Leaders clarify expectations, set the direction for the organization, align people with that direction and motivate people to action, thus shaping their behaviour (Kotter, 1990). This is aligned with the extensive GLOBE study (House et al., 2004) that argues that different leadership attitudes, styles and preferences shape organizational behaviour. This is also consistent with Earley and Ang's (2003) concept of cultural intelligence (CQ), where culture and cultural intelligence are correlated with effective leadership (Rockstuhl, Seiler, Ang, Van Dyne and Annen, 2011).

The CQ construct is broken down into four components: (1) metacognitive, an individual's level of conscious cultural awareness during cross-cultural interactions, (2) cognitive, the knowledge of a culture, including social norms, values, and practices, (3) motivational, the ability to focus attention on functioning effectively in cross-cultural settings, and (4) behavioral, the capability to display appropriate actions during cross-cultural interactions (Ang, Linn and Mei, 2011). Elenkov and Manev (2009) found that

cultural intelligence (CQ) enhanced the effect of transformational leadership on organizational innovation.

Most current research on leadership has dealt with various competencies that would be beneficial for leaders. Leaders play a central role in setting the ethical tone and moral values for their organizations (Yukl, 1989). Active leaders monitor [followers'] behavior, anticipate problems, and take corrective actions before the behavior creates serious difficulties (Howell and Avolio, 1993). Transformational leaders create enthusiasm, revitalize the organizations and excite followers to high level of performance (Bass, 1985, 1995; Burns, 1978). As one respondent specified:

> C'est notre Président, Richard V. qui a vu le potentiel. C'est ses ambitions de conquérir le monde qui nous ont guidées. Son souhait de faire l'international nous a emmené d'être meilleur dans notre domaine. Et on est toujours dans la mode d'améliorement.

> What I mean is that we have to operate under the highest standards. These standards can go beyond the legal obligations. And this is my role as a President to make sure we implement these standards at all levels in the organization.

House et al. (2004) study showed that the status and influence of leaders vary considerably as a result of cultural environment in which the leaders function. Consider for example two organizations that are considering merging. One of the major findings of the GLOBE is that managerial and leadership practices tend to reflect the societal orientation in which they function. There may also be substantial differences in decision-making process. In organizations that function in high uncertainty avoidance cultures, decision-making is likely to be more formalized and analytical. In organizations that function in low uncertainty avoidance cultures, decision-making is likely to be based more on intuition than formal analysis.

The data also showed that the leadership practices shape employees' behaviour. For instance, poor leadership can seriously affect employee morale and even cause the company's bottom line to plunge. Bad leadership leads to poor employee retention and demotivates the remaining employees, causing them to be much less productive than they would otherwise be (Blake and Mouton, 1985). As one of our respondents explained:

T'as aussi des entreprises qui vont promouvoir des gens qui ne décident rien. Si cette personne se trouve dans un rôle avec le pouvoir à l'inverse. Par exemple, la personne qui est là n'est pas forcement qualifié pour faire la job. Ça crée des tensions, des pressions à tous les niveaux et dans toutes les filiales.

Organizations need variety of individual perspectives and ideas as a source of innovation (Nooteboom, 2000). Dynamic capability, knowledge and innovation are also related to leadership, as shown in Fig 4.3:

Figure 4.3
The relationships of the dynamic capability, knowledge, innovation and leadership
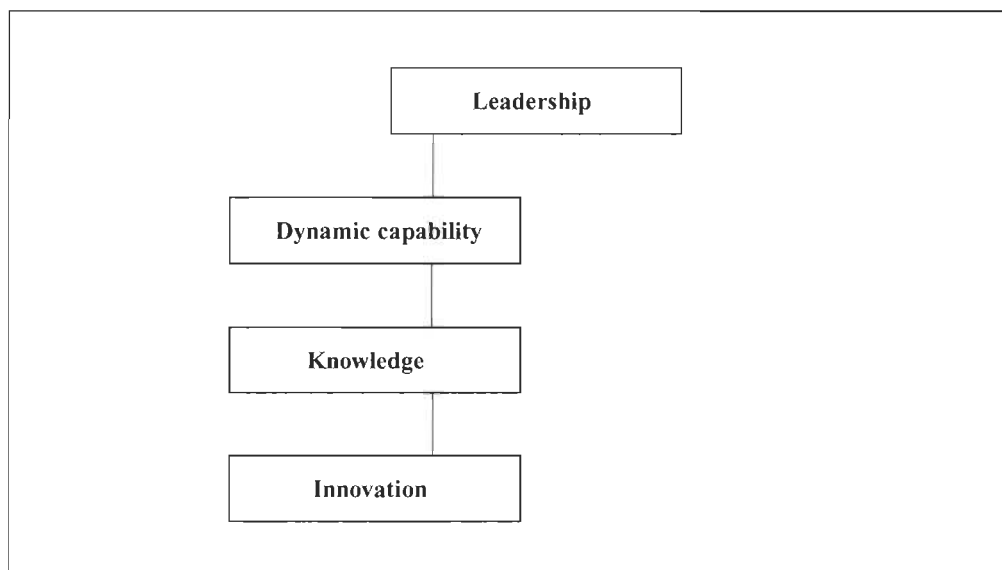
As said earlier, the firm's competences are the firm's collective knowledge (Prahalad and Hamel, 1990; Easterby–Smith and Lyles, 2011). Knowledge may reside in many forms, including books, databases, data files, individuals, peoples' heads, management practices, or artefacts. The properties of knowledge are that it is generated, codified and coordinated; it is transferred; it is, then, in principle used (Holden, 2002; Easterby–Smith and Lyles, 2006). If core competencies are not recognized, [the firm] will pursue only the innovation opportunities that are close at hand—marginal product-line extensions or geographic expansions (Prahalad and Hamel, 1990). As one of our respondents explained:

> La petite entreprise n'a pas les moyens de faire ce que fait la grande. Il faut dire que le côté d'expertise est très rare. Notre Président sait qu'il faut avoir les bonnes personnes aux bonnes places.

> Quand on est à l'international, on a besoin de produits qui sont adaptés localement. La culture organisationnelle interne peut-être un frein. Si l'employé me dit pour dire qu'il faut adapter les produits aux besoins locaux il y a une réaction à l'interne. Le Président approuve, je suis, les autres suivent aussi. C'est comme une chaine à l'interne.

The relationship with the leadership resonates with extant research on the role of leadership in the complex environments where the core elements of effective management combine general direction with leeway for decentralized responsive actions, while a central function tries to keep track of ongoing activities and consolidates them for corporate use (Kotter, 1996). This is echoed by Hayes (2007), who argued that managers plan detailed action steps and allocate resources to achieve specified goals, whereas leaders set the general direction and create strategic aspirations that engage organizational members in doing the right things as threats and opportunities emerge.

Existing research shows that in the complex environments, it is often impossible for one individual to have the requisite knowledge and skill to successfully enact individual leadership to the exclusion of other forms of leadership (Merkens and Spencer, 1998). Several studies have also acknowledged that the sharing of leadership and shared knowledge within organizations are critical to survival (Carson, Tesluk and Marrone, 2007; Pearce and Sims, 2002). Others have illustrated the link between shared leadership and team outcomes (Avolio, Walumba, and Weber, 2009; Kukenberger et al. 2011; Pearce and Sims 2002). Carson et al. (2007) found in their study of shared leadership, teams with higher levels of shared leadership were associated with higher levels of team performance. This agrees with Schein's (1985) definition of leadership as the building, mobilization, maintenance, and change of culture.

To take the analysis a few steps further, we can address the question of the leaders' competencies. What kind of competencies should the executives have to be able to mobilize resources when dealing with international issues? Scholars lay emphasis on integrity, insightfulness, risk taking, and ability to bring the best in people (Spreitzer, McCall and Mahoney, 1997). Learning attribute of executives should include cultural adventurousness, flexibility, openness to criticism, desire to seek learning opportunities, and sensitivity to cultural differences. Further, strong human capital generally has a positive effect on internationalization (Hitt, Bierman, Uhlenkruck and Shimizu, 2006). Fig. 4.4 on the next page summarizes all interrelationships in the organizational culture category:

Figure 4.4
The interrelationships in the organizational culture category
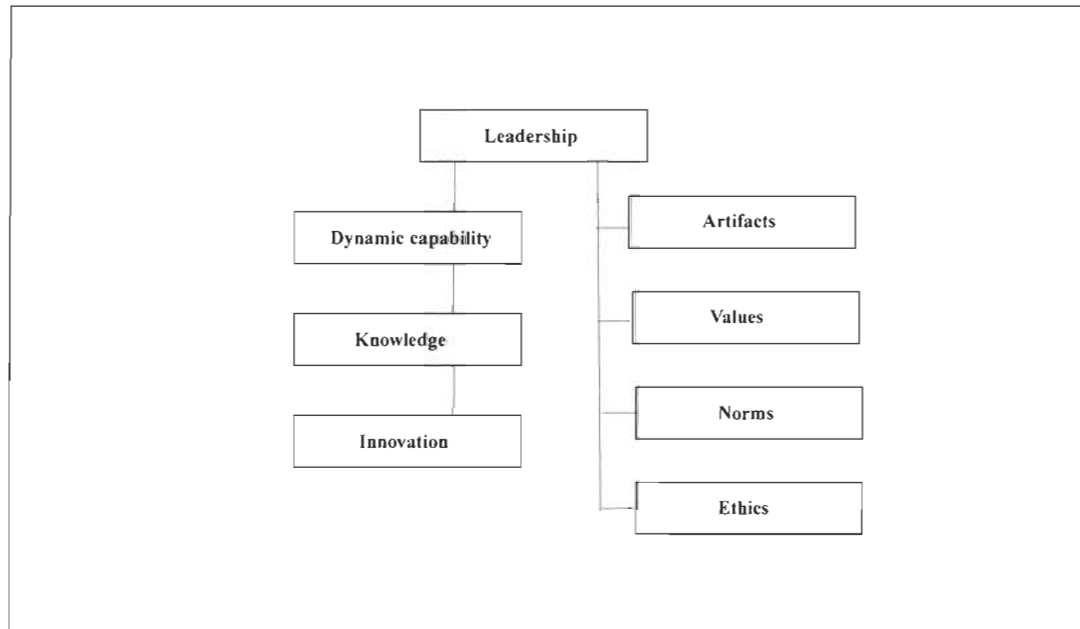
Leadership alters individuals' behaviors. This behaviour is strongly linked to employees' motivation and job satisfaction, and, overall, to the organizational performance (Bass, 1985, 1995; Burns, 1978). Leadership also determines how the firm's dynamic capability is used. This, in turn, influences and shapes the knowledge creation. Knowledge creation drives innovation and lies at the heart of competitive advantage (Easterby–Smith and Lyles, 2006). In order to get sustained competitive advantage, the firm's principal goal is to have a distinct knowledge management process of acquiring, protecting, and leveraging knowledge.

