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A Weighted, Mahalanobian, and Asymmetrical Approach to Calculating National Cultural Distance



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ABSTRACT

This article aims at offering a weighted, Mahalanobian, and asymmetrical approach to calculating national cultural distance. The proposed approach improves upon the major shortcomings of Kogut–Singh's Index and explains the inconsistent and curvilinear effects of cultural distance as found in previous research. Using this new approach, the national cultural distances for Hofstede's and GLOBE's frameworks are calculated, the theoretical and methodological implications are discussed, and avenues for future research are proposed. Furthermore, for the use of future researchers, the cross-cultural weighted Mahalanobian distances for Hofstede's and GLOBE's data are reported in separate annexes.

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1. Introduction

The cultural distance index, as proposed by Kogut and Singh (1988), is one of the most popular measures used in international business research (Ambos and Håkanson, 2014; Berry et al., 2010; Håkanson and Ambos, 2010; Shenkar, 2001; Shenkar et al., 2008). More than 310 empirical studies have relied on the Kogut–Singh Index (KSI) to investigate the effects of cultural distance on a variety of business and management phenomena including firms' market selections, entry mode choices, international acquisitions, joint ventures and alliances, organizational performance, technology transfer, headquarters–subsidiary relations, and international human resources management (e.g. Barkema and Vermeulen, 1997; Benito and Gripsrud, 1992; Evans and Mavondo, 2002; Evans et al., 2000; Fletcher and Bohn, 1998; Franke et al., 2011; Gomez-Mejia and Palich, 1997; Katsikeas et al., 2009; Kim and Gray, 2009; Kogut and Singh, 1988; Morosini et al., 1998; Padmanabhan and Cho, 1996; Roth and O'Donnell, 1996; Tihanyi et al., 2005). Even with its widespread acceptance, the empirical research on the impact of cultural distance has often led to mixed, inconclusive, and even conflicting results (Berry et al., 2010; Kim and Gray, 2009; Kirkman et al., 2006; Shenkar, 2001; Tihanyi et al., 2005; Yildiz, 2014). For that reason, a growing number of scholars have underlined the problematic aspects of the KSI and have recommended researchers to avoid its further application (e.g. Harzing, 2004; Kirkman et al., 2006; Shenkar, 2001; Tung and Verbeke, 2010). For example, Shenkar (Shenkar, 2012, p. 13) qualified the KSI as a flawed and superficial measure that “can do more harm than good.” He expressed his concerns about the application of the KSI in international business studies by describing them as “superficial, lacking in substance and

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rigor, invalid or, at the very least, seriously flawed” (Shenkar, 2012, p. 12). By highlighting the low face validity of the KSI in cross-cultural comparisons, Harzing (2004, p. 102) suggested that the extant cultural distance research has led to what she labeled as “cultural myopia.” In the same vein, Sarala and Vaara (2010) and Tung and Verbeke (2010) pointed out the shortcomings of the KSI and called for alternative measures.

Considering the popularity of the KSI in international business research, the unexplained inconsistencies associated with its application, and the growing criticism of its methodological shortcomings, I suggest that there is an imperative need for a new measure of cultural distance. The new measure of cultural distance should rely on a more refined methodology to improve the inadequacies of the KSI and resolve the unexplained inconsistencies of the previous research. While the new measure may rely on a more complex calculation, it should be suitable to be incorporated into different statistical models. In addition, the new measure should shed light on the intricacies of interacting cultures and their asymmetrical relationships in order to enrich our understanding of the effects of cultural distance in international business.

Based on the aforementioned arguments, this article aims at developing a refined methodology to construct and calculate national cultural distance by using Hofstede's (1980, 2001) and GLOBE's (House et al., 2004) frameworks. To this end, the remainder of this manuscript is organized as follows. First, a comprehensive review of the application of the KSI in empirical research is provided, the conceptual and methodological problems of the KSI are analyzed, and the need for a new measure of cultural distance is justified. Next, Hofstede's and GLOBE's cultural frameworks are briefly described, and a new, weighted, Mahalanobian, and asymmetrical approach to calculating the cultural distance is proposed. Subsequently, using the new approach, the national cultural distances for both Hofstede's and GLOBE's frameworks are calculated, the theoretical and methodological implications are discussed, and avenues for future research are proposed. Additionally, for the reference of future researchers, 4489 (67×67) and 3600 (60×60) cross-national distances (modulus) for the Hofstede and GLOBE data are reported in separate annexes.

