

**INTERNATIONAL BUSINESS**

**BA 362**

**THE MEASUREMENT OF  
CULTURAL DIVERSITY**

**Summary and discussion of the article:**

**CULTURAL DIVERSITY AND THE PERFORMANCE OF  
MULTINATIONAL FIRMS**

by:

**Luis R. Gómez-Mejía and Leslie E. Palich**

printed in:

**Journal of International Business Studies**

**1997 Vol. 2 p. 309 - 335**

this essay was written by:

**Stefan Ebler**

XXX

1 Year ERASMUS (Commerce)

10. Dec. 1997

**Table of Contents:**

<b>Introduction .....</b>	<b>1</b>
<b>The Impact Thesis - A Summary .....</b>	<b>1</b>
abstract .....	1
different aspects of cultural diversity .....	1
the research design and realisation.....	3
cultural indicators .....	3
analysis.....	5
results and conclusions.....	6
<b>Critique .....</b>	<b>7</b>
the topic .....	8
the research method.....	9
regarding the results / conclusions .....	10
Summary / personal statement .....	11
<b>Other Studies.....</b>	<b>12</b>
Hofstede’s Cultural Framework .....	12
The Heritage Foundation/ Wall Street Index of Economic Freedom .....	16
The Sullivan-Study:.....	17
<b>Literature: .....</b>	<b>18</b>

## Introduction

IN TODAY'S ECONOMY, CROSS-CULTURAL MEETINGS ARE NO LONGER A POSSIBILITY,  
THEY'RE A NECESSITY.

As the global village gets smaller each day, conducting business with people from vastly different cultural backgrounds is a given challenge. So it is necessary to train and verse the important diplomatic issues.

One of the key questions is, how globalisation impacts upon management<sup>1</sup>. When facing the international challenge it is important to understand culture. There have been a lot of attempts to solve this complex problem<sup>234</sup> - most of them are based on several theories.

The hypothesis that international diversification and firm performance should be positively related has been tested in numerous ways but often the research findings have been contradictory<sup>5</sup>. Gómez and Palich mentioned that one glaring gap in these studies is the failure to consider the impact of culture - not just the extent of international diversification - on the performance of MNEs.

However, all these works have one thing in common: They are (based on) theories and (till now) they could neither have proved nor falsified. Some people tried to solve the problem by using a more systematic and scientific method. The most important one is Geert Hofstede's Cultural Framework<sup>6</sup> (see Chapter 3). Two other attempts of this kind are the work of the Heritage Foundation, the Wall Street Journal „Index“ and the study of D. Sullivan (see note 1); this work ranks 150 world economies by their „Index of economic freedom“ and the work from Daniel Sullivan is to be mentioned. These works do not „only“ try to divide up the world in clusters, these studies try to make diversity measurable.

---

<sup>1</sup> Grant, Robert: Porter's „Competitive advantage of nations“ An Assessment in: SMJ 12(1991) p. 535-548

<sup>2</sup> Sullivan, Daniel: Measuring the Degree of Internationalization of a firm. JIBS 2/1994

<sup>3</sup> Vernon 1971; Dunning 1985; Rugman 1985; ... (also see Footnote 1: Sullivan)

<sup>4</sup> Chatterjee, Sayan: The Link between Resources and type of diversification; SMJ 12(1991) p.33-48  
same author: Cultural Differences and Shareholder value.... SMJ 13(1992) p. 319-334

<sup>5</sup> see also Table 1 on page 7

<sup>6</sup> Hofstede, Geert<sup>6</sup> Culture's Consequences: international differences in work-related values, 1980

Nevertheless these works just divide the world economies in different groups - but they still say very little about how companies should react or behave.

The international business literature suggests several reasons why global diversification and firm performance should be positively related.

1. Markets are not perfectly integrated.
2. International diversification may yield cost advantages by allowing the firm to expand in its own domain of distinctive competence and boost production economies without resorting to product diversification.
3. Market imperfection theory suggests that multinationals can exploit their home monopoly advantage by increasing their international presence
4. International diversification can boost market power by allowing the firm to arbitrage tax regimes. obtain more accurate environmental information and raise barriers to entry.