The following section will describe the interrelationships within the second major category, the foreign market.

4.2.3.3   Category interaction in the foreign market

In the foreign market category, identity, institutions and local practices are rooted in history, see Fig. 4.5 below:

Figure 4.5
The relationships of the identity, institutions, local practices and history
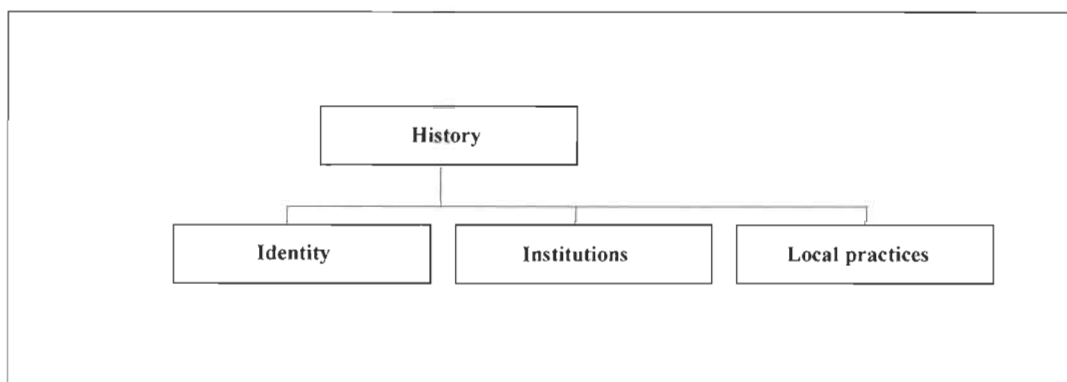
Bauman (1996) argued that the question of identity, which comprises language and religious affiliation, particularly comes to the fore whenever people are uncertain about where they belong. The need to belong refers to the cultural heritage in which individuals view themselves in relation to previous generations. History affects the society because the interaction between society and its past is mutual and continuous. As one of our respondents specified:

> Even further communication cells are routed in historical terms. You know, I am an Orthodox Christian. In Latin America, I have been accused of being too blunt and of being a pessimist... But that is a part of me. That is where I came from, that is my culture and the way my parents behaved and the way my grandparents behaved. And that communication style also reflects your values. So, how you communicate, you do not explicitly communicate

your values, you implicitly communicate your values. I think that is another element of communication.

The past exists in the mind and memories of those in the present. It covers both the memory of the past events and the meaning it represents in the present. One of our respondents explained why Iranian people do not speak foreign languages:

Le dernier élément est la langue. L'isolement du pays durant les 40 dernières années avait des conséquences. Entre autres, les Iraniens ne parlent plus des langues étrangères.

Or the current institutions in Russia which are influenced by historical factors such as centralization, authoritarian regime and the ideology of the Communist Party during the Soviet period:

In Russia, the post-soviet business is an example of a still very hierarchical, very vertical system. They have not bought into sort of the Microsoft campus, the new start-ups' style. If you look at the company like X, it is a vertically integrated corporation and, just like many others, has basically grown up from the Soviet heavy industry. Its communication is very much top down and, unless you know that, looking at somebody's business card and reading their title will tell you nothing about who makes decisions.

Similarly, the present centralized political and social system in France is rooted in the period known as the Ancien Régime, when France was transformed into a centralized absolute monarchy. One of the respondents wondered why.

En France, tout est très centralisé. Si tu as besoin de prendre la décision, il faut monter dans la structure organisationnelle, il faut aller à Paris. Tout se passe à Paris.

Un autre exemple, on cherchait les gens bilingues (anglais et français) et on les a trouvés en Alexandrie, en Égypte. À cause la culture méditerranée, toute l'histoire du passé, Napoléon... le bassin de français - anglais était très élevé. Donc on a décidé de mettre un centre d'appel bilingue en Égypte.

Identity, institutions and local practices are also rooted in climate, see Fig. 4.6 below:

Figure 4.6
The relationships of the identity, institutions, local practices and climate
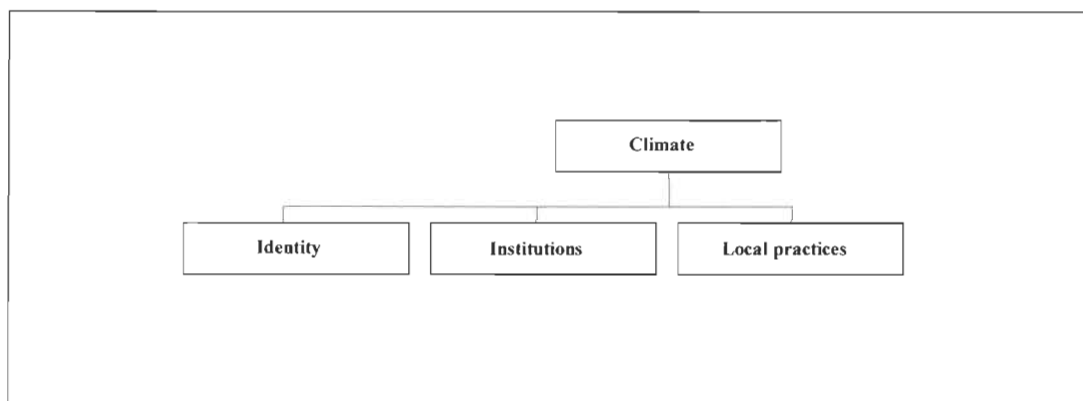
As said earlier, Montesquieu (1742) suggested that climate differences help to shape human societies. Recent report published claimed that ambient temperature (that is, the temperature of the surrounding environment) is a crucial factor associated with an individual's personality (Wei et al., 2017). It further suggested that, compared to people who grew up in areas with more extreme temperatures, individuals who grew up in regions with more clement temperatures (that is, closer to 22°C) scored higher on personality factors related to socialization and stability (agreeableness, conscientiousness, and emotional stability) and personal growth and plasticity (extraversion and openness to experience). It seems that in comfortably warm weather, individuals are more likely to go outside. But, in cold or very hot weather, they tend to

stay indoors, where the social interactions and activities are more limited. As the respondents highlighted:

En Iran, on commence à travailler très tôt, à 6h30. Et on s'arrête à 13h parce qu'il commence à avoir chaud. Après on revient travailler vers 20h. Les écoles suivent. Elles s'ouvrent à 7h30. Les banques s'ouvrent à 8 heures, après les bureaux commencent à 9h. On fait ça depuis 40 ans.

There, it comes from the climate, environment. It comes from religion and then it becomes a tradition and it is a tradition to have dinner at 10 p.m.

Par exemple en Iran, quand tu manges un produit comme le poisson, d'habitude, on ne mange pas le poisson pendent l'été. Parce que à l'époque il n'y avait pas de frigo. Donc en été le poisson n'était pas bon. Même aujourd'hui, avec tous les frigos, les congélateurs... Un jour j'ai été invité au resto, j'ai commandé le poisson et la personne qui m'a invité était étonné que je mangeais du poisson. Il a vécu à Londres mais a gardé cette habitude de ne pas manger le poisson en été.

Figure 4.7 on the next page summarizes the interrelationships in the foreign market category:

Figure 4.7
The interrelationships in the foreign market category
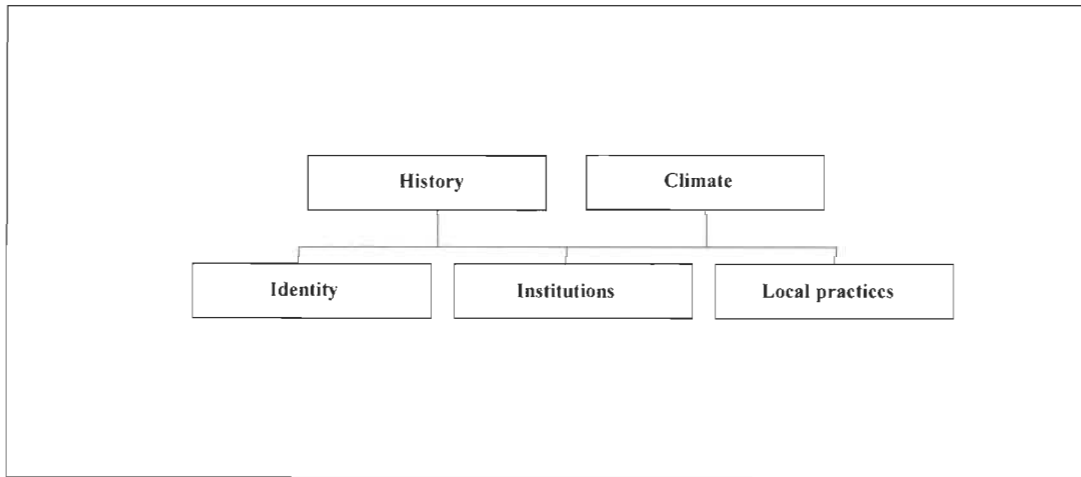
As Fig. 4.7 shows, history and climate shape identity, institutions and local practices in foreign market. Being aware of the climate difference and knowing the history of the foreign market seemed important to respondents. Many of them indicated that it would allow to understand the past, which in turn would allow to understand the present dynamics in foreign market. As one of the respondents explained: "If we want to know how and why the local market is the way it is today, we have to look to history for answers." He continued:

> People often say that history repeats itself, but if we study the successes and failures of the past, we may be able to learn from our mistakes and avoid repeating them in the future when dealing with local people.

The example concerning Russia revealed the post-Soviet hierarchical top-down organizational structures and local business practices that cannot be totally understood without knowing the country's Soviet past. The example with China and Middle East emphasized the necessity of trust, which is not a cultural factor as such, but which can work to alleviate cultural tensions. Much the same can be said about the example with

Iran where current local practices and a nonspeaking foreign language population are the results of the country's past of being a closed society for years. Studying history can provide insight into a market's origins, thereby increasing cultural awareness and understanding. The next section describes the interrelationships between the two major categories, as summarized in Fig. 4.8 below:

4.2.3.4 Category interaction between the organizational culture and the foreign market

Figure 4.8
Interaction between the organizational culture and the foreign market
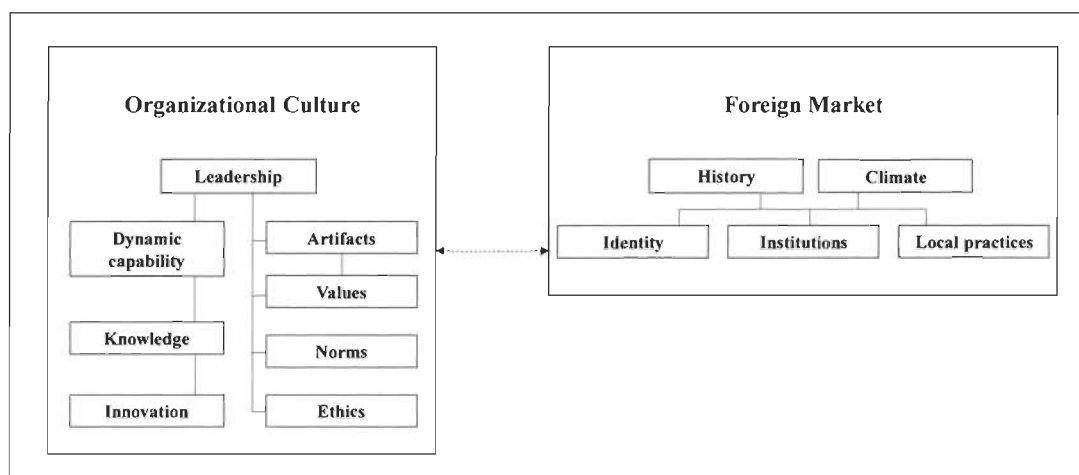
Source: our conception.

