

THE ROLE OF STEREOTYPING IN A CULTURALLY DIVERSE INTERNATIONAL BUSINESS ENVIRONMENT¹

Abstract. *In an increasingly globalising world coupled with the polarisation of economic, political, social and cultural forces, managers confront many challenges in the process of internationalising their firms. In the paper, we introduce a conceptual model of a firm's cross-border strategy framing and discuss the role played by stereotyping in this process. The model delineates the key links between the influences of a firm's external challenges, in particular cultural distance, with managers' perceptions of psychic distance, stereotyping and the possibilities to more efficiently adjust their interactions with these challenges. The paper discusses the reasons and ways that stereotypes influence managerial attitudes and forms of behaviour and the consequent decision making of managers in a multicultural business environment. It points to the importance of managers' requisite knowledge, skills, personal characteristics as well as learning patterns for increasing the efficiency of their interactions in a cross-cultural context.*

Key words: *stereotypes, international business, cultural distance, psychic distance, cross-border strategy, cross-cultural competence*

Introduction

The economic actions of managers are embedded in various contexts (Granovetter, 1985) that influence managerial decisions. According to Zukin and DiMaggio (1990: 15–20), the *contextual embeddedness* of economic actions can be cognitive, cultural, structural or political. Cognitive embeddedness refers to the limited abilities of economic actors' rational reasoning, cultural embeddedness is based on shared collective understandings in shaping economic strategies and goals, structural embeddedness refers

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to the patterns of interpersonal relationships and, finally, political embeddedness pertains to the struggle for power between economic and non-market institutions. Mayer et al. (2011) conceptualised the so-called multiple embeddedness of multinational enterprises (MNEs) according to the home-country context in which MNEs originate, the local context of the host country of an MNEs' subsidiary and the interaction between these contexts. International business researchers have investigated the interactions between countries' contexts using the concepts of psychic distance (Johanson and Vahlne, 1977), cultural distance (Kogut and Singh, 1988) and institutional distance (Estrin et al., 2009).

The multiple embeddedness of economic actions in international business provides managers with both opportunities and challenges. *Managerial decision making* is based on several characteristics of managers, including their personal experience, knowledge, tolerance for uncertainty and risk, and the influences of their own cultures (Aharoni, 2011). Thus, managers' decisions depend extensively on their subjective characteristics, not only the objective facts. Due to human's cognitive limitations, boundedly rational actors seek satisfactory solutions (Simon, 1986). To reduce decision-making biases, behavioural economists examine the role of managers' own cognitive maps (perceptions) (Doz and Prahalad, 1984). Similarly, upper-echelon theory (Hambrick and Mason, 1984) within the bounded rationality stream of research contends that managerial strategic choices are under the impact of their perceptions, biases and values. Since managers experience information overload, ambiguous cues, competing objectives and other stimuli are often filtered and interpreted through their own cognitive biases and heuristics (Einhorn and Hogarth, 1981).

One type of heuristics for managing the multiple embeddedness of economic actions in international business is to characterise distinct social groups of actors via *stereotypes*. Lippmann (1922) referred to stereotypes as a typical subjective picture that comes to mind when thinking about a particular social group. Leyens et al. (1994) understand stereotypes as constructs of convictions about members of a certain social group, describing both personality traits and behaviour patterns. Whereas early research conceptualised stereotyping as a faulty thought process, more recent research emphasises the functional aspects of stereotypes (Dovidio et al., 2010: 7). According to Filpisan et al. (2011: 3264), stereotypes importantly affect intercultural relations and represent a powerful type of managers' cognition (MacNab and Worthley, 2012: 66).

The purpose of this paper is to explore the linkages between firms' foreign market and institutional settings, in particular, the phenomenon of a cultural context and its influences on managers' strategic decision-making processes in their firms' international expansion. Our research contends

that a firm's performance in its cross-border expansion depends not only on the objective elements of the firm's competitiveness potential (its knowledge, resources, market information etc.) and foreign market context (competitive market setting, formal institutional framing, cultural forces etc.) but, equally importantly, on its managers' perceptions of the foreign market settings and related responses in the form of managerial attitudes and behaviour that influence decision-making processes. Therefore, we establish that more subtle cognitive factors also affect the managers' mental models, their stereotyping framing (evolution, activation, use, alteration) and, hence, their attitudes and behaviour regarding external challenges. We introduce stereotyping as a possible shortcut for the successful realisation of strategic goals in international business. The paper is organised as follows: In the first section, the concepts and influences of cultural and psychic distance on firms' cross-border strategy framing are presented. In the next section, the formation of stereotypes and arguments for stereotyping in international business are examined. Further, the importance of cross-cultural competence for helpful stereotyping is set out and the other key enabling conditions for firms and managers to efficiently cope with external influences are elaborated.

