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## **SOCIO-CULTURAL ENVIRONMENT OF INTERNATIONAL BUSINESS: NATIONAL AND ETHICAL ASPECTS**

### **Abstract**

In this article the key concept of socio-cultural environment emphasizes on the differences of the cultures and societies that has impact on the way of managing international business. In order to stay ahead of the competitors, the business needs to adapt and improve their strategies according to the aspects of nation and ethic. Multinational team is very important to achieve business success as well as understand local people who live in the area that business is going to operate. Working with people who come from various nations and have different cultural backgrounds and experiences is also difficult to understand the diversity. Therefore, the company needs to concern about the ethical issues and also national aspects in order to contribute peaceful relationship at particular working environment and avoid misunderstanding during the interaction with people. This study will focus on the national and ethical aspects to understand the beliefs, behavior, and particular problems of people more than one country in order to understand the different issues and analyze the international business operations. International business needs to be aware of cultural issues that people around the world live in different countries and have different aspects toward decision making. Socio-culture factor is the component of external environment that is difficult to control. Thus, this study would suggest how international business could adapt to the different environment and respect other cultures.

Key words: ethical problem, socio-cultural factor, international business, international team, stereotype, culture, traditions, interaction.

In the recent day, the competition among international businesses environment is relatively intensive and very concentrated on the amount of profit. Due to the globalization, the business tries to expand their market crossing the borders in order to share new market and customers. People from different regions come and work together when the important project is assigned. Consequently, sometimes the company might face the conflict about cultural differences and misunderstanding during the operation. To consider, the international business need to aware of cultural issues that people around the world live in different nations and have different aspects toward decision making. Different people have their own way to look the things and analyze the problems. Therefore, to understand the socio-culture by analyzing the nation and ethical aspects will help the international business environment to be successful. Socio-culture factor is the component of social and culture considered as external environment that is difficult to control. Thus, this study would suggest how international business could adapt to the different environment and respect other cultures.

The discussion of existing research on socio-cultural environment of international business can be categorized into three main themes: 1) the socio-cultural differences of international business; 2) national and ethical aspects toward the international business; 3) the understanding of socio-cultural environment and creating of harmony. Thus, these existing literatures contribute to ongoing discussion of root cause of conflict of international business and how to manage it.

Firstly, the existing literatures discuss the socio-cultural differences of international business. International business refers to a vital ingredient in strategic management and entrepreneurship. Moreover, the international business relates to any situation where the distribution of goods and services crosses the country border. It is the impact of globalization which is the shift toward integrated and interdependent global economy. The company has alternative sources of goods and service from other countries. There are a lot of opportunities for international business because of the eliminating of trade barrier. Also, international business also concludes the transferring of people, intellectual property, liabilities, and contractual assets [1]. Then the cultural difference has occurred. The cultural

difference refers to the diverse of people's norm, beliefs, and practices between two countries which is really sensitive issue. Another word, cultural distance sometimes refers to the differences in norm, language, national/ethnic identity, tolerance, level of trust, respect for entrepreneurship and other things.

The term of socio-cultural environment is referred to the group of many factors that can affect the international business including beliefs, customs, practices, and literacy. It is considered as important issue when the international business is about human relationship happening when people work with others people who are from different nations. The international business is sometime determined by the social attitudes and cultural values, so these are also interconnected to each other. Socio-cultural environment is important when the international business aimed to achieve the ultimate goal. The components of the socio-cultural environment are divided into four main areas which are economic system, political organization, social structure and belief system [2].

To understand the international business, aware of role of culture is the key to be successful. Cultural difference will have directly impact on profitability on international business. Therefore, understand and improve level of knowledge in culture of different nations can help building international competencies and gain competitive advantages. Generally, it is really hard to understand every single aspect of all culture in different nations. There are some important factors that have directly impact on the business. 1) Communication: it is important in the way to operate the business and project internationally. Using language and accent are very essential issues to be aware of. 2) Basic customer needs: this aspect will help to understand the customer's cultural backgrounds, and then the business can develop their advertising and conveying the right message to the consumers and target audiences regarding to their cultures. For example, in Northern Europe, it has six countries that have good level of English language. The language usage sometimes involves the use of emotions, lively gestures or touching which all of this might not be accepted by some country. Also, time is very important in many cultures which people must arrive on time. For example, the difference in Northern European business culture is the geographic location. It has influence to the use of English language and additional secondary language.

