

The Impact of Foreign Language Skills and Cultural Competencies on SMEs' Success in International Markets

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Abstract. The changing global economy and international settings demand high levels of foreign language skills, as well as cultural competencies to be taken into account while conducting business. In particular, top managers' and key personnel's foreign language and cultural skills emerge as being critical as a source of competitive advantage contributing to superior company performance in international markets. Based on a sample of 123 respondents employed in managerial and key personnel positions, our study examines the role and impact of foreign language skills and cultural competencies on the international performance and success of small and medium-sized enterprises (SMEs) from the Istrian County, Croatia. Our findings support the hypothesis that foreign language skills positively affect a company's success; however, contrary to our expectations, there was no statistically significant support for the positive effect of cultural awareness on a company's success. The authors suggest that it is crucial for domestic SMEs that they adopt strategies for dealing with linguistic barriers upon entering a new foreign market, as this will inevitably lead to reduction in cultural barriers as well, and help domestic companies in achieving improved international performance.

Keywords: internationalisation of SMEs, linguistic and cultural barriers, language skills and cultural competencies, language management strategies, cultural management strategies

1 Introduction

In times when economic integration, business globalization, market economy and technological advances give rise to the multiple economic, political and social changes, while national, economic and cultural boundaries dissolve to bring about a world of global interdependence (Carayannis et al. 2012, Hayden and El-Ojeili 2006, Gilpin 2001, 2002, Muller et al. (ed.) 2001), many businesses and enterprises are highly motivated to actively seek positions in international markets. In order to strengthen Europe's competitiveness in such a globalized context, the European Commission is largely dedicated to supporting small- and medium-sized enterprises (SMEs) with a range of instruments developed to reinforce their cross border activities and international business opportunities. This comes as no surprise since SMEs represent 98% of all businesses in the European Union, create around 85% of all new jobs, and provide two-thirds (67%) of the total private sector employment (European Commission 2013). Being the backbone of Europe's economy, SMEs might hold the key to ensuring economic recovery, innovation, job creation, and social integration, while increasing the

internationalisation of SMEs and helping them access third markets is largely seen as crucial for ensuring the EU's economic expansion and growth (European Commission 2010).

1.1 Linguistic and cultural barriers in the internationalisation of SMEs

The internationalisation of businesses, as a tendency towards increasing involvement in foreign markets, is especially pronounced in emerging and transition economies because it provides valuable opportunities to grow and profit (Zahra and George 2002, Musteen et al. 2013, 2014), but it also involves substantial risks and challenges. One of such challenges for SMEs which aim to achieve international expansion is to overcome linguistic and cultural barriers in order to establish efficient communication with partners and clients, while the inability to overcome such barriers represents a serious impediment to successful international performance (Lohmann 2011, Lewis 2006, Ferraro 2002, Morreale et al. 2000). Efficient communication is generally indispensable in conducting business, but there is an additional cultural dimension of international business that has to be taken into account, namely the inextricable link between language and culture. Being able to communicate in a foreign language goes far beyond knowing the right vocabulary, grammar and syntax; it is also about developing cultural sensitivity, international awareness and a global mindset as qualities that contribute to one's employability and professional development. Maclean and Wilson (2009) divide desirable worker attributes into three groups of competencies – personal, professional and intercultural – and go on to list three specific intercultural competencies: the ability to operate in other cultures, international job experience, and language capabilities. We might argue that all parties engaging in international business, regardless of the area and his or her level of liability, should be equipped with the appropriate language and intercultural skills in order to approach linguistic and cultural diversities in a suitable manner, and deliver responsible international management decisions. Language itself is much more than a communication tool delivering a message, but rather “it has strengths and weaknesses which project national character and even philosophy” (Lewis 2006, 63). Not only are individual words never deprived of a larger context, but language as such can be understood as the verbalization of culture itself, and thus of an interlocutor's standpoint. Although language skills as such are not an intrinsic goal of international business, they constitute “an indispensable tool for communication and also a key to fundamental understanding of other people's ways of thinking and expressing themselves” (Gundersen 2009, 2). International business settings in particular demand high levels of foreign language and intercultural skills if all parties are to achieve successful communication and establish good business relations, grounded in mutual trust and respect. For Ferraro (2002), building mutual trust relies deeply on an intimate acquaintance with both the language and the culture of those with whom one is conducting business. The ability to communicate in a number of foreign languages and successfully adapt to different cultures and their local manners thus becomes vital for the survival of businesses and enterprises operating in a globalized economy and participating in international markets.