As Figure 4.8 shows, the dotted arrow connecting the two major categories shows the interrelationships between the organizational culture and the foreign market. This interaction is multidimensional, often linked at the subcategory level of each category and very richly interwoven. With the help of a more thorough linguistic content analysis (Roberts, 1989), we unveiled this interaction by analyzing the action verbs connecting the two categories. These verbs were first coded and then grouped into additional category entitled 'interaction'.

The interrelationships were described through different connecting verbs used by respondents: 48 verbs of mental action (know, understand, believe ...), 11 verbs of relationship building (establish, communicate ...), 23 verbs of other human actions (create, develop ...), and 16 verbs of rejection (fail, reject ...). We organized these verbs into two meaningful clusters: the positive action verbs and the negative action verbs. The positive action verbs comprise 4 subcategories. They are numerated below:

1. Verbs of mental action: "know," "understand," "being aware," "perceive," "believe";

2. Verbs showing a willingness to action: "willing to work," "adapt," "try to balance," "accept," "educate," "meet," "expect";

3. Verbs showing human action: "working on," "collaborate," "undertake," "attract," "foster," "change," "create," or "develop";

4. Verbs of relationship building: "affecting" [the trust], "building" [an open dialogue], "establishing" [the relationships], or "communicate."

The negative action verbs were expressed in rejection verbs, such as "opposing," "misunderstanding," "not considering," "rejecting," "failing," or "differentiating."

The interaction category serves as the liaison between the two major categories, the organizational culture and the foreign market. As further analysis revealed, it influences the relationships between the major categories and shapes the final outcome which can be either positive or negative. As per one of our respondent's comments when describing cultural risk:

> As for the company X, they failed in China because they were not aware the Chinese consumers were not interested in DIY [do it yourself] products. What a flop!

This example describes the failure of the firm (the organizational culture category) in China (the foreign market category) as the firm "was not aware" of the Chinese customers' preferences (the interaction category). Alternatively, the company failed in foreign market due to lack of knowledge or poor knowledge transfer. This challenge has been largely studied by scholars (Bertels and Savage, 1999; Doz and Santos, 1997; Bresman, Birkinshaw and Nobel, 1999).

When specifically considered the international transfer of knowledge, Bresman et al. (1999) noted the lack of personal relationships, the absence of trust, and cultural misunderstandings. In a study of 121 acquisitions in other EU countries by UK firms, Schoenberg (1999) demonstrated that the firm's ability to successfully transfer functional knowledge consistently falls short of their expectations. He found that while 79% of acquirers sought "some or more" knowledge transfer from the acquired firm, only 63% attained this level. This reinforces the conviction that cross-border knowledge transfer can fall, among other things, on what Szulanski (1996) called the arduous relationship between the source of the knowledge and the recipient. Venzin (1998) noted that knowledge transfer may be especially difficult in cross-boarder setting as knowledge is generated in different language systems, organizational cultures and work groups. Below is another extract from the interview that emphasizes the possibility of a negative outcome for the firm due to lack of local knowledge:

> Misunderstanding the norms, people behaviour or local authorities come with a price. If you try to express yourself in a not appropriate manner that can ruin your future business relationship.

However, the outcome can also be positive when knowledge transfer is done properly, as shown in the example below:

> When you are planning to do business in these foreign countries, you have to go well beyond buying and selling your assets or services. To succeed, you have to understand the environment you are working in, the people and the local practices.

The knowledge sharing can be done internally, with the help of an external expert or market intelligence, as per the examples below:

> Typically, the legal department of our company accesses the service to be able to identify a client. And we also collect all the public information related to the news events and things like that. And that is normally a starting point when you get your legal people working on this. Sometimes, along with the contract department. So, if there is any issue, they will tell you.

> It is also useful to sit down with the Canadian Embassy representatives in foreign countries. We used to do that at my previous work, usually at the beginning of the project. It made work very easy and facilitated the relationship over time.

> With foreign partners, we usually do the questionnaire entitled KYC [know your client]. We do this questionnaire every time before the project starts. This questionnaire does a due diligence of our clients' business. It also shows who owns their businesses or any media assets. It also shows if the company or the company's owners were involved in any not transparent business activities. The questionnaire became a routine to us.

Kleppesto (1998) took a social constructionist approach and argued that what most other researchers described as cultural differences are quests for social identity. He demonstrated that understanding companies and the way they really work is the key

to success. Companies must adjust to the new conditions by negotiating meanings with each other. The creation of meanings in this way is termed sensemaking.

This agrees with Ashby's (1956) law regarding levels of variety and regulation within biological systems. According to Ashby's principles:

When the variety or complexity of the environment exceeds the capacity of a system (natural or artificial), the environment will dominate and ultimately destroy that system.

Alternatively, to deal properly with the diversity of problems the world throws at you, you need to have a repertoire of responses, which are (at least) as nuanced as the problems you face. Or, even more simply: variety absorbs variety. For organisations, Ashby's principles mean that they must always remain more flexible with their approaches to strategy and operation than the levels of structure and complexity within their systems and operating environment.

In line with the view of the cultural knowledge as an organizational resource, to mitigate cultural risk, the cultural risk management should focus on the transfer of this resource, which is a form of organizational knowledge. Moving forward, based on the findings of this study, we suggest the following:

Cultural risk management is a form of knowledge management based on Ashby's requisite variety principle where resource management would meet the required product-market cultures.

This sets out the foundation of the theory of the cultural risk management. Its components and their relationships will be summarized schematically in a unifying framework in the next chapter.

CHAPTER 5 - DISCUSSION

The previous chapter described the results of the in-depth interviews with 34 managers and the questionnaire completed by the managers. We described the elements of cultural risk as understood by the respondents, described the interrelationships between the cultural elements, and set out the foundation to cultural risk management. The following chapter suggests the unifying framework of cultural risk management, discusses it in the context of existing research, discusses the implications of the proposed theory for practitioners and draws insights for future research.

5.1   THE INTEGRATIVE FRAMEWORK

The concept of cultural risk as understood by the respondents of this study comprises the two interrelated themes: a) the firm-internal cultural risk which is resource-based view (RBV) driven and related to organizational culture as an organizational resource, and b) the firm-external cultural risk which is product-market driven and related to foreign market environment. The structure components and their relationships within the theory are embedded in the integrative framework presented in Fig. 5.1 on the next page:

Figure 5.1
Cultural risk management: an integrative framework
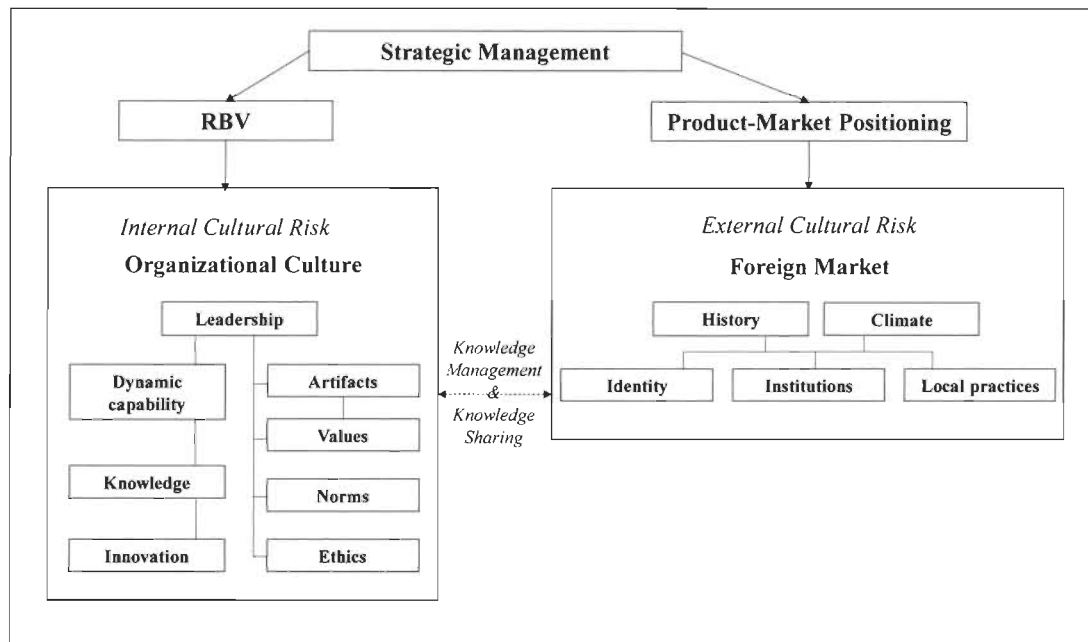
The framework organized the wide array of interrelated elements interacting at different levels. The internal perspective focuses on the internal-cultural-risk elements related to the organizational culture of the firm viewed as organizational resource; the external perspective displays the external-cultural risk elements' interrelationships related to the foreign market environment. The dotted arrow shows the interaction between the two perspectives. It is noticed that the arrow 'interaction' from the preliminary framework has been modified to read 'knowledge management & sharing'. Knowledge is the link between the organizational culture as a form of organizational resource and the foreign market that can mitigate the cultural risk.

This agrees with Choo's (1998) concept of shared meanings in the knowing organization. Through sensemaking (Weick, 1995), organizational members enact and negotiate beliefs and interpretations to construct shared meanings and common goals.

Shared meanings are the outcome of sensemaking, and they constitute the framework for explaining observed reality, and for determining saliency and appropriateness. Shared meanings help to specify a shared set of issues that people in the organization agree on as being important to the well-being of the organization. While they may not agree with the content of a particular issue and may adopt diverse positions on how it should be resolved, nevertheless, there is a collective recognition that these issues are salient to the organization.

Shared meanings also help to define the organizational culture. Defining the organizational culture establishes norms and expectations about the propriety, accountability, and legitimacy of the organization's choices and behaviors. A framework of shared meanings is, therefore, used by organizational members to assess consequentiality and appropriateness, and to reduce information ambiguity and uncertainty to a level that enables dialogue, choice and action making.

