> ## *ETHNOCENTRISM - A KEY DETERMINANT IN INTERNATIONAL CORPORATE STRATEGY FORMULATION?*

Workshop Paper presented at EIBA international conference, Warsaw 1994

Sinkovics, Rudolf; Holzmüller, Hartmut
Vienna University of Economics and Business Administration
Augasse 2-6
A-1090 Wien, Austria
Tel.: ++43-1-31336-4403
Fax: ++43-1-313336-732
Rudolf.Sinkovics@wu-wien.ac.at
http://www.wu-wien.ac.at/marketing/

ETHNOCENTRISM - A KEY DETERMINANT IN INTERNATIONAL CORPORATE STRATEGY FORMULATION?

Abstract

In sociology and psychology the concept of "ethnocentrism" is widely used to explain human behavior in and between different cultural entities. Since international management can be characterized by high levels of interaction beween individuals from diverse cultures, we think ethnocentrism is worth being considered a determinant in this field. Especially, individual ethnocentrism might shape and influence the relation between international companies, their strategy formulation and different stakeholder groups.

This workshop paper targets the conceptual identification of different areas of corporate strategy formulation which are assumed to be influenced by varying levels of ethnocentrism. A brief review focuses on the theoretical underpinnings of ethnocentrism and possibilities for measuring the construct. Finally, a research design is developed which will be used to determine the influence of manager ethnocentrism on corporate strategy formulation.

Introduction

The globalization of business [Levitt, 1983] leads to exposure of managers on almost every organizational level to other national cultures [Bartlett, Ghoshal, 1992]. Individual sentiments towards other cultures might influence the manager or management as a whole in terms of certain cross-cultural decisions. In other words, the level of ethnocentrism might determine how companies act in certain countries. On the other hand, the prevailing ethnocentrism in a country might influence the foreign strategy formulation.

The term ethnocentrism refers to a traditional concept in social sciences. It has been widely used in psychology and sociology to investigate ingroup vs. outgroup conflicts and segregation between members of different cultural entities. Except for ethnocentrism research in consumer behavior, however, this basic concept has not yet been applied to international management research.

The relevance of the ethnocentrism concept in various fields of international

corporate management is obvious when considering social interactions. There is a necessity for highly efficient social exchange relations between individuals and/or groups in cross-border management processes. If we have to cooperate or negotiate with people from another culture and if we are to act as advisers, superiors or partners, what we need to know is what makes our counterparts tick. One important aspect of individual behavior and, as a consequence, group behavior in organisations is the prevailing level of ethnocentrism.

Depending on the level of ethnocentrism within several stakeholder groups, international corporations will have to develop specific business strategies. Possibly the concept of ethnocentrism is also appropriate for the assessment of specific foreign-market conditions and can contribute to the standardization of single corporate strategies on a global basis.

The current relevance of the ethnocentrism problem can be clearly seen when looking at the emerging nationalistic and xenophobic sentiments in many countries and regions of the world. This process is especially true for the formerly centrally-governed countries of eastern Europe. For this reason, it seems advisable to integrate ethnocentrism in the international corporate strategy development process.

The Ethnocentrism Concept

The term "ethnocentrism" stems from a more general concept developed by Sumner [1906]. In the beginning, ethnocentrism was a purely sociological construct, describing ingroup vs. outgroup conflicts. Sumner defines ethnocentrism as: "[The] view of things in which one´s group is the center of everything, and others are scaled and rated with reference to it. Each group nourishes its own pride and vanity, boasts itself superior, exalts its own divinities and looks with contempt on outsiders." [Sumner, 1906].