2. The Kogut and Singh Index: Popularity, mixed results, Shenkar's criticism, and the temptation of using a flawed measure

2.1. The KSI in empirical research

Kogut and Singh (1988) defined cultural distance as the degree to which the cultural values in one country are different from those in another. Accordingly, they built their cultural distance index using four of Hofstede's dimensions: Power Distance, Individualism, Masculinity, and Uncertainty Avoidance. In other words, they compounded four of Hofstede's dimensions into one simple measure. In international business literature, the KSI is recognized as a standardized measure that evades the complexities of culture and can be easily incorporated into the research design (Shenkar, 2001). As Shenkar (2012) noted, few constructs in international business have gained more acceptance than the KSI. As of May 30, 2014, Google Scholar showed that researchers in different disciplines of business and management have cited 3849 times the original Kogut and Singh (1988) article in which they introduced their index. As shown in Table 1, between 1988 and 2012 more than 300 empirical studies have used either the original KSI formula or its modified form as an explanatory or control variable in a wide range of research areas. These research areas and the respective number of empirical publications include: Entry Modes (58 publications), Joint Venture Management (33 publications), Human Resources Management (30 publications), Foreign Direct Investment (28 publications), Multinationals (22 publications), Mergers and Acquisitions (19 publications), Firms Internationalization (15 publications), Knowledge Transfer (14 publications), Headquarter–Subsidiary Relationship (13 publications), Finance and Foreign Ownership (13 publications), Marketing and Consumer Behavior (12 publications), Strategic Alliances (12 publications), Location and Liability of Foreignness (11 publications), Trade and Export Management (8 publications), Tourism and Migration (6 publications), Research and Development/Innovation (6 publications), and Operations and Productivity (6 publications). Fig. 1 illustrates the frequency and growth of empirical studies using the KSI between 1988 and 2012.

2.2. The mixed results

Despite its widespread acceptance, the application of the KSI in empirical research has often led to mixed and conflicting results (Berry et al., 2010; Kim and Gray, 2009; Kirkman et al., 2006; Shenkar, 2001; Tihanyi et al., 2005). For example, some studies showed that a high level of cultural distance is associated with the adoption of joint ventures (e.g. Chang and Rosenzweig, 2001; Erramilli and Rao, 1993), but others found that a high level of cultural distance is related to the selection of wholly owned subsidiaries (e.g. Agarwal, 1994; Anand and Delios, 1997). Padmanabhan and Cho (1996) concluded that the larger cultural distance encourages full ownership, Brouthers and Brouthers (2001) found that the larger cultural distance promotes joint ownership, whereas Erramilli (1996) reported that the larger cultural distance has no significant effects on majority or minority ownership. Similarly, Berry et al. (2010) reported that some researchers found lower dissolution rates of foreign subsidiaries as cultural distance increases (e.g. Barkema et al., 1996; Park and Ungson, 1997), whereas others found no such effect (e.g. Glaister and Buckley, 1999). Likewise, some studies have indicated a negative relationship between cultural distance and the performance of multinationals (e.g., Luo and Peng, 1999) while others have found a positive effect (e.g. Morosini et al., 1998). Based on a meta-analysis, Tihanyi et al. (2005) suggested that cultural distance does not seem to be related to business issues such as entry mode and multinationals' performance. Similarly, in human resources management (HRM) and entrepreneurship, the effects of cultural distance have been found to be inconsistent (Gong, 2003; Mitchell et al., 2000; Mueller and Thomas, 2000; Rosenzweig and Nohria, 1994). In brief, the empirical research employing the KSI has been described as inconclusive and inconsistent (Brouthers and Brouthers, 2001; Drogendijk and Zander, 2010; Tihanyi et al., 2005).

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