Influences of Cultural and Psychic Distance on Firms' Cross-Border Strategy Framing

International management literature (see Ghemawat, 2003) discusses *distance* as differences between national markets, particularly from the perspectives of the available opportunities, risks and costs of international business operation and the adaptation of business models, marketing strategies and programmes to the specific local market endowments and broader institutional environment. In his holistic view of a firm's cross-border strategy, Ghemawat (2007) lists four key dimensions of country distance measurement: cultural, administrative, geographic and economic. In the process of cross-border expansion strategy framing, managers should simultaneously deal with each of these dimensions in order to effectively align the firm's strategy with the contextual requirements of selected target countries. Country distance, conceptualised as differences between various country markets, can be measured by objective and subjective or perceptual indicators. Martin and Drogendijk (2014) introduce a multidimensional country distance index based on factual data about the socioeconomic development, physical, cultural and historical ties that contribute to the objective differences between countries.

Cultural differences in values, attitudes, communication patterns, beliefs, behaviours, norms, material objects and symbolic resources (*cultural*

distance) induce *psychic distance* between countries (Zaheer et al., 2012: 20). Psychic distance, as a form of perceived differences in a foreign market environment (see Beckerman, 1956; Dow and Larimo, 2009; Puthusserry et al., 2014; Sousa and Bradley, 2006; Sousa and Lengler, 2009) that disturb information flows between organisations and foreign markets (Child et al., 2009; Håkanson and Ambos, 2010), is understood as a distance with regard to a country's various characteristics (level of development, competitive circumstances, infrastructure aspects, regulation) and the characteristics of individuals (purchasing power, purchasing styles, consumer preferences, education level and literacy, cultural dimensions etc.) (Sousa and Lages, 2011: 207–210). It was introduced as a subjective influence moderating the role of objective economic distance and thus refers to perceived rather than absolute distance (Håkanson et al., 2015). The nature of psychic distance is asymmetrical because a seller from one country may have a very different degree of understanding of a buyer in a foreign country from that which the buyer has of the seller (Ellis, 2008).

Although the literature (e.g. Harzing, 2003, 2016; Shenkar, 2001; Stöttinger and Schlegelmilch, 2000; Tung and Verbeke, 2010) indicates some limitations of both concepts of distance that require further investigation, all studies on the topic agree that, when the distance between a home and a target country becomes greater, this increases the uncertainty of doing business, which is critical especially for small and new ventures (Ojala, 2015). Cultural and psychic distance impact the development and realisation of international business strategies (Johanson and Vahlne, 1977; Griffith and Dimitrova, 2014). They influence managers' judgements in the process of identifying foreign market opportunities, as well as risk perceptions and are therefore often understood as a specific barrier in international business. However, cultural distance may or may not result in friction, depending on several other influences such as the quality of communication between foreign firms and the actors in a host country (Luo and Shenkar, 2011). Therefore, cultural differences should not only be understood as a barrier, i.e. a source of new uncertainties, risks and additional costs, but also as an opportunity, for example, as a source of new sales potential and innovation (Ambos and Håkanson, 2014). Managers should consider cultural differences as both barriers and opportunities in order to successfully manage international business operations in foreign countries' institutional contexts. In addition, they should take advantage of foreign markets' cultural similarities.

Human awareness, understanding and perceptions concerning a country's characteristics influence psychic distance (Nebus and Chai, 2014; Rašković and Svetličič, 2011). Moreover, the psychic distance to a specific foreign country is a reflection of the perceiver's knowledge, familiarity and

sense of understanding of it (Dow and Karunaratna, 2006). Therefore, psychic distance is a dynamic phenomenon as its presence and forms of perceptions are changeable in line with an individual's personal characteristics, competencies and contextual circumstances (Holden, 2002: 246). Usually, contextual circumstances captured in formal rules or governing principles in a society (North, 2005) may be changed quickly and unexpectedly, yet informal rules captured in social and personal values, attitudes, stereotypes etc. may change much more slowly.