1.2 The economic dimension of language and cultural skills

A body of research has already shown that business settings can greatly suffer in situations of linguistic and cultural misunderstandings, which often lead to considerable economic losses. Research commissioned by the British Chambers of Commerce in 2004 illustrates how British exporters are penalised by language deficiencies. Exploring language ability and export behaviour, the research surveyed 1,000 British SMEs and found that three-quarters (75%) of exporters report significant losses in export sales or revenue due to their inability to meet linguistic and cultural requirements in international trade. The researchers found a significant impact of language skills on export performance, reporting that there is a direct correlation between the value an exporter places on language skills within their business and their annual turnover (BCC, 2004). In 2006, the ELAN survey – *Effects on the European Union Economy of Shortages of Foreign Language Skills in*

Enterprise – was conducted with the objective to provide an analysis of the use of language skills by SMEs and the impact on business performance. Its findings showed that a significant amount of business is being lost due to a lack of language and cultural skills, and that the most effective exporters tend to have adopted a proper language or communication strategy. The survey found a clear link between language skills, cultural competencies and export success, identifying four measures of language management clearly associated with increased export performance: having a language strategy, appointing native speakers, recruiting staff with language skills and using translators. The survey report stated that “an SME with all four investments will achieve an export sale proportion 44.5 percentage points higher than an SME with none of these investments” (Hagen et al. 2006, 54), thus confirming a significant correlation between the adoption of language and cultural management strategies and improved trade. Another step towards identifying the best practice in European SMEs was the PIMLICO study – *Promoting, Implementing, Mapping Language and Intercultural Communication Strategies in Organisations and Companies* – conducted in 2010 in order to investigate how exemplar companies employ language management strategies (LMSs) to improve their international performance. The study identified ten top-performing international SMEs, which have adopted a wide range of innovative LMSs, successfully overcoming linguistic and cultural barriers they face in international markets. The findings confirm that the economic impact of a language management strategy on a company’s export performance is indisputable: 41% of the 40 exemplar companies reported to have increased their sales turnover by over 25% as a direct result of their LMS, while an additional 35% put the increase at 16% - 25%. In other words, for three out of four companies (76%), the sales turnover increased by a minimum of 16%. Furthermore, the most successful companies in the case studies tend to adopt a multilingual approach to trade, expanding their linguistic capability to suit the specifics of marketplace, which provides a vital competitive edge, according to the report (Hagen 2011).

1.3 Language and cultural management in international business

In addition to the economic and financial case for languages, research on the organizational models of international entrepreneurship has suggested that top managers play an important role in firms’ internationalisation efforts (Carpenter and Frederickson 2001, Zahra and George 2002, Musteen et al. 2013). In particular, top managers’ foreign language skills and intercultural competencies emerge as a source of competitive advantage, while the importance of implementing knowledge management and aligning it to the business goals is recognized as crucial for the success of international ventures (Kuemmerle 2002, Gillingham and Roberts 2006, Tayauova 2012). The knowledge-based view considers knowledge as an important organizational resource with significant potential for producing sustainable competitive advantage (Alavi and Leidner 2001, Grant 1996a, 1996b). However, just as any other asset, knowledge should be strategically managed and in accordance with long-term business goals so as to support a company’s business prospects. As Alavi and Leidner (2001) explained, it is not the knowledge existing at any given time per se that is crucial in this sense, but “the firm’s ability to effectively apply the existing knowledge to create new knowledge and to take action that forms the basis for achieving competitive advantage from knowledge-based assets” (Alavi & Leidner 2001, 108). In order to use foreign language and cultural knowledge so as to properly address linguistic and cultural diversities, SMEs which want to internationalize their operations are increasingly being required to adopt and implement various language and cultural management strategies as a source of competitive advantage contributing to superior company performance in international markets (Grzeszczyk 2015, Gundersen 2009, Incelli 2008). Moreover, a successful manager will not only possess the required linguistic and cultural knowledge him- or herself, but will also be able to create and implement a suitable language and cultural management strategy, drawing from external resources in order to satisfy a company’s diverse communication needs and providing the tools to enable its effective communication in foreign markets.

