

<p style="text-align: center;">Bringing Hofstede Home: Culture as an Impetus for Diverging Consumer Behavior in the Local Market</p>

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Abstract

Hofstede and de Mooij (2002) finds that, when retailers operate across national borders, understanding the values of national cultures and their impact on consumer behavior is essential for success. This work goes on to postulate a conceptual shift away from identifying national markets as homogenous, that is, solely characterized by “national” cultural profiles, to viewing them as heterogenous – the result of half a century of unprecedented cross-border migration and transnationalism. Within national borders – both at the local and regional levels – there are differences, major and minor, in consumer behavior that can only be explained by differences in culture. As an example case study, the author argues that retail banks in Berlin can gain a competitive advantage by exploiting divergences in consumer behavior that stem from the cultural values of Berlin’s largest minority: people of Turkish origin. Key person interviews and secondary literature are used as the basis for the author’s findings.

Introduction

Sellers of consumer goods and services still tend to look at national cultures as homogenous. It is important to recognize the significance of other cultures within national boundaries when designing products and services for local consumption. This adaptation would provide for a competitive advantage in local and regional markets. The text enriches the discourse on the role culture plays in consumer behavior; it does so by offering a preliminary argument for the necessity of cultural research when focusing on local markets for banks and other providers of consumer goods and services.

This work starts by reviewing Hofstede's past contributions, and it pays particular attention to his argument that adaptation in international markets is necessary. The work continues with a case study of banks in Berlin. In-person interviews with local bank managers and business owners provide the basis for the author's findings. In the conclusion, the author offers a summary and recommendations.

Hofstede on cultural differences at the nation-state level

In 1980, Geert Hofstede published, *Culture's Consequences*, a monumental work that represented more than a decade of research. In this book, along with subsequent editions,¹ Hofstede establishes that "people carry 'mental programs' that are developed in the family in early childhood and reinforced in school and organizations" and he assumes that "these mental programs contain a component of national culture" (Hofstede, 2001, p. xix). He categorizes the differences in mental programming by identifying five cultural dimensions, namely: power distance; uncertainty avoidance; individualism vs. collectivism; masculinity vs. femininity; and long-term vs. short-term orientation. Based on empirical data, Hofstede took 50 "national cultures" and positioned them on these five, largely independent dimensions. He defines "culture as the collective programming of the mind that distinguishes the members of one group or category of people from another" (Hofstede, 2001, p. 9).²

The reason Hofstede focused on individual countries for his study was his belief that differences and similarities in cultural patterns were easily identifiable and meaningful at the nation-state level. He attributed the cultures measured in each nation-state to "historical roots" and certain "mechanisms in societies that permit the maintenance of stability in cultural patterns across generations" (Hofstede 2001, p. 11) (see **Figure 1**, e.g., ecological factors, institutions such as family, education, political, and legal systems, etc.). Hofstede continues by declaring that institutions "reinforce the societal norms and the ecological conditions that led to their establishment" (2001, p.11). Hofstede argues that a change in one institution would not have a great impact on the national culture as the people, as the bearers of that culture, would "smooth" the institution's structures and its ways of functioning until they "are again adapted to the societal norms" (2001, p. 12). However, Hofstede does not fully consider the impact on local cultures by high levels of immigration over a long period of time.

¹ *Cultures and Organizations: Software of the Mind* (1991 and 1997) and a Second Edition of *Cultures Consequences* (2001).

² Hofstede's definition of culture was adapted from Kluckhohn (1951, p.86).

Hofstede finds that national socio-demographic and psychological factors tend to be used to explain variations in consumption. For international retailing, Hofstede and de Mooij chose to view countries as “systems” that influence consumption, and they sought “to understand the characteristics of the systems because of their impact on the behavior of individuals within these systems” (2002, p.64). When investigating variations in consumption, Hofstede claimed that the most widely used unit of analysis is the nation-state as every aspect of a socio-cultural system is represented within it (Hofstede, 2002, p.64; citing, Douglas & Craig, 1997; Inkeles, 1998). Is not every aspect of a socio-cultural system also represented at the local level, if one designates *that* as the “system”?

