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The Manager as Decision Maker

Cross-Cultural Dimensions of Decision Making

The organizational and social environment in which the decision maker finds himself determines what consequences he will anticipate, what ones he will not; what alternatives he will consider, what ones he will ignore.

—J. March & H. Simon (1958, p. 139)

International managers face a variety of decisions every day. Resources must be allocated, employees selected, and the attractiveness of joint venture partners evaluated; all must be done in a highly complex international environment. All decisions involve choices between alternatives. However, many of these choices are made almost automatically because of culturally based scripts that individual managers have for the situation. In addition, when confronted with a new or very important decision, managers can invoke a more thorough consideration of differently weighted alternatives.

This chapter reviews the process of individual decision making and explores the opportunity for cultural variation in the ways managers simplify this complex decision-making process. In addition, this chapter discusses the ethical dilemmas presented by decision making in an international context.

Rational Decision Making

The study of managerial decision making is typically divided into prescriptive approaches (what managers should do) and descriptive approaches (what managers actually do). On the prescriptive side, the rational model of decision making is based on a set of assumptions that indicates how a decision should be made. The goal of the rational decision maker is to make an optimal choice between

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specific and clearly defined alternatives (Simon, 1955). In order to optimize a particular outcome, people must progress either implicitly or explicitly through six steps in the decision-making process. These steps are described in Box 5.1.

Box 5.1 Steps in the Rational Decision Process

Problem definition. First, managers must recognize that a decision is needed and identify the problem to be solved. A problem is typically a difference between the actual situation and what is desired. However, managers often act without understanding the problem to be solved or define the problem in terms of a proposed solution or in terms of its symptoms (Bazerman, 1998). For example, in response to employee complaints about salaries being too low (a symptom), managers might define the problem as a comparison of salaries to industry averages. However, the true problem could be that the total compensation package, including benefits, does not suit the demographic characteristics of the firm's employees.

Identify decision criteria. Decisions often entail the consideration of more than one objective. For example, in selecting a manager for an overseas operation you may want to maximize his or her ability to adapt to the new culture, maximize the level of technical skill he or she has, and minimize the cost of the assignment. To be rational, a decision maker must identify all the criteria that should be considered.

Weight the criteria. The criteria identified in the previous step may not be of equal importance to the decision maker. In order to be prioritized, they must be assigned weights. A rational decision maker will know his or her preference for certain criteria and assign relative weights accordingly (e.g., cost of the assignment versus technical skills in the previous example).

Generate the alternatives. This step requires the rational decision maker to identify all possible alternatives that will satisfy the decision criteria. No attempt is made at this step to evaluate the alternatives.

Evaluate the alternatives. Each alternative must now be evaluated against the weighted criteria. This is often the most difficult part of the decision-making process because it requires the decision maker to predict the future outcomes of each choice. However, the rational decision maker is able to assess the consequences of each alternative.

Select the optimal solution. The optimal solution is computed by simply multiplying the expected effectiveness of each alternative on each criterion times the weighting of each criterion for each solution. The sum of these scores is an evaluation of each alternative against the weighted decision criteria. The optimal alternative should then be selected.

As shown in Box 5.1, the rational decision maker has a clear goal and a comprehensive set of alternatives from which to choose, which are themselves weighted according to known criteria and preferences, and can choose the alternative that has the highest score.

Cultural Differences in the Optimization Model

The rational or optimizing model is best thought of as a prescriptive or normative approach that demonstrates how managerial decisions should be made. While recognizing that decisions are actually made within limitations that put boundaries on rationality, it is useful to consider the opportunity for cultural variation in this normative framework.

Based on the descriptions of cultural variation (Chapter 3) that indicate preferences for certain modes of behavior, it is possible to suggest cultural differences in the rational model and therefore in the related decision structures within organizations. For example, at the problem definition step, the activity orientation of the culture can influence when a situation is defined as a problem. Managers from cultures with a *doing* or problem-solving orientation such as the United States might identify a situation as a problem to be solved well before managers from *being* or situation-accepting cultures such as Indonesia and Malaysia (Kluckhohn & Strodtbeck, 1961). Research also indicates that the amount of information one considers before making a final decision is culture bound. For example, East Asians have a more holistic approach to decisions and consider more information than do Americans (Choi, Dalal, Kim-Prieto, & Park, 2003).

The identification and weighting of criteria can also be affected by culturally different value orientations. For example, when asked to identify and rank criteria regarding a desirable acquisition target, U.S. and Korean managers had different opinions, as shown in Box 5.2.

Box 5.2 Desirable Characteristics of an Acquisition Target

United States Managers

1. Demand for target's products
2. Discounted cash flow
3. Return on investment
4. Attractiveness of industry
5. Management talent

Korean Managers

1. Attractiveness of industry
2. Sales revenue
3. Market structure
4. Manufacturing capabilities
5. Research and development capabilities

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An examination of Box 5.2 reveals the cultural variation in decision criteria consistent with what we might expect, based on the cultural orientations of the two sets of managers. That is, with the exception of the fourth item in the U.S. list, all of the criteria relate to short-term financial measures consistent with U.S. short-term orientation (Doktor, 1983). In contrast, with the exception of the second item in the Korean managers' list, all of the criteria relate to long-term growth-oriented measures.

Cultural variation can also be anticipated in the generation and evaluation of alternatives. Cultures with a strong past orientation tend to place more value on alternative solutions that have been used successfully in the past, whereas present- or future-oriented cultures are more likely to favor unique and creative solutions to problems. Also, research indicates cultural differences in the extent to which people vary in the choice rules they use in making decisions (Kim & Drolet, 2003). That is, people from individualist cultures are more likely to use a variety of different choice rules than those from collectivist cultures. In addition, motivational differences (related to differences in self-concept, discussed in Chapter 4) can influence the weighting of alternatives, for example, in favor of the alternatives that have the most highly valued outcomes for individuals or for a collective.

