

## ***HOW THE LOCAL CULTURAL ISSUES ARE AFFECTING THE RETAIL INTERNATIONAL COMPANIES' COMPETITIVE ADVANTAGE?***

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*Abstract: The competitive advantage is usually measured by the advantages and the strengths of an organization against other competitors given by superior resources and capabilities. But, on the international market, what is competitive advantage in a country may be a disadvantage in other country. Furthermore, the main causes of the lack of the competitive advantage capitalization may be due to different ways of competition, different needs of the consumers and beneficiaries or differences in culture. However, the national or regional cultural differences are representing a barrier that hardly may be removed at the global scale, being encouraged by social, cultural and demographic aspects of a geographical region. This paper analyses how some cultural issues are affecting the retail international organizations' competitive advantage by consumers' cultural values in Romania. The research is based on the web data gathering, own observations and dialogues with consumers and companies' local managers.*

**Key words:** *competitive advantage, cultural issues, management, strategy, international retail companies*

### **1. Introduction**

The retailing concept is usually associated by the consumers with shopping. Persons are going shopping for satisfying their needs - to buy food, consumables, long life goods or others products - or for pleasure - to spend the free time looking, searching, comparing and getting knowledge for future acquisitions. Firstly, the internationalization and globalization processes and secondly, the ITC technology's development, have contributed to the spreading of the retailing companies worldwide. As a consequence, the competition is growing up and the retail companies need to consolidate their competitive advantage, based on their resources and capabilities and considering the specificity of the host country's market, because on the international market, what is competitive advantage in a country may be a disadvantage in other country. Therefore, the consumer's perception of choosing the retailer depends in a great amount of the national or geographical cultural characteristics and the general social, economical and political context.

In this respect, the cultural differences between the company's country of origin and the host country may produce barriers that hardly may be removed at the global scale, being encouraged by social aspects, organizational cultural and contextual aspects of a geographical region.

The present work's aim is focused on a brief analyse of different opinions about the role of culture in building and sustaining the international companies competitive advantages. It also, is presenting the outcomes of the analysis of some of the cultural issues that are influencing the international retailers' competitive advantages in Romania, as a case study.

The research is based on the web data gathering, own observations and private dialogues with consumers and companies' local managers, using logical methods, such as induction, deduction and analysis.

## 2. Literature background

### *The importance of culture in organizations' strategy*

The culture is defined as being “the sum total of learned beliefs, values and customs that serve to direct the customer behaviour of members of a particular society” (Schiffman and Kanuk, 1994, p.409). Also, the culture is defined as “the sum of the values, rituals, symbols, beliefs, and thought process that are learned, shared by a group of people, and transmitted to generations to generations” (Abdin, 2008, p 6). In other words, the “cultural values provide preferences or priorities for one's behaviour over another” (Ghemawat, & Reiche, 2011, p. 2).

In order to get long term success, the companies' management need to consider the culture as being “completely within the capability of the business to control and shape, yet often is ignored, with leaders instead focusing on short-term activities like cost-cutting and inadvertently choosing to create an environment where long-term strategic success is less likely” (Culey, 2012). Nevertheless, “the organizations that create a culture defined by meaningful work, deep employee engagement, job and organizational fit, and strong leadership are outperforming their peers and will likely beat their competition in attracting top talent” and thus, “an organization's culture can become a key competitive advantage—or its Achilles' heel” (Brown et al, 2015). It is stressed that “the only thing that competitors can't duplicate is culture. In sustainable, championship cultures, behaviours (the way we do things here) are inextricably linked to relationships, informed by attitudes, built on a rock-solid base of values, and completely appropriate for the environment in which the organization chooses to operate. It's the context that makes it so hard to duplicate a championship culture. Because every organization's environment is different, matching someone else's behaviours, relationships, attitudes, and values will not produce the same culture” (Bradt, 2012).

Plenty of studies have been done and published based on Hofstede's four dimensions of the world's culture differences (Hofstede, 1984), i.e. the power distance, the uncertainty avoidance, the masculinity and individuality, analyzing them in different circumstances (Kundu, 2001; Aggarwal, 2009; He & Liu, 2010; Tian, & Borges, 2011; Ghemawat & Reiche, 2011, Albu, 2013).