Where messages from the environment (e.g., the foreign market) are highly equivocal, shared meanings reduce ambiguity by helping members to select plausible interpretations. Where messages from the external environment are highly incomplete, shared meanings reduce uncertainty by supplying assumptions and expectations to fill in the voids. Shared meanings need to be continuously updated against new events and conditions. By allowing ambiguity and diversity in interpretations, an organization can constantly monitor its shared meanings against the environment to ensure that they are still valid. Within the Choo's (1998) framework of its constructed meaning, the organization exploits current specializations or develops new capabilities to move towards its vision and goals.

Under the suggested model, the knowledge enters the firm externally from the foreign market environment and internally from the organizational resources held by individuals and resided in many forms, including books, databases, data files,

management practices, or artefacts. The cultural risk management outcome is the result of the quality of knowledge sharing and the organizational efforts to manage the knowledge. To mitigate the cultural risk, organizations can rely on culture as a utilizable resource, knowledge, and capabilities transferred from the firm to the foreign market. This internal view seeks how to improve firm performance by leveraging its internal resources, dynamic capabilities and competencies.

Organizations can also rely on knowledge transferred from the market to the firm. Knowledge about the market is imported from outside the organization and absorbed (Choo, 1998). Wikstrom and Normann (1994) saw an organization as a knowledge-creating value star at the center of many incoming flows of knowledge from suppliers, customers, and other partners. Knowledge is transformed into value not only within the organization, but also through knowledge-based interactions with its customers, suppliers, and other partners.

Foreign market shapes knowledge driven by the industry, local practices, and institutions. A firm depends on the expertise from the external environment: local employees, agents, and advisors. The feedback of the foreign market shapes and modifies the internal knowledge of the organization via organizational capabilities. The new knowledge is further converted into innovation. The process continues internally and externally to manage cultural risk and to create customer benefits. This external view builds on an economic perspective of industry structure, and how a firm can make the most of competing in that structure.

The model accommodates internal and external factors and suggests a way of viewing the firm as a manager of cultural resources and potential harmonizer of cultural risk. Such a model would enable to develop a firm-oriented perspective on culture.

5.1.1 Knowledge management

This study specified how costly it can become not to share cultural knowledge within the organization. Cultural knowledge needs to be evaluated, codified, and diffused in the appropriate form to users.

The concept of knowledge management has been largely discussed by scholars. Nooteboom (2000) highlighted that scholars dealing with knowledge transfer mistakenly construed it as the transfer of information as if knowledge can be taken as a commodity. He argued that the intake of information to construct knowledge requires absorptive capacity (Cohen and Levinthal, 1990). Davenport and Prusak (1998), making use of the experience of British Petroleum in introducing a company-wide knowledge management/organizational learning system, classify knowledge management based on principles which should underpin good practice. These principles are knowledge originates and resides in people's minds, knowledge-sharing requires trust, technology enables new knowledge behaviours, knowledge-sharing must be encouraged and rewarded, management support and resources are essential, knowledge initiatives should begin with a pilot programme, quantitative and qualitative measurements are needed to evaluate the initiative, and knowledge is creative and should be encouraged to develop in unexpected ways.

Dixon (2000) based her list of types of knowledge on three considerations: the intended receiver of the knowledge in terms of similarity of task and context, the nature of the task in terms of how routine and frequent it is, and the type of knowledge being transferred. She then created five categories of knowledge, not in terms of its content, but in terms of transfer characteristics. With that, she showed how the kind of transfer, the nature of the task, and the type of knowledge influenced what she called the design guidelines, which referred to the format of exchanges, for example, face-to-face

meetings and online forums, participation of senior managers, the role of knowledge specialists, the transferability of knowledge by electronic means, and so forth.

Easterby–Smith and Lyles' (2006) study investigated where knowledge management is practiced in organizations. Their matrix is worth reproduction here, see Fig. 5.2 below. Easterby–Smith and Lyles' (2006) comprised four quadrants: (1) organizational learning (theory/process), (2) the learning organization (practice/process), (3) organizational knowledge (theory/content), and (4) knowledge management (practice/content), where knowledge management is located at the intersection of practice and content as indicated in the graph below:

Figure 5.2
Easterby–Smith and Lyles' knowledge matrix
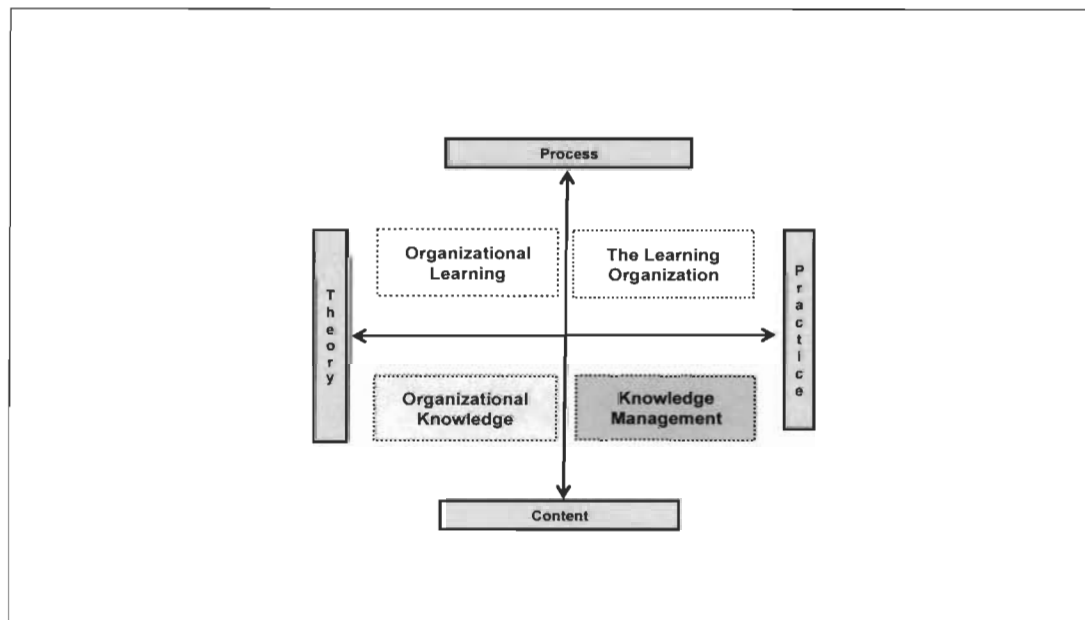
Source: Adapted from Easterby-Smith and Lyles' (2006)

This quadrant is where a practical way to apply most organizational experience-related knowledge-transfer occurs from, for example, intercultural project management,

or for that matter, from any other knowledge-related experience transfer. Organizations also use the practice-process quadrant labeled as "learning organization" for knowledge transfer or for downloading to knowledge databases other than experience-related knowledge, such as the firm's expertise. For culture relevant experience transfer the practice-content quadrant is used. The theory-specific quadrants relate to research.

Knowledge creation is part of the knowledge management process. Knowledge creation is precipitated by a situation that identifies gaps in the existing knowledge of the organization or the work group. Such knowledge gaps stand in the way of solving a technical or task-related problem, designing a new product or service, or taking advantage of an opportunity (Choo, 1998).

Nonaka and Takeuchi (1995) argued that knowledge creation in firms can lead to a sustainable competitive advantage. They defined organizational knowledge creation as a process that amplifies the knowledge created by individuals and that crystallizes it as a part of the knowledge network of the organization. Polanyi (1966) emphasized a major distinction about the nature of knowledge, that is, tacit and explicit knowledge. While tacit knowledge is personal, context-specific, and therefore hard to formalize and communicate, explicit knowledge refers to knowledge that is transmittable in formal, systematic language. The origins of tacit knowledge have been ascribed to Polanyi (1966); however, it can be traced back to a fifth-century Indian sage Bhartrhari (Ayer, 1965):

The expert's knowledge of the genuineness of precious stones and coins, incommunicable to others, is born of practice and not reasoning.

Tacit knowledge is generally characterized as knowledge that cannot be coded (Nooteboom, 2000). Cohen and Bacdayan (1996) introduced the notion of procedural as opposed to declarative memory. In the first, we store knowledge that constitutes a

cognitive or motor or other practical skills, for example, the skill to speak a language. In the second, we store knowledge of facts, events, formulas, etc. Procedural knowledge is more difficult to access than declarative knowledge, and it is more durable. Procedural and tacit knowledge are closely related (Nooteboom, 2000).

Polanyi and Nonaka did not define tacit information same way. Polanyi's tacit dimension refers to innate intelligence, perception and reasoning as opposed to Nonaka's definition that refers to memory and experience that can be made explicit through socialisation (Vaghely, Julien and Cyr, 2007).

Polanyi (1966) contended that individuals create knowledge by involving themselves with objects, that is, through self-involvement and commitment, or what Polanyi called "indwelling." In contrast to Polanyi (1966), Nonaka and Takeuchi (1995) argued that tacit knowledge involves both cognitive and technical dimensions. The technical dimension is an expertise, a know-how that encompasses the kind of informal scientific or technical principles, skills that apply to specific contexts which are often difficult to articulate. As for the cognitive dimension, it comprises schemata, mental models, beliefs, and perceptions, and viewpoints that provide perspectives that help individuals to perceive and define their world, they are the moderators of individuals' culture. Schemata are used in scripts that dictate the individual behaviour. Organizational knowledge is created through a continuous dialogue between tacit and explicit knowledge (Nonaka, 1994). Specifically, knowledge creation lies in the mobilization and conversion of tacit knowledge into explicit knowledge (Nonaka and Takeuchi, 1995). Thus, competitive advantage in firms resides in their ability to create explicit knowledge out of tacit knowledge.

Individuals possess the firm's knowledge. Individuals from diverse backgrounds have diverse life experiences, and when they share their knowledge and experiences with others, the overall understanding of the issues at an individual level

as well as the organizational level enhances (Singh, 2010). The cultural knowledge increases the potential number and sources of innovations and learning (Cohen and Levinthal, 1990), thus it increases the knowledge creation. Cultural knowledge is tacit (Holden, 2002; Nooteboom, 2000). The need to understand the process of knowledge transfer from tacit to explicit knowledge is especially important.

5.1.1.1 *Knowledge conversion*

Consistent with Nonaka and Takeuchi (1995), Burton–Jones (1999) argued that only tacit knowledge, whether alone or in conjunction with explicit knowledge, can give a firm a sustainable competitive advantage. Firms need to acquire, create and protect tacit knowledge: the knowledge that is in the heads of their employees and embedded in the general organizational context of their work (Holden, 2002). Tacit cultural knowledge, once acquired, becomes a distinctive competency of the firm that would be difficult for competitors to copy, and therein lies a true competitive advantage.

Nonaka and Takeuchi (1995) suggested four modes of knowledge conversion. They are from tacit knowledge to tacit knowledge called socialization, from tacit knowledge to explicit knowledge, or externalization, from explicit knowledge to explicit knowledge, or combination, and from explicit knowledge to tacit knowledge, or internalization.