Hofstede recognizes that “the number of people in the second half of the 20th century who left their native countries and moved to completely different environments [was] larger than ever before in human history” (Hofstede, 2001, 429). He nevertheless assumes that it is only the immigrant who experiences the effects of cultural interaction – implying that it is the immigrant’s fate to assimilate or integrate into the majority culture and not vice versa (Hofstede 2001, 429).

Hofstede also offers his judgment on how host societies react to the arrival of foreigners (2001, p. 424). According to him, the reaction consists of three steps. Step (1): the locals are *curious* about how different the foreigners are (i.e., the “zoo” effect). Step (2): *Ethnocentrism* occurs, leading to the locals perceiving *their* cultures as superior to those of the foreigners. And step (3), which takes the longer than the others to be reached – and which, in fact, may never be reached in some societies – is *polycentrism*, where locals evaluate the foreigner as having different standards because they are different. In the last step, there is no judgment on the part of the locals whether the foreigners’ standards are better or worse than their own; it is merely that they are different. Retailers, including banks, must assume a *polycentric* view to best serve immigrant customers, thus enabling them to adapt their products and services. This could allow them to gain a competitive advantage in saturated local markets.

Diverging Consumer Behavior, the Irrational Consumer, and Culture in the Local Market

Developed countries, such as Germany, experienced periods of relatively consistent economic growth since World War II. This in turn, led to increased spending power for the average consumer, as well as a number of megamergers – that is, consolidation in many important business sectors, banking included (See **Figure 2**). An effect of the opening up of world markets was a change in the “rules of the game” in international retailing, spurring the introduction of new technologies and business strategies. According to Hofstede and de Mooij (2002), rather than focusing on the *similarities* of consumers across borders, as was done in the last century, the 21st century will require focusing on the *differences* across borders. This work extends their argument one step further so as to match reality and to encourage retailers, particularly those in the retail banking sector, to focus on the differences *within* national borders.

Despite the significant rise of income disparity in developed countries during the past 60 years, there has been increased buying power for the average consumer (OECD, 2008). The literature covering this period, as identified by Hofstede and de Mooij, is unanimous in its assumption that an increase – and/or a convergence – in income levels will “lead to homogeneous consumer needs, tastes and lifestyles” (Hofstede & de Mooij, 2002, p. 61; citing:

Assael, 1998, p. 501; Bullmore, 2000, p. 48; Czinkota & Ronkainen, 1993, p. 67; Jain, 1987, p. 229). Many refer here to the americanization of consumer tastes – drawing from examples in the food, entertainment and fashion industries. As witnessed in many developed countries, the turn of the last century is marked by consumer-backlash against American or internationally branded products (Klein, 2002; etc.).

Some have also argued that, as economies of scale are attained by global retailers, consumers will prefer *standardized* products at low prices, compared to *customized* products at higher prices.³ This thinking goes back to the very roots of the market economy: the assumption that consumer behavior is rational (Smith, 1776). In contrast, Hofstede and de Mooij (2002) find that one of the reasons consumers are in fact irrational in their choices is *culture*. While many attribute irrational choices to the absence of perfect information on the part of the consumer, they often do so without identifying the impact that culture has on consumer behavior (Antonides, 1998; McCracken, 1989; Süerdem, 1993). More recent literature by behavioral economists finds that even when the information is accessible, irrational choices are made by the consumer, as a result of “expectations, emotions, social norms, and other invisible...forces” (Ariely, 2008). Using Hofstede’s definition of culture quoted earlier, one can rightly assume that expectations, emotions, social norms, and other invisible traits are characteristic of peoples’ culture (also see: Hall, 1989; 1990). These traits, that serve to make up culture, are not homogenous within national, provincial, or even municipal borders.

There is now a plethora of case studies which confirm that a lack of local sensitivity to culture leads to failure; however, these are almost always restricted to the nation-state level. Perhaps if those SMEs that only work *within* national borders rather than *across* them were studied along these lines, then more examples might be found of businesses that fail to meet the local client’s cultural needs. Banks are one of many entities that tend to operate within national borders and which have close contact to the local consumer.⁴

At national levels, Hofstede and de Mooij (2002, p. 62) declare that when companies ignore cultural differences – that is, by centralizing operations and marketing – profits tend to decline rather than increase. This must hold true for the local level as well.