Later studies dealt with ethnocentrism as a psychological construct, describing the tendency of an individual to identify strongly with her own ingroup and culture, the tendency to reject outgroups or the tendency to view any economic, political, or social event only from the point of the ingroup. Psychologist Donald Campbell and his associates [Brewer & Campbell, 1976; Campbell & LeVine, 1968] have shown that all people have tendencies to

- define what goes on in their own cultures as "natural" and "correct" and what goes on in other cultures as "unnatural" and incorrect";
- perceive in-group customs as universally valid; that is, what is good for us is good for everybody;

- think that in-group norms, roles, and values are obviously correct;
- believe that it is natural to help and cooperate with members of one´s in-group;
- act in ways that favor the in-group;
- feel proud of the in-group; and
- feel hostility toward out-groups.

Lately, much emphasis has been placed on the investigation of "consumer ethnocentrism," the first attempt to transfer and use the socio-psychological concept of ethnocentrism in a business context. Based on the individual point of view of supporting the domestic economy by favoring domestic products over foreign products, consumer ethnocentrism expresses the wish to contribute to economic growth, and thus the domestic political, social, and economic welfare. Shimp, Sharma, Shin [1992, p.5] state the characteristics of consumer ethnocentrism as follows:

- Consumer ethnocentrism results from the love and concern for one´s own country and the fear of losing control of one´s economic interests as the result of the harmful effects that imports may have on oneself and countrymen.
- It contains the intention or willingness not to purchase foreign products. For ethnocentric consumers, buying foreign products is not only an economic issue but also a moral problem. This moral aspect causes consumers to purchase domestic products even though, in extreme cases, the quality is below that of imports. Not buying foreign imports is good, appropriate, desirable, and patriotic; buying them is bad, inappropriate, undesirable, and irresponsible.
- It refers to a personal level of prejudices against imports, although it may be assumed that the overall level of consumer ethnocentricity in a social system is the aggregation of individual tendendies.

Up to now consumer ethnocentrism is the only extension of the general ethnocentrism concept. The focus is on patterns of attitudes that might hamper the internationalization or globalization of companies from a consumer´s point of view. We think that, in order to capture the full frame of restrictions which determine globalization and internationalization strategies of businesses, other special ethnocentrism concepts should be investigated.

As with the consumer ethnocentrism concept, it should be possible to develop specific concepts of ethnocentrism for different stakeholders of a company. Using such specific ethnocentrism concepts, more refined insights for strategy formulation in international business may be gained.

Supposed Impact of Ethnocentrism on Strategy Formulation

Taking the general stakeholder concept (see Figure 1) as a basis for an analysis, it becomes clear that corporate strategies are influenced by numerous different interest groups and/or different strategies are adapted to distinct groups. In the context of international corporate management, it can be assumed that exchange relations between these corporations and specific stakeholder groups are - besides other factors - characterized by the corporation-wide ethnocentrism and ethnocentrism of stakeholders in different target countries.

Figure 1: Stakeholder concept [see Ward, 1992, p.5]
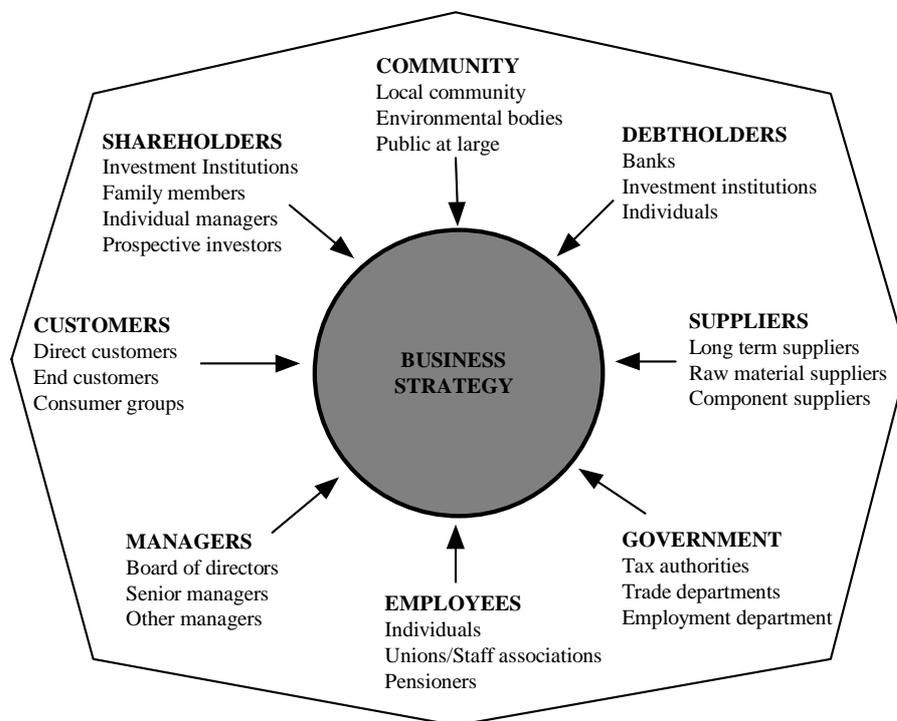
Many comments on the importance of cultural aspects in international companies´ strategies can be found in management literature. Adler [1991, p.19] for example differentiates cultures according to the following basic dimensions:

- people´s qualities as individuals (Who am I?)
- their relationship to nature and the world (How do I see the world?)
- their relationship to other people (How do I relate to other people?)
- their primary type of activity (What do I do?)
- their orientations in space and time (How do I use space and time?).

The core focus of all these cultural aspects is inward oriented, which means intracultural aspects are in the forefront of the analysis. This implies that cultural determinants regulate how people interact within a cultural entity, and which common moral concepts, norms, ideal behavior, etc. prevail. Attitudes concerning the relationship between nations are not included herein, but from our point of view, these determinants are of special significance to international corporate management. Ethnocentrism is a concept which reflects such intercultural relations; therefore, it seems appropriate to investigate the relevance of this phenomenon in international business.

The research results in the area of consumer ethnocentrism [Shimp, Sharma, Shin, 1987; Netemeyer, Durvasula, Lichtenstein, 1991; Hadjimarcou, Hu, Bruning, 1993] suggest that it is necessay to develop differentiated measurement concepts of this socio-psychological phenomenon for each stakeholder group of an international corporation.

Applying the frame of the stakeholder concept in Figure 1, it becomes clear that different patterns of business strategy formulation arise from more or less important ethnocentric attitudes within a single group. Strong xenophobic attitudes of people working in governmental institutions may result in distortion of competition between foreign and local businessmen or companies, and even discrimination against foreign firms might occur. In this case, cooperation with local partners is advisable, as well as selective lobbying against ethnocentric attitudes of persons working in governmental institutions. Also, little emphasis should be put on foreign origin of the firm. If firms, however, face obvious ethnocentrism in the public at large, this might lead to image problems, or opposition concerning general management tasks (e.g. getting approval to build a plant). Company strategies against general negative sentiments could be specifically tailored public relations activities, like setting up good contacts with the press, sport and social sponsoring, etc.

The picture concerning local shareholders or prospective investors might be completely different. If there is no noticeable ethnocentrism, foreign companies should use their international reputation as a key feature when approaching this target group. In cases where they face high ethnocentrism in the financial market, it might be necessary to use funds from abroad or foreign investment institutions. Similar recommendations might be made with respect to different local debtholders.

Local suppliers may also be influenced by different levels of ethnocentrism and therefore act differently towards local or international customers. International companies could be forced to change their sourcing strategies and adapt them to specific cultural conditions.

Well researched is the area of consumer ethnocentrism, established by Shimp et

al. [1987, 1992]. Their findings indicate that high levels of consumer ethnocentrism are negatively related to consumers´ attitudes towards foreign products. This means that with higher levels of consumer ethnocentristic tendencies, consumers´ willingness to purchase foreign manufactured products decreases. The findings provide marketing managers with a useful concept for understanding consumer decision making as it relates to buying domestic versus imported products, and especially why certain segments of consumers prefer domestic goods while others do not care about the distinction between domestic and imported products [Sharma, 1992, p. 20]. For corporations this provides several strategic and tactical options. For instance regional marketing and geographic segmentation may be based on ethnocentrism levels of consumers. Furthermore, international corporations can build location decisions or product development and advertising decisions on ethnocentric tendencies.