Business is not only about how to make sale or generate high profit, but it is about understanding business environment and social-cultural attribution. Socio-cultural is a combination of two words "social and culture". Social cultural factors are referred to lifestyle of a group of people, their customs and value system. Religion, language, the laws, politics and the economic status are important factors that influence socio-culture of people. There are many ways that socio-cultural factors can affect the business. For example, Means of communication: communication is the way of interaction much more than the language that is being spoken by a group of people. Some salient or unspoken words also convey some important meaning. Family setting: in most developed countries anyone who is above 18 years could make decision for themselves while in some societies, as long as they live under the command of parents, they may not confident to make their own decision. The law of the land: For example; if there is the law forbidding the sale of Alcohol, there is nothing to do other than to stay clear from that line of business. The religion: some religions do not permit their people to eat pork, so if you start your pig farm in such an area, you wouldn't make sales. Education: The level of education of the people helps you with choices of business, advertising and marketing approach. Social organization: communities are structured in the ways that place some people over other people. For instance; in an ideal of local community (such as villages in Africa), you would have kings, chiefs, subjects and even slaves. Thus, the business in such communities must endeavor to be in the good relation with the chiefs in the community. This is so because the words of the traditional ruler of a society are treated as a law [2, p. 28–43]. If managers have a proper understanding of the socio-cultural factors of particular society where managers aim to establish business, they will be at the top of business.

Secondly, the existing literatures discuss about national and ethical aspects toward the international business. Ethical considerations in the business or sometimes known as corporate ethics, it is a form of applied ethics which related to ethical principles, moral/ethical problems that arise in international business environment. Ethical issues will include the rights and duties between a company and its employees, suppliers, customers and neighbors. Additionally, its responsibility to shareholders and trust between companies or parties are also important. Moreover, business ethics will reflect the philosophy of business determining the fundamental purposes of a company. Related issues include

corporate governance, corporate social entrepreneurship, political contributions, legal issues and the marketing of corporations' ethics policies [3].

Ethics and international business: the ethics and international business refer to relationship which is really deep and natural. The definitions of ethics and ethical behavior seem to have strong cultural and historical roots that differ by country and region. In addition, ethics deals with morality about what is considered what is "right" or "wrong" behavior in various situations. The international business ethics did not arise until the late 1990s. It has influence on decision-making in international business issues. Ethic identified in many sections as following. 1) Business ethics in production: it is the duties of a company to ensure that production processes and products do not cause harm. Sometimes, people require the products that harm them such as tobacco products, modified food, and destructive technologies. Moreover, some types of products have negative impacts on environment and urban areas. 2) Labor ethics: human resource management is significant point occupying the sphere of activity of recruitment selection, training and development. Plus, health and safety issues are considerable ethic policies to be highlighted. Dignity of labor, egalitarian workplace should be supported and assessed as human resource policies. Any kinds of discrimination on age, gender, sexual harassment, religion, race, disability, weight and attractiveness must be deterred. 3) Government regulation: the government tries to encourage more ethical business behavior by enacting legislation. For example, SOX, some known as the "Public Company Accounting Reform and Investor Protection Act" or "Sarbanes-Oxley Act" it is a United States Federal law that set new or enhanced standards for all U.S. public company boards and management. It indicates about the responsibilities to criminal penalties and also involves the Securities and Exchange Commission (SEC) to comply with the law. Sarbanes-Oxley Act passed by U.S. congress and mandated strict reforms to prevent accounting fraud and improve disclosure from corporation [3].

