

# The selected theoretical and practical viewpoints to managing cultural diversity in the international business

## *Vybrané teoretické a praktické hľadiská riadenia kultúrnej diverzity v medzinárodnom podnikaní*

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**Abstract:** The paper is a contribution to the theoretical and applied research in the area of managing cultural diversity from the viewpoint of performing different managerial and marketing tasks. It includes the primary research results conducted during the period from 2007 to 2008 on the set of 200 agri-food companies in Slovakia, Spain, Poland and Austria. This study helps to understand the concept of the internationalization of business activities of the agri-food companies depending on the diversity of their external environment and market position. The main attention is devoted to the international trade links development with those businesses which for various reasons are considered as potential partners in the long run and include also the external EU trading partners.

**Key words:** marketing, management, cultural diversity, internationalization, adaptation, standardization, territorial expansion

**Abstrakt:** Článok predstavuje príspevok v oblasti teoretického a aplikovaného výskumu riadenia kultúrnej diverzity z hľadiska uskutočňovania rôznych manažérskych a marketingových úloh. Zahrňuje výsledky primárneho výskumu, ktorý sa uskutočnil v období rokov 2007–2008 v súbore 200 agropotravinárskych podnikateľských subjektov na Slovensku, v Španielsku, Poľsku a Rakúsku. Táto štúdia pomáha porozumieť koncept internacionalizácie podnikateľských aktivít agropotravinárskych podnikov v závislosti na diverzite ich externého prostredia a ich trhovej pozície. Hlavná pozornosť je venovaná rozvoju medzinárodných obchodných vzťahov s tými obchodnými partnermi, ktorí sú považovaní za perspektívnych z dlhodobého hľadiska z rôznych dôvodov, vrátane externých obchodných partnerov EÚ.

**Kľúčové slová:** marketing, manažment, kultúrna diverzita, internacionalizácia, adaptácia, štandardizácia, teritoriálna expanzia

International business has a multi-environmental, multicultural framework. The environmental and cultural diversity add more complexity and uncertainty to the international business, which makes managing as an operation even more difficult. The difficulty of managing an international business operation

is also due to a mismatch between the managerial mentality and the progression of business from the domestic to the international posture (Fatehi 1996). With globalization becoming a centrepiece in the business strategy of many firms – be they engaged in product development or providing services – the

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ability to manage the “global knowledge engine” to achieve a competitive edge in the today’s knowledge intensive economy is one of the keys to sustainable competitiveness. But in the context of the global marketing, the management of knowledge is de facto a cross-cultural activity, whose key task is to foster and continually upgrade the collaborative cross-cultural learning (Hollensen 2007).

The new integrated European market provides great opportunities for market success not only in the local market, but also in regional and global ones. Besides identifying the differences between markets, the new perspective devotes attention to identifying the common target groups, the common practice and the possibilities for standardized approach (Horská, Ubrežiová 2005). We are living in interesting times in the European environment. Europe as a whole has a challenge in the global competition. A wider integration and trade liberalization both within the European and the global market space generate the requirements for building external competitiveness of the European products and the territorial expansion in priority non-European markets as stated in the strategic document of the EC “Global Europe – Competing in the World”. This study helps to understand the concept of internationalization of business activities of the agri-food companies depending on the diversity of their external environment and market position. The main attention is devoted to the international trade links development with those businesses, the external EU trading partners including, which for various reasons are considered as prospective partners in the long run.

## **MATERIAL AND METHODOLOGY**

Our research method is based on a questionnaire survey. The survey is a part of the research project G-516 of the International Scientific and Technical Cooperation Scheme of the Slovak Republic “European Studies on Intercultural Dimensions of International Business: Managerial and Marketing Consequences” with the aim to investigate the concept of internationalization of business activities of the agri-food companies depending on the diversity of their external environment and market position. The main attention is devoted to the international trade links development with those businesses, the external EU trading partners including, which for various reasons are considered as potential partners in the long run.