According to the consumer ethnocentrism research literature, it is possible to transfer the ethnocentrism concept to other stakeholder groups. The ethnocentrism concept seems to be of particular importance for managers and employees as stakeholders.

A high level of ethnocentrism among employees may force companies to hire domestic rather than foreign workforce, irrespective of qualification criterions. Problems of acceptance may arise when already-hired, highly ethnocentric personnel is confronted with foreign working routines of coworkers. In the same way, the interaction and acceptance of foreign foremen or coworkers might be strongly influenced by the given ethnocentrism of employees. Thus, companies might be forced to develop specific recruiting practices or training programs in order to cope with ethnocentrism.

On the management levels, ethnocentrism of local personnel could shape the interaction between local subsidiaries and headquarters or influence the local acceptance of management techniques brought in from abroad. As with the recruiting process for workers, ethnocentrism might bias the recruiting of managerial personnel. Depending on the given level of ethnocentrism in the management, international companies would have to adapt their hiring strategies and the respective management training programs.

The hypothesized situations mentioned above are plausible, but have to be validated by an empirical examination of the real importance of ethnocentric sentiments.
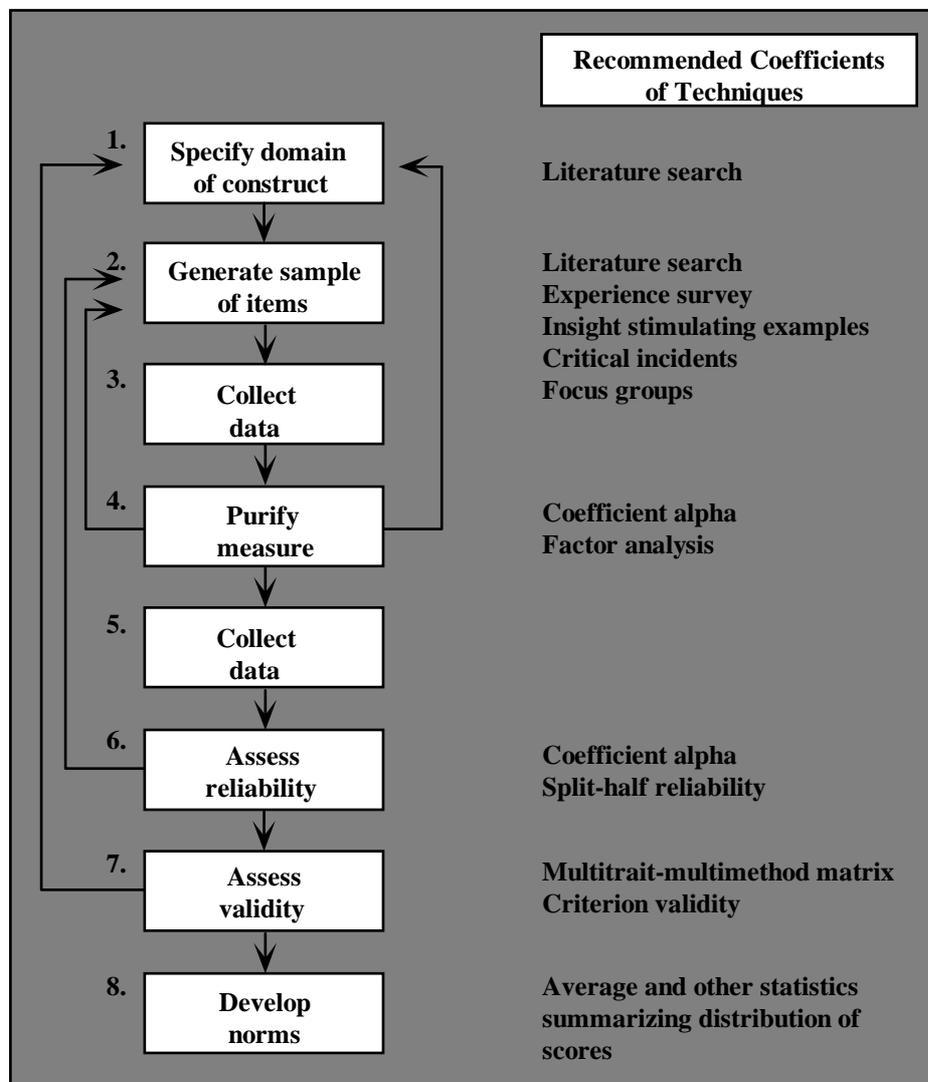
How to Measure Ethnocentrism