In their work, Luis R. Gómez-Mejia and Leslie E. Palich try to test the hypotheses that „culturally related diversification will have a positive impact on firm performance“ and reverse (The Impact-Thesis), and they try to prove this theory in a very systematic (mathematic) way. If this should really be successful, it would be possible to give hints how to (re)act to the company, because of the method Gómez and Palich used, the results would be repeatable and so it would be possible to know in advance what behaviour would have what reactions.

So this essay will consist of three parts: two main parts and an appendix with „Other Studies“).

1. First there will be an introduction in the work of Gómez and Palich and a description of their findings by giving a summary of their study.
2. Then their work and findings will be discussed and contrasted with other similar attempts.
3. Finally the works of Hofstede and the Heritage foundation will be outlined, because of their special relevance concerning this topic.

## **The Impact Thesis - A Summary**

In this Chapter there will be given a summary of the work of Gómez and Palich. Therefore, first the abstract will be cited and then the main thesis, the research method and the results will be summarised.

### ***abstract***

cited by Gómez and Palich

„We test the hypothesis that culturally related international diversification will have a positive impact on firm performance and that the opposite will be true for culturally unrelated globalisation. Cultural diversity for Fortune 500 firms was used to predict performance over a ten-year period (1985-1994), controlling for several organisational and industry characteristics. Regression tests using nine indicators of cultural diversity related no significant cultural effects. Alternate interpretations are offered.

### ***different aspects of cultural diversity***

Gómez and Palich mention eight different aspects of cultural diversity:

1. Cultural Diversity and Production Synergies: Differences in cultural context often makes activity and synergy formation among business units less efficient. So general management expertise and technical know-how are more difficult to exploit. So similarities of language and religion between countries make it easier to transfer technology - internal and international.
2. Cultural Diversity and Innovation: Cultural barriers and existing hierarchy will impede innovation and its diffusion within the global firm. So the presents of „champions“ who break or modify existing hierarchy ... is very helpful.
3. Cultural Diversity and Technology Implementation: Cultural factors may also influence the effectiveness of technology implementation. So it is not useful to implement technology on an organisational wide basis if the firm is facing a very complex cultural

landscape as this will lead either to higher customisation expense or to greater opportunity cost.

4. Cultural Diversity and Organisational Transformation Process: Because of the cultural related international diversification it is necessary to simplify the organisational transformation process. So often cultural related firms produce the same (or at least very similar) products. This on the other hand may result in the possibility to make more efficient use of labour.
5. Cultural Diversity and Market Response: The internationalisation process leads in many cases to unique consumer preferences but often there are still unique consumer preferences requiring customisation of the marketing mix and function to promote product demand. In culturally related markets it is more likely to cross-sell products and thereby to reduce the costs and uncertainty.
6. Cultural Diversity and Interpersonal Dynamics: In cultural related organisations shared values and beliefs are more likely. This leads to greater social similarity, integration, communication and further positive aspects. On the other hand demographic diversity leads to cognitive diversity, which then harms organisational performance.
7. Cultural Distance and Organisational Control Systems: As described above, in cultural related organisations the communication process is normally easier and because of this it gets more difficult and expensive for the headquarter to obtain information about agent performance and so to supervise the different subsidiaries. So the information asymmetry problem between headquarter and subsidiaries increases in cultural unrelated organisations and this engenders higher transaction costs. This difference between headquarter and subsidiaries, based on the cultural differences is termed „cultural distance“.
8. Cultural Diversity and Human Resource Programs: The influence on the human resource program is a kind of consequence of the above mentioned aspects. As the diversity of the cultural context increases, human resource programs must become more complex and sophisticated to deal with greater cultural heterogeneity.

Taken together the mentioned arguments lead to the central hypothesis to be tested in these study.

### ***the research design and realisation***

The approach of Gómez and Palich was not only to prove their hypothesis. Even as important is the way they wanted to reach this aim. They did not only make a statement and tried to underline this by several other thesis and a few figures and facts, their method is very scientific and mathematic.

They tested their hypothesis of the study by using a longitudinal research design. The data are based on the results of about 500 firms and were gained over a period of ten years. The results were examined every year using different cultural indicators (see below).

In order to support the hypothesis they expected to find that the degree of cultural relatedness of an MNEs business portfolio is positively associated with subsequent corporate performance; the controversy was supposed to be true for unrelateness.

So the results of the whole study is based on the chosen „cultural indicators“.