One questionnaire was developed by the international research team as a guideline for managing the interview in the target group of companies (agri-

food businesses) selected randomly in four project countries: the Slovak Republic, Austria, Spain and Poland. Finally, the paper summarizes the research results obtained from a group of 200 companies (50 from each project country) for the years 2007 and 2008. The specific requirement for each company to be considered in the survey was its involvement in the processes of internationalization in any form (direct export, indirect export, license, investing abroad, etc.).

The questionnaire consists of 2 parts including identification questions and the questions related to their market position, the existing trading relations and the performance criteria. The main part of questionnaires is devoted to the investigation of strategies which the companies have already developed and used for different cultures (product aspects, pricing strategies, distribution channels, marketing communication and negotiation strategies). The companies were also asked to determine either the business or the geographical distance between different trading partners as well as the existing economic and political barriers affecting the international business.

The strategy of the study is descriptive and explorative. Our sample does not give definite guidelines for generalizing the findings, but some implications on the factors, which lead to the successful managing the cultural diversity in the international business activities of the agri-food businesses in different external conditions, are outlined in the paper. The fundamental assumption in our research is based on the current processes of integration which lead to effective ways of using the similarities among the markets but on the other side, the cultural and business distance require using adequate marketing and managerial approaches adapted to certain business environment.

## **RESULTS AND DISCUSSION**

Operating in the united EU market lays increased demands on the adoption of the competition rules in the European market, the art of acquiring competitive advantages against one’s rivals and an early identification of the future development on the operating markets. The objective of marketing control of entrepreneurial subjects of the integrated economies is predominantly the orientation on the high quality of production, its competitiveness and self-assertion in the European and global markets and the strategic marketing control aiming at the product differentiation and the increased surplus value of the products (Horská 2007). According to Bielik, Rajčániová (2007),

the competitiveness in the European and international markets is fully conditioned by the competitiveness of enterprises. The competitiveness of an enterprise is the basic condition for its own prosperity and finally its existence, but it is also the main condition for the competitiveness of the region or country. The influence of shaping agribusiness on the position of agricultural companies and the directly related segments in the field of the processing of agricultural products from the perspective of achieving competitive advantage is examined. According to Bečvářová (2008), in practice the acceptance of the consumer concept in the policy (the demand driven model) and the shift of focus to the finalizing segments of the processing and distribution of foodstuffs ever more significantly form a new and harder competitive environment of both agricultural companies and food processing companies. Even more often, a limiting condition for the level and choice of the structure of agricultural production in the particular region is the success in

the sales of agricultural products in the form of the demanded final/food products at the end consumer market. Svoboda (2008) states that the successful management of any entrepreneurial entity depends on the proper mastery of the important prerequisites of which the decision-making of the company management, for which the requirements continue to increase in the dynamically changing environment of the management, takes a critical position. According to all current standpoints, there is a necessity to accept the market development and a strong effort of businesses in the world for reaching competitiveness either in the local, regional or global markets. Global markets and international business are becoming the new battlegrounds. Besides operating in the EU market, the tendency of most European countries and businesses is the expansion of external trade. The application of this concept including managing the cultural and operational diversity of international business is a true challenge.