Many studies have found that when expanding to offshore markets many retailers forget that retailing is a highly “localized concept that requires great sensitivity to local tastes and habits” (Hofstede & de Mooij, 2002, p. 62; see also: Murphy, 1999). The failures which result from this oversight prove time and again that convergence in consumer tastes across national borders is “merely a persistent myth” (Hofstede & de Mooij, 2002, p. 62). Is it a myth at the *local* level as well?

Hofstede and de Mooij (2002) also argue against the belief that a common currency in Europe causes consumer behavior to become more similar. They find that the differences in the

³ Friedman (2005) argues that financial innovation, the rapid rise in international trade, and the advent of information technology have made “the world flat”; this assumes uniform tastes and production of consumer goods and services. In contrast to Friedman’s hypothesis, Berlin and most European cities are really not “flat.” Within the Berlin sub-communities, cultural distances such as languages, ethnicities, religions and social norms, combined with a lack of connective social networks, indicate that “distance still matters,” even at the local level (Ghemawat 2001, p. 138). Economic distance, as defined by Ghemawat (2001, p. 138), is significant when studying the relationship between large immigrant populations and the providers of goods and services. Factors of economic distance include “different consumer incomes, different quality of natural, financial and human resources, and different information and knowledge.”

⁴ See Guiso, Sapienza, & Zingales (2003) for arguments on the importance of local financial development.

value systems of consumers in different European countries are “strongly rooted in history and appear very resistant to change” and that rather than *converging*, there is more evidence that consumer behavior is *diverging* since the emergence of the European market in 1992 (Hofstede & Mooij, p. 63). If Hofstede and Mooij are correct, this would also mean that a country’s currency does not contribute to *convergence* in consumer behavior within that country’s market, that is, at the local level. On the contrary, the effect of a common currency within national borders would cause *divergence* in consumer behavior; this must mean that culture plays the greater role.

Translating Hofstede and de Mooij’s argument (for the importance of culture in retailing) to immigrant diasporas in large cities within developed countries is not difficult. The idea of a diaspora has varied greatly across the history but it is agreed that all diaspora communities settle “outside their natal (or imagined natal) territories [and] acknowledge [their] ‘old country’ – a notion often buried deep in language, religion, custom or folklore – always has some claim on their loyalty and emotions” (Cohen, 1997, p. ix). The old assumption that immigrants would *fully* identify with their adopted country in terms of culture and language can no longer be taken for granted. The immigrants’ cultural “emotions,” though perhaps no more than a relic of the past for some, still influence their behavior as consumers.

Culture as a competitive advantage in commercial banking during the financial crisis

During this time of financial crisis, the importance of competitive advantage for European banks operating in local markets could hardly be greater. Distracted by rampant expansion in the times of prosperity, many banks lost sight of the need to achieve and maintain competitive advantage in their home markets. Now that banks are being threatened with nationalization, insolvency or just simply a long protracted period of loss or slow growth, refocusing on gaining a sustainable competitive advantage in the local market is essential.

Regional and cultural aspects have received growing attention in business strategy literature. Douglas and Wind (1987) recognize that an “adaptation to local or regional differences may yield better results” and propose a standardized strategy for regions or clusters sharing certain socio-economic similarities. Prahalad and Doz (1987) stress the feasibility of regional strategies in their framework of global integration versus local responsiveness.⁵

The commercial banking industry, like any other retail industry, is governed by the basic principles of business strategy. Accordingly, Porter’s analysis, which was predicated on firms’ failure to translate “a broad competitive strategy into the specific action steps required to gain a competitive advantage” (Porter 1985, p. xv), is highly relevant.

According to Porter, “differentiation is one of the two types of competitive advantage a firm may possess” (Porter 1985, p. 119), and it is the most applicable for the purposes of this study (see: Dickson, & Ginter, 1987; Bharadwaj, Varadarajan, & Fahy, 1993). One way Porter’s differentiation strategy can be implemented is through targeting the cultural preferences of the customer (see Hofstede for targeting cultural preferences, 1998, pp. 56-57). People’s choice regarding the use of certain banking products and services is based on a number of factors.

⁵ For an earlier discussion of the importance local adaption and migrant or ethnic banking, see: Armstrong & Haiss (2007).