Feely and Winslow (2006) define language management as “the extent to which the company is able to satisfy its language needs through prudent deployment of a variety of language management tools including for example language training and expatriation” (Feely and Winslow 2006, as cited in: Gundersen 2009, 2). Successful companies use a language management strategy (LMS), comprising a range of such tools, or language measures, in order to address the diverse communication needs they face in their international operations. In the ELAN 2006 report, language management strategy (LMS) is defined as “the planned adoption of a range of techniques to facilitate effective communication with clients and suppliers abroad“ (Hagen et al. 2006, 5). These techniques or measures can be wide-ranging and diverse, and are selected because of their positive impact on a company’s international performance. Different companies use different types of measures to form their individual strategies in accordance with their specific needs and long term business objectives. Such measures can include, for example, selective recruitment, i.e. recruiting staff with the required language and cultural competencies, providing language training and cultural briefing for employees, creating linguistically and culturally adapted websites, using professional translators and interpreters, translating promotional and sales material, forging links with local universities (e.g. for taking on foreign students on placement), etc. These and other measures and techniques, as identified and described in the previously mentioned ELAN (2006) and PIMLICO (2011) studies, served as the basis for this research, inspiring us to investigate how domestic SMEs employ these measures and whether or not they perceive them as beneficial to their businesses. Furthermore, in line with the knowledge-based view, the managers’ linguistic and cultural competencies were regarded not only in terms of their own ability to actively engage in intercultural communication, but even more so in terms of the extent to which they were able to satisfy their company’s linguistic and cultural needs through smart distribution and usage of a variety of measures and tools in order to meet such requirements in international business settings.

This paper is aimed at determining key factors explaining how local SMEs could benefit from bridging linguistic and cultural barriers they encounter in international business environments by implementing various measures of language and cultural management. The three main motivation factors for companies could be the wish to increase effectiveness in international business communication, to enhance their competitiveness through securing an additional competitive advantage, and to participate in the rising trend of multilingualism. Ideally, a business should be able to operate in all the languages used by its stakeholders, and although such a solution might seem difficult to implement, the strategy for multilingual Europe proves it is not impossible. The reinforcement of multilingualism is largely seen as a source of competitive advantage for the European Union as a whole (European Commission 2008), and we might argue that SMEs and other subjects operating internationally can greatly profit from following the same approach.

2 The aim of the study and research hypotheses

Drawing upon the internationalisation of SMEs, the knowledge-based view and a body of research on the commercial value of using language and cultural management strategies, this study focuses on exploring the effect of such strategies and the impact of top managers' foreign language skills and cultural competencies on the international performance and success of small and medium-sized enterprises (SMEs) from the Istrian County, Croatia. In particular, this research is aimed at testing the following two hypotheses:

Hypothesis 1: There will be a positive association between the managers’ foreign language skills and a company’s success.

Hypothesis 2: There will be a positive association between the managers’ foreign cultural competencies and a company’s success.

The managers' linguistic and cultural responsiveness, as reflected in their ability to recognize and employ various linguistic and cultural measures by effectively using all the available resources to their advantage, thus creating the most effective individual strategies in alignment to their business's diverse communication needs, was regarded as reflective of their own managerial capability to ensure their company's linguistic and cultural competence in international business settings. In other words, the maximization of managers' foreign language and cultural skills is regarded as a direct result of the implemented language and cultural strategies within a company, helping them overcome linguistic and cultural barriers in their international business efforts, and providing a clear framework for achieving the vital competitive edge from knowledge-based assets.

3 Methodology

This chapter describes the research methodology, comprising the selection of the focus group sample, the research instrument development, and data collection and analysis.