Table 1. Main EU-25 trading partners – export

Partner	Value in billion €		% of total external trade		Annual rank	
	1996	2006	1996	2006	1996	2006
Extra EU-25	564.8	1 189.1	100.0	100.0		
United States	114.9	269.5	20.3	22.7	1	1
Switzerland	51.5	87.9	9.1	7.4	2	2
Russia	19.1	71.9	3.4	6.0	5	3
China	14.8	63.9	2.6	5.4	8	4
Turkey	18.3	46.7	3.2	3.9	6	5
Japan	35.8	44.8	6.3	3.8	3	6
Norway	19.8	38.2	3.5	3.2	4	7
Romania	4.5	27.3	0.8	2.3	27	8
Canada	10.7	26.9	1.9	2.3	13	9
United Arab Emirates	6.7	25.0	1.2	2.1	22	10
India	9.9	24.4	1.8	2.1	17	11
South Korea	14.4	22.9	2.5	1.9	9	12
Hong Kong	17.5	21.6	3.1	1.8	7	13
Australia	11.5	21.3	2.0	1.8	12	14
South Africa	8.9	20.0	1.6	1.7	18	15
Singapore	12.3	19.6	2.2	1.6	10	16
Mexico	5.1	19.1	0.9	1.6	25	17
Brazil	11.8	18.0	2.1	1.5	11	18
Ukraine	2.6	17.8	0.5	1.5	35	19
Saudi Arabia	10.4	17.7	1.8	1.5	15	20

Source: External and intra-European Union trade. Statistical Yearbook 2008

## External EU-25 trade in facts and figures

Statistical data of the external EU-25 trade foreign trade show a dynamic increase in this item in the period of 10 years: from 564.8 billion € in 1996 up to 1 189.1 billion € in 2006, which shows an increase by 210%. Table 1 provides the data on 20 most important export trading partners (before the accession of Romania to the EU). As we can see, the United States, Russia and Switzerland are the leading export partners followed by China, Turkey and Japan in 2006. There is an evident developing tendency in case of many emerging markets. For instance, our neighbour – Ukraine: its position is developing well from the 35<sup>th</sup> position in 1996 up to the 19<sup>th</sup> position in 2006. The export to Ukraine has increased by about 680%. Also the situation in import from Ukraine has rather improved in the period of 10 years for this EU-neighbouring country. Despite the fact that the export to Ukraine is still higher than the import from Ukraine, in 2006 it accounted for 8.8 billion € which placed Ukraine in the annual rank at the 30<sup>th</sup> position (in comparison with 1996, the imports were higher by 586%). The main import partners are China, the United States and Russia followed by Norway, Japan and Switzerland.

In the case of agribusiness, the EU-27 was a net importer of food products (including coffee, tea and cocoa) in 2007, the trade deficit for these products totalling the value of € 25.1 billion and around 23.3 million tonnes in quantity. A positive trade balance was reached in the categories of pork meat (fresh, chilled and frozen), meat and edible poultry offal (fresh, chilled and frozen), dairy products and bird eggs, milk and cream (concentrated or cont. added sugar), cheese and curd, cereals (SITC-04), vegetables, roots

and tubers, prepared or preserved (SITC-056) and tomatoes (other than in vinegar or acetic acid).

## *Geographical and business distance and prospective trading partners*

For the interviewed businesses, the neighbouring countries constitute the most important business partners. Such business partners are very similar from the cultural and business point of view and there is not such a big geographical distance between them. France and Germany were mentioned most frequently in the answers of Spanish companies (90% France, 76% Germany), followed by Italy (42%), Belgium and Western European countries as a regional group of countries. This group appeared also in the answers of Austrian companies, followed by Germany (82%), Hungary and France. Polish companies place at the first position Germany (78%), then Slovakia (70%), the Czech Republic, Ukraine and Norway. The answers of Polish businesses are very similar to the answers of Slovak businesses which naturally results from the regional position of both countries (see Figure 1). There is a very interesting finding that Spanish businesses consider the countries of the EU-10 as the countries with a big cultural distance, but of course, eligible for the future business. It should be explained by their geographical distance, a different cultural context and the political development in the past. Based on the answers in our research, Germany is considered as a strong economic partner with universal business culture. This standpoint is supported also by the theory of the Mole map which describes Germany as a country with a clear systematic approach (Mole 1995). Transnational