These include: income level; however, when choosing which bank and which products or services within a bank to use, the customer's behavior is greatly determined by social and psychological factors. Important to both of these is the concept of identity, that is, how the customer perceives himself. While banking is not like the clothing industry, where a garment represents a projection of one's identity, precisely which bank a customer decides to use is influenced by different concepts of self and the varying needs of his "status," perceived or real.

Berlin case study: German banks serving Turkish immigrant clientele⁶

Interviews conducted by the author in Berlin were not designed to establish differences in culture but rather to show the gap in between the products and services desired and those actually being offered. It is recommended that the interview questions be redesigned and implemented in order to better utilize a framework for differentiating cultural values (e.g., Hofstede's five dimensions).

In the Berlin banking market, it is clear that the banks are attempting to differentiate themselves from their competitors by establishing a "model customer": one that is most often a middle-income head of a German household. Undeniably the banks' focus, with very few exceptions, is not on customers of immigrant background.⁷

Marketing banking products and services involves persuading customers that they need or should need what is offered. More important than the marketing of existing products when aiming to attract customers is assessing which products and services are desired and then developing those that are lacking. Rather than developing new products from scratch, quite often a bank's product offerings can simply be *adapted* to appeal to the immigrant customer. There are, however, certain *new* products which must be *tailor-made* to satisfy the demand of a specific customer group – as exemplified by remittance services, group referral programs, language offerings and Islamic banking products for immigrant customers.

Culture motivates people to use certain banking products or services, but it also influences the way people relate to each other while banking. For example, culture determines how decisions are made – either as individuals, nuclear families, or larger collectives. Interviews with Turkish SME managers in Berlin, revealed that many of them selected their bank based on referrals from relatives or close friends, and not one said that he or she acted alone in making this decision.

Culture is a major factor in the way research is conducted. Bank managers assume their "model customer" tends to prefer research along lines prescribed by the bank itself (e.g., bank website, brochures, and advertisements). On the other hand, Turkish customers discussed their frustration with the "promotional" nature of the websites and brochures, preferring to rely on the advice of family and friends. *Trust*, or the lack of it – which is an important component in all of Hofstede's cultural dimensions – is clearly a decisive factor here.

The effects are not always positive when one customer is influenced by another. In interviews with German bank managers, the author was often told that increasing the number of Turkish clientele might deter existing "ethnic German" clients from continuing their relationship with the bank. Managers described the sensation of betrayal, or disloyalty, a German customer might feel when he discovers banners with Turkish text hanging in the windows of his "German"

⁶ For an overview see: Armstrong, D. (2008).

⁷ For additional discussion on immigrant bank selection see Gleisner (2008).

bank. Another example given by a manager was the uncomfortable feeling a German might endure when queuing up next to a person of Turkish origin. All of these perceived negative reactions were reported by bank managers who were apparently “native” Germans.

Many Turkish small business owners described their experiences with German banks as being highly stressful. This matches Hofstede’s conclusion when describing the interaction of cultures with extreme value differences: “the level of acculturative stress increases with the cultural distance between home and host culture” (2001, p. 429).

When referring to expatriate managers working abroad, Hofstede argues that a “lack of adaptation to alien cultural environments is not only a problem for individuals; it exposes organizations to communication breakdowns, loss of effectiveness, and sometimes complete failure” (Hofstede, 2001, p. 424). When banks do not adapt to the “alien” Turkish culture in Berlin (officially, more than 27 percent of the population in some sub-communities; see **Figure 3**), they are also prone to failure at a number of levels – each of which might jeopardize any future customer relationship.

Hofstede also finds that, as income levels *converge*, consumer behavior *diverges* along cultural lines (2002). The booming ethnic economy among those of Turkish origin in Berlin (see **Figure 4**) is a catalyst for converging income levels (See Goldberg & Şen, 1996; 1997; 1999; Pécoud, 2002; Pütz, 2004; Wilpert, 2003). Accordingly, the rise in immigrant income levels in Berlin and other large multicultural cities in the years to come will only intensify divergences in consumer behavior – exposing preexisting cultural differences.⁸

Conclusions

While the number of nation-states is approaching 200, the number of “peoples” (i.e., those unified by languages, customs, folkways and religions) is estimated at 2000 (Cohen, 1997, pp. ix-x). Banks and other retailers cannot afford to be blind to the culture of the *people*, by focusing solely on the culture of the *nation-state*.