Ethnocentrism is a socio-psychological concept which could be assessed like attitudes. It is a theoretical construct, unobservable in a direct manner, and thus has to

be measured by socio-psychological instruments. Our proposition would be an operationalization via questionnaire technique. Following Churchill´s [1979] paradigm for developing marketing constructs, the proposed procedure includes:

- specification of the ethnocentrism construct and generation of a sample of items, measuring the construct;
- data collection and construction of scales for the different concepts of ethnocentrism along the stakeholder concept, using exploratory factor analysis and reliability tests;
- several steps of purification (assessment of reliability and validity of the measurement instrument) using confirmatory factor analysis.

Figure 2: Paradigm for developing ethnocentrism constructs [see Churchill, 1979]

Step	Box	Recommended Coefficients of Techniques
1.	Specify domain of construct	Literature search
2.	Generate sample of items	Literature search Experience survey Insight stimulating examples Critical incidents Focus groups
3.	Collect data	
4.	Purify measure	Coefficient alpha Factor analysis
5.	Collect data	
6.	Assess reliability	Coefficient alpha Split-half reliability
7.	Assess validity	Multitrait-multimethod matrix Criterion validity
8.	Develop norms	Average and other statistics summarizing distribution of scores

To develop a scale that measures manager ethnocentrism, we must start the process by looking at earlier research on patriotism and antisemitism [Adorno et al., 1950] as well as consumer ethnocentrism [Shimp et al., 1991; Netemeyer et al., 1991]. In order to capture the domain of the construct correctly, it will be necessary to perform an exploratory qualitative analysis. This means asking managers of multinational corporations to answer statements of the following type:

- Please describe your views on being part of a foreign company.
- What do you think about working for a multinational corporation?
- How do you feel about working together with foreign managers?
- How would you feel if your supervisor blew his nose in public? (country specific)
- How would you react to your supervisor´s accusation of being a drunkard, because you had a beer for lunch?
- You are forced to participate in time-consuming brainstorming activities, although you already provided extensive discussion material. Your reaction?

The respondents´ statements may be used to form qualitative categories of different mental predispositions towards international corporations and their managemental environment. The categories can be used to generate specific items related to, for example, manager ethnocentrism. Together with more general ethnocentrism items by Adorno et al. and Shimp/Sharma these items could then be merged into a new Likert-style questionnaire.

Items for capturing manager ethnocentrism could be:

- I would rather work in a local company but don´t really have a choice.
- I find it hard to adapt to the Japanese management style.
- Working in an international corporation is okay, but I would not like to be forced to work abroad.
- Working in an international corporation with only foreign colleagues would be too tough for me.
- I dislike the management style of corporations which just do not care about local habits and culture and think money can buy everything.

Data should be collected from selected managers working in international corporations. The next step includes exploratory factor analysis to identify relevant measures for manager ethnocentrism. Confirmatory factor analysis, as suggested by Anderson and Gerbing [1988], can also be used to assess unidimensionality of the construct.