Finally, who makes the choice and how long the decision process takes can be culture bound. Vertical individualist cultures, such as the United States and France, are likely to have decision-making authority vested in only a few high-ranking individuals (Heller & Wilpert, 1981). In contrast, horizontal collectivist cultures (e.g., Israeli kibbutzim) are likely to push decision making well down in the organizational structure and involve large numbers of people. In addition, a culture's orientation toward time might influence the pace of decision making. For example, the longer time orientation of Arab cultures is reflected in a more deliberate pace of decision making than is found in North America, where being decisive means making choices quickly (Morrison, Conaway, & Borden, 1994).

Research on the decision-making structures of organizations in different countries tends to support the kind of cultural variation in normative decision-making processes proposed earlier. For example, in a very comprehensive study of this type (IDE Research Group, 1993), the level at which major decisions were made and the degree of employee involvement in decision making varied significantly across the 10 European countries surveyed. The decision structures in organizations are likely to reflect a culturally based view of a rational decision process. For example, the *ringi-sei* decision-making process characteristic of Japanese organizations (Misumi, 1984) is consistent with cultural orientations of both collectivism and high power distance (verticality). In this system, decisions are made using a participative procedure in which a subordinate submits a tentative solution that often reflects guidance from a superior (Nakane, 1970). The idea is then cleared through successive levels of the

organization, where it is altered and approved by the people who must implement it. The final decision is the result of a managed form of participation that maintains the existing status hierarchy (Earley, 1999).

Limits to Rationality

Regardless of the type of normative cultural variation previously suggested, the optimization model assumes that decision makers can

- Accurately define the problem
- Identify all decision criteria
- Accurately weigh the criteria according to known preferences
- Be aware of all available alternatives
- Accurately assess each alternative

Although decision makers might attempt to follow a rational model consistent with their cultural norms, they are limited in their ability to do so. That is, individual judgment is restricted or *bounded* in its ability to be rational (Simon, 1955). These boundaries exist because decision makers often must deal with incomplete information about the problem, the decision criteria, and even their own preferences. The cognitive limitations mentioned in Chapter 4 apply. That is, decision makers can handle only a small portion of the information available to them, and their perceptions are not always accurate.

An alternative to the rational model of decision making that recognizes these limitations is the *satisficing* model (March & Simon, 1958; Simon, 1955). Essentially, it suggests that decision makers forgo optimal solutions for ones that are acceptable. That is, they do not evaluate all possible alternatives but search for a solution that meets a minimally satisfactory set of criteria. If a particular alternative meets these criteria, the search ends. If it does not, they continue to the next alternative, and the next, until a satisfactory solution is found. That is, because of limits to rationality, decision makers most often satisfice rather than optimize.

Cultural Constraints on Rationality

In addition to the cognitive limits to rationality, the concept of rationality itself may be culture bound. Rationality, or being motivated by self-interest, as discussed in Chapter 4, might be defined differently depending on how individuals from different cultures define themselves. Moreover, even though a manager makes a decision in a less than rational way, it could be more important to appear rational in some cultures than in others. For example, conflict models of decision making (Janis & Mann, 1977) suggest that decision makers

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use one of four decision styles to cope with the psychological stress of making a decision.

According to the model, the optimal decision style is vigilance, which is a pattern consisting of a careful collection of facts and consideration of alternatives. In contrast are three alternative or maladaptive styles. Complacency involves either ignoring the decision completely or simply taking the first available course of action. Defensive avoidance is passing the decision off to someone else, putting off the decision, or devaluing the importance of making a decision. Finally, hypervigilance is making a hasty, ill-conceived decision, also called panicking. Research using this model with Japanese and other non-Western samples has found significantly greater use of the alternatives to vigilance than in Western (Australia, New Zealand, and United States) samples (Radford, Mann, Ohta, & Nakane, 1989). This is not to imply that East Asians are less efficient decision makers. On the contrary, what might be presented as less efficient decision processes in the West could be the dominant patterns in other (predominantly collectivist) cultures. Other research in the Japanese culture suggests that they are less likely than are Western cultures to report that they use systematic rational processes in favor of more intuitive decision making (Torrence, 1980). That is, as opposed to focusing on collecting facts, defining the problem, and considering all alternatives, their primary considerations are the impressions of others, feelings and emotions, and intuition (Radford, Mann, Ohta, & Nakane, 1991).

International management decisions are complex and are required frequently. Bounded rationality and satisficing concepts indicate that these managerial decisions typically will not conform to a rational model. In fact, an observation of what managers do indicates that they might actually avoid analytical processes (Mintzberg, 1973). To determine more specifically in what way international managers' decisions might deviate from rationality, we must consider the ways in which they simplify the complex environment surrounding their decisions (Bazerman, 1998). The next section discusses simplifying strategies called heuristics (Tversky & Kahneman, 1974) that apply to decision making in general. In addition, because managers from different cultures simplify complex realities in different ways, the opportunity for culturally based differences in the application of these heuristics is discussed.

Heuristics

Heuristics are rules of thumb (cognitive tools) that people use to simplify decision making (Bazerman, 1998). Heuristics can result in biases in the decision, but often the increased speed of decision making outweighs the loss in decision quality. However, managers do not consciously make this trade-off between

decision quality and speed because they are typically unaware that they are using a heuristic. By becoming aware of the impact of heuristics, they might learn to use them to advantage. The three general heuristics that are used to simplify decision making are availability, representativeness, and anchoring and adjustment.

AVAILABILITY

Availability is the extent to which instances or occurrences of an event are readily available in memory. It influences managers' judgments of the frequency, probability, or likely causes of that event (Tversky & Kahneman, 1973). An event that is easily imagined or evokes emotions is more easily recalled than vague or bland events. For example, in a U.S. experiment (Russo & Shoemaker, 1989), participants said that motor vehicle accidents caused more deaths each year than stomach cancer. In fact, stomach cancer causes twice as many deaths. However, vivid and numerous media accounts of motor vehicle deaths had created a bias in the perception of the frequency of the two events.

Because the availability heuristic is based on life experiences, cultural differences in judgments that result from availability are easily suggested. For example, Thai people are likely to have much higher estimates of the worldwide death rate from being trampled by a water buffalo than are people living in the United States. That is, culturally different individuals might differ systematically in the way they apply their available recollections to larger situations outside their experience.