### ***cultural indicators***

Gómez and Palich have chosen nine different cultural indicators and used them as variables to be able to calculate the cultural diversity. By choosing nine different measures they tried to ensure that the findings do not constrain to a particular culture measure being used.

These culture measures and the resulting variables are described now:

1. Hofstede's Culture Cluster<sup>7</sup>: The first (and perhaps most important) method of measuring cultural diversity is the Hofstede Culture Clusters. Because of its relevance - it is without doubt the best known culture grouping - this study is described more detailed in the appendix.

Hofstede empirically categorised countries into cultural clusters based on four dimensions.

Relying on Hofstede's classification Gómez and Palich calculated two separate Herfindahl-type measures. The *Intercluster diversity* measure was computed on the sum of the

---

<sup>7</sup> Hofstede, Geert: Culture's Consequences: international differences in work-related values, 1980

squared proportions of each cluster involvement (number of subsidiaries in the cluster) relative to total international involvement (total number of subsidiaries). This number was squared, summed up over all remaining clusters. The cluster spread is shown by subtracting that sum from one.

The *intracluster diversity* was computed in the same way except the measure was calculated cluster by cluster.

2. Kogut and Singh - Culture distance Index: This measure was calculated by using the Hofstede's cultural attributes scores and reflects the difference between the cultures in which the firm operates.
3. Language: Gómez and Palich calculated, similar to the Culture Cluster, an interlanguage diversity index to capture the spread of operations across language groups, and an intralanguage diversity index as an average level of dispersion over countries.
4. Religion: As before, here was also an index calculated to measure the spread of operations across religious groups and one within each of these groups. The classification based on the predominant percent of the population belonging to a particular group (Protestant, Catholic, Hindu, etc.).
5. NAFTA vs. Non-NAFTA: Even when this index is not directly a cultural attribute, the aim of Gómez and Palich was to measure the extend of experience (between countries) dealing with each other.
6. East vs. West: Similar to the NAFTA-Index, this one was calculated to measure the extend of dispersion between East and West and within each of these broad regions.
7. North vs. South: As the East/ West-Index.
8. Continental Dispersion: This dimension captures the extend to which geographical proximity of operation reflects common cultural forces.
9. Subsidiary Ration: This is a commonly used measure of international diversification. It captures the degree of internationalisation of a firm.

In addition to the independent variables (see above), Gómez and Palich also calculated the dependent Variables Accounting and Market performance. Therefore they measured the

return on assets (ROA). This index shows the relative efficiency with which the firm produces its output and reflects the attainment of synergism in business operations.

In addition to this, they identified seven control variables. These are numbers which may affect the performance of multinationals, independent of cultural reasons. These Control Variables they identified:

1. Product relatedness: Describes the companies operations across industries.
2. Product unrelateness: Describes the companies concentration across the segment within each industry.
3. Firm Size:
4. The intensity of Research and Development:
5. The Intensity of Advertising:
6. Industry effects: This variable weighted industry returns to capture the impact of overall industry returns.
7. International expansion: With this variable it is considered, that cultural diversity is less important for a company which only wants to secure suppliers of raw materials then for one which has do deal with the service sector, because for them the meaning of customisation is much higher.

### ***analysis***

Gómez and Palich tested their hypothesis by analysing the data by two separate hierachiyal regression equations. One with return of assets (ROA) and the other one with market-to-book value as dependent variables. With this they wanted to smooth out aberrant short-term observations and obtain more long-term measure of performance. The analyse was realised in three steps.

1. The independent variables (the seven control variables) were entered.
2. The dependent variables were entered.
3. Check for the interaction effects of cultural diversity and industry sector.

The needed data were gained from 500 firms; exactly from 442 firms in the first half period and (the remaining) 228 firms for the second half of the study.

### ***results and conclusions***

Except of some surprises, most of the measures and indexes were highly correlated with each other.

When the first-stage model was significant, the additional variance was very small and nonsignificant. This means that the results were not useful to support the hypotheses of the study. Gómez and Palich were not able to show, that cultural diversity has a negative impact on company's performance. And even a finer breakdown of industry over time terms did not improve the results.

On the other hand, this result means that facing heterogeneous cultural environments is not negative for the performance returns. This is an „optimistic interpretation“ given by Gómez and Palich. They add six possible explanation for their „findings“.