The key to acquiring tacit knowledge is through common experience and socialization that are processes of sharing experiences, albeit colocation or proximity also helps a great deal. Organizational structure creates physical proximity between individuals; this vicinity regulates the information flow between 'collocaters'. Information culture is a collective schema that interprets information differentials between what has officially happened and what really happened, strengthening by this

communal interpretation cross-cultural socialisation, ties of proximity and collaboration between individuals (Vaghely and Julien, 2010).

Organizational members individually and collectively fabricate new knowledge by converting, sharing and synthesizing their tacit and explicit knowledge, as well as by cross-linking knowledge from external individuals, groups and institutions. The outcomes of knowledge creating are new capabilities and innovations that enhance existing competencies or build new ones; generate new products, services, or processes; or extend the range of viable organizational responses to a problem situation. The value of new knowledge is assessed locally by its ability to solve the problem at hand, as well as generally by its ability to enhance the organization's capabilities in the long run (Choo, 1998).

Individuals from different cultures create tacit knowledge through a sharing process and through various interactions (Nonaka and Takeuchi, 1995; Kogut and Zander, 1992; Cohen and Levinthal, 1990; Holden, 2002). Nonaka and Takeuchi (1995) described externalization as a process of articulating tacit knowledge into explicit concepts, which makes this mode the key to knowledge creation. Once explicit concepts are created, they can then be modeled. Externalization is often driven by a metaphor or analogy, which is highly effective in fostering direct commitment to the creative process. Combination is a process of systemizing explicit concepts into a knowledge system involving different bodies of explicit knowledge, say, documents, meetings, telephone calls, and e-mails. Knowledge creation can be conducted in formal education, training or information exchange. When the experience acquired by socialization, externalization, and combination is internalized into individuals' tacit knowledge, they form the bases of shared mental models, or technical know-how, they become valuable firm's assets.

Accordingly, cultural knowledge, held by individuals, when it is shared through mental models, becomes an organization's distinctive competency, and therein lies sustained competitive advantage. Thus, sharing cultural knowledge among multiple individuals with different cultural backgrounds becomes the critical step for organizational knowledge creation that induces competitive advantage.

5.2 CONTRIBUTION

The suggested unifying framework contributes to extant research in several ways:

5.2.1 Unveiling components of cultural risk

As noted in chapter 1, one of the drawbacks of current conceptualizations of culture is that they apply a static, holistic approach. The Hofstede's framework translated the rather static idea of culture into a tractable construct amenable to empirical research. Many authors have followed Hofstede's positivist approach by refining either his cultural dimensions (Trompenaars and Hampden–Turner, 1998; House et al., 2004), or his methodology (Sivakumar and Nakata, 2001; Schwartz, 2007; Yeganeh, 2011). With this essentialist paradigm of culture (Nathan, 2015), a singular national identity is often a determinant factor, and the culture is static, holistic, bounded, and deterministic.

From a situated dynamic perspective, Leung and Morris (2015) advocated the need to consider a more complex construct of culture. They suggested scholars perhaps need to consider not just the values in the construct of culture, notably Hofstede's dimensions, but should also examine the typical situations and identify relevant schemas (Gioia, 1986; Gioia and Manz, 1985; Gioia and Poole, 1984; Vygotsky, 1962;

Luria, 1976) and norms (Sherif, 1936; Asch, 1956; Fishbein and Ajzen, 1975; Buchtel and Norenzayan, 2008; Norenzayan et al., 2002) that shape decision-making and intercultural interaction. Extant research advises that some other constructs of culture may also exist.

The study explored the construct of cultural risk. Its findings confirmed the existing Hofstede's framework of cultural elements, such as artifacts or values. It confirmed norms and corporate ethics that were previously covered by scholars (Leung and Morris, 2015; Sherif, 1936; Asch, 1956). It also explored the firm's capabilities, knowledge and, by extension, an organizational innovation to add to the Hofstede's framework. Having all these elements under the umbrella of organizational culture allowed us to look at the culture as a form of an organizational resource that can be fully used by organizations. The view of culture as a resource permits us to see culture as a potential for harmonizing collective efforts, releasing creativity, achieving tolerance, and widening intellectual horizons.

This study linked values, norms, corporate ethics, firm's capabilities, knowledge and an organizational innovation to leadership, thus highlighting the influence of leadership on organizational dynamics and the role of a leader in forming organizational culture. This connection is not so new. For instance, research in development of firms argues that new firms typically arise from a successful innovation where the organizational development at the start is closely related to the cycle of discovery (Nooteboom, 2000). The task of the leader is to achieve credibility, inspire, and to direct the formation of culture, in the sense of a coherent set of mental categories, as defined by Schein (1985). The personal categories of the leaders form the template for culture to develop, to the extent that they are confirmed in success (Nooteboom, 2000). A well-known stream in the literature on the growth of the firm arises when the innovating entrepreneur has to delegate responsibility, systematize, and formalize the organization after the innovation proves its worth (Nooteboom, 1994). An increase in

scale entails delegation with appropriate means of measurement and control, and this requires the transformation of tacit into explicit, documented knowledge (Nooteboom, 2000). The entrepreneur, in the sense of the risk taker and charismatic leader can find it difficult to become a manager and engage in this type of activity. Firms operating in constantly changing business world need leaders to help them forge ahead. They need leaders who create innovative products, sift through the opportunities in developing markets, and create cohesive and effective teams of individuals from different countries, cultures, and functional disciplines by shaping internal organizational knowledge. Refinement of the suggested interrelations between the cultural elements of this category would be greatly beneficial.

This study also explored the components of cultural risk at the firm's external environment level. Drawing on Hofstede et al. (2010) model of differences between countries, this study further extended it by adding local practices to identity and institutions and by rooting identity, local practices, and institutions in history and climate. It also enlarged the scope of Hofstede et al. (2010) model by extending the definition of the foreign market which includes countries but is not limited to the country level.

Lastly, this study revealed and described the interrelationships between the components of culture at internal and external levels. These interrelationships served as the building blocks of the suggested theory of cultural risk management. They are multidimensional, often linked at different levels and very richly interwoven. Cultural facets are hard to capture. By adding more components of cultural risk and the relationships between its elements to the already existing ones, this study provided scholars with a better understanding of the concept of cultural risk to help firms manage cultural risk at the organizational level. Qualitative research in a non-essentialist dynamic paradigm was a relevant choice as cultural components are hard to capture with a quantitative research.

This study did not suggest that Hofstede's perspective, which has produced significant understanding, should be completely abandoned. We could have found plenty of examples of cultural differences and attitudes identified by Hofstede. Further probing would have revealed how differences in values, language, best practices and institutions and so on all operate as disruptive influences of varying magnitude in the described situations. However, the evidence of this study suggests that cultural risk impacts on organizations cannot be anticipated or analyzed solely by applying cultural categories such as values, local practices or leadership style differences without appreciating the relationships between these categories. Future research can explore the other components of cultural risk to refine the concepts, constructs and their relationships.

Aligned with the scholars of the non-essentialist paradigm, the findings of this study demonstrated that culture is a multidimensional concept and should be explained as such; otherwise, it only gives part of the picture.

5.2.2   Opening up to external and internal perspectives

Using strategic management, this study suggested that cultural risk should consider both out there according to product-market-positioning concepts and in here with the resource-based view of the firm to capture the essence of the firm's cultural dynamics. While previous works have investigated how firms respond to the cultural risk (Hymer, 1976; Luo and Mezias, 2002), they tend to ignore either the external or the internal aspects of a firm's cultural environment, emphasizing only one side: either cultural issues within the organization or host country cultural challenges. Notably, a separate research stream has examined the specific ways in which firms adapt and adjust when entering host countries (Björkman et al., 2007; Jonsson and Foss, 2011; Kostova and Roth, 2002; Saka, 2004). There is a stream of authors who believe that

cultural diversity is a constraint on management practice and organizational culture (Gerhart, 2008; Gerhart and Fang, 2005; Pelled, 1996; Shenkar and Zeira, 1992).

Illustrating cultural issues from a strategic management perspective, this study opened up a broader perspective. The suggested integrative framework bridges this literature. Strategy's resource-based view (RBV) and product-market positioning opened up the internal and external views of cultural risk. This, in turn, helps to propose some strategy-based paths for cultural internal and cultural external risk management.

The integrative framework highlights how managers can manage these risks both internally and externally and how these result in varying levels of opportunities and losses. For example, in foreign market, firms seeking to introduce innovations from the home country may be expected to mitigate their external cultural risk as a buffer against competition. Firms seeking to tap into local knowledge and form alliances with host country firms may attenuate their internal cultural risk by sharing and shaping this knowledge within the firm. In this way, an integrative framework recognizes how the degree and form of cultural risk may vary, depending on firm's strategy. A fruitful avenue for future research will be to investigate the link between firm's strategy and cultural risk's internal and external views across multiple foreign market contexts.

5.2.3 Assessing the impact of cultural risk

This study also addressed the question of cultural risk's impact. Quantifying the impact of cultural risk is difficult due to its measurement issues. In the dynamic non-essentialist paradigm (Nathan, 2015), culture is dynamic with continuity and change, heterogeneous, changeable and with blurred boundaries. Consequently, it is difficult to measure. The measurement frameworks have not gained large popularity mostly because of the lack of measurement instruments. This study addressed this issue.

This innovative approach to benchmarking against other risks provided a view of cultural risk's rank. On a scale of 0 to 10, we assessed respondents' perceptions of the importance of cultural risk compared with the other risks, being economic, political, ethical or legal risk. The impact of the cultural risk was perceived to be medium-low compared with other risks. However, it ranked first in terms of the likelihood of occurrence with the highest score of 6.9.

The literature review for this study revealed a significant need for further research in culture measurement and by extension in cultural risk measurement. Following Hofstede's (2001) path, most extant research focused on cultural means be it national or group averages. With the focus solely on cultural means, many important issues could not be addressed or have been overlooked. Although a mean provides important information about the culture of a group, it is insufficient to understand the phenomenon fully. Focusing solely on means may create a false perception of cultural homogeneity within a group, obstructing the detection of components. For example, a statistical average provides no meaningful description of scores within groups with bimodal or otherwise non-normal distributions. Concurrently, measures of value dispersion and skewness could provide useful information about the cultural composition of the group. In this sense, the benchmarking approach used in this study seemed promising. The components of cultural risk can first be described qualitatively and based on answers of organizational members can then be measured quantitatively against other risks.

For the practitioners, one of the possibilities to measure the cultural risk is to track its components. Some of them were identified in this study. Using these components as metrics to track, business leaders can understand whether their company is on the path to cultural risk management success.

5.2.4   Using knowledge management to mitigate cultural risk

This study addressed the question of how organizations can manage cultural risk. Viewed as an organizational knowledge, cultural knowledge can be created through a sharing process and through various interactions. Cultural risk management is a form of knowledge management based on Ashby's requisite variety principle where resource management would meet the required product-market cultures.