The ability of companies to effectively overcome cultural differences and grasp cultural similarities can make up an important part of their dynamic competitive advantages and one of their important international strategies of cost effectiveness and semi-globalisation (e.g. in the form of unification or adaptation) (Ghemawat, 2007). To achieve greater certainty and simplify the understanding of a foreign country business environment, managers usually activate their stereotypical perceptions as mental shortcuts to the initial notion of foreign cultural group members' characteristics.

Formation of Stereotypes and Arguments for Stereotyping in International Business

Stereotypes are the result of an individual's direct interaction with members of the same or different social group and a form of indirect learning – information gained from parents, peers, teachers, political and religious leaders, and the mass media (Macrae et al., 1996: 10). According to Bar-Tal (1997), stereotypes are formed at three levels: the first level encompasses the history of relations between cultural groups, the socio-political and economic factors of a cultural group and the behaviour of the other cultural groups, the second level relates to the information channels in a particular cultural group, direct contacts with members of other cultural groups and the micro-social environment of a member of a certain cultural group, while the third level pertains to the personal characteristics of an individual.

Šabec (2006: 14) puts the formation of a national stereotype in the context of the core elements of an individual's identity and in the context of national identity as one of the key levers of national integrity. She notes that stereotypes cannot be separated from the broader national context with the various relationships between the political and economic powers and mass media influences. Stereotypes should be discussed as changeable mental images of an individual, which are influenced by real societal changes that modify intergroup relations (see Turner, 1999), and by the cognitive characteristics of an individual.

For different reasons, the process of entering foreign markets is complex and entails many uncertainties. In this process, stereotypes can act as a

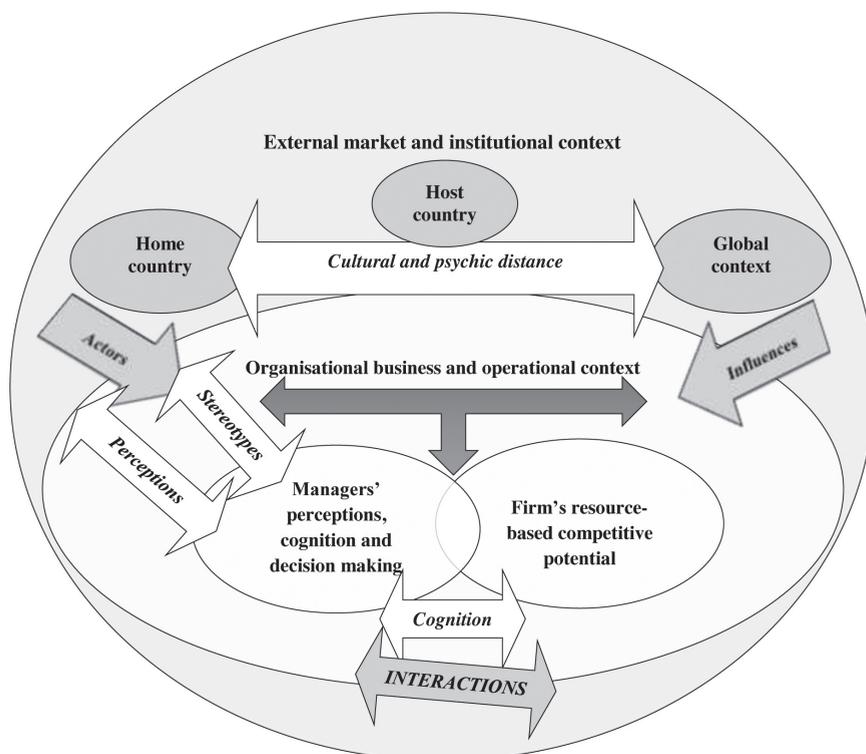
mental filter that systematises and simplifies a manager's understanding of a dynamic and complex international business environment (MacNab and Worthley, 2012: 67; Snyder and Miene, 1994: 66). Stereotypes can reduce a complex external reality to manageable dimensions (Macrae et al., 1996: 10). To concentrate only on the individual and approach every intercultural situation from ground zero would be time consuming, exhausting and not very productive (Varner, 2000: 46).

In addition, stereotypes can enable the prediction, guide manager's social interactions and help them realise explicit goals in a certain situation (Bodenhausen and Morales, 2013: 236). Thus, stereotyping in international business can act as an instrument for overcoming cultural and psychic distance. In this respect, stereotypes affect managers' judgement in the decision-making process along with their approaches to the formulation of strategies, as well as networking and relationship development in a foreign cultural environment. They enable managers to properly align their behavioural patterns and communication with that of their counterparts' cultural context, characterised by a cultural distance. Further, they allow managers easier orientation in new contextual situations or interactions with new actors with whom they have no historical contact or relationship experience.