A qualitative research method was applied in this research, with the County of Istria, Croatia determined as target area, and top managers and key personnel of local SMEs as the focus group. The research instrument of this study, employed in field data collection from key informants, included linguistic and cultural management briefings of focus group members, focus group discussion and a modified three-part questionnaire to collect key data. In terms of scale reliability, Cronbach's alpha was used, while the Pearson product-moment correlation coefficient (PPMCC) was used to investigate the correlation between the study variables. In the end, a review of descriptive data analysis was chosen as a means of presenting the research findings.

3.1 Participants

The survey was conducted among top managers and key personnel of small and medium-sized enterprises (SMEs) registered in the County of Istria, Croatia. The initial sample of participants was identified using the Register of Croatian Exporters provided by the Croatian Chamber of Commerce and available online.

The selected participants were then approached and a briefing was conducted among them on the importance of using linguistic and cultural management measures in accordance to their specific business objectives. Through focus group discussion, we were able to precisely determine the criteria for selecting the final sample of participants. In light of this research, we specifically dedicated our attention to those linguistically and culturally responsive SMEs which have adopted certain practices of language and cultural management so as to enhance their business prospects. Secondly, the final sample included those SMEs which have identified their export markets. This criterion was used primarily because such SMEs mostly rely on their export sales proportion as the main source of revenue, and because they pay close attention to export marketing activities in order to manage their international marketing efforts across various export markets. Such SMEs consider foreign language and cultural competencies to be crucial for successfully localising and adapting their products and services for international markets.

In the final sample, the respondents employed in management positions included CEOs or presidents, vice presidents or general managers, financial, marketing and production managers, while key personnel were represented by quality control managers, human resources and recruitment officers, and other professional staff who are in command of the effective use of personnel within their organizations, depending on varying organizational structures.

3.2 Research instrument

The research was initiated by conducting briefings among the study participants on the benefits of using language and cultural management measures, and focus group discussions through which we made sure the studied SMEs adopted such measures in accordance to their business needs and goals. The adopted measures of linguistic and cultural management included tools such as conducting language training and cultural briefings for employees, recruiting local agents for linguistic and cultural issues, employing professional translators and interpreters, creating linguistically and culturally adapted websites, etc. After giving the participants some time to see how the implemented strategies work in practice, we measured the perceived importance of those strategies, as well as their perceived impact on a company's success, in terms of a questionnaire.

For the purposes of the research, a self administered questionnaire was developed based on the language management strategies as identified and described in the PIMLICO (Hagen 2011) and ELAN (Hagen et al. 2006) studies. In the questionnaire containing three sets of questions, the respondents were asked to evaluate the importance and usefulness of the adopted language and cultural management measures, as well as their company's success due to the implemented measures. The perceived importance of the adopted language and cultural management measures within a company was assessed by the respondents using a modified scale comprised of fourteen items identified in the PIMLICO project (Hagen 2011). The variable *company's success* was measured using three items identified in Zahra et al. (1997) and later used by Musteen (2006). Regarding the scales used in the questionnaire, the respondents were asked to express their agreement with a given statement, using a five-point, Likert-type scale (*from 1 = strongly disagree, to 5 = strongly agree*).

The questionnaire items were translated into Croatian before distribution and then back-translated into English in order to ensure accuracy. The questionnaire was completed with no personal identification to ensure anonymity and increase the probability of honest responses. Altogether, 500 questionnaires with a cover letter about the purpose of our research and data confidentiality were sent via e-mail to managerial and key personnel positions of local SMEs. Out of 500 sent e-mails, 26 were returned to our mailbox as being undeliverable. The total number of responses received was 123, yielding a respectable response rate of 24.6%.

3.3 Data analysis

The questionnaire data were processed and analysed using SPSS for Windows (Statistical Package for Social Sciences).

4 Results and discussion

The research results are classified and presented in four groups: 1) the perceived importance of the adopted language management measures for overcoming linguistic barriers (Table 1), 2) the perceived importance of the adopted cultural management measures for overcoming cultural barriers (Table 2), 3) the perceived level of a company's success in relation to the implemented linguistic and cultural measures (Table 3), and 4) descriptive statistics and correlations of the study variables (Table 4) to test the research hypotheses.