Research on culture has long been focused on the understanding of cultural differences. This study was interested in understanding culture as it impacts organizational growth. It relates cultural risk to knowledge management and organizational learning.

Knowledge management for organizational survival and growth is not new. A stream in extant research has examined the "knowledge contexts" in knowledge transfer (Brannen, 2004). Knowledge transfer involves the movement of knowledge elements from one context to another. This stream highlighted the impact of culture on management when global firms attempt to transfer core competencies to or from new context. The transformation of the meaning of knowledge elements from one context to another, they called recontextualization. The importance of context has been recognized, but scholars have defined its boundaries, dimensions, and categories very differently and have related context to the effectiveness of global operations differently (Gupta and Govindajaran, 2000; Kostova 1999; Kostova and Roth, 2002).

Another stream of research saw knowledge as the new competitive resource (Nonaka and Takeuchi, 1995; Von Krogh et al., 2000; Nonaka and Von Krogh, 2009; Easterby–Smith and Lyles, 2011) and knowledge management is concerned with organizational knowledge. This agrees with the suggestions of this study. To transfer

cultural knowledge so that it might be effectively used, managers would need to identify the scope of its interrelationships as well as how it is known and understood both in its place of original residence and as much as they can about where they want to move it, based on Ashby's requisite variety principle. In practical terms, managers would need to keep track of valuable capabilities used in place that could be applied elsewhere.

As discussed above, only tacit knowledge, whether alone or in conjunction with explicit knowledge, can give a firm a sustainable competitive advantage (Nonaka and Takeuchi, 1995; Burton–Jones, 1999). Cultural knowledge is tacit (Holden, 2002; Nooteboom, 2000). The need to understand the process of cultural knowledge transfer from tacit to explicit knowledge is especially important and can be a fruitful avenue for future research.

Additionally, cultural components can be hard to accommodate in the existing schemes of knowledge transfer. Davenport and Prusak (1998) identified seven inhibitors that retard, erode or prevent knowledge transfer: lack of trust; different cultures, vocabularies, and frames of reference; lack of time and meeting places; status and rewards going to knowledge owners; lack of absorptive capacity in recipients; belief that knowledge is the prerogative of particular groups; the "not-invented-here" syndrome; and intolerance for mistakes or need for help. Most impediments are related to the culture of the organization. Further research on how managers can surmount these barriers seems promising.

5.2.5 Additional avenues for future research

5.2.5.1 The role of trust in knowledge management

One of the factors that can prevent knowledge transfer identified by Davenport and Prusak (1998) is lack of trust. Trust is not a cultural factor as such but can work to alleviate cross-cultural tensions (Holden, 2002). Aligned with Holden (2002) understanding of trust, we did not classify trust among the cultural components. However, many respondents highlighted the critical role of trust as a moderator and one of the factors that can inhibit the transfer of knowledge. Therefore, we believe it is important to emphasize the role of trust and the importance of developing further research in this area.

Organizations that can make full use of their collective expertise and knowledge are likely to be more innovative, efficient, and effective in the marketplace (Argote, 1999; Grant, 1996; Wernerfelt, 1984). In practice, however, knowledge transfer has proven a difficult challenge (Argote, Ingram, Levine and Moreland, 2000; Szulanski 1996). One of the challenges was discussed earlier and related to the tacit or explicit nature of knowledge. Separate stream of research investigates the role of trust and other relational characteristics in knowledge transfer (Dirks and Ferrin, 2001; Mayer, Davis and Schoorman., 1995).

The trust literature provides considerable evidence that trusting relationships induce greater knowledge exchange: when trust exists, people are more willing to give useful knowledge (Andrews and Delahay, 2000; Penley and Hawkins, 1985; Tsai and Ghoshal, 1998; Zand, 1972) and are also more willing to listen to and absorb others' knowledge (Levin, 1999; Mayer et al., 1995; Srinivas, 2000). Knowledge seekers who trust a source's competence to make suggestions and influence their thinking are more likely to listen to, absorb, and take action on that knowledge (Levin and Cross, 2004).

By reducing conflicts and the need to verify information, trust also makes knowledge transfer less costly (Currall and Judge, 1995; Zaheer, McEvily and Perrone, 1998). These effects have been found at the individual and organizational levels of analysis in various settings. Trust as a perceived notion regarding a partner's likely behaviour (Sheth and Parvatiyar, 1992) is a behavioural trait. Trust signals a willingness to cooperate in a relationship by engaging in reciprocity and reducing uncertainty. As such, trust is a function of goodwill (Ring, 1998).

In cultural risk management, trust is a personal attribute but can also be manifested as an institutional feature. For instance, when the communist regimes collapsed at the end of 1980s – beginning of the 1990s, Western firms saw new markets opening up to them. However, when they established offices, they showed a reluctance to trust local people to work in managerial positions. Local employees could not feel confident that the firms did not regard them as inferior and generally not worth investing in. This is a lesson which Western companies have failed to learn; one of the hallmarks of their international management systems has been an endemic mistrust of foreign managers to take control of operations in their own countries (Holden, 2002; Kopp, 1999).

One of our respondents who worked in China explained the importance of guanxi when doing business in China. Guanxi, a Chinese-style relationships and connections, and how a better understanding of guanxi can improve your business in China, was extensively covered by current research (Chen and Chen, 2009; Park and Luo, 2001; Tsang, 1998). It shows how trust in business relationships is based on kinship ties, local ties, and old acquaintances. The nature of trust in China is not the same as in Western countries. In China, the closer relationship through family, geographical ties, the greater the sense of obligation, in principle, not to let the other side down (Holden, 2002). Furthermore, the absence of a widely respected legal code in China means that everything is negotiable, and the purpose of negotiation is not to

get the best deal in a Western sense, but to secure the best possible advantages for oneself and one's group (Moran, Harris and Moran, 2011)

It may safely be said that knowledge transfer and, by extension, cultural risk management without trust is of limited value in a wide range of business relationships. Further research in the area would be greatly beneficial for both researchers and practitioners.

While we recognize that introducing a cultural risk management framework can constitute a managerial challenge, change management has not been covered in this study. Yet, we feel compelled to pinpoint a number of resemblances between the proposed cultural risk management framework and some of the leading change management propositions.

5.2.5.2 Cultural risk management and change management

The suggested cultural risk management framework operated from the assumption that an important part of the executive management role is to provide a foundation for all members of the organization to act and interact in ways that are conducive to generate effective cultural risk management outcomes. This includes that some leeway is left to organizational members to act in response to emerging threats and opportunities within their particular areas of responsibility. This resonates with Pfeffer's (2007) ideas about people-centered strategies as organizational members manage essential stakeholder relationships and engage in experimentation around organizational relationships in response to emerging circumstances. This flexibility would allow the organization to engage in ongoing shaping of internal resources to adjust operating processes, technology, and product or service development and may

serve to align the firm with changing environmental conditions. Without these response capabilities, the organization may become misaligned with its external environment.

This view of cultural risk management resonates with some change management scholars. Kotter's (1996) change management model demonstrated that if this misalignment is allowed to develop excessively, the firm can eventually end in a situation that requires major organizational changes for it to survive. The latter parts of Kotter's change model emphasized the need to sequence the process and show sequential gains, consolidating those gains and imprinting the risk management practices into the way all organizational members think risk management – that is, anchoring the risk management thinking as a part of the organizational culture. This model can become a vehicle for creating awareness to environmental changes and a central analytical function around the leadership team. Further research in this area may focus on how to institute these practices.

5.2.6   Methodology notes for future research

The use of grounded theory methodology for this research project was successful for eliciting categories and for the knitting together of the substantive theory of cultural risk management. Nevertheless, future researchers may want to refine the method further. Such refinements might address the following issues and experiences:

1) Separating the concepts and categories from those specifically relevant to culture relies substantially on the experience of the researcher;

2) This reliance poses a risk to the quality of the resulting theory in two ways:

   a)   Lack of objectivity – the individual researcher's bias determines the shape of the theory;

b)   Incompleteness – concepts and relations which lie outside the individual researcher's experience may not be discovered, may be ignored if they are or may be wrongly categorised.

In this study, it was possible to counteract these issues by applying a two-stage approach:

- In the first instance, after every slice of data, the categories discovered were brought into the common pool of all concepts and relationships so far. From there, the theoretical framework was updated and the parameters for theoretical sampling for the next slice of data were set. These updates were performed until the level of the main concepts' theoretical saturation allowed the formulation of a first substantive theory;

- At that point, the theoretical framework was densified, all redundant concepts/relations were eliminated.

This may, however, be unwieldy for more data – the worst so, if the data is of great richness, which is, on the other hand, highly desirable. The refinement of the method for future research is recommended.

CONCLUSION

Businesses now operate in an entirely different environment compared with just a year ago. Firms live in a global world that is constantly changing, becoming more unstable each day, where changes big and small are becoming more unpredictable and happening faster. As events unfold in completely unexpected ways, it is becoming impossible to determine the cause and effect (Bennett and Lemoine, 2014). Risk exposure has increased and become more complex, diverse, and dynamic (Andersen and Schroder, 2010). At a time when the world faces what may be the largest crisis in generations, we addressed the phenomenon of cultural risk.

The increasing cultural diversity within the organizations as well as the adoption of international expansion strategies, such as cross-border mergers and acquisitions, foreign investments, outsourcing activities, global supply chains, and developing innovative products, all increase a firm's cultural risk exposure.

Until recently, globalization for businesses generally meant taking the ways of the West to the East. Eastern leaders were invited to learn Western management and leadership principles. The reverse is happening. Now, Chinese companies are introducing new products (e.g., Huawei), services (e.g., AliExpress) along with their businesses philosophies on how to manage to the West, adding to the influence already exercised by the Japanese. Also, corporates are recruiting from a much larger pool of diverse people with different cultural backgrounds.

When competition for both talent and customers is so fierce, many companies are now operating in more than one market. International managers have to decide to

choose and adjust their strategies aligned with each market. This crossing of geographical boundaries by the companies gives the birth of multicultural organizations where employees of more than one culture work together. It may be true that companies are finding these expansions as attractive and lucrative but operating and managing a global business is normally more difficult than managing a local company.

One of the possible reasons for the expansion of firms is to create global competitiveness by reducing production costs and exploiting market opportunities offered by trade liberalization and economic integration. This approach can admittedly be fruitful: local fieldworkers can draw upon their knowledge of local practices to come up with practical measures that facilitate detection; local staff can often be more effective in making contact with and persuading bureaucrats to change policies or approve resources. Just as important as the technological innovations is the ability of the organizational members from various nationalities and backgrounds to work together in quickly developing innovative solutions to solve problems as they arose (Choo, 1998).