REPRESENTATIVENESS

Managers' assessment of the likelihood that an event will occur is influenced by how similar the occurrence is to their mental representation (stereotype) of similar experiences. For example, people do not enter prenuptial agreements because they do not believe that the high base rate for divorce applies to them, and they do not consider that when "four out of five dentists recommend" something, the five dentists might not be representative of the total population of dentists.

Another example of the representativeness heuristic in action involves misconceptions of chance. People often inappropriately expect that random and nonrandom events will even out. That is, after a run of bad outcomes, they believe they are due for a positive result. For example, they might believe that after they hire five poor performers, the chance that the next hire will also perform poorly is lower. In reality, of course, the outcome of a random event is independent of the outcomes of previous events, and the next person hired is just as likely to perform poorly as the previous five.

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An extension of this idea that has cross-cultural implications is reflected in the confidence a decision maker has in the correctness of the decision. Evidence suggests that once they have made a decision, collectivists display greater confidence in its correctness (Yates et al., 1989). This greater confidence probably is the result of the tendency of collectivists to view the world, and hence categorize decisions, in terms of perfect certainty or perfect uncertainty (Wright & Phillips, 1980). In contrast, individualists might consider more possible negative outcomes of their decision and therefore be less certain. For example, when asked to list possible reasons why their decision might be wrong, Chinese respondents produced far fewer reasons than U.S. respondents (Yates, Lee, & Shinotsuka, 1996). In a related example, Mexicans (collectivists) were more likely to escalate commitment (throw good money after bad) than Americans and had more confidence in the decision to do so (Greer & Stephens, 2001).

ANCHORING AND ADJUSTMENT

A manager often makes a judgment by starting from some initial point and then adjusting to yield a final decision. The initial point, or anchor, can come from the way a problem is framed, from historical factors, or from random information. Even when an anchor is absurd and people recognize it as such, their subsequent judgments are often very close to that starting point (Dawes, 1988). That is, regardless of the initial anchor point, subsequent adjustments tend to be insufficient (Tversky & Kahneman, 1974). There are numerous examples of bias resulting from anchoring and adjustment. For example, some school systems categorize children into certain performance categories at an early age. Whereas a child anchored in a low-performance group might meet expectations, another child of similar ability but anchored in a higher-performance category could be perceived as being a better performer simply because he or she was categorized as being a high performer. Similarly, a low starting salary could be an anchor that a high-performing employee has difficulty overcoming even with substantial annual increases in terms of a percentage of base salary. Both the source of an anchor and norms for adjustment might vary with cultural experience. For example, the willingness of new migrants from Hong Kong to Vancouver in the 1990s to pay far above market prices for residential property might be explained by this heuristic. The Hong Kong Chinese might have anchored their initial estimate of the cost of housing in Vancouver in their previous experience. Subsequent estimates might still have been higher than reality because of the general tendency to make an insufficient adjustment mentioned earlier and a collectivist norm for avoiding extremes in evaluations.

These three general heuristics represent ways in which managers might simplify the decision-making process. As shown, these simplifications can result in specific types of biases. When we consider cultural variation and the role it

plays in social cognition, we can anticipate systematic differences in how these heuristics are applied and the resulting biases. In reality, more than one of the heuristics might be used in any single decision. In addition, many other types of biases result from the use of these three heuristics or rules of thumb. However, a complete discussion of all possible effects of cognitive simplification of the decision-making process is beyond the scope of this book (see Bazerman, 1998). What is important to note is that in making decisions, managers simplify reality in predictable ways. Additionally, because managers from different cultures perceive the world differently, their subjective realities differ; therefore, so will the ways in which they simplify complex realities.

Motivational Biases in Decision Making

In addition to the cognitive simplification effects previously discussed, many of the decision choices managers make can be influenced by motivational biases. Motivational biases in decision making can be based on the differences in self-concepts described in Chapter 4. First, decision makers with interdependent self-concepts should be more influenced by motives that are social or refer to others, such as deference, affiliation, nurturance, avoidance of blame, and the need to comply. An example of a culturally guided motivational difference specific to decision making is provided in a study of Brazilians (interdependent self) and people from the United States (independent self). In that study, Brazilians were more likely than U.S. people to perform and enjoy performing a behavior costly to themselves (forgoing personal benefit to visit a sick friend; Bontempo, Lobel, & Triandis, 1990). In a similar example, Indian students were found to be more likely to consider a donation of bone marrow to save someone's life to be morally required than were U.S. students (Baron & Miller, 2000).

As suggested in Chapter 4, a culturally based motivational difference might exist in the need for consistency in internal attitudes and external behavior. For example, some authors (Doi, 1986) argue that individualists such as U.S. people are much more concerned with consistency between feelings and actions than are collectivists such as the Japanese. The independence of the Japanese expressions *honne* (true feelings privately held) and *tatatmae* (the truth that is presented) reflects this lower need for people with interdependent self-concepts to reconcile the inner self with external behavior (Hall & Hall, 1987). Research has verified this more holistic reasoning approach of East Asians and their tendency to take inconsistency and contradiction for granted. For example, Koreans have been shown to be less surprised than were U.S. people when someone's behavior contradicted their expectations (Choi & Nisbett, 2000). Therefore, we should not expect judgments made by those with

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interdependent self-concepts to be motivated by the same sort of cognitive consistency that drives those with independent notions of self.

A common decision bias relates to an unrealistically positive self-evaluation (Taylor, 1989). For example, studies with U.S. people (independent self) indicate that they often believe that they are far more likely to graduate at the top of their class, get a good job, obtain a high salary, or give birth to a gifted child than reality actually suggests. Research suggests that this optimism bias is stronger in people with an independent self-concept. For example, Canadians (independent self) seem to demonstrate this self-enhancing bias, whereas Japanese (interdependent self) do not (Heine & Lehman, 1995). This overoptimistic view of outcomes can be related to individual self-esteem, which is higher in those with independent self-concepts (Mann, Burnett, Radford, & Ford, 1997).

The previous section introduces several motivational biases in decision making that can vary across cultures. That is, differences in decision motives can be expected based on the decision maker's internal representation of self. Certainly, other motivational biases exist. However, what is important to recognize is that patterns of decision making that vary from a normative rational model can be the result of the culturally based motivation of the decision maker and the cognitive simplification of the process.