Ghemawat, P. & Reiche, S. (2011, p.8) have underlines the main implications for foreign business in a host country:

- Participative management can improve profitability in low power distance cultures but worsen it in high power distance cultures
- Quick fixes can improve profitability in more short-term oriented cultures but worsen it in more long-term oriented cultures
- Merit-based pay and promotion policies can improve profitability in more masculine cultures and reduce it in more feminine cultures
- Emphasizing individual contributions can improve profitability in more individualistic cultures and worsen it in more collectivistic cultures.

Panda (2010) has underlined that “each individual has his/her own identity, perception, values, attitudes, work-style, personality, beliefs and set of norms which are different from others” and the “adaptability, flexibility and pro/reaction to environmental, social and more specifically to customers choice can be effectively managed by designing and implementing suitable HR strategies based on cross-cultural dimensions”, because the “capable employees who create conditions for differentiation from competitors become a key resource for organizations” (Hana, 2013).

### ***International companies and culture***

Hill (2004, p.7) highlighted that globalization has several facets, including the globalization of markets and globalization of production in the international business. But, Guillén (2006, p.2) stressed that “the globalization of markets refers to the merging of historically distinct and separate national markets into one huge global market. On the other hand, the globalization of production refers to the sourcing of goods and services from locations around the globe to take advantage of national differences in cost and quality factors of production (such as labour, energy, raw materials, land, and capital). Managing a multinational enterprise requires a different set of conceptual tools than in the case of purely domestic firms”.

It is said that the process of globalization ‘leads to the increasing integration of the production of goods, services, ideas, culture, communication, and environmental pollution on a world-wide scale, imparting locality of populations and labour’ (Yücel & Dagdelen, 2010, p.62). Tian & Borges (2011, p. 110) consider that “if globalization is an inevitable process, then cross-culturalization will also be inevitable”. But, “an important component of management strategy refers to specific intercultural communication in the global environment that may be affected by a number of barriers such as the following (Albu, 2013, p. 255):

- Misunderstanding the language of communication, leading to inability correct interpretation of the message;
- Culture shock, or the inability to understand or to accept people with values, norms and different lifestyles;
- Ethnocentrism, belief in the absolute superiority of their culture;
- No opening date for the adoption of a rigid and formal attitude that impedes the free exchange of views”.

Tian & Borges (2011) emphasised that in marketing communication conducted cross-culturally often arise when participants from one culture are unable to understand culturally determined differences in communication practices, traditions, and thought-processing in another cultural context” It is no doubt that “the ability of marketers and consumers to communicate cross-culturally is critical for success. The marketing communication is a two-way interactive communication. The marketers deliver information to the market they gather, collecting, interpreting, and putting this information to use. Failure to do so may lead to a loss of business” (Tian & Borges, 2011, p.111).

He & Liu (2010, p.18), analyzing the culture specificity in China and Sweden, consider that “the barriers of cross cultural communication in multinational firms come from the aspects blow: lack of mutual understanding; differences in emotional distance toward

headquarter -subordinate relationship; different expectations on managers; different abilities on dealing with accidents; language difference and geography distance and different purpose on working”. Anyway, “growing international activity involves new requirements for those participating in cross-cultural activities. They have to deal with issues such as the interpretation of the actions and attitudes of individuals or organizations that operate in a context different from that to which they were accustomed” (Albu, 2013, p. 254). But, the “multinational enterprise strategy management design needs to accommodate the cultural variances that exist around the world to provide a more homogenous solution and response. This in turn will benefit corporations and lead to the goals of creating culture synergy, building corporate culture, and transferring management between cultures” (Ying-Chang et al, 2011, p.75).