However, cultural risk, if poorly managed, can interfere with the successful completion of organizational goals. A new market can be full of idiosyncratic customers, incomprehensible languages, and strange cultural laws and norms that even the local might not fully understand. The absence or mismanagement of cultural risk can have devastating effects on exposed organizations and the wider economy (the stories of Daimler–Benz Chrysler merger failure, the Home Depot and eBay's commercial flops in China, to name a few, illustrate this very fact). Today's organizations and corporate leaders must learn the lessons of such failure by developing practices to deal effectively with cultural risk. This study is a step towards this end. Relating cultural risk to knowledge management, it brings a unifying framework to provide a needed overview of management of such risk.

This study began with an extensive literature review of culture, risk, and risk management to assemble the elements and to verify that the subject has not been fully covered elsewhere. Using the qualitative approach, we then explored the components of cultural risk to refine and extend the current knowledge base with a more comprehensive conceptualization of cultural components. Using strategy's resource-based view and firm's product-market positioning, this study suggested that cultural risk should consider both internal and external sides of the firm. The suggested framework presented two sides of cultural risk, and concurrently allows the incorporation of other cultural risk management perspectives. We then theorized some insights on how to manage cultural risk. There is no single standard of cultural issues management that offers all of the answers. Although various approaches can be adopted, there are theoretical and practical arguments for the use of knowledge management to help cultural risk management. Effective knowledge and use of cultural knowledge can provide a source of experience and innovative thinking to enhance the competitive position of organizations. New knowledge and capabilities make possible new alternatives and outcomes, expanding the repertoire of available organizational responses.

While we hope the findings of this study are helpful in outlining the contours of cultural risk management, we make no claim that this constitutes a final answer to how to manage cultural risk. We believe discovering culture is an ongoing quest that requires continuous knowledge development. A globalizing business world needs suitable tools to benefit both researchers and practitioners. The suggested framework can be useful for a number of stakeholders within the professional community and can also help to guide researchers contemplating cultural risk management research. Future work should consider testing the applicability of this framework.

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APPENDIX A

TABLE 1.5 OTHER NON-FINANCIAL RISKS

Table 1.5
Other non-financial risks

Type of risk	Description
Strategic risk	Risk that reflects the opportunity and threats faced by the firm given its competitive environment, external and internal; the risk of a loss arising from a poor strategic business decision;
Project risk	Risk related to the probability and consequence of not achieving a defined project goal;
Reputational risks	Risk that effects the company's reputation;
Legal risks	Risk that leads to legal actions against the company, misreporting, fraud cases or non-respect of the regulations;
Contract risk	Risk related to the probability and consequence of losing a contract;
Technology risk	Risk related to problems with technology or systems, technology development;
Entrepreneurial risk	Risk related to age, experience, and training of the owner-manager;
Management risk	Risks related to lack of management tools, absence of a board of directors or management committee, absence of a designated head;
Commercial risk	Risk related to actual and potential markets, demand fluctuations, sales and distribution difficulties, market collapses;
Environmental risk	Risk related to natural catastrophes, environment and climate changes, extreme weather conditions;
Third Parties risk	Risk associated with reliance on third parties (i.e. outsourcing, strategic partnership or joint-ventures);
Industrial security risk	Risk related to the probability of occurrence of dreadful outcomes linked to a fire, an explosion or any sudden malfunctioning;

Health and safety risk	Risk that effects human health, possibility of loss or injury;
Political risk	Risk related to political events, political unrest;
Economic risk	Tendency of the GDP, anticipated return of the industry, potential economic repercussions;
Societal or institutional risk	Risk related to societal impact, regulatory activity or corporate policy development;
Consumer behaviour risk	Risk related to changes in consumer taste;
Human bevahiour risk	Risk related to uncontrolled or unethical human behaviours (i.e. employees);
National security	Risk related to national security;
Changing demographics	Risk related to demographic changes (i.e. growing or decreasing population);
Terrorism	Risk related to the terrorism;
Cyber attacks	Risk related to the cyberattacks, computer hacking;

Source: Fraser and Simkins (2010), St-Pierre and Bahri (2006), Andersen and Schroder (2010), Aubert and Bernard (2004).

APPENDIX B

TABLE 3.1 THE SEQUENCES OF EVENTS IN GROUNDED THEORY

Table 5.1
The sequences of events in grounded theory

Steps	Detail of activity (Glaser and Strauss, 1967)
1. Comparing incidents applicable to each category;	"Start by coding each incident in the data into as many categories of analysis as possible, as categories emerge or as data emerge that fits an existing category" Rule for the constant comparative method: "While coding an incident for a category, compare it with the previous incidents in the same and different groups coded in the same category" Second rule of the constant comparative method: "Stop coding and record a memo on your ideas."
2. Integrating categories and their properties	"The constant comparative unit changes from comparing incident with incident to comparison of incident with properties; in this way, incidents are compared only with the accumulated knowledge on a category... thus incidents integrate into properties; subsequently, properties become integrated. As they do, constant comparisons... force the analyst to make some related theoretical sense of each comparison."
3. Developing concepts	"One operates conceptual categories or their properties from evidence; then the evidence is used to illustrate the concept. The evidence my not necessarily be accurate beyond a doubt...but [that] one fact then becomes merely one of a universe of many possible indicators for, and data on the concept. Furthermore, the concept itself will not change while even the most accurate facts change."
4. Theoretical sampling	"Theoretical sampling answers the questions: What groups next and for what theoretical purpose?" "The main criteria for choosing groups is their theoretical relevance for furthering the development of the emerging categories" "The [grounded theory researcher] is an active sampler of theoretically relevant data, not an ethnographer trying to get the fullest data on a group."
5. Theoretical saturation	"Categories become theoretically saturated. Saturation means that no additional data are being found [to further] develop properties of the category. [The analyst] learns to see whether or not the next applicable incident points to a new aspect. If yes, the incident is coded and compared. If no, the incident is not coded, since it only adds bulk to the coded data and nothing to the theory."
6. Delimiting the theory	Delimiting occurs at two levels - the theory and the categories:

	1. *Solidification* of the theory: ... major modifications become fewer and fewer... they mainly clarify the logic and take out non-relevant properties; 2. *Reduction* of categories means that the analyst may discover underline uniformities ...and can now formulate the theory with fewer high-level concepts; [This] achieves two major requirements of theory: *parsimony* of variables and formulation, and *scope* in the applicability of the theory to a wider range of situations while keeping close [to the] data."
7. Writing the theory	"The constant comparative method can yield either discussional or propositional theory. The former type of presentation is often sufficiently useful at the exploratory stage of theory development and can easily be translated into propositions...if a formal hypothesis [if required]."

Source: Adapted from Glaser and Strauss (1967).

APPENDIX C

TABLE 4.4 PERCEPTIONS OF THE COMPONENTS OF CULTURAL RISK

Table 4.4

Perceptions of the components of cultural risk

Respondent Number	Answers
1	Language and meaning can be completely different. Modus Operandi and way of doing business have to be appreciated, understood and factored into risk calculations. Knowing salutations, gifts etc. is one thing but awareness of appropriate meetings, when and what to discuss, recognizing certain cultures operate on a different time scale. Relations can be a factor. It all boils down to awareness of both the other culture and your own assumptions. Interestingly, values can be very different but easy to understand and build together (if one is willing to do the work).
2	Cultural risk covers all "subjective" aspects of a marketplace, including consumer preferences, and of the workforce in the country. This includes product and service preferences, which can differ from established experience in other markets. An example here could be Home Depot's failed launch in China, due to the fact that Chinese consumers were not that interested in DIY products. This also includes moral and ethical norms in a country, which can differ.
3	Language Customs Religions Distance Communications
4	Not a strong influence
5	Treatment of human rights, protection of IP, understanding of financial risk
6	Wrong assumptions on mind-set and behaviour of partners, regulators in jurisdictions that are similar or closer to one's own culture (i.e., in other "European" countries if a person is from North America), rather than the natural caution one might have in say, Middle Eastern or Asian cultures
7	Cultural risks are two fold. How you adapt yourself to be considered by the buyer in the foreign country in terms of their view of your respect of their culture. Also, showing the willingness to understand and respect the local customs. This takes time and multiple experiences with the buyer initially to get to the point of taking business. The second element is understanding the local business practices and trying to

	balance those practices with your company policies and international benchmarks. Working in cultures where corruption is expected makes for a dangerous situation. Understanding the culture and deciding upfront how to address it, or abandon the opportunity is needed up front. Undertaking a due diligence (Know Your Client) review upfront is a must. Some financial institutions demand confirmation of your KYC analysis, and some financial institutions require you to return funds when corruption by the 3rd party comes up.
8	Mutual understanding of accepted norms
9	Misunderstandings, cultural opposition to products, norms, business behaviour, language
10	1. No consideration / adaptation to local business habits (partners and customers) 2. Understanding / evaluation of the local business environment through an inappropriate or biased cultural reference framework (halo effect) 3. Ability to differentiate what is truly cultural from what is not (all behavior is not necessarily cultural)
11	Is there a fit between our culture and the one in the country? -Can two people of two different religions and culture collaborate well? (Ex we deal with UAE, Qatar, etc) -A risk is trying to express yourself in a manner but not being understood well and maybe ruining a future business relationship, or not understanding well the other person's position -A risk is finding it hard to collaborate and adapt to the country's way of doing business (ex. Some companies are very slow-motion in Africa, and it's hard for us sometimes to deal with this aspect)
12	understanding how business works in new markets. -understanding the culture of doing business -understanding the openness of those societies into other nations doing business on their land. -importance of giving back to those communities to accept those companies. -governments of those companies should be well perceived by the local authorities. -educating international employees about the habits and behaviors of hosting countries.
13	Dutch people are extremely contractual French people like French products Russians expect the right technical solution and expect a great deal of detailed technical interaction Japanese people are very formal and hierarchical. They need to meet you, shake hands and socialize with you formally. They make decisions by committee, not as individuals and they think very long term To do business in China, you need to be there in-country and for a long time

14	Conflicts between organizational (corporate) culture and national culture in decision-making processes
15	The product is perceived negatively (such as the negative image of the USA), etc.
16	Not understanding how our customers want to be treated locally
17	Differences in business culture and ethics, values, traditions, language and communication, religion
18	Lack of understanding of basic cultural elements of a nation like for example beliefs, morals, law, customs and habits can lead for example to a misunderstanding in terms of expectations and governance rules of a company and can lead to the dissolution of a company and/or rejection of the project by the counter-party.
19	Business Culture- Not only the small nuances of hand shaking vs bowing, exchanging of pleasantries, etc. These are just the elementary items to consider. Understanding things like parent company sends their 3rd tier employees to subsidiaries or how the "behind the scene" deals between Hong Kong Billionaires can impact your business. People Culture- productivity is a basic essence in any business and understanding the people/employees is important. Many foreigners fail not getting this correct. You can pay people a lot of money to attract talent yet fostering, training and providing the right environment for local employees to grow and develop will do more for ensuring long term ROI. Company Culture- either your company or the company you invest in should have a strong company culture that is aligned with yours (company and/or country ie. Canada) while keeping the above in mind. The Company culture also should be prepared to merge two or more cultures together. This is easier said than done but has been performed successfully many times in the past. Staying purely Chinese or trying to change a Chinese company to adhere to Canadian standards only creates trouble. Merging the two tends to be a road to success.
20	Local beliefs, morals and attitudes that are not in tune with the company's values, strategy and objectives Affecting the trust into the local leadership
21	Relationship building, i.e., trust, mutual respect, commitment
22	Divergence between the head office assessments and the person in the field, agent (right person with connections)
23	The establishment of governance (project management, risk management, KPI, etc.), the implementation of SOP (Standard operating procedure), structure (hierarchical versus matrix, productivity, commitment and resource mobilization, the implementation of performance KPIs..
24	Misunderstanding of contractual expectations (quality, deadlines, etc.) Risks of corruption