Selection and Reward Allocation Decisions

Two common managerial decisions that are relevant in terms of cross-cultural interactions are the selection of employees and the allocation of rewards. All organizations need to recruit and select new members. Based on the previous discussion, we would expect considerable variation around the world in the procedures used to conduct this important decision-making activity. The research on selection procedures in different cultures is far from complete, but it does demonstrate systematic variation in the decision process. For example, in a survey of the selection processes of 959 companies in 20 nations, a significant pattern of similarities and differences in the selection procedures used was found (Ryan, McFarland, Baron, & Page, 1999). Table 5.1 reports the extent to which companies used a particular technique on a scale of 1 = *never* to 5 = *always or almost always*.

The variation in selection techniques is consistent with the suggestion that cultural differences influence the institutionalization of the selection process. For example, graphology (handwriting analysis) was popular only in France and was never used in many countries, and firms in Hong Kong and Singapore were the most likely to rely on family connections. Similarities also existed in that one-on-one interviews were commonly used across all the firms surveyed. This contrasts with research of only a few years ago, when

Table 5.1 Selection Methods by Country

Method	New										South								
	Australia	Belgium	Canada	France	Germany	Greece	Hong Kong	Ireland	Italy	Netherlands	Zealand	Portugal	Singapore	Africa	Spain	Sweden	U.K.	U.S.	All
Application form	3.59	3.94	3.29	4.09	3.65	2.92	4.75	3.46	4.19	3.55	3.64	3.40	4.67	4.20	3.22	1.19	4.26	4.12	3.53
Education	4.21	3.19	4.31	4.37	4.47	4.32	4.50	4.42	4.08	4.68	4.33	4.91	4.33	4.46	2.43	4.30	4.32	4.47	4.26
Personal references	2.88	2.74	3.00	2.79	3.06	3.44	2.75	3.46	3.04	2.47	3.40	3.14	3.07	3.63	2.91	3.94	3.51	3.18	3.22
Employer references	4.32	2.64	4.05	3.32	2.03	2.30	3.75	4.53	2.69	2.72	4.40	3.14	3.13	4.09	2.43	4.49	4.37	4.02	3.77
Certificate or license	2.52	3.19	3.05	2.25	3.33	2.83	3.88	3.02	2.38	4.23	2.66	4.35	3.47	3.37	3.52	1.89	2.83	2.96	2.95
Family connections	1.30	1.57	1.68	1.56	1.47	1.87	2.00	1.55	1.52	1.50	1.31	1.75	1.80	1.52	1.48	1.22	1.33	1.53	1.46
One-to-one interviews	3.59	4.70	4.35	4.85	4.65	4.92	3.38	3.34	4.93	3.78	4.05	4.77	4.13	4.72	4.70	4.84	3.88	4.78	4.30
Panel interviews	4.08	2.75	3.57	2.06	1.88	2.71	3.63	4.00	1.50	4.30	3.71	3.29	3.47	3.63	2.45	2.82	3.82	3.27	3.36
Questionnaire	2.75	3.73	2.87	2.63	1.74	2.65	2.88	2.98	1.58	3.03	3.45	3.27	2.64	3.44	3.09	3.74	3.41	2.51	3.09
Job trail	2.05	3.05	2.33	2.12	1.56	2.74	1.57	2.71	1.48	3.94	1.59	3.12	2.00	2.06	2.57	1.55	1.87	2.02	2.20
Biodata	1.23	1.52	1.19	1.20	2.77	3.87	1.62	1.18	1.92	1.53	1.35	2.29	1.80	1.41	1.68	1.59	1.23	1.21	1.52
Cognitive ability test	2.39	3.85	2.59	2.29	1.90	2.54	1.83	2.79	1.33	3.76	3.37	3.27	2.83	3.25	3.75	2.86	3.08	2.09	2.98

(Continued)

Table 5.1 (Continued)

Method	New										South								
	Australia	Belgium	Canada	France	Germany	Greece	Hong Kong	Ireland	Italy	Netherlands	Zealand	Portugal	Singapore	Africa	Spain	Sweden	U.K.	U.S.	All
Physical ability test	1.40	1.04	1.27	1.29	1.00	1.08	1.17	1.15	1.00	1.61	1.12	1.69	1.17	1.26	1.00	1.17	1.18	1.21	1.22
Foreign language test	1.11	3.02	1.67	2.79	1.60	2.85	2.83	1.58	1.67	1.62	1.19	2.36	1.00	1.33	3.07	2.18	1.37	1.21	1.75
Work sample	1.89	1.40	1.80	1.50	1.50	1.79	1.83	1.39	1.00	1.32	1.49	1.69	1.67	1.71	2.15	1.22	1.84	1.40	1.59
Personality test	2.56	3.75	2.78	3.42	1.70	3.14	2.50	3.17	1.86	3.29	3.59	3.00	2.67	3.66	4.43	3.68	3.46	1.62	3.21
Honesty test	1.16	1.60	1.52	1.00	1.00	1.85	1.33	1.04	1.00	1.69	1.20	1.92	1.67	1.62	2.21	1.11	1.12	1.09	1.33
Vocational interest test	1.51	1.98	1.76	2.33	1.40	2.29	1.50	1.07	1.00	1.65	1.54	2.62	1.33	1.73	2.33	1.53	1.33	1.15	1.61
Simulation exercise	1.58	2.73	2.58	1.82	1.70	1.85	1.50	1.44	1.57	2.82	1.89	2.57	1.33	2.66	2.15	1.72	2.52	1.82	2.14
Situation judgment test	1.35	2.16	2.30	1.33	1.50	1.15	3.00	1.31	1.00	1.82	1.57	2.23	1.67	1.94	2.33	1.64	1.85	1.71	1.78
Video-based test	1.10	1.33	1.15	1.06	1.00	1.15	1.17	1.00	1.00	1.55	1.07	2.00	1.00	1.30	1.33	1.19	1.18	1.26	1.20
Projective techniques	1.12	1.33	1.33	1.69	1.00	1.00	1.00	1.00	1.00	1.68	1.13	2.60	1.00	1.73	1.69	1.77	1.12	1.03	1.32
Drug tests	1.34	1.08	1.55	1.18	1.18	1.15	1.17	1.32	1.00	1.06	1.13	1.93	1.00	1.58	1.00	1.93	1.35	2.21	1.41
Medical screen	3.34	3.50	2.63	1.76	4.45	2.36	3.67	4.31	2.33	4.18	1.95	4.14	3.33	3.77	3.54	3.26	3.91	2.26	3.18
Graphology	1.07	1.56	1.00	3.26	1.00	1.21	1.00	1.00	1.00	1.24	1.02	1.00	1.00	1.45	1.75	1.27	1.10	1.09	1.25