In a similar way this procedure could be used in connection with other stakeholder groups. By finding empirically valid measures for ethnocentrism in different stakeholder groups, it will be possible to assess the actual importance of the consideration of ethnocentrism in corporate management and international strategy formulation. In a final step of research, the significance of the ethnocentrism concept could be transferred to interorganizational processes and behaviors.

Intended Research Design

The purpose of this research project is the development of measurement instruments for ethnocentrism in specific stakeholder groups. Analogous to the recent research endeavors in consumer ethnocentrism, our first aim is to develop reliable and valid scales for the "manager ethnocentrism" construct. We then build a first conceptual model, as shown below.

Figure 3: Conceptual model for nomological validation of manager ethnocentrism construct
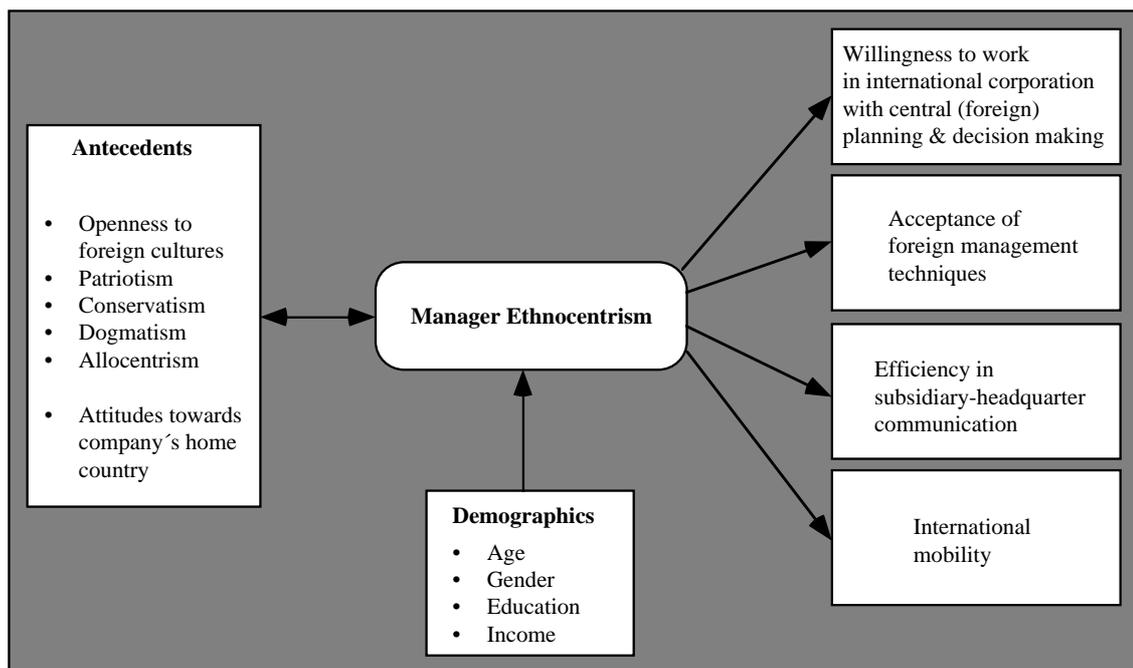
This model helps us to nomologically validate our manager ethnocentrism scale. It is evident that manager ethnocentrism is highly correlated with antecedents such as openness to foreign cultures, patriotism, dogmatism, etc. (see Figure 3). On the other hand, manager ethnocentrism is hypothesized to influence the efficiency of subsidiary-headquarter communications, willingness to work in an international, centrally-governed business, mobility, and acceptance of foreign management techniques.

The relationships shown in Figure 3 can be transformed into research hypotheses

such as those listed below. These might be tested empirically within the different stakeholder groups of a corporation, in order to determine their relevance for international business.