### ***Competitive advantage and culture***

Marr (2013) is provided the idea that “the competitive advantage is often confused with pricing, cost, and return on investment, margins, innovation, sustainability, brand and reputation. In other words, businesses tend to call anything they consider good to be a competitive advantage. There are 6 sources of competitive advantage: people, organizational culture and structure, processes and practices, products and intellectual property, capital and natural resources and technology”. But, “the international business offers the possibility of exploiting three sources of the competitive advantage, unavailable for the national companies: global efficiencies, the multinational flexibility and worldwide learning process” (Lovas & Ghoshal, 2000, pp. 875-896, cited in Diaconu, 2012, p.142). “The competitive signals, if they are transmitted, are hardly detected when firms have to confront with different kinds of consumption models from various markets” (Leechor et al., 1983). “Adopting the global strategy, the firm approaches the world as a single market, the main scope being the development of standardized goods and services that answer the needs of the worldwide consumers” (Diaconu, 2012, p. 144). Instead, Ghoshal (1987, pp. 425-440) identified “three strategic objectives into any global strategy (efficiency in current operations, risk management and learning and innovation) and also three main aspects of the competitive advantages (scale economy, equilibrium in flexibility and costs reduction), involved by the global strategy”.

It is considered that “the main issues that are supporting the competitive advantage are the attitude and the relationship with the customers” (Bradt, 2012). The author is underlining that the attitude referring to the cultural issues (innovation, discipline, perseverance or flexibility) are important in the company’s success and avoid failure (such as IBM or Hewlett-Packard) and is depending on the type of activity (design, produce, deliver or support) and the posture of the strategy a company is applying (proactive, reactive or combination between proactive and reactive). Anyway, the cultural components are important in the competitive advantage and performance sustaining (Dell’era, 2010; Madu, 2011).

### 3. Analysis, outcomes and comments

#### *The stages of the Romanian consumers' preferences*

Many scholars are stressing that the main barriers to enter a foreign market are the cultural issues like language, religion and behaviour, usually referring to the emerging markets. If we think about the multinational companies that have entered the Romanian market, we may see that most of them have adopted a transnational strategy, trying to benefit not only from the global efficiencies but also from the local advantages (Diaconu, 2012, p.149).

In Romania, the cultural barriers encountered changing in time specific cultural components.

Before 1990, when Romania has had a state monopoly market, the consumers had not many opportunities of choosing the goods and commodities, excepting the domestic offers. Therefore, its borders opening after 1990, when the process of transition towards the market economy has been officially declared, has contributed to the influx of foreign goods on the Romanian market and nevertheless, to the people's curiosity' satisfaction of comparing the foreign goods with the domestic ones.

The first supermarkets entered in Romania in 1995-1996 (Mega Image and Metro), followed by Billa in 1999. The food goods very attractive packed and a variety of non-food products have raised the consumers' curiosity for buying them. Then, other over 2000 stores belonging to the parent companies located in Germany, France, Belgium, Holland, Austria, Hungary and other countries have been opened in new hypermarkets, cash & carry, discount supermarkets, convenience stores, fashion stores, consumer electronics stores and furniture and "do it yourself" warehouse. "When a firm wants to invest in a foreign market as a wholly owned subsidiary, the firm will prefer a new establishment of business instead of acquiring an existing local firm to gain full controls of its business and minimize any uncertainty from the acquired local firm (Lee et al, p.5).

In the last 25 year the consumers' behaviour has changed considerably. It could be considered four stages in the development of people's preferences, as in the figure 1.