SOURCE: Adapted from Ryan, A. M., McFarland, L., Baron, H., & Page, R. (1999). An international look at selection practices: Nation and culture as explanations of variability in practice. *Personnel Psychology, 52*(2), 359-391.

NOTE: Scores are mean responses on a 5-point scale anchored by 1 = *never use* and 5 = *always use*.

Chinese firms rarely reported using interviews for selection purposes (Huo & Von Glinow, 1995), with more important selection criteria being the institution from which the person graduated or his or her home province (Redding, Norman, & Schlander, 1994). Despite some convergence toward common practices, an examination of the selection processes in 10 countries using the Best International Human Resource Practices Survey found more differences than similarities in the practices used (Huo, Huang, & Napier, 2002). Thus, it seems that considerable variability continues to exist in the selection decision across cultures.

Related to the selection decision is the development of a potentially qualified pool of applicants from which to choose. Again, cultural variation in the specifications of job requirements used in recruiting candidates is evident. For example, in an analysis of hundreds of newspaper advertisements in eight European countries, 80% of the ads in Scandinavian countries (Sweden, Norway, and Denmark) emphasized the interpersonal skills required, whereas in Germany and the United Kingdom, the percentage was 65%, and in France, Italy, and Spain it was 50%. Ads in France, Italy, and Spain emphasized a particular age as a requirement. In the more egalitarian Scandinavian countries, the interpersonal skills needed for collaboration were most important, whereas in higher power distance countries age was more important. These examples provide evidence of cultural differences in both the processes used in the selection decision and the criteria that are most important in the decision.

Another key decision in the management of international organizations is reward allocation. A substantial number of studies have examined reward allocation decisions, and most of these dealt with differences in perceptions of fairness by individualists and collectivists in relation to in-groups and out-groups, but many of these studies may have ignored important contextual factors (Leung, 1997). Recently, it has been recognized that power distance (verticality) or hierarchy may be the best predictor of differences across cultures in reward allocation (Fischer & Smith, 2003).

Reward allocation criteria include equity, equality, need, and seniority. Cultural differences appear to exist in the fairness associated with each of these decision criteria. In hierarchical societies (high power distance), there is a strong preference for equity over equality (Fischer & Smith, 2003). Also, the emphasis on harmony in collectivist cultures suggests that fairness might be perceived to result from equality as opposed to equity in reward allocation. In general, individualists seem to prefer reward allocations based on equity, and collectivists prefer more equal distributions (Kim, Park, & Suzuki, 1990; Leung & Bond, 1982). However, for individualists this preference might be moderated by the expectation of future interaction between work group members (Elliott & Meeker, 1984). In addition, the preference of collectivists for equality rather than equity in reward allocation is affected by whether the reward is to be

received by an in-group or out-group member. For example, when allocating rewards to in-group members, Chinese used an equality norm, whereas U.S. people used an equity norm. However, when the allocation was made to out-group members, Chinese adhered more closely to an equity norm than did U.S. people (Leung & Bond, 1984). Collectivists also show a higher propensity to allocate rewards according to need than do individualists (Berman, Murphy-Berman, & Singh, 1985). When present, need seems to override other preferences for reward distribution in all cultures; however, this effect is more pronounced for collectivists. Cultural differences in reward allocation based on seniority also exist. Collectivist logic suggests that this group might be more prone than individualists to see reward allocation based on seniority as fair. In general, this relationship seems to be true (C. Chen, 1995) and is more pronounced, as would be expected, for vertical collectivists (Chen, Meindl, & Hunt, 1997). However, it is possible that gender roles specific to a given culture might influence the extent to which a seniority norm for reward allocation is invoked. For example, in one study, male subjects in Taiwan were more likely to use seniority to allocate rewards, whereas in the United States, female subjects used this norm (Rusbult, Insko, & Lin, 1993).

It is important to consider that societal-level cultural and economic factors, as well as organizational norms, influence reward allocation in organizations. For example, a study across five countries (Fischer et al., 2007) reported that reliance on an equality norm for reward allocation was predicted by organization factors, and reliance on need was predicted by the unemployment rate and the societal value of embeddedness (see Chapter 3). And the perceived fairness of a reward allocation strategy can be affected by a number of factors, including the status of the person making the reward allocation.

In summary, both selection decisions and reward allocation decisions vary across cultures in a systematic fashion. Much of what we know about this variability relies on the cultural dimensions of individualism and collectivism or power distance (verticality) for explanation. Although relying on this limited evidence is far from satisfactory, it does point out that we must be very careful in trying to apply decision models based on Western modes of thought to non-Western cultures.

Ethical Dilemmas in Decision Making

Increasingly, managers around the world are recognizing the ethical dimension of their decisions. Although they generally agree that sound ethics is good for business, they are very skeptical about what they and their peers actually do and about the existence of unethical practices in their industry (Brenner & Molander, 1977). The decisions international managers make cross cultural and geographic boundaries. In the process, the consensus about what is morally

correct erodes in the face of differing values and norms. For example, payments that are considered bribes in the United States can be viewed as a perfectly acceptable business practice in some other cultures. Discrimination in employment against women that is reprehensible in one culture is a normal expression of gender-based roles in another. The study of ethical decision making, like decision making in general, has resulted in both normative or prescriptive models and descriptive models. However, because managers are reluctant to have their ethics directly observed or measured, empirical tests are rare. This section outlines the common normative frameworks or moral philosophies for ethical decision making. Then it presents a descriptive model based on the cognitive moral development of managers that provides for the effect of culture.