Based on the interviews with bank branch managers and Turkish small business owners in Berlin, it is evident there are diverse and distinct local cultures that determine bank product and service usage. The cultural differences, while not yet supported by adequate data to categorize them in a statistically significant way, appear meaningful enough to determine consumer choice – for example, immigrant small business owners could base their selection of a bank on cultural values.

Migrant banking strategies may help reduce cultural distances and afford competitive advantage and increased profitability within the home market, at a time when profitability seems improbable. This hypothesis, although not yet adequately proven by this short entry, should be tested through professional surveys at the local level, similar to those conducted internationally by Hofstede and his contemporaries (e.g., Edward T. Hall; Shalom H. Schwartz; Fons Trompenaars and Charles Hampden-Turner; the GLOBE Research Project).

Much of Hofstede’s writing emphasizes the need for firms to adapt to national cultures when conducting business abroad. This same thinking and urgency should be brought home and put into application in the local market, vis-à-vis the immigrant client.

⁸ For rise in immigrant income levels see: Portes, 1995.

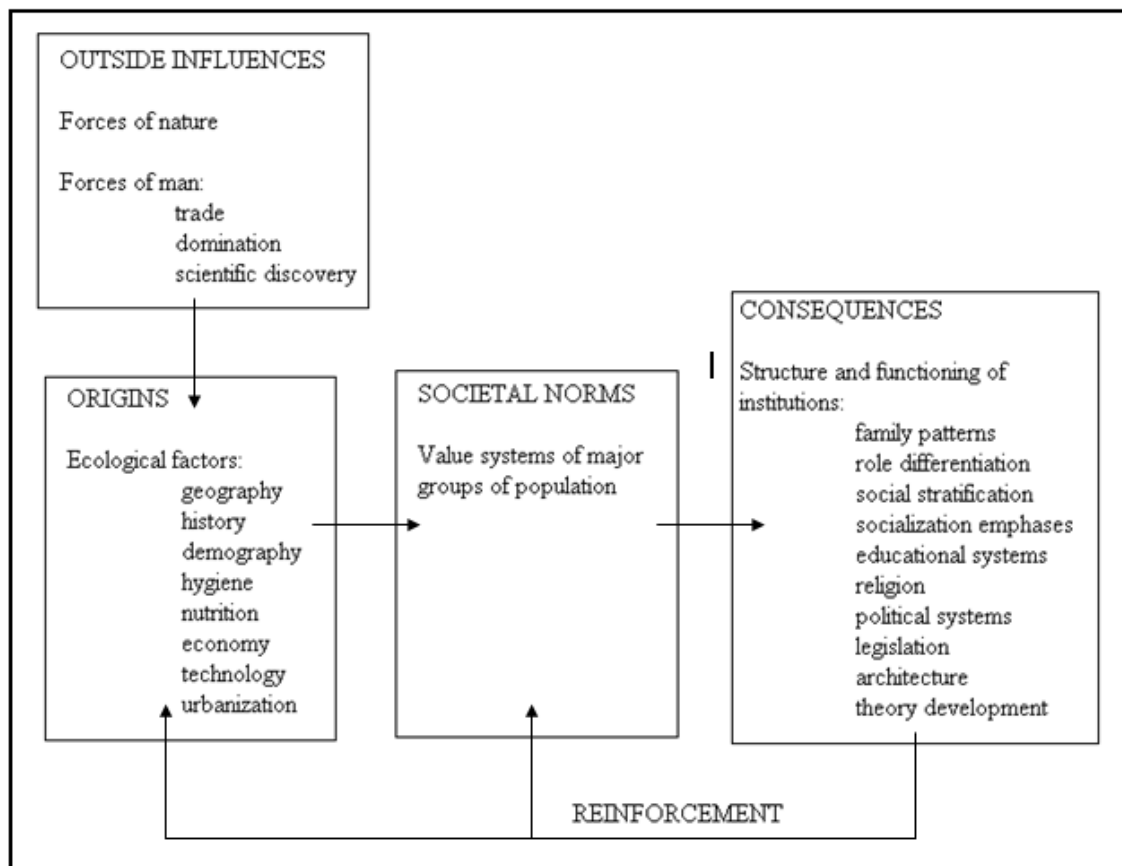
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Figures