Figure 1 shows the process of a firm's cross-border strategy framing, linking the relevant internal and external factors for managers' decision making. It is obvious that, besides the home country context, cultural distance and perceived psychic distance represent important factors in this process. Helpful stereotyping, as an important input in this process, can reduce cultural and subsequently psychic distance and thus simplify a firm's cross-border expansion.

On the other hand, dysfunctional stereotypes present an incorrect (wrong) perception of an individual (his or her attributes, behaviours, interaction etc.) as a member of a specific social group (De Mooij, 2014: 61-62). Stereotyping based on ethnocentrism can trigger disputes between cultural groups and can thus turn into a process of imposing one's own cultural patterns on members of other cultural groups, which leads to cultural hegemony and cultural imperialism (Jandt, 2016: 372). This form of stereotyping had economic and business consequences (see Katz, 2007) and leads to politico-ideological and military conflicts (see Harward, 2011; Tajfel, 1981). When stereotypes are based on partial information, they are usually false. For this reason, managers should be aware of their own possible perceptive traps and mistakes that could be made in the estimation and evaluation processes such as, for example (Huczynski and Buchanan, 2013: 272): the absence of sufficiently detailed information about other individuals, leaning of judgements on information that are irrelevant, vision, perception and

Figure 1: CONCEPTUAL MODEL OF A FIRM'S CROSS-BORDER STRATEGY
PROCESS FRAMING



Source: own elaboration.

understanding in line with expectations and wishes, the allowance that their views are based on early or contradictory information, uncritical acceptance of common stereotypes, non-contextual interpreting of non-verbal behaviour etc.

The helpfulness of stereotypes relates to their awareness, accuracy, descriptiveness and modification (see Adler, 2002). Managers must be aware of their stereotypes because individuals from different cultural settings may or may not fit their stereotype perception (MacNab and Worthley, 2012: 68). The importance of developing stereotype awareness for effective cross-cultural management has also been confirmed by Tjosvold and Leung (2003) and Ward et al. (2003). Thus, through awareness of stereotypes the possibilities of managers' false predictions and lapses in international business operation may be reduced. The benefits of accurate stereotyping (i.e. sociotyping) or an individual's capability to adjust (modify) stereotypical perspectives on observed realities are confirmed by Triandis (2003) and include isomorphic attributions (i.e. accurately understanding behaviour from another's perspective), greater sense of control, agreeableness and

a likely reduced cultural shock. In addition, helpful stereotypes should be descriptive rather than evaluative and be modified according to the contextual circumstances.

Approaches to Raising Stereotype Awareness and Altering Stereotype Perceptions

In order to operate efficiently in a multicultural context managers have to be aware of their stereotypes about foreign actors. Scholars have proposed various theoretical frameworks to help individuals gain *stereotype awareness* and alter stereotype perceptions, respectively. Allport (1954) proposed contact theory (one-to-one contact in certain conditions (context) needs to take place); MacNab (2012) proposed an experiential approach based on Hegel's (1812) concept of dialectic logic and Kolb's (1984) experiential learning theory. Market learning, in particular experiential learning in a selected country market and cultural context, may reduce managers' initial uncertainties when trying to decide whether the firm should enter a country with greater cultural distance or not. With the increased availability and absorption of relevant foreign market knowledge, managers' perceptions of international business risks will decrease. The experiential approach is in line with the requested acquisition of attributional knowledge (Bird et al., 1993) that, in contrast to factual knowledge (descriptions of behaviours and attitudes) and conceptual knowledge (a culture's views and values about central concerns; also see Udovič and Podgornik, 2016), consists of the awareness of contextually appropriate behaviour.

Manager's contextual (experiential, attributional) knowledge may be improved and attained through various communication and learning channels such as, for example, by business trips to the target country, participating in international trade fairs, exhibitions, conferences and cross-cultural training programmes. An important learning channel for improving attributional knowledge entails proper interaction with partners from a foreign cultural context in various situations such as, for instance, in the negotiation process (Malhotra, 2015: 69; Svetličič et al., 2014). Direct exposure to the local cultural context in selected countries may increase managers' explicit personal awareness of key cultural differences between the countries and, as a result of the deeper experiential knowledge the psychic distance they perceive may also diminish. Hence, their subjective mental models (stereotyping) may be changed due to better understanding of the cultural differences between the two countries. By acquiring attributional knowledge, managers move beyond so-called sophisticated stereotyping based only on theoretical concepts related to intercultural differences (conceptual knowledge) (Osland et al., 2000: 66).