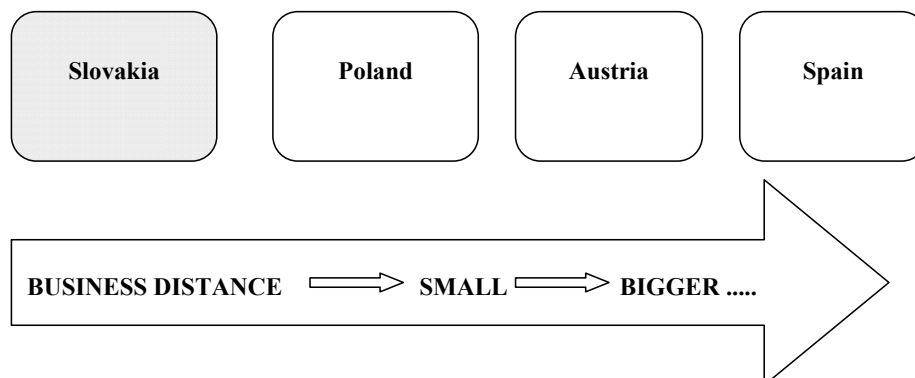


Figure 1. Geographical and business distance from the viewpoint of Slovakia

Source: research results and analysis

clustering of the European market is defined also by the studies of Welford and Prescott (1996) and Hollensen (2007) (Figure 1).

Prospectively, all companies look for new business partners outside the EU on the one hand and inside the EU, especially in the EU-10, Romania and Bulgaria on the other. Their strategic approaches are based on the intention to find new markets, to build a prospective market position abroad, production facilities and to obtain cheaper production inputs. In some cases, they consider the market situation in those countries as favourable, less competitive and with an increasing purchasing power of inhabitants. In all cases, they look for certain cultural, business or historical similarities. From this point of view, Spanish companies consider the countries of South America, Morocco and North Africa as the potential partners. Polish, Austrian and Slovak companies consider the markets of Ukraine, Romania, Bulgaria and the Balkan states as the prospective ones. In all countries, there were some businesses using the term “emerging markets” and mentioning such group of countries in the category of prospective markets. However, also without using this theoretical terminology, in all countries we found countries as Russia, China, USA, Turkey, Saudi Arabia, United Arab Emirates, India and South Korea included in the group of very attractive markets. Unfortunately, the interviewed businesses consider that in some of these countries, there are certain economic and political barriers (mainly Turkey, China, Russia) which consequently pose a high level of economic risk.

In most cases, all interviewed companies try to develop standardized strategies that will work on all target markets. Obviously, in the case of very specific market situation and different customer needs and wishes, they develop and use the approaches of adaptation related to the product policy parameters, pricing, distribution systems or communication approach. Their managerial standpoint is in harmony with the current theoretical finding that there is not the question of either adaptation or standardization in practical business activities but the question of effective managing the cultural diversity towards the sustainable market position abroad.

### Performance criteria by different countries

We asked the companies to determine 5 most important performance criteria of their offer (Figure 2). Quality is considered as the first and the most important criterion in each project country, followed by price, reliability (except of Slovakia), assortment and services in several cases. Design belongs to this top category only in Polish businesses, terms of payment only in Slovak enterprises and communication only in Spanish firms. Comparing the impact of different factors, we can state that price is the most important performance criterion in Slovakia and Poland (related to cost leadership as the strategy of competitiveness used in many cases), combined with the terms of payment in case of Slovakia. Cost leadership and adequate quality level were observed also in other researches