4.1 The adopted language management measures for overcoming linguistic barriers

After conducting briefings and focus group discussions among the study participants, and after the studied SMEs' reported a few international sales, we measured the perceived importance of language and cultural management measures which helped them overcome linguistic and cultural barriers while

conducting business in international markets. The values of Cronbach's Alpha associated with the foreign language and cultural management measures indicated high levels of internal consistency, 0.86 and 0.79 respectively.

In the first part of the questionnaire, the participants were asked to assess which language management measures proved to be the most beneficial to their business using a five-point scale. That is, the participants had to determine which language management measures helped them most in overcoming linguistic barriers in international markets. All language management measures scored high, with all mean scores being above 3, and the total mean score was also rather high, 3.82 (see Table 1), meaning that the participants assessed linguistic measures to be rather beneficial in their international business efforts.

Table 1: The extent of the adopted language management measures for overcoming linguistic barriers

The following language management measure helped me overcome linguistic barriers	Mean	Standard deviation
Language training for employees	4,36	0,76
Recruiting local agents for language	3,52	0,92
Encouraging native-speaker recruitment	3,64	0,95
Employing professional translators and interpreters	3,44	1,47
Encouraging cross-border staff mobility	3,56	0,71
Cooperation with local universities (e.g. taking on foreign students on placement)	3,96	0,89
Creating linguistically adapted websites	4,24	0,88
Total	3,82	0,94

In particular, providing language training for employees scored the highest result, with the mean score above average (mean score = 4.36), meaning that the participants assessed this linguistic measure as being the most valuable in overcoming linguistic barriers in their international business operations. Such result proves that domestic businesspeople are aware of the advantage they have once they are able to use the host country's language, rather than using intermediaries such as professional translators. Personnel development is one of the first areas companies are ready to invest in when it comes to shortages of their employees' skills. However, maintaining language training for employees over long periods of time is somewhat difficult, since it often depends on a company's financial cycles – when a business is thriving, money is readily invested in language trainings, but when a company is forced to cut costs, such investment is often considered a luxury to be dismissed (Feely & Harzing 2003). Furthermore, effective language training courses require a lot of time and self-commitment, which is why motivation is often low since learners are conscious that the entire language should be mastered before any signs of improvement (Grzeszczyk 2015). As a solution to this obstacle, Grzeszczyk advocates the introduction of a targeted learning, specifically tailored to meet a company's language needs and designed to reach its established communication requirements, since such approach enables employees to use the acquired knowledge immediately, which in turn influences their motivation to remain high (Grzeszczyk 2015). The measure of language training was followed by creating linguistically adapted websites, with the mean score 4.24, determined by the respondents to be the second most important variable that contributed to their SME's international performance. Developing a website in an appropriate foreign language seems to be a self-evident step and one of the most important marketing tools in preparation for entering a new market and expanding in more established ones. According to the ELAN findings, this is the most common tactic used amongst European SMEs in relation to international communication (Hagen et al. 2006). This measure was, in turn, followed by the idea of strengthening cooperation with local universities, assessed by the

participants to be the third most beneficial linguistic measure that might contribute to proper management of linguistic diversity, with the mean score 3.96. Such result is very interesting because it indicates that the respondents recognized external potentials for ensuring multilingual functionality, other than purely insisting on their staff to be proficient in every language. When it comes to proper management of linguistic diversities, a common technique is to ensure language capability in as much foreign languages as possible (Hagen 2011). Domestic respondents showed in this respect a real sense of how to use all the available resources to their advantage, since ensuring language capability often means cleverly drawing on external people to carry out language tasks, such as using local agents or, in this case, using the local university and taking on foreign placement students to handle language issues in foreign markets, for example under the ERASMUS scheme.

4.2 The adopted cultural management measures for overcoming cultural barriers

In the second part of the questionnaire, the participants were asked to assess which cultural management strategies proved to be the most beneficial in overcoming cultural barriers while conducting business abroad. The total mean score was a bit lower in this case (total mean score = 3.65), but each measure separately scored rather high, with all mean scores being above 3 (see Table 2), meaning that the participants recognized the usefulness of using rather specific cultural management measures so as to overcome cultural gaps they face in international business settings.