MORAL PHILOSOPHIES

A moral philosophy is a set of principles used to decide what is right or wrong (Ferrell & Fraedrich, 1994). Managers can be guided by one of several moral philosophies when making decisions that present an ethical dilemma. The main categories of moral philosophies that are relevant to international management decisions are teleology or consequential models, deontology or rule-based models, and cultural relativism.

Consequential Models

Consequential models focus on the outcomes or consequences of a decision to determine whether the decision is ethical. A key precept of this principle as a guide for decision making is utilitarianism (Mill, 1863). Utilitarianism is the moral doctrine that we should always act to produce the greatest possible balance of good over harm for everyone affected by our decision (Shaw, 1996). Selecting a decision that considers the interests and maximizes the utility for all individuals and groups affected by a decision is extremely difficult. It becomes even more difficult when the stakeholders affected by a decision have culturally different values and attitudes.

Some philosophers (called rule utilitarians, in contrast to act utilitarians, described previously) espouse the view that, if followed, general moral rules (e.g., religious norms) will maximize the benefits to all and can be used as a shortcut to the complexity of evaluating the utility of each decision (Shaw, 1996). That is, they are guided by the belief that some types of behavior (e.g., refraining from excess profits) will *always* maximize the utility of everyone involved.

Deontological or Rule-Based Models

Deontological principles hold that human beings have certain fundamental rights and that a sense of duty to uphold these rights is the basis of ethical

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decision making rather than a concern for consequences (Borchert & Stewart, 1986). One of the best known of these rule-based approaches is the categorical imperative of Immanuel Kant (1724–1804). Essentially, the categorical imperative asserts that individuals have the right to be treated as an entity unto themselves and not simply as a means to an end. Unlike utilitarianism, deontology argues that some behaviors exist that are never moral even though they maximize utility. An obvious difficulty with rule-based normative approaches to decision making is achieving wide consensus on which rules (whose values) to base fundamental rights on (Donaldson, 1989). Despite this difficulty, a number of transnational corporate codes have been promulgated that attempt to codify a set of universal guidelines for international managers. By reducing these transnational codes to their key common elements, one can develop guidelines for ethical practices that have some degree of cross-national acceptance (Frederick, 1991). Box 5.3 presents examples of these guidelines that refer to business operations as well as to basic human rights and fundamental freedoms.

Box 5.3 Normative Corporate Guidelines**Employment Practices and Policies**

MNCs [multinational corporations] should not contravene the manpower policies of host nations (ILO);

MNCs should respect the right of employees to join trade unions and to bargain collectively (ILO, OECD, UDHR);

MNCs should develop nondiscriminatory employment policies and promote equal job opportunities (ILO, OECD, UDHR);

MNCs should provide equal pay for equal work (ILO, UDHR);

MNCs should give advance notice of changes in operations, especially plant closings, and mitigate the adverse effects of these changes (ILO, OECD);

MNCs should provide favorable work conditions, limited working hours, holidays with pay, and protection against unemployment (UDHR);

MNCs should promote job stability and job security, avoiding arbitrary dismissals and providing severance pay for those unemployed (ILO, UDHR);

MNCs should respect local host-country job standards and upgrade the local labor force through training (ILO, OECD);

MNCs should adopt adequate health and safety standards for employees and grant them the right to know about job-related health hazards (ILO);

MNCs should, minimally, pay basic living wages to employees (ILO, UDHR);

MNCs' operations should benefit lower-income groups of the host nation (ILO); and

MNCs should balance job opportunities, work conditions, job training, and living conditions among migrant workers and host-country nationals (Helsinki).

Consumer Protection

MNCs should respect host-country laws and policies regarding the protection of consumers (OECD, TNC Code) and

MNCs should safeguard the health and safety of consumers by various disclosures, safe packaging, proper labelling, and accurate advertising (TNC Code).

Environmental Protection

MNCs should respect host-country laws, goals, and priorities concerning protection of the environment (OECD, INC Code, Helsinki);

MNCs should preserve ecological balance, protect the environment, adopt preventive measures to avoid environmental harm, and rehabilitate environments damaged by operations (OECD, TNC Code, Helsinki);

MNCs should disclose likely environmental harms and minimize risks of accidents that could cause environmental damage (OECD, TNC Code);

MNCs should promote the development of international environmental standards (INC Code, Helsinki);

MNCs should control specific operations that contribute to pollution of air, water, and soils (Helsinki); and

MNCs should develop and use technology that can monitor, protect, and enhance the environment (OECD, Helsinki).

Political Payments and Involvement

MNCs should not pay bribes nor make improper payments to public officials (OECD, TNC Code);

MNCs should avoid improper or illegal involvement or interference in the internal politics of host countries (OECD, TNC Code); and

MNCs should not interfere in intergovernmental relations (TNC Code).

(Continued)

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(Continued)

Basic Human Rights and Fundamental Freedoms

MNCs should respect the rights of all persons to life, liberty, security of person, and privacy (UDHR, ECHR, Helsinki, ILO, TNC Code);

MNCs should respect the rights of all persons to equal protection of the law, work, choice of job, just and favorable work conditions, and protection against unemployment and discrimination (UDHR, Helsinki, ILO, TNC Code);

MNCs should respect all persons' freedom of thought, conscience, religion, opinion and expression, communication, peaceful assembly and association, and movement and residence within each state (UDHR, ECHR, Helsinki, ILO, TNC Code);

The United Nations Universal Declaration of Human Rights (UDHR) (1948);

The European Convention on Human Rights (ECHR) (1950);

The Helsinki Final Act (Helsinki) (1975);

The OECD Guidelines for Multinational Enterprises (OECD) (1976);

The International Labor Office Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy (ILO) (1977); and

The United Nations Code of Conduct on Transnational Corporations (TNC Code) (not yet completed nor promulgated but originating in 1972).

SOURCE: From Frederick, W. C. (1991). The Moral Authority of Transnational Corporate Codes. *Journal of Business Ethics*, 10, 166-167. Reprinted with kind permission from Kluwer Academic Publishers.