Figure 1: Hofstede's diagram: The stabilizing of cultural patterns



From: Hofstede, 2001, p. 12

Figure 2: Bank Consolidation in Germany

	1995	2000	2004
Number of banks	3,785	2,911	2,400
Number of domestic branches	67,930	56,936	45,467
Number of domestic bank offices	71,716	59,848	47,867

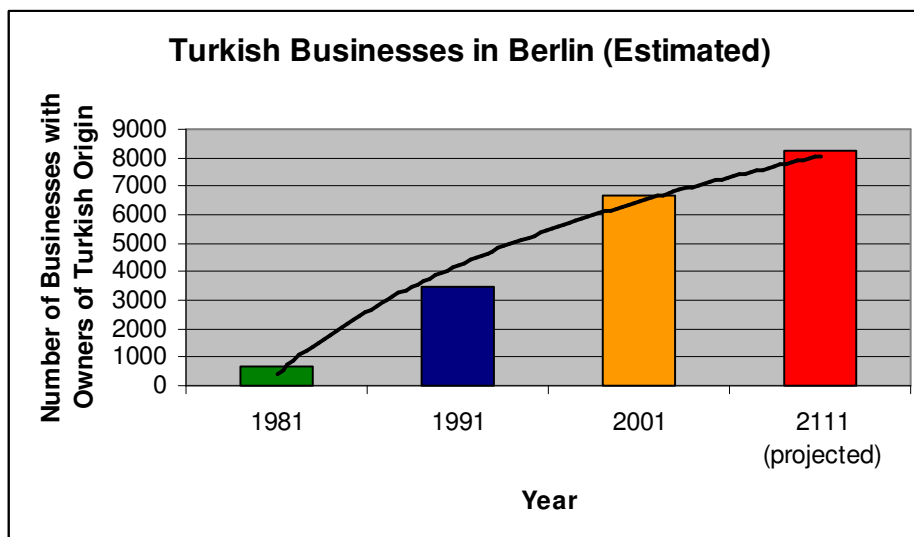
Adapted from: Assoc. of German Banks, 2008

Figure 3: Turkish population in the Berlin sub-communities of Kreuzberg and Neukölln

		Age of Registered Residents					
Berlin District	Total registered population	Under 6	6 – 18	18 – 65	65 and Older	Number Turkish Residents (total)	Percentage With Turkish Heritage
Kreuzberg	146,755	9,503	17,471	106,304	13,477	40,539	27.6%
Neukölln	147,660	9,984	17,156	104,210	16,310	46,979	31.8%

Adapted from: Statistisches Landesamt Berlin (2005)

Figure 4: The increase in Turkish businesses in Berlin⁹



Adapted from: Blaschke, J. & Ersöz, A. (1987) and Pütz, R. (2004).

⁹ The early statistics on Turkish-German businesses are not altogether reliable, as so many of the numbers used in this figure are official estimates as sourced by scholarly works. Most of the data for the period being discussed comes from the *Zentrum für Türkeistudien*, that is, The Centre for Turkish Studies (ZfT). The data was calculated on a micro-census basis. By compiling this data with the Berlin Office of Statistics (*Statistisches Landesamt Berlin*) and the German Office of Statistics (*Deutsches Statistische Bundesamt*), the trend of Turkish-German business became more clearly defined. In Germany, the number of German-Turkish entrepreneurs has risen rapidly, as well. In 1985, there were approximately 22,000 business founded by German-Turks, employing more than 77,000 employees, and with a combined annual turnover of 9 billion Euros. In 2008, there were more than 70,000 businesses, employing 400,000, and turned over 34 billion Euros; see: *European Stability Initiative Web*. 16 June 2008. European Stability Initiative. 5 Apr. 2009 <http://www.esiweb.org/index.php?lang=en&id 281&story_ID=23&slide_ID=2> and Şen, Faruk, and Martina Sauer. . 1 Aug. 2005. Stiftung Zentrum für Türkeistudien. 6 Apr. 2009 <<http://www.zft-online.de/index.php?site=31>>.