In the global business environment, many companies face a multitude of ethical issue. The business has to respond to the development of codes of conduct and ethics which all member of the organization must put into action. The fundamental ethical issues embrace the concepts about integrity and trust. More complex issues also include accommodating diversity, decision-making, governance, and compliance. Fundamental issue: integrity and trust are considered as essential issue in this context. It is about the idea of conducting business affairs with honesty and a commitment to treat every customer fairly. The customers will perceive which business has high level of trust, so it will increase good relation between business and customers. This is the key determine the company's success. Diversity issue: According to the HSBC Group, "the world is a rich and diverse place full of interesting cultures and people, who should be treated with respect and from whom there is a great deal to learn." An ethical response to diversity begins with recruiting a diverse workforce and enforcing equal opportunity in all training programs. To enjoy a respectful workplace environment is goal to be fulfilled for employees. Maximizing the value of each employee's contribution is a key element in business's success. Decision-making issue: ethical decision-making processes should be a center on protecting employee and customer rights. According to Santa Clara University, the following framework for ethical decision-making is a useful method for exploring ethical dilemmas and identifying ethical courses of action: "recognizes an ethical issue, gets the facts, evaluates alternative actions, makes a decision and tests it and reflects on the outcome." Importantly, making sure that business operations are fair, and ensure that common good, individual values and beliefs of workers are protected. Compliance and Governance Issues: Businesses are expected to fully obey with environmental laws and regulations, federal and state safety and all applicable civil rights laws. The Aluminum Company of America's approach to compliance issues states, "no one may ask any employee to break the law, or go against company values, policies and procedures" [4].

Thirdly, the existing literatures recommended how to understand of socio-cultural environment and create harmony. Cultural differences are difficult to observe or measure, but it is really important. Failure to understand the cultural differences will lead to strain relationships and decrease business performance. To deal with the national cultural differences in cross-border interactions is really significant, and it affects the operation of firm around the world. Culture can be understood as a group phenomenon that distinguishes people of one group from another. Importantly, the learning of shared values, assumptions and beliefs occurs through interactions. From this perspective, cultures exist at many different levels. Level of culture is particularly relevant for multinational business. The persistence of cultural value differences is actually happened in large multinational companies

where the multiple national cultures in daily operations. Multinational companies should not ignore the cultural differences. To improve the business performance, the companies need to operate in the ways that are congruent with the cultural contexts. The research suggests that the important decision making from authority should not down to the country level or below because the outcome is likely to be a remarkable amount of costly complexity. In addition, some variation in operating practices across locations is normally required.

Decentralization of decision making of in-country management teams can support a company's ability to be responsive to local conditions. To manage and adapt to cultural and other types of differences bring the way to limit the cost of variation. Possible, if the multinational company try to look the cultural similarities, it will help to reduce the need for variation. Focusing on location with similar culture as new entry for new market will help to reduce the cultural distance and differences. Furthermore, using expatriates form the company's home country in specific role also represent a type of focus and it will reduce some misunderstanding with headquarter. Also, companies can acquire foreign firms, gaining access to local knowledge and networks. Externalization, such as joint ventures, is a way that companies can decrease the cost of adapting to local cultures as well. Partnering with a local firm can provide access to local cultural understanding, business networks, but it would be costly and time-consuming for a foreign company. Cross-cultural training can improve workforce flexibility and capabilities. Also, deeper experience with foreign cultures via participation in international teams, travel, and expatriation can inform and grow capabilities as well.

Culture matters in terms of supporting innovation capacity of a society. Also, existing cultural conditions determine whether, when, how and in what a new innovation forms will be adopted. In fact, historical experiences have important impacts on both an individual's and a society's beliefs and preferences. If the behavior, ideas and material gadget using of innovation can affect improvements along lines already laid down in the culture, the possibilities of acceptance are much greater (Tekin & Tekdogan, 2015). Furthermore, Weber (1930, 1951) claimed that the development of capitalism stem from the protestant ethics in the West, which allowed protestants to develop the idea of pure business relationship. Greif (2006) emphasizes that different structure of the cultures leads to different kinds of institutions [5].

Business ethics is referred to principles and standards that determine acceptable conduct in business organizations. Many consumers and social supporters believe that businesses should not only make a profit but also consider the social implications of their activities. Honesty and fairness are the heart of business ethics and it related to the general value of decision making. Also, international business should follow all applicable laws and regulations. Importantly, it should not harm customers, employees, clients, or competitors through deception, misrepresentation, coercion, or discrimination. Moreover, the international business should concern about society as well as earning sufficient profits. It is likely to advance voluntarily in socially responsible activities. Such businesses can win the respect and trust of their customers, employees, and society by implementing socially responsible programs.