Table 2: The extent of the adopted cultural management measures for overcoming cultural barriers

The following cultural management measure helped me overcome cultural barriers	Mean	Standard deviation
Cultural training for employees	3,48	1,12
Recruiting local agents for cultural issues	3,08	0,95
Encouraging native-speaker recruitment	3,84	0,85
Encouraging cross-border staff mobility	3,02	1,41
Cooperation with local universities (e.g. taking on foreign students on placement)	3,56	0,82
Translating promotional and sales material	4,36	0,86
Creating culturally adapted websites	4	1
Total	3,65	1,003

In particular, translating promotional and sales material scored the highest result, above average (mean score = 4.36), meaning that the participants assessed this cultural management measure as being the most important in overcoming cultural barriers while conducting business abroad. Translating and culturally adapting promotional materials seems to be one of the most important tools of international marketing campaigns, helping a company to avoid miscommunication in foreign markets. This particular measure might appear to be somewhat problematic because some companies may consider it an unnecessary piece of expenditure, especially if they already have someone on the staff who can translate text. However, when it comes to translation and localisation, it is important to emphasize that the professional intervention of a skilled translator can be vital to a business, especially in certain areas such as meeting local legal requirements, regulations and customs documentation, tendering for contracts abroad, drawing up contracts and handling documentation, researching and analysing foreign markets, negotiating locally in joint ventures, ensuring customer care and after-sales services, etc. The practice of translating into a language where one is not an educated translator or a native speaker can be very risky and counterproductive. Professional translators tend to translate into their native language, which allows for greater localisation of sales materials or websites. Some companies prefer to use their local agents for these tasks, which can be a good substitute provided their linguistic skills are of a high standard (Hagen 2011). The measure of translating promotional materials was followed

by creating culturally adapted websites as another measure for localizing and adapting products and services for international markets. Creating culturally adapted websites scored the second highest result, with the mean score above average (mean score = 4), meaning that the participants perceived this measure as highly beneficial in international business affairs. It is interesting to note that this result coincides with a rather high score for linguistically adapted websites (mean score = 4.24), determined by the participants to be a vital measure of linguistic management. Such results might indicate that the participants regard linguistic and cultural differences not as problematic, but as enriching and stimulating. Understanding the business mindset of different cultures is an essential requirement of international business, and this applies to how a company expresses and presents itself externally, including how it adapts its website to local norms and whether or not its website has the look and feel of a local supplier. In support of this requirement, we can underline that the vast majority of exemplar companies from the PIMLICO case studies have translated and culturally adapted their websites into six foreign languages and cultures, which, by itself, has significantly increased export sales by up to 25% of total sales (Hagen 2011, 58). Investment in multilingual websites thus proves to be a rather effective measure, with substantial economic benefits. This measure was, in turn, followed by encouraging native-speaker recruitment, assessed by the participants to be the third most valuable measure of cultural management, with the mean score 3.84. Native speakers can play an important role in opening new markets by easily meeting local linguistic and cultural demands. Employing a native speaker or a local agent for his or her linguistic and cultural know-how can generate extra trade and additional business opportunities. As trade volumes increase, so does the need for native speakers and local agents who are adept at handling linguistic and cultural diversities, as well as dealing with the local bureaucracy, paperwork and distribution complexities.

4.3 Company's success due to the implemented linguistic and cultural measures

The third set of questionnaire items measured the participants' reported degrees of their company's success in relation to the implemented linguistic and cultural management measures. The study variable *company's success* was measured using three items identified in Zahra et al. (1997) and later used by Musteen (2006). This measure involved the respondents' degree of agreement with the following three statements: 1) 'our company has been successful in its international activities', 2) 'our company has outperformed its key competitors in international markets', and 3) 'our company has made satisfactory progress in its international activities' (Zahra et al. 1997, Musteen 2006) (Table 3).

Therefore, in the third part of the questionnaire, the participants had to assess their company's international performance in relation to the implemented language and cultural management strategies. That is, using a five-point Likert-type scale, the participants had to assess their company's success due to the implemented measures for overcoming linguistic and cultural barriers they face in international markets.