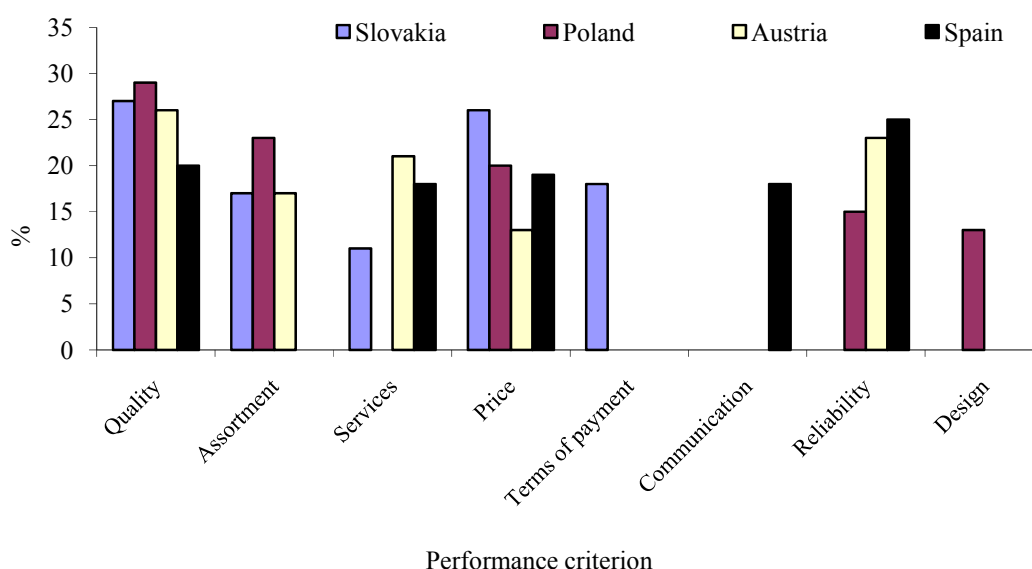


Figure 2. The most important performance criteria by different countries

Source: research results

focused on the region of Central Europe (Bielik, Horská 2008), of course with a certain recommendation that it is not the only way how to compete in the international market. On the contrary, in Austria and Spain, services and reliability have a greater impact than in Slovakia or Poland. The bigger attention to service and marketing factors is emphasized in the highly developed consumer and business markets also by Cateora and Graham (2005). Only in the case of Spain, the performance criterion "communication" occurs in the group of the most important factors what could be explained by the necessity of closer business relations, longer business negotiations, informal relations between business partners resulting from the nature of the local business culture and followed by the high importance of reliability in business relations (explained also by the organic managerial approach defined by Mole 1995).

## CONCLUSION

All interviewed companies are interested in the territorial expansion of their business activities and the growth of their market position abroad. Apart from the priority orientation at the European Union market, it is necessary to support the diversification of the pro-export activities to other countries as well. To manage international business effectively, an understanding of people and their values and expectations is necessary. The values and expectations of people are shaped by their culture. To operate successfully in this diverse and dynamic environment, the firm needs to develop an understanding of cultural forces that could impact its operations globally as well as the adequate and updating information system needed for strategic and tactical decision making (Kučera, Látečková 2006). A successful international enterprise according to Fatehi (1996) is a firm that could be viewed by the host country as an "insider." Such close links are to be developed especially with Russia, China, India, the Balkan countries, the Arab countries and all the others mentioned in the category of the potential markets.

To all investigated countries, the aspects of quality, price, services and reliability of business relations are the most important performance criteria. Accepting external environment currently means considering the consequences of the global financial crisis and the adjustment of marketing strategies to changing market and economic conditions (Rodes et al. 2008). The trends of globalization in business and economic life are not straightforward. They can be seen as an opportunity for economic growth, social development

and progress, but also as a threat to the current world (Svatoš, Smutka 2008). The potential risks follow from many economic and political influences expressed by the investment indices, corruption indices, payment ability and the unpredictable market and social risks. In case of further geographical expansion, a company should develop a plan to build a new production facility and distribution system in the low-cost host countries (Russia, Baltic states), to produce lower-price items, including private branding, and to develop non-traditional ways of advertising and selling. To reach a market success, customers have to be considered, their needs and wishes, currently including also the level of the customer optimistic approach to foreign products. Besides external factors, also internal factors as the financial and material sources availability, the potential for growth and the ability to manage international business operations have to be considered before entering a new foreign market.

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