It might be possible to gain universal acceptance for a set of fundamental rights if they protect something of great importance in all cultures, if they are under continuous threat, and if all cultures can absorb the cost of protecting them (Donaldson, 1989). However, some research suggests that national culture affects the preference of individuals for consequential versus deontological or rule-based principles in ethical decision making. For example, a comparison of seven countries found a preference for consequential principles in the United States and Australia as compared to Eastern European and Asian countries (Jackson, 2000). More important, perhaps, is that managers in different cultures can subscribe to the same moral philosophy (e.g., utilitarianism or

fundamental rights) but still choose to behave in ways that are very different (Phatak & Habib, 1998). This is the problem of cultural relativism.

Cultural Relativism

In cultural relativism, moral concepts are legitimate only to the extent that they reflect the habits and attitudes of a given culture (Donaldson, 1989). That is, ethical standards are specific to a particular culture, and any cross-cultural comparison is meaningless. What is considered unethical in one culture might be quite acceptable in another, even though the same moral principle is being adhered to. An example of cultural relativism in a selection decision is demonstrated in Box 5.4.

Box 5.4 Cultural Relativism in a Selection Decision

Moral principle: Attributes of individuals must not be used for differential treatment of the individuals unless they are clearly connected to the goals and tasks required.

Indian manager: I must hire people whom I know or who belong to my network of friends and relatives because I can trust them to be dependable employees.

American manager: I must hire the best person for the job regardless of class, race, religion, gender, or national origin.

SOURCE: Adapted from Phatak, A., & Habib, M. (1998). How should managers treat ethics in international business? *Thunderbird International Business Review*, 40(2), 101-117.

Cultural relativism implies that one should not impose one's own ethical or moral standards on others (a practice particularly characteristic of individualists, according to Triandis [1995]) and that international decisions should be evaluated in the context of differences in legal, political, and cultural systems. However, it also leaves open the opportunity to attribute a wide range of behavior to cultural norms. The use of child labor in Myanmar and China (Beaver, 1995) and discrimination against women in Japan and Saudi Arabia (Mayer & Cava, 1993) are just two examples of conduct that is attributed to cultural relativism. To adopt the concept of cultural relativism in its entirety declares the international decision arena a *moral-free zone* where anything goes (Donaldson, 1989).

For cultural relativism to hold up as a normative model, we must declare that even the most hideous or reprehensible behavior is not objectively wrong

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but depends on how a culture defines *wrong*. However, most of us can imagine acts that we cannot defend in terms of variation in cultural practice. This gives rise to so-called hypernorms, which reflect principles so fundamental to human existence that they transcend religious, philosophical, or cultural differences (Donaldson & Dunfee, 1994).

These prescriptive or normative models suggest how one should behave in making an ethical decision. However, like all prescriptive models, they tell us little about how managers actually behave (Fritzsche & Becker, 1984). The development of descriptive ethical decision-making models has lagged these prescriptive models. However, one approach that shows promise because it allows for both cultural and situational influence is the idea of stages of cognitive moral development.

COGNITIVE MORAL DEVELOPMENT

Cognitive moral development is an approach to understanding ethical decision making that focuses on the mental determination of right and wrong based on values and social judgments (Kohlberg, 1984). It is particularly appropriate in understanding managers' responses to ethical dilemmas across cultures. This model suggests that all people pass through stages of moral development and that ethical behavior can be understood by identifying a person's level of moral maturity. As shown in Table 5.2, the six stages of development make up three distinctive levels.

Stages in the model relate to age-based stages in human development. That is, in general, children under the age of 9 are at Level One, adolescents and most adults plateau at Level Two, and only a small percentage of people reach Level Three. Level Three is the stage at which people will accept society's rules only if they agree with the moral foundation on which the rules are based (Kohlberg, 1984). However, level of moral development is not exclusively age based and has been found to be related to intelligence, level of education, work experience (Colby, Kohlberg, Gibbs, & Lieberman, 1983), and degree of ethical training (Penn & Collier, 1985). That is, as individuals' cognitive process of moral decision making becomes more complex, they progress to higher stages of moral development. The existence of cognitive development stages has been tested with participants of both sexes, from a range of social classes, and in a number of cultures. There is some evidence that culture is related to moral reasoning as conceived by Kohlberg, because the model rests on an expanding awareness of the impact of decisions on the individual, the in-group, and society (Colby & Kohlberg, 1987). For example, Triandis (1995) suggests that Stage Two is a type of primitive individualism, and Stage Three focuses on morality as a function of the consequences for one's in-group, characteristic of collectivist cultures (Husted,

Table 5.2 Stages of Moral Development

<i>Stage of Moral Development</i>	<i>Social Perspective</i>
Level One: Preconventional	Individual Perspective
Stage One: Obedience and punishment	Sticking to rules to avoid physical punishment. Obedience for its own sake.
Stage Two: Instrumental purpose and exchange	Following rules only when it is in one's immediate interest. Right is an equal exchange, a fair deal.
Level Two: Conventional	Member of Society Perspective
Stage Three: Interpersonal accord, conformity, mutual expectations	Stereotypical "good" behavior. Living up to what is expected by people close to you.
Stage Four: Social accord and system maintenance	Fulfilling duties and obligations to which you have agreed. Upholding laws except in extreme cases where they conflict with fixed social duties. Contributing to the society, group.
Level Three: Postconventional	Principled Perspective
Stage Five: Social contract and individual rights	Being aware that people hold a variety of values; that rules are relative to the group. Upholding rules because they are the social contract. Upholding nonrelative values and rights regardless of majority opinion.
Stage Six: Universal ethical principles	Following self-chosen ethical principles. When laws violate these principles, act in accord with principles.

SOURCE: Adapted from Kohlberg, L. (1984). *Philosophy of moral development*. New York: Harper & Row.

2000). Although numerous studies find differences in ethical attitudes and behavior across cultures (Treviño, Weaver, & Reynolds, 2006), this evidence fails to show that some cultures are more or less ethical in their decision making than others (O'Fallon & Butterfield, 2005). Stages One through Four of the Kohlberg model have been found to exist in all cultures, and evidence of the principled perspective has been found in both Western and Eastern cultures (Snarey, 1985).