Table 3: Company's success due to the implemented language and cultural management measures

Variables	Mean	Standard Deviation
Our company has been successful in its international activities	3,7	0,54
Our company has outperformed its key competitors in international markets	3,6	0,54
Our company has made satisfactory progress in its international activities	4,1	0,74
Total	3,8	0,6

The three items used to measure satisfaction with a company's success were given rather high scores, with all mean scores being above 3. The total mean score is again rather high (total mean score = 3.8),

with the third variable – *our company has made satisfactory progress in its international activities* – having the mean score above average (mean score = 4.1). In other words, the respondents evaluated the adopted language and cultural management measures to have contributed to their company’s improved international performance. This means that top managers and key personnel of domestic SMEs recognized the importance of efficient intercultural communication as one of the main factors which enables transfer of information, performance in negotiations and daily activities when participating in international business, and which, consequently, contributes to their companies’ international success.

4.4 Descriptive statistics and correlations of the variables

In the end, after processing and analysing the questionnaire data, the Pearson correlation was used in order to investigate the correlation between the managers’ foreign language skills and a company’s success on the one hand, and on the other, between the managers’ cultural competencies and a company’s success. The purpose of this procedure was to test the study hypotheses. The correlations among the study variables are given in Table 4.

Table 4: Descriptive statistics and correlations of the variables (N=123)

Variables	Company’s success
Foreign language skills	0,645** (0,00)
Cultural competencies	0,085 (0,617)
** Correlation is significant at the 0.01 level (2-tailed)	

The research findings indicate that managers' foreign language skills were significantly correlated with a company’s success. That is, the results revealed statistically significant effect of managers' foreign language knowledge (0,645**). The correlation between managers' cultural competencies and a company’s success was also positive, but did not reach statistical significance (0,085).

The *first hypothesis* predicted that there will be a positive association between the managers’ foreign language skills and a company’s success. The findings of our research provided statistically significant support for the hypothesis that managers' foreign language skills positively affect a company’s success. Thus, top managers and key personnel with high levels of foreign language knowledge appear to lead to their companies’ improved performance and success in international markets. The *second hypothesis* predicted that there will be a positive association between the managers’ foreign cultural competencies and a company’s success. Contrary to our expectations, there is no statistically significant support for the positive effect of managers’ foreign cultural competencies on a company’s success. Interestingly, our results are opposite to those obtained by Tayauova (2012), who proved that foreign market knowledge had statistically significant effect on a company's success, as opposed to foreign language knowledge, which did not show significant correlation to a company's success. Tayauova (2012) argues that such results might be due to the fact that the effect of managers' language proficiency was too small in relation to the overall company's success, or because companies in transition economies such as that of Kazakhstan primarily rely on informal networks with which they share a common language.

The results of our research prove that fluency in foreign languages is significantly correlated with a company's improved international performance, but fail to prove statistically significant effect of cultural competencies on a company’s success. The authors believe there are three main possible reasons for such an outcome. First of all, such results might be due to the fact that domestic managers predominantly work with foreign markets they are already familiar with, and where cultural

differences are not very pronounced. While conducting business in such markets, domestic managers either rely on those networks with which they share common or similar cultural traits, or they are skillful enough to successfully surpass the cultural barriers to their advantage. In addition, if they already possess the linguistic skills to overcome language barriers with clients of a specific culture, this inevitably leads to the decrease in the perceived cultural differences as well. Even learning a few greetings and key phrases alone can have a great effect in this sense, helping to alleviate the tension or insecurity in intercultural communication. Secondly, the Istrian County is traditionally bilingual and even multilingual, which might have contributed to domestic SMEs' linguistic responsiveness and their willingness to early adopt language management measures, recognizing the importance of immediate communication with partners, clients and suppliers abroad. According to Ferraro (2002), proficiency in a second language enables the international businessperson not only to understand the communication patterns within their proper cultural context, but also to increase general rapport and connection with their foreign business counterparts. The acquired language skills can therefore help the international businessperson in overcoming not only linguistic, but cultural barriers as well, which is why the participants might have regarded the measures of cultural management to be less important for their company's international success. Finally, it is important to note that, since language and culture are closely linked together, it is almost impossible not to learn about one while studying the other. In other words, possessing language skills might cause people to believe they are more important than cultural skills, while unknowingly possessing both at the same time. We might argue that fluency in foreign languages which domestic managers already possess to a large extent could have contributed to the simultaneous, parallel acquisition of foreign market knowledge, resulting in better international performance of the studied Istrian SMEs. Nevertheless, further research is needed to understand the nature of this relationship in the context of international business.