1. Some other theories, which say that there is a potential benefit of employee diversity within the domestic work force.
2. The deleterious effects associated with increasing cultural diversity may be balanced out by the comprehensiveness of decision making.
3. The firm may learn to adapt over time.
4. By careful employee selection, firms also may be able to minimise the negative effects of cultural diversity.
5. An evolutionary approach to international expansion may allow the firm to better understand culture.
6. Many of the firms (where the data come from) are majority owned by U.S. firms. So the data are not representative in every case.

## Critique ....

Many economists see a connection between international success and culture - so, logically many of them try to work out this aspect, hence there are numerous works about culture and cultural diversity<sup>8</sup>. Most of these studies tried to give something like a definition of the abstract word “culture“, and most of them perceived, that this is a extremely complex and dynamic subject. In the end they showed possibilities for the building of clusters (language, religion, geography, etc.). The „etc.“ is important because it implies an indefinitely large number of other potential influential variables (ranging from family and education to birth order and physical appearance)<sup>9</sup>. Furthermore the „results“ are often very different. As an example of these differences, the direction of the influence of the degree of internationalisation on financial performance is given in table 1.

**Table 1<sup>10</sup>**

**The Reported Direction of the Relationship between Degree of Internationalisation and the Financial Performance of the Firm.**

<b>Positive</b>	<b>Indeterminate</b>	<b>Negative</b>
Vernon [1971] Dunning [1985] Grant [1987] Grant, Jaimmine & Thomas [1985] Daniels & Bracker [1989] Geringer, Beamish & daCosta [1989]	Horst [1973] Hughes, Logue & Sweeny [1975] Buckley, Dunning & Pearce [1971] Rugman, Lawcraw & Booth [1985] Yoshihara [1985] Buhner [1987]	Siddharthan & Lall [1982] Kumar [1984] Michel & Shaked [1986] Shaked [1986] Collins [1990]

Gómez and Palich have tried to solve this very complex problem in a mathematic way. If this would be possible, economic science would make a big step towards a more calculable

---

<sup>8</sup> Porter, Michael: The Competitive Advantage of Nations, 1990

see also: Vernon 1971, Dunning 1985; Grant 1987, Rugman 1985; ....

an overview in: Sullivan, Daniel: Measuring the Degree of Internationalization of a Firm, in: JIBS 2/1994

<sup>9</sup> Berger, Bennet M. An Essay on Culture p. 3

see also: Hofstede, Geert The Usefulness of the “Organizational Cluster’s Concept”, JOMS 5/86

<sup>10</sup> from : Sullivan, Daniel: Measuring the Degree of Internationalization of a Firm, in: JIBS 2/1994

environment. The study of Gómez and Palich runs over a period of ten years and involved a lot of serious work. However, they failed, and therefore, there is a great number of (possible) causes.

### ***the topic***

It took social scientists and anthropologists hundreds of years to reach the point at which they are today. Neither the word „culture“ nor the characteristics of culture are clearly identified. The only point up to now is, that there are differences between groups. But these differences are not static; they vary within the time, so that there may not be given a institutional expression<sup>11</sup>. If this is the case (and most anthropologists and social scientists seem to be of this opinion), the aim to solve such a complex problem within ten years by „calculating only a few figures“ is hardly to credible. A good example of this is the dispute between Ramaswamy, Kroeck and Renforth on the one hand and Sullivan on the other hand about the study of Sullivan<sup>12</sup>. Here Sullivan admitted, that there are hardly any reliable, definitive measures and Ramaswamy & Co. noticed that in this area only „very little substantive progress has been made“. It seems to be more a question of „think and believe“ than taking a „scientific approach“.

The request:

It Gómez and Palich would have succeeded in making culture mathematically definable (and this too in such a relative simple way) the control of a company would then be richer around an important tool because actions would then be much more feasible and the effects of an action would already be foreseeable in the very beginning. Therefore the control of a business would become considerably more simple. But at the same time, the world around us would be a good deal less interesting. The actual objective is to calculate and enumerate cultural diversity. However, one can criticise this in many ways. The ethical component

---

<sup>11</sup> Benedict, Ruth: The Patterns of Culture Routledge, 1935

<sup>12</sup> see: Ramaswamy: Measuring the Degree ... : A Comment in: JIBS 1/1996 p. 167-177  
and Sullivan, Daniel: Measuring the Degree ... : A Reply in: JIBS 1/1996 p. 179-192

was already outlined above briefly. Consequently, criticism should limit primarily to the "technical side".