For increasing managers' awareness of the influences of stereotypes on their perceptions, attitudes, communication and behaviour in a country at a cultural distance, Khanna (2014: 60) proposed the concept of *contextual intelligence*. The learning process should be based on the assumption of the limited transferability of contextual knowledge from one country to another and based on a deeper understanding, not only of explicit and precisely defined information about that context (hard facts) but also of the 'softer' details of a foreign society and its context.

Obviously, managers' mental models and stereotypes depend on their overall personal mental orientation: on one hand, when they develop a global mentality or a *global mindset* (Caligiuri and Tariqueb, 2012; Gupta and Govindarajan, 2002) as a kind of flexible view on differences in the context of various cultures, stereotypes enable them to see a broader (global) picture, i.e. understand the global market opportunities and risks for their firms. On the other hand, when they develop the competence of *cultural flexibility*, stereotypes enable them to understand local cultures and other contextual differences and to adapt to them accordingly. Such professional competencies should be embedded in managers' contextual and *cross-cultural competence* that enable them to better understand a foreign country context from both its local institutional and broader, i.e. cross-border (regional, global), setting.

Conclusion

Countries form dynamic economic, political, sociocultural entities with their own domestic and cross-border interests and aspirations. Without understanding the key facets of various contextual forces and their influences on managers' perceptions and thus managers' attitudes and behaviour, managers are exposed to various uncontrollable challenges in strategic decisions about their firms' cross-border expansion. Due to the complex interplay of the political, economic and social institutions in each society, it is not easy for managers to explicitly and efficiently disentangle the key contextual complexities. However, it is necessary for them to develop a clear view of a local institutional context in order to properly understand the 'rules of the game' in the local competitive and broader institutional setting since they represent a vital external input into the firms' cross-border strategy framing. Managers' understanding of a market and a broader foreign country context and its influences on their subjective perceptions and strategic decisions in cross-border activities is an important factor within a firm's holistic international strategic management framework.

In the international business literature culture is traditionally discussed as a crucial facet of a country's institutional context with a broad and diverse

1046

impact on international business operations, the attitudes and behaviour of customers and other stakeholders in local (country) and international markets, and should be seen as an important input in the process of developing firms' cross-border expansion and international management. Psychic distance, expressed as an outcome of managers' perceptions of differences between the home and host country, creates uncertainties for managers in their process of developing relationships with members of other cultural groups. In particular, managers are at risk of framing their perceptions using assumptions that may emerge and be activated, usually by triggers at the unconscious level of perception, as harmful stereotyping. Consequently, these external uncertainties may affect managers' strategic decisions in the process of a firm's cross-border expansion in various forms, e.g. by giving preference to entering countries with smaller cultural and psychic distance, selecting entry strategies with a lower risk exposure and committing fewer resources to support the firm's cross-border expansion. With such a cross-border expansion approach, firms prefer to choose less risky foreign market entry strategies instead of more aggressive ones, which could enable them to quickly and proactively build a strong market position. Therefore, cross-cultural stereotypes need to be treated carefully as they might have a negative impact on managers' thinking and their capacity to perceive things with discernment. They need to be questioned, mitigated and never taken for granted if they are to help managers work more effectively in a cross-cultural context. Such stereotypes enable managers to mitigate uncertainties when facing unknown persons as members of different cultural groups and to improve their initial understanding of the local environment, especially in countries with perceived cultural and psychic distance. To prevent the impacts of harmful stereotypes, managers should strive to collect relevant experiential knowledge about cultural dimensions of various contexts in international business to help them develop their cross-cultural competence. The latter facilitates the proper attitudes and behaviour of managers in cross-cultural interactions, which influences managerial decision making.

Further research could focus on empirically validating the influences of stereotypes on managerial perceptions of country distance. The influences of managers' experiences in international business on their stereotyping and decisions relating to the framing of the international business strategy could be explored. In addition, the concept of helpful stereotyping in international business needs to be further theoretically grounded and empirically verified in managerial decision-making processes.

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