Consequently, they can increase profits in the long run. Employee relations and consumer relations are very important issue. In each country, the government provides the occupational health and safety regulation enacted in order to protect workers. Also, labor unions have made significant impact to achieve safety in workplace, and they help to improve the wage and conditions. Although the lowest-level employees who help the company reach its objectives, they should be realized how important they are. A major social responsibility for business is providing equal opportunities for all employees regardless of their sex, age, race, religion, or nationality. For the consumer as well, they should have right to be informed and freedom to review complete information about a product before they buy. They also have right to access to variety of products and services at reasonable prices.

To understand national goal, priorities and policies of country is really important. International business term can be divided into two key terms which are international and business. For the international, it refers to integration and interrelation of different nations whereas the business refers to systematic effort of an organization to meet the needs of customers with goods and services for profit. To avoid cultural conflict and misunderstanding, when doing business abroad, a company first should determine whether a usual business practice in a foreign country differs from its home-country experience. Then try to understanding the cultures of groups of people is useful because business employs, sells to, buys from, is regulated by, and is owned by people. The behavioral practices



according to the social and cultural value also affect the business. Those practices include group affiliation, role of competence, gender based groups, age-based group, family-based group, importance of work, and need hierarchy. Moreover, the stereotypes also refer to the generalized picture of a person, created without taking the whole person into account; to make such a generalization. Sometimes, it is based on inaccurate information or assumptions rather than facts. Even worse, stereotypes can lead to prejudicial or discriminatory behavior. Thus, this kind of discrimination and stereotype should be eliminated during operate international business.

The research problem is how does the socio-cultural difference impact the international business through the national and ethical aspects?

The main goal of research is to understand the difference of socio-cultural situation in the international business by using national and ethical aspect to analyses and find out the harmonious way of managing the firm

To achieve the research goal the following objectives has been identified:

- 1) to study the socio-cultural differences among international business;
- 2) to analyze the impact of socio-cultural difference by using national and ethical aspects;

3) to develop the strategic management avoiding the future conflict in multinational business organization.

This qualitative study employs the documents analysis strategy. To collect data, the consequence of business development during the time of globalization and expansion of business globally is very important. It is difficult to understand the new culture that business has been involve and sometimes it is hard to work with local people who have different social and cultural backgrounds. This is to make analysis of selected document on the contexts in order to gain insight of how international business can overcome this situation and understand these differences.

Since the study elaborate analyzing the content of socio-cultural environment of business through the national and ethical aspects, the problems still exists in international business environment. Some case, the manager and employee might not understand the real problem that has been occurred. Socio-cultural environment is very deep root of individual people to understand the world. It is impossible to control and change. The best way to make peaceful business environment is to understand and respect cultural differences. The cultural dimensions are reflected in all aspects of life including education, employment, family life and also health care practice. The individualism and collectivism theory should be included in order to analyze the perception of multinational of people working together. Moreover, according to the national business ethics survey of the U.S. workforce (2014), in business, culture covers everything from to the way they work with customers, how employees uniform, and their interactions with the superior. Ethics is considered as a component of culture. NBES measures critical aspects of ethics culture. It includes management's trustworthiness, whether managers at all levels mentioned about ethics and model appropriate behavior, the extent to which employees value and support ethical conduct, transparency and accountability. The strength of ethics culture shows the extent to which employees at all levels of the company are committed to doing what is right and successfully upholding values and standards.

From this figure, it can illustrate that the senior leaders or the managers of the multinational company sometimes does not understand the cultural difference and their act harm the ethic issue. Misconduct can hurt someone automatically, and some case lead to the corruption which impact the credibility of entire companies. The issue of corruption is vital. Among those working for multinational corporations, the survey indicates that among those workers, number fell to 62 percent of the act of corruption in the U.S. only, and 10 percent of the acts of corruption observed by employees of multinationals occurred outside the United States. 28 percent of the bribery and similar misdeeds occurred both in the United State and abroad.