### ***the research methode***

The following aspects are to be mentioned, especially:

#### **The selection of the variables.**

During the selection of the variables, one must proceed very intuitively. Nobody is able to say definitively which variables have which statement value. Consequently, also nobody is able to determine clearly the quality of the variables. Therefore, it would be a great coincidence if the selection of the variables would let no gaps open. For instance, the language variable. This might be one of the "easier" variables but nevertheless, even this aspect is more complex as that it could be described by one figure<sup>13</sup>. Consequently, neither kind nor completeness of the variables could be selected on a well-founded scientific basis. Therefore, informative value depends extremely on the abilities, the luck and intuition of the one who carries out the selection of the variables.

#### **Weighting the variables**

It remains questionable whether the variables are to be weighted immediately or whether there are essential differences. Gómez and Palich do not deal with this question at all. This would greatly increase the complexity of the issue. Furthermore it would be questionable whether a weightings for different firms should be immediately obvious. Small enterprises should certainly be classified differently to large ones<sup>14</sup>. Otherwise, one runs danger to match apples with pears.

#### **Band width of the scales**

Gómez and Palich also did not deal with the band width of the scales at all. However, band width effects are certainly very probably.

#### **Reunioning/ Positioning of variables**

---

<sup>13</sup> See: Schroeder, Konrad: Aspects of European Cultural Diversity, The Open University, 1993

The means of reunion of the variables was neglected by Gómez and Palich very strongly. On the one hand, this was indeed necessary in order to make the complexity of the request controllable, but, however, on the other hand the informative value of the results declines extremely at the same time.

The request became impossible at this point at the latest.

Furthermore it remains questionable whether mathematical formula are applicable at all. For this there is no evidence but also no proof to the contrary. For instance, I can not see how the diversity of language<sup>15</sup> can be summarised in one variable.

There would be a number of further points of criticism to mention e.g. according to the criteria the firms and their data were selected. Did this happen after a purely coincidental selection; how representatively are these firms and the data.

However, all of this further criticism would all amount to the same thing:

A very complex problems was simplified strongly: too strongly

### ***regarding the results / conclusions***

The result: The possible strength of the results has fallen already because of the method from which the variables have been chosen.

Even if the results had turned out "satisfactorily" this would still have been no evidence for its correctness. It would only have supported the theory, and would have shown that there seem to exist some fixed rules and connections.

Last but not least it has to be noticed, that Games and Plait are also a part of what they wanted to examine: Culture. Consequently also the cultural influences on Games and Plait may be considered and included into the study.

---

<sup>14</sup> Gómez and Palich make this different, but only very broadly.

<sup>15</sup> Schroeder, Konrad Aspects of European Cultural diversity p. 27ff.

**Summary / personal statement**

The request and therefore the destination had been placed too high. Consequently Games and Plait had to see, that in this way no results are achievable. There are just too many „ifs“ and „when's“ embedded in the calculations and assumptions and the problem is simply too complex as that it could be pressed in one „simple, single model“. But Gómez and Palich just attempted to do that. It was their aim to make a highly complex connection definable with the previous information, some data and some very simple means. However, (natural) scientists have noticed already hundreds of years ago, that itself extremely complex processes of nature mostly are not able to be reduce onto a single model: some (economic) scientists still try this.

Nevertheless, there is a lot of research-work to be done - and even if countries cultures are close to each other, this does not necessarily mean, that they are easier to manage<sup>16</sup>.

---

<sup>16</sup> O'Grady, Shwana The Psychic distance Paradox, in: JIBS 1/96 p. 309-333

## Other Studies

There are numerous further studies. Because of their special relevance, the „most important“ one shall be described below. Further the Heritage-Index is mentioned because this is also a study which the ambition to solve the problem of cultural distance in a scientific/ mathematic way.

### ***Hofstede´s Cultural Framework***

Hofstede empirically categorised countries into cultural clusters based on the dimensions derived from a factor analysis of a survey completed by more than 100.000 international employees of IBM.