H1:   Managers who are familiar with and open to foreign cultures will show fewer (manager) ethnocentric tendencies than those who are not.

H2:   Patriotic managers will show stronger ethnocentric tendencies than less patriotic individuals.

H3:   Conservative individuals will show more ethnocentric tendencies than less conservative managers.

H4:   People with collectivistic goals will reveal more intensive ethnocentric tendencies than those with individualistic goals.

H5:   The acceptance of foreign management techniques will increase with a lower level of managerial ethnocentrism.

H6:   The willingness to work in an international corporation, with headquarter-oriented planning and decision making will be determined by a manager´s personal level of ethnocentrism.

H7:   The higher the personal level of ethnocentrism, the lower the efficiency in subsidiary-headquarters communications.

H8:   A manager´s international mobility will be higher when the personal level of ethnocentrism is lower.

H9:   Older age cohorts will exhibit stronger manager ethnocentric tendencies than younger cohorts.

H10: Manager ethnocentric tendencies will vary depending on sex.

H11: Manager ethnocentric tendencies will decrease with greater levels of educational achievement.

H12: Income will be negatively related to ethnocentric tendencies.

It seems that manager ethnocentrism and the effect it has on the acceptance of foreign management techniques, etc. is moderated by factors like current position within the organization, threat of losing a job to a foreigner, etc. These moderating variables should be included at a more advanced step of research.

Outlook

As outlined in this workshop paper, the ethnocentrism concept should be extended to include other stakeholder groups of a company. The research design we propose is oriented towards an empirical identification and validation of a scale for manager ethnocentrism. By following the proposed procedure, we will be able to provide a foundation for integrating the ethnocentrism concept in the explanation of international corporate strategy formulation.

References

Adler, N.: Organizational Behavior, Second Edition, PWS-Kent Publishing Company, Boston 1991

Adorno, T.W.; Frenkel-Brunswick, E.; Levinson, D.J.; Sanford, R.N.: The Authoritarian Personality, Harper & Row Publishers Inc., New York 1950

Anderson, J.C.; Gerbing, D.W.: Structural Equation Modeling in Practice: A Review and Recommended Two-Step Approach, in: Psychological Bulletin, 103(3)/1988, pp. 411-423

Bartlett, C.A.; Ghoshal, S.: Transnational Management, Irwin, Homewood 1992

Churchill, G.A.: A Paradigm for Developing Better Measures of Marketing Constructs, in: Journal of Marketing Research, Vol. XVI/February 1979, pp. 64-73

Hadjimarcou, J.; Hu, M.Y.; Bruning, E.R.: Assessing the Dimensionality and Reliability of Outgroup-Specific Versions of the CETSCALE, in: Working Paper, American Marketing Association, Summer Educators Conference 1993, pp. 330-335

Levine, R.A.; Campbell, D.T.: Ethnocentrism: Theories of Conflict, Ethnic Attitudes, and Group Behavior, John Wiley & Sons Inc., New York 1972

Levitt, T.: The Globalization of Markets, in: Harvard Business Review, Vol. 61, May-June 1983, pp. 92-102

Netemeyer, R.G.; Durvasula, S.; Lichtenstein, D.R.: A Cross-National Assessment of the Reliability and Validity of the CETSCALE, in: Journal of Marketing Research, Vol. XXVIII/ August 1991, pp. 320-327

Sharma, S.; Shimp, T.A.; Shin, J.: Consumer Ethnocentrism: A Test of Antecedents and Moderators, in: Paper presented at AIB meeting, November 1992, pp. 1-51

Shimp, T.A.; Sharma, S.: Consumer Ethnocentrism: Construction and Validation of the CETSCALE, in: Journal of Marketing Research, Vol. XXIV (August 1987), pp. 280-289

Sumner, G.A.: Folkways, Ginn Custom Publishing, New York 1906

Ward, K.: Strategic Management Accounting, Butterworth-Heinemann, Oxford 1992