Apart of the ethical problem on working place, national aspect also has influence on the international business and consumer decision. Nationalism is the most significant factor of the social life of the people in the host countries. It also impacts on the business operations of the multinational corporations intensely and considerably. To analyze, slogan "Be American and Buy American Made" was used by US people, when the US automobile industry was not success in meeting the competition of Japanese automobile companies that was operated in USA. At the same time, there are some similar incidents which are perceived in developing countries. As a consequence, international business environment should be cautious of nationalism and its effects [3, p. 27].

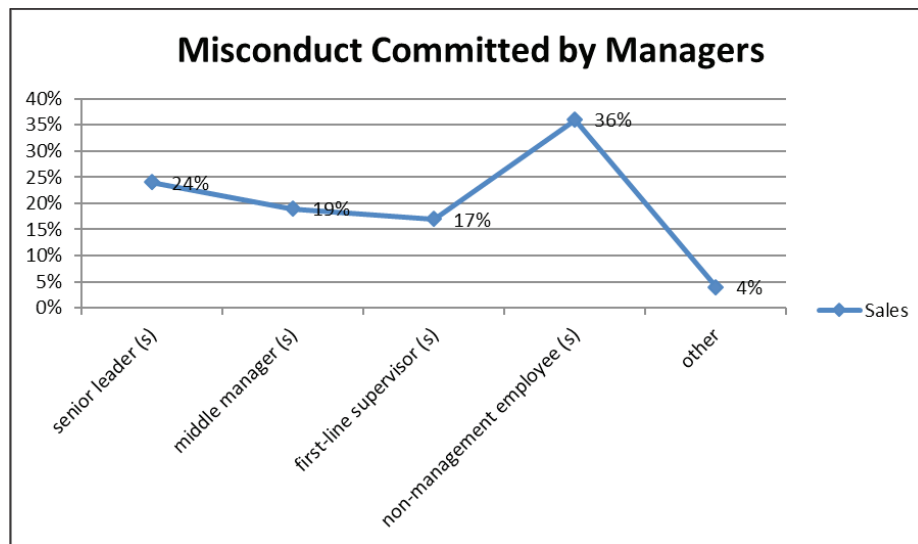


Figure 1 – Misconduct Committed by Managers

Note – Compiled on the base of Ethics Resource Center, 2014.

Many researches have suggested the way to reduce the social-cultural tension in international business among teamwork, local people and consumers. Firstly, every member has to do their best on their job and use the customer requirements as the company goal. Importantly, they need to make sure that everyone understand their role and duty correctly and respect to each other. Additionally, training employee about social and cultural difference will help to understand more and avoid cultural shock. If the problems emerge, the negotiation and appropriate communication with each other is really fundamental solution to make right understanding to each other.

Therefore, the ignorance on the ethical issue on the international business can lead to many problems. It leads to further question about how that superior position in working place can act like role model to other lower position. How multinational companies can set a good example of ethical conduct. For ethical aspect, there is not standard to indicate what is right or wrong. People sometimes try to ask about standard to analyze or identify the ethic and the way to apply to the business situation. It is really difficult. According to Markkula Center for Applied Ethics at Santa Clara University [5], it has no clearly definition what ethic is. The ethic is not feeling, religion, law, norm or science. Thus, it is quite hard to evaluate to judge the situation. Sometimes, being ethical does not always mean following the law, so such an issue about biotechnology advances, such as cloning. Interestingly, ethics and religion do not always agree on this. This is the complicated stage in ethical decision making; sometimes the subtleties of the issue are beyond the knowledge and experience. If it feels uncomfortable making the decision personally, get others involved and use collective knowledge and experience to make a more careful decision. Building understanding is the way to create successful environment among people from different national cultures. When people understand to each other through the cultural intelligence, it will help to build trust and commitment as well.

To summarize, firstly, this study faces the difficulty in collecting the data because this study focuses on a social and culture that hard to measure. Some document that can be found may be not authentic enough to analyses the real situation in the international business environment. Although there are limitations to this study, the document analysis has enough information to understand general view point of national and ethical aspect, so it can save time and expense of transcribing and traveling in the field work.

Secondly, people can understand how other people think and see the world differently, but some people cannot accept or change the behavior or their culture. It is really hard to accept new thing that people might not be familiar with. This research should indicate more about the cultural dimensions of cultural values. Then, give example of each international company what operate in many countries and see how it is going on.