**Hofstede has identified four Cultural Frameworks.** These are:

- Individualism versus Collectivism - loose vs. tight social framework, closely related to wealth.

Individual - U.S., Great Britain, Netherlands. Individuals are more or less on their own, are independent, and are expected to take personal responsibility and take care of themselves. Managers aspire to leadership and variety, value autonomy, seek input from others but often make independent decisions.

Collective - Colombia, Venezuela, Pakistan. Born into a strong extended family - aunts, uncles, grandparents, etc. Loyalties to groups (families, teams, employer) are above all else. Often, there is a strong dependence on others and group decisions are favoured over individual ones. Managers value security.

- Power Distance - how power is distributed.

High - Russia, China, Mexico. Allow great privileges to those with influence and expect service from lesser individuals. Managers typically will not consult subordinates, close supervision is often seen as a positive by subordinates. Employees often don't trust each

other.

Low - Austria, Denmark, Israel. Respect individuals, strive for equality, value happiness.

Managers tend to consult subordinates when making decisions, close supervision is viewed negatively by subordinates. Employees have a strong work ethic and work together.

- Uncertainty Avoidance - how comfortable society is with uncertainty, change, ambiguity.

High - Japan, Portugal, Greece. Try to minimise the anxiety of uncertainty through a myriad of laws and behavioural norms. Belief in one way, one truth. Group decision-making can be seen as a way of avoiding risk, since no one individual will be accountable.

Low - Hong Kong, Sweden, Denmark. Tend to have few rules and are more accepting of diversity. Less emotional resistance to change, higher achievement motivation, favour management careers over technical careers, willing to take risk to have success.

- Masculinity versus Femininity - assertiveness, acquisition of material things vs. relationships, concern for others.

Masculine - Japan, Italy, Switzerland. Successful manager is seen as having male characteristics - aggressive, competitive, just, tough. Salary, recognition, and advancement are important. Success is defined in terms of wealth and professional success. High job stress.

Feminine - Nordic Countries. Co-operation and security are valued by employees, work is not central, lower job stress. Achievement is defined in terms of human interactions, contributions. Employees will forego pay for more leisure hours.

Hofstede has rated every country on a scale between 0 and 100. So on the one hand he was

able to build groups (clusters), on the other hand he gained calculable figures.

**Comparison of Cultural Characteristics:**

<b>Country</b>	<b>Individualism vs. Collectivism</b>	<b>Power Distance</b>	<b>Uncertainty Avoidance</b>	<b>Masculinity vs. Femininity</b>
Argentina	46	49	86	56
Australia	90	36	51	61
Austria	55	11	70	79
Belgium	75	65	94	54
Brazil	38	69	76	49
Canada	80	39	48	52
Chile	23	63	86	28
China	20	80	60	50
Colombia	13	67	80	64
Denmark	74	18	23	16
Finland	63	33	59	26
France	71	68	86	43
Great Britain	89	35	35	66
Germany	67	35	65	66
Greece	35	60	12	57
Hong Kong	25	68	29	57
India	48	77	40	56
Indonesia	14	78	48	46
Iran	41	58	59	43
Ireland	70	28	35	68
Israel	54	13	81	47
Italy	76	50	75	70
Japan	46	54	92	95
Mexico	30	81	82	69
Netherlands	80	38	53	14
Norway	69	31	50	08
New Zealand	79	22	49	58
Pakistan	14	55	70	50
Peru	16	64	87	42
Philippines	32	94	44	64
Portugal	27	63	04	31
Russia	50	95	90	40
South Africa	65	49	49	63
Singapore	20	74	88	48
Spain	51	57	86	42
Sweden	71	31	29	05
Switzerland	68	34	58	70
Taiwan	17	58	69	45
Thailand	20	64	64	34
Turkey	37	66	85	45
United States	91	40	46	62
Venezuela	12	81	76	73
West Africa	20	77	54	46
Yugoslavia	27	76	88	21

### ***The Heritage Foundation/ Wall Street Index of Economic Freedom<sup>17</sup>***

This work rates the economic freedom - or the lack of it - in 150 of the world's countries. The major finding of the index is: „Countries with the most economic freedom have higher rates of economic growth than those with less economic freedom“.

The Index rates the world economies on eight different variables.