Possessing foreign language skills and cultural competencies is a prerequisite for establishing effective communication in international foreign markets, and one of the most important sources of competitive advantage. As Ferraro (2002) said: "If the success of the international businessperson is to be maximized, there is no substitute for an intimate acquaintance with both the language and the culture of those with whom one is conducting business" (Ferraro 2002, 46). The results of our study support the idea that knowing the language of one's foreign partners, clients and suppliers is essential for improving a company's overall international performance, whereas cultural competencies proved not to be crucial in this regard. The authors' position is that language skills and cultural awareness are of indispensable value in international business, and should be recognized and approached strategically by top managers and key personnel if an enterprise is to benefit from knowledge-based assets. We also believe that acquiring the knowledge of a language itself can support the simultaneous acquisition of cultural competencies as well, and help lessen the cultural differences in international business settings. International activities of the local SMEs which participated in this survey, predominantly focused on export, are dependent on frequent contacts with foreign partners, clients and suppliers. We believe that a business should first determine the linguistic requirements it needs to meet if such contacts are to be fruitful. By determining such requirements, a business can invest in precise language management strategies so as to bridge not only the linguistic, but cultural gaps as well, for the benefit of establishing efficient communication and good business relations with international partners. In this sense, the results of our research support the findings of both the ELAN (2006) and PIMLICO (2011) studies, which have confirmed that the implementation of various language management strategies positively affects companies' international performance and improves their international trading positions by successfully forging links and developing strategic partnerships. The authors of the ELAN report suggested that "if a greater number of SMEs were to become successful exporters, and if those currently exporting were to expand their markets, there would be a significant impact on the European economy and there could be considerable additional benefits in terms of greater innovation and market-awareness, which in turn could impact on productivity within national economies" (Hagen et al. 2006, 4-5). Our findings support the idea that SMEs need to be able to access key assets in order

to be successful in international markets. Therefore, in addition to the theoretical and empirical contributions, the findings of our research have important practical implications for entrepreneurs and policy and decision makers, especially in transition economies. SMEs have become important drivers of economic growth in such economies and should therefore be encouraged to expand beyond the relatively small domestic markets. One way of supporting greater internationalisation of SMEs is, first and foremost, helping them overcome linguistic barriers they face upon entering new foreign markets. The authors believe that businesses should be encouraged, through incentives and tax deductions if possible, to apply measures of language management so as to support their specific business needs and goals, as well as the economy at large.

5 Conclusion

The importance of being able to communicate with and adapt to different cultures is increasingly important for successful internationalisation of SMEs. The results of our study are interesting because they provide a valuable insight into the impact of linguistic and cultural management on international business performance. In this respect, we advocate the position that increased foreign language knowledge inevitably leads to the parallel acquisition of foreign market knowledge, blurring the line between the two and supporting a company's business prospects in international business exchange. Through a better understanding of the specific communication demands in international business settings, we can modify objectives and update policies so as to support the development of skills and competencies crucial for successful interactions in various business contexts. As a conclusion, the authors would suggest that it is crucial for domestic SMEs that they adopt strategies for dealing with linguistic barriers upon entering new foreign markets, as this will inevitably lead to reduction in cultural diversities as well, and help domestic companies in achieving competitive advantage and improved international performance.

Limitations of the study

Though the results of this research are interesting, it is hard to place them in relation to those of other cross-cultural and communication studies in the context of international business. We advocate larger samples across various countries as this would allow researchers to interpret the results in terms of the wider area of cross-cultural and language management within international business research. Another limitation of this study is a rather small sample, limited locally to the County of Istria, Croatia. We advocate more representative samples on national and international levels for further research. In addition, the interconnectedness between the acquired language knowledge and cultural knowledge in the context of international business remains to be questioned and studied further so as to provide a more clear view of the relationship.

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