Thirdly, only national and ethical aspects are not enough to understand the social and cultural context of international business. Moreover, cultural environment is essentially unseen. We should

develop the hypothesis and involve other critical aspects of international business and try to understand it more.

Thus, socio-cultural environment of international business: national and ethical aspects is really important to understand. Misunderstanding and miscommunication is huge problems that occur among the multinational team and customers in host country. Development of sense to acknowledge about social and cultural information will help to increase the international business opportunity. It is not the time to change others, but it is the time to understand and respect others differences.

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#### Аңдатпа

Бұл мақалада халықаралық бизнестің басқарылуына тікелей әсер ететін мәдениеттер мен қоғамдардың айырмашылықтарына ерекше назар аударылған әлеуметтік-мәдени орталардың негізгі тұжырымдамасы қарастырылды. Бәсекелестерден асу үшін, бизнес белгілі бір ұлт пен этика аспектілеріне сәйкес өзінің стратегияларын бейімдеуі және жетілдіруі керек. Интернационалдық команда бизнесте табысқа жету, сондай-ақ бизнес іске асатын аймақта тұратын жергілікті тұрғындарды түсіну үшін өте маңызды. Әртүрлі мәдени дәстүрлері мен тәжірибесі бар әртүрлі елдердің адамдарымен жұмыс істегенде мәдени әртүрлілікті түсіну қиынға соғады. Сондықтан компания нақты жұмыс ортасында бейбіт қатынастарға ықпал ету және адамдармен өзара әрекеттесу кезінде түсініспеушіліктерден құтылу үшін этикалық мәселелер мен ұлттық аспектілерге назар аудару керек. Бұл зерттеу әртүрлі елдердегі адамдардың пікірлерін, мінез-құлқын және нақты мәселелерін түсіну, түрлі мәселелерді және халықаралық бизнес-операцияларды талдау мақсатында ұлттық және этикалық аспектілерге бағытталған. Халықаралық бизнес әртүрлі елдерде өмір сүретін және шешімдер қабылдаудың әртүрлі аспектілері бар мәдени мәселелерге мамандандырылуы керек. Әлеуметтік-мәдени фактор қиын бақыланатын сыртқы орта ретінде қарастырылатын мәдениеттің құрамдас бөлігі. Осылайша, осы мақала басқа мәдениетті құрметтей отыра, халықаралық бизнестің әртүрлі әлеуметтік ортаға бейімделе алатынын зерттеуге арналған.

Тірек сөздер: этикалық мәселе, әлеуметтік-мәдени фактор, халықаралық бизнес, интернационалдық команда, стереотип, мәдениет, дәстүрлер, өзара әрекеттестік.

#### Аннотация

В статье рассмотрена ключевая концепция социокультурной среды, где особое внимание уделено различиям культур и обществ, которые оказывают непосредственное влияние на способ управления международным бизнесом. С целью опережения конкурентов бизнес должен адаптировать и улучшать свои стратегии в соответствии с аспектами той или иной нации и этики. Интернациональная команда очень важна для достижения успеха в бизнесе, а также для понимания местных жителей, живущих в области, в которой бизнес будет работать. Работа с людьми из разных стран, имеющих разные культурные традиции и опыт, сталкивается со сложностями понимания культурного разнообразия. Поэтому компания должна заботиться об этических вопросах и национальных аспектах, чтобы способствовать мирным отношениям в конкретной рабочей среде и избегать недопонимания во время взаимодействия с людьми. Данное исследование сосредоточено на национальных и этических аспектах с целью понять убеждения, поведение и конкретные проблемы людей из разных стран и проанализировать международные бизнес-операции. Международный бизнес должен специализироваться на культурных традициях, по которым люди живут в разных странах, и иметь разные аспекты для принятия решений. Социокультурный фактор является компонентом культуры, рассматриваемой как внешняя среда, которую трудно контролировать. Таким образом, данная работа посвящена изучению того, как международный бизнес может адаптироваться к различной социальной среде, при этом уважая другие культуры.

Ключевые слова: этическая проблема, социокультурный фактор, международный бизнес, интернациональная команда, стереотип, культура, традиции, взаимодействие.