Managers' stage of cognitive moral development determines their mental process of deciding what is right or wrong, and as noted previously, these stages of moral development seem to exist (if not uniformly [Snarey, 1985]) in

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all cultures. However, both individual and situational factors have the potential to affect the relationship between the assessment of what is right or wrong and actual ethical decision making in organizations (Treviño, 1986). In addition, these individual and situational differences may be culture bound. Figure 5.1 is a graphic representation of this process.

As shown in Figure 5.1, the model suggests that individual differences can influence the likelihood of people acting on the choice of what they believe to be ethical. For example, individual factors, such as the extent to which one believes that an outcome is the result of one's own efforts (*locus of control* [Rotter, 1966]) and the extent to which people depend on information from external reference points (*field dependence* [Witkin & Goodenough, 1977]), might influence their reliance on their own internal beliefs about what is right or wrong. In this example, decisions by managers with high field dependence and external locus of control can be less consistent in their level of moral judgment than managers with internal locus of control and field independence. Both the expectation about the outcomes of one's actions and the reliance on social information to make decisions are strongly shaped by culture (Leung, Bond, & Schwartz, 1995; Smith & Bond, 1999; Smith, Trompenaars, & Dugan, 1995). In this way, culture might influence the relationship between level of moral development and making an ethical or unethical decision. For example, because their belief about the outcome of their action is shaped by their long-term orientation and collectivist norms, Chinese are more likely to report

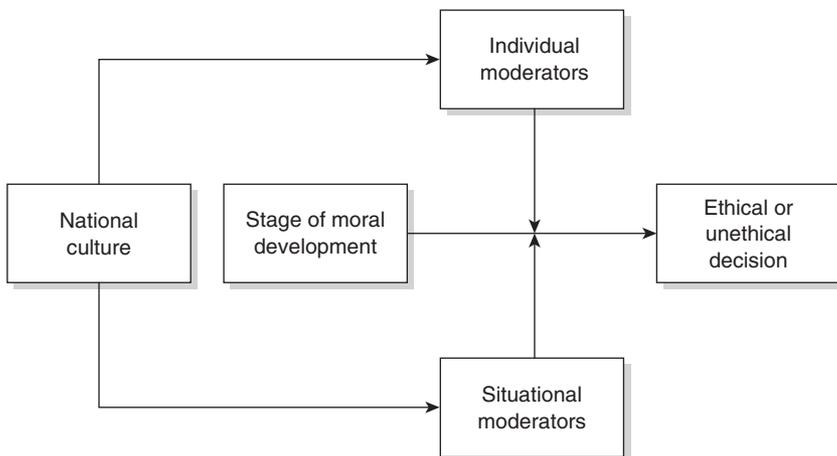


Figure 5.1 Culture's Influence on Ethical Decision Making

SOURCES: Adapted from Treviño (1986), Robertson & Fadil (1999).

an unethical act (blow the whistle) by peers than are Canadians (Zhuang, Thomas, & Miller, 2005).

Managers approach an ethical dilemma with a particular level of cognitive moral development. However, decisions made in a social context can be strongly influenced by the situation. A person's susceptibility to external influence is related to the stage of moral development, with people at lower levels more susceptible (Treviño, 1986). Situational factors that might be proposed to influence the relationship between stage of moral development and ethical decision making include such factors as the extent to which the environment specifies normative behavior, whether the social referents in the situation are members of one's in-group or out-group, and the extent to which demands are placed on the decision maker by people in authority. For example, normative behavior regarding sexual harassment might be very easy for U.S. people to recall from memory, whereas for Indonesians appropriate behavior in this situation is more ambiguous. In addition, social information provided by a superior has a more dramatic influence on decisions for vertical collectivists than for horizontal individualists (Liu, 1986). The social context for managers also includes the organization in which they function. Organizations differ in adopted principles of social responsibility and have processes for social responsiveness (Wood, 1991). In addition, these organizational features can vary across cultures (Donaldson, 1993). These principles and processes can facilitate or impede ethical decision making.

The concepts presented in the model shown in Figure 5.1 have been subjected to only limited empirical tests. For example, an analysis of the ethical judgments of U.S., Eastern European, and Indonesian participants indicated that the type of ethical issue influenced cultural differences. However, after situational characteristics and the cultural background of participants were controlled for, the moral judgments participants made were consistent with their ethical ideology (Davis, Johnson, & Ohmer, 1998). Other research points to the effect of social influence on ethical decision making. In a comparison of U.S. people and Israelis across a range of ethical issues, the best predictor of ethical judgments was what participants felt peers would do (Israeli, 1988). And a study of U.S. expatriates supported the moderating effect of cultural context. That is, in the absence of the previously discussed hypernorms, expatriates were likely to adopt the local norms for ethical behavior (Spicer, Dunfee, & Bailey, 2004).

Thus, the limited amount of research on descriptive models of ethical behavior illuminates the importance of the three factors—(1) level of moral development, (2) individual factors, and (3) situational factors—in describing ethical decision making in an international environment. First, the concept of a level of cognitive moral development appears to apply to some extent across cultures. However, it would be naive to believe that managers' decisions are somehow hardwired to their value judgments about what is right or wrong.

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Therefore, both individual characteristics of the manager such as culturally based values and the situational (organizational) context in which the decision is being made are logical moderators of the relationship between the level of cognitive moral development and ethical behavior.

Summary

The decisions that international managers make are made more complex by an environment that includes stakeholders with potentially very different perspectives on desirable outcomes. Because of limits to rationality, managers rely on heuristics or rules of thumb to guide decision making. These heuristics simplify the decision-making process; because managers from different cultures perceive the world differently, they differ in the way in which they simplify complex realities. In addition to cognitive simplification, the decisions made are influenced by motivational biases, based in part on cultural values, and different definitions of self-interest.

International management decisions are further complicated by legal, political, and cultural boundaries. When these boundaries are crossed, what is moral can be blurred by cultural differences. There is no shortage of prescriptive models on which managers can draw for ethical guidance. However, actual ethical decision making is probably the result of the complex interplay of the level of cognitive moral development of the manager with other individual and situational factors.