25	Mentality difference, business ethics, language, social systems
26	The level of an open dialogue Different priorities set by the culture The intensity of work Honesty related to delivering to deadlines Misperceptions or prejudices
27	The elements of cultural risks is that if you do not have your business people talking same languages as the customers. It is also a risk if you do not have knowledge of the consumer preferences and their methods/habits. Try to have a flat organisation and avoid too many management levels so the same "language" is spoken at top and bottom.
28	Communication, staff turnover
29	Communication, misunderstanding of the context, misunderstanding of the institutions, inability to influence
30	Differences in political systems, religion, language, education, customs, norms, IP, customer preferences, business model
31	Understanding the culture yuou are doing business with is extremely important. If they can relate or communicate (body language, nuances), then they are likely to do business. Language or gestures can be misinterpreted and lead to a loss of business.
32	Different business conduct & approach Different human resources approach Understanding cultural differences
33	Culture is different from country to country, communication
34	Language, business practices, unknown practices

APPENDIX D

QUESTIONNAIRE

QUESTIONNAIRE

UNIVERSITÉ DU QUÉBEC À TROIS-RIVIÈRES – UNIVERSITÉ DE SHERBROOKE
DEPARTMENT OF MANAGEMENT

Date:
Researcher:

1. **Company:**
2. **Name of respondent:**
3. **Position:**
4. **Phone number:**
5. **E-mail:**

GUIDE FOR CONTEXTUAL SETTING

We sincerely thank you for your time and participation in this scientific research study on Canada's competitiveness on the global market. The research's main objective is to increase knowledge about the risks associated with overseas business activities, specifically risks related to cultural differences, in order to help Canadian companies looking to expand their activities to international markets better control these risks, provided that they are properly identified and analysed. The results of our research will be used to increase knowledge both scientifically and practically.

Through interviews, we would like to know your experience in regards to expanding some or all of your products or services to the international market. The interview should last a maximum of 60 minutes. To facilitate the interview, you will find a list of questions in the following pages.

THANK YOU!

QUESTIONNAIRE

SECTION 1: RESPONDENT'S PROFILE AND PERCEPTIONS

1. Last, First
    Name‗‗‗‗‗‗‗‗‗‗‗‗‗‗‗‗‗‗‗‗‗‗‗‗‗‗‗‗‗‗‗‗

2. Age:　　　a) 20-35　　　b) 36-45　　　c) 46-55　　　d) 56+

3. Last position within the company:
    ‗‗‗‗‗‗‗‗‗‗‗‗‗‗‗‗‗‗‗‗‗‗‗‗‗

4. Number of years of experience in your job or area of expertise:‗‗‗‗‗

5. Number of years of experience in international activities: ‗‗‗‗‗‗

6. Languages spoken or understood: ‗‗‗‗‗‗‗‗‗‗‗‗‗‗‗

7. Highest degree achieved (area of expertise and level):
    ‗‗‗‗‗‗‗‗‗‗‗‗‗‗‗

8. If you invest in stocks, they are:
    a) Very low risk
    b) Low risk
    c) Medium risk
    d) High Risk
    e) Very high risk

9. Do you think international activities are risky? ‗‗‗‗‗‗‗‗‗

10. Can you tell us what risk means to you? ‗‗‗‗‗‗‗

SECTION 2: COMPANY PROFILE

1. What year was the company created? (optional)

2. How many years has the company been engaged in international business?

3. What kind of international business is it?

    a) Exports (direct sales or with an intermediary)

    b) Outsourcing of activities

    c) International manufacturing activities (production)

    d) Other (explain, list)

4. What are your company's main products / services?

5. In which phase of development was the company at the time of launch of international operations?

    a) Creation (the company lacked a customer base and its project was in progress)

    b) Start-up (the company had begun marketing)

    c) Slow growth (sales were increasing)

    d) Maturity (sales had been increasing)

    e) Decline (sales had started to decline)

6. What is:

    a) The number of employees in the company:

    b) The number of different languages spoken in the company:

    c) The percentage of employees men vs women:

    d) The percentage of employees

        d0) under 20 y.o.
        d1) 20-35
        d2) 36-45
        d3) 46-55
        d4) 56+

    e) The percentage of employees with a culture different from Canadian culture:

7. Please indicate the approximate percentage of your production (product) sold/manufactured internationally: ..
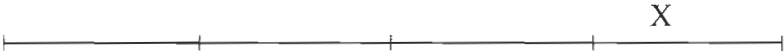

SECTION 3: OVERALL ASSESSMENT

1. In your experience, what are the three (3) major risks associated with international development?

SECTION 4: QUESTIONS ABOUT STRATEGIC RISKS

We will now discuss some elements that may influence the achievement of an international project. We will enumerate the risk factors associated with international operations and events and problems they can cause. You should indicate whether they were relevant in your case, and what was their impact on company's performance in terms of both **direct and indirect costs**. Finally, if there are other elements that affected you or could have affected you that are not identified here, please let us know.

For each of the following, please draw an "**X**" on the scale where it best indicates your assessment:

Example: In your organization, the off-site activities are:

X

Not at all established   Very well established

1. Political aspects

1.1 In your experience, do you think that some political aspects, political or governmental changes in a host country, such as acts of war, revolution, riots or military coups; deterioration of international relations between Canada and the host country can negatively impact the company's performance in terms of costs?

    a) Yes

    b) No

1.2. What would be the impact of such risk? (please put an « X » on a scale where it best suites your evaluation) :

|—————————————————————————————————————|

Very weak impact   Very strong impact
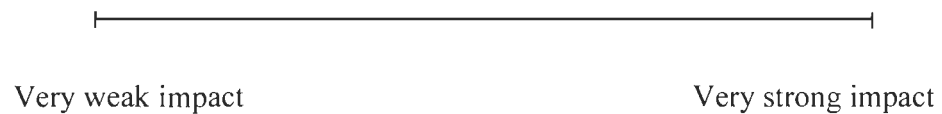
1.3. What would be the likelihood of occurrence of such risk (the possibility that it will take place)?

|—————————————————————————————————————|

Very low   Very high

2. Economic aspects

2.1. In your experience, do you think that some economic aspects, such as high inflation in a host country, financial crisis, increased trade rates or interest rates can negatively impact the company's performance in terms of costs?
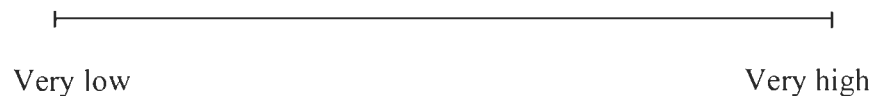
    a) Yes

    b) No

What would be the impact of such risk? (please put an « X » on a scale where it best suites your evaluation) :

Very weak impact   Very strong impact

What would be the likelihood of occurrence of such risk (the possibility that it will take place)?

Very low   Very high

3. Legal aspects
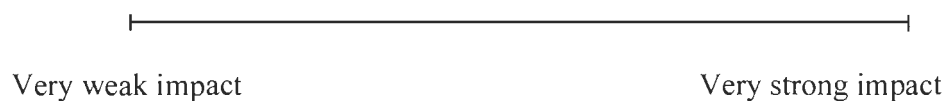
3.1. In your experience, do you think that some legal aspects, such as difference of judicial systems, laws or regulations can negatively impact the company's performance in terms of costs?

a) Yes

b) No

3.2. What would be the impact of such risk? (please put an « X » on a scale where it best suites your evaluation) :

Very weak impact   Very strong impact

What would be the likelihood of occurrence of such risk (the possibility that it will take place)?

├───┤

Very low   Very high

4. Judicial and ethical aspects

4.1. In your experience, do you think that some judicial and ethical aspects, such as corruption or thefts including copyrights or intellectual property can negatively impact the company's performance in terms of costs?

a) Yes

b) No

4.2. What would be the impact of such risk? (please put an « X » on a scale where it best suites your evaluation) :

├───┤

Very weak impact   Very strong impact

4.3. What would be the likelihood of occurrence of such risk (the possibility that it will take place)?

├───┤

Very low   Very high

5. In your opinion, what are the elements of cultural risk?

6. Cultural aspects

6.1. In your experience, do you think that some cultural elements that you have mentioned above (question 5) can negatively impact the company's performance in terms of costs?

    a) Yes

    b) No

6.2. What would be the impact of such risk? (please put an « X » on a scale where it best suites your evaluation) :

    Very weak impact   Very strong impact

6.3. What would be the likelihood of occurrence of such risk (the possibility that it will take place)?

    Very low   Very high

6.4. What mechanisms did your firm use to reduce the likelihood of occurrence of cultural risk or the extent of its impact? (In case your company has not used any mechanism, please indicate to the best of your knowledge how a firm can reduce the likelihood of occurrence of cultural risk or the extent of its impact).

7. Among the elements you have mentioned above (question 5), which one do you think can have the strongest negative impact on company's performance in terms of costs.

APPENDIX E

CERTIFICAT D'ÉTHIQUE DE LA RECHERCHE AVEC DES ETRES HUMAINS

UQT·R
Savoir.
Surprendre.

CERTIFICAT D'ÉTHIQUE DE LA RECHERCHE AVEC DES ÊTRES HUMAINS

En vertu du mandat qui lui a été confié par l'Université, le Comité d'éthique de la recherche avec des êtres humains a analysé et approuvé pour certification éthique le protocole de recherche suivant :

Titre :   Le traitement humain de l'information (HIP) dans les PME

Chercheur(s) :   Ivan Pierre Vaghely
Département de management

Organisme(s) :

Nº DU CERTIFICAT :   CER-11-165-06.10

PÉRIODE DE VALIDITÉ :   Du 18 février 2020   au 18 février 2021

En acceptant le certificat éthique, le chercheur s'engage à :

- Aviser le CER par écrit des changements apportés à son protocole de recherche avant leur entrée en vigueur;

- Procéder au renouvellement annuel du certificat tant et aussi longtemps que la recherche ne sera pas terminée;

- Aviser par écrit le CER de l'abandon ou de l'interruption prématurée de la recherche;

- Faire parvenir par écrit au CER un rapport final dans le mois suivant la fin de la recherche.

Bruce Maxwell
Président du comité

Fanny Longpré
Secrétaire du comité

Décanat de la recherche et de la création