- |                            |                     |
|----------------------------|---------------------|
| 1. Trade                   | 2. Taxation         |
| 3. Government Intervention | 4. Monetary/ Policy |
| 5. Foreign Investment      | 6. Banking          |
| 7. Wage/ Price             | 8. Property Rights  |
| 9. Regulation              | 10. Black market    |

The result of the 1997 Index is:

- Only 8 countries have economies that can be classified as „free“. these are: Hong Kong<sup>18</sup>, Singapore, Bahrain, New Zealand, Switzerland, USA, UK and Taiwan.
- 72 countries have economies that are „mostly free“ and
- 78 countries have economies that are either „mostly unfree“ or „repressed“. The five worst are: North Korea, Laos, Cuba, Iraq and Vietnam.

---

<sup>17</sup> Heritage-Index: Gap between rich and poor, Wall Street Journal 1997

<sup>18</sup> Ranking was before the 1st of Juli 1997 !

***The Sullivan-Study:***

Daniel Sullivan tried to work out a method for measuring the „Degree of Internationalisation of a firm“ by defining and calculating nine attributes of seventy-four American manufacturing multinational companies. He discussed the statistical and conceptual properties of the scale and their implications for content and construct validity.

He mentions several problems: The lack of reliable measures, the ensuing inability to disentangle the distorting influences of measurement error, and the impossibility of establishing content and construct validity.

In principle, here one can mention the same pros and cons as in the discussed study of Gómez and Palich. The point of view might vary a little but the over all result is quite similar.

**Literature:**

**Text:**

<b>Gómez and Palich</b>	<b>Cultural diversity and the performance of multinational Firms in: Journal of International Business Studies Vol. 2/1997/20 p.309-335</b>
-------------------------	---

**Sources:**

Benedict, Ruth                      The Patterns of Culture  
Routledge & Kegan Ltd., 1935

Berger, Bennet M.                  An Essay on Culture  
Symbolic Structure and Social Structure  
University of California Press  
Berkeley and Los Angeles, California, 1995

Chatterjee, Sayan                    The Link between resources and type of diversification: Theory and  
Wernerfelt, Birger                    evidence  
in: Strategic Management Journal Vol. 12 (1991) p. 33-48

Chatterjee, Sayan                    Cultural differences and shareholder value in related merges: Linking  
Lubatkin Michael H.                  equity and human capital  
Schweiger, David M.                  in: Strategic Management Journal Vol. 13 (1992) p. 319-334  
Weber, Yaakov

- Grant Robert M. Porter's „competitive advantage of nations“: an assessment  
in: Strategic Management Journal Vol. 12 (1991) p. 535-548
- Hall, Walton Aspects of European Cultural Diversity  
Keynes, Milton The Open University,  
Valkenburg, Netherlands, 1993
- Heritage-Index The Heritage Index: Gap Between Rich and Poor Nations Explained  
in: <http://www.heritage.org/heritage/news/archive/97index1.html>  
Book Note: „The Heritage Foundation/ Wall Street Journal Index of  
Economic Freedom“  
The Heritage Foundation/ Wall Street Journal-Dow Jones & Co.  
Washington, D.C./ New York 1997
- Hofstede, Geert The Usefulness of the ‘Culture’s Concept’  
in: Journal of International Business Studies 5/1986 p. 253 - 257
- Hofstede, Geert Culture’s Consequences: International differences in work-related  
values: cross cultural research and methodology series, 5  
SAGE Publications, 1980  
figures from: Organisational Behaviour <http://www.mba.wfu.edu>
- O’Grady, Shawna The Psychic Distance Paradox  
in: Journal of International Business Studies 1/1996 p. 309 - 333
- Porter, Michael E. The Competitive Advantage of Nations  
The MacMillian Press Ltd., London, 1980

## Sources

---

- Ramaswamy, Kannan    Measuring the degree of internationalisation of a firm: A comment  
Kroeck, Galen            in: Journal of International Business Studies, 1/1996 p. 167-177  
Renforth, William
- Sullivan, Daniel         Measuring the degree of internationalisation of a firm  
                                  in: Journal of International Business Studies, 2/1994 p. 325-341
- Sullivan, Daniel         Measuring the degree of internationalisation of a firm: A reply  
                                  in: Journal of International Business Studies, 1/1996 p. 179-192