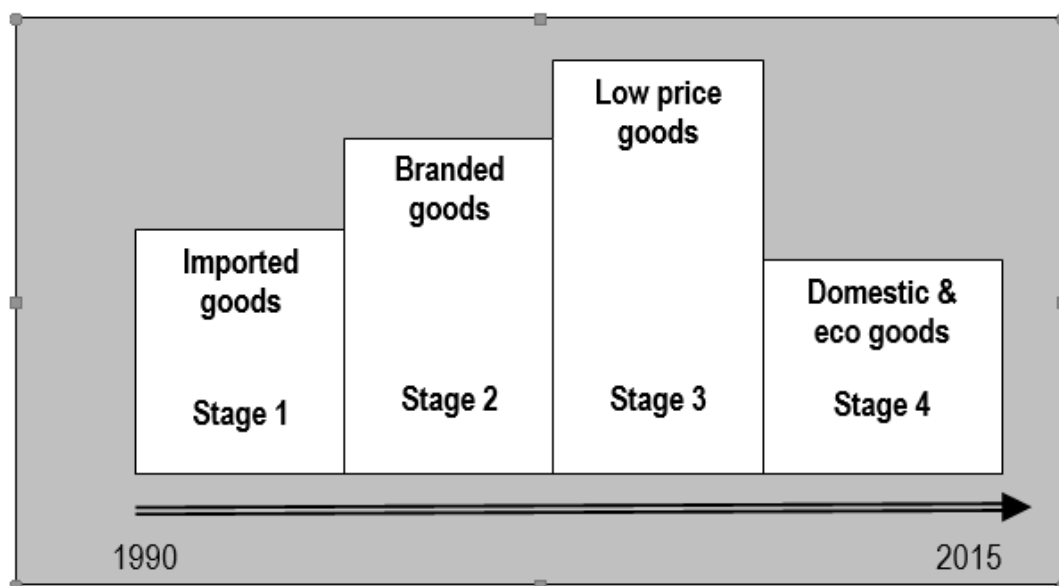


Figure 1 Consumers' preferences

- **The first stage** is characterized by the increasing consumers' preferences for imported goods. Everything has been imported seemed to have better quality than the domestic ones, or even waked up the curiosity to be tasted and compared.
- In **the second stage**, due in part of the aggressive advertising, and on the other part of the learning and differentiating goods by their brands, consumers have split their preferences according to the brand names.
- In **the third stage**, the consumers started to look for low prices. This behaviour is probably related to the decreasing in their wages and revenues when the world financial crises have been extended Romania.
- **The fourth stage** of the last years is characterized by the consumers' orientation towards domestic goods, especially for food. The sustainable development knowledge acquired in the last years determined the preference for eco-food (avoiding pesticides and other chemicals), even the prices are higher, because the green purchasing is considered as being the contribution to the eco-efficiency (Negulescu, 2014). The preference for the soft goods or consumables (such as cosmetics, house hold utensils, fabrics, cloths, washing powders and others) depends on the individual's budget, so that according to the wellbeing level, generally the cheaper goods are bought. The preference for long term non-food goods is still towards the brand names because they are reflecting better quality and reliability, higher technology and better service after sales.

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#### ***The characteristics of the Romanian cultural issues***

The main characteristics of the Romanian organizational culture spread out among individuals that the foreign companies found when entered the market could be analysed from two points of view: the Hofstede's framework of the culture (1984) and the main three dimensions of the culture.

#### 1. Aspects according to the Hofstede's framework for assessing culture:

- Middle towards low power distance given by the expected democratic relationship, but the lack of constant communication;
- A low uncertainty avoidance, characterized by the multi-tasks orientation and the focus for creativity and innovation;
- Confused defined individual responsibility, but acting more according with the individualism than to the collectivism;
- A balanced masculinity-feminity characteristic, given by: the money gaining scope, a sort of individual competition, differences in man and women jobs opportunities but the desire for equality; besides it could be observed a confused defined perception for the quality of work and performance, overstaffing and the feeling of self-sufficiency and some degree of attraction for conflict.

#### 2. The dimensions regarding the main elements of the culture: believes, values and customs

- **Believes** (easy to be changed): The Romanian beliefs are related to the knowledge acquired by education in the families, schools and organizations. The basic tendency is characterized by: the facile learning of the foreign languages, the inclination towards innovation and the latest tech things, and the openness for assimilating new habits.



Therefore, the tendency for buying, for example, the best authors' books or new products advertised on TV or Web sites are increasing.

- **Values** (hardly to be changed): The Romanian values in terms of behaviour are related to the local mentality and the conventional Christian religion norms, such as: fasting, especially before Christmas and Easter; special meals and presents on the feast days (religion, birthday, marriage, child birth and so on). It is also related to the principle of buying „rarely but the best possible quality and reliability” long life goods and the contrary, the cheapest consumables.
- **Customs** (mostly difficult to be changed): the tradition of choosing some food goods or consumables is strongly related to the habits, tastes, and the ways of processing and the sources/locations of the production. That's why, for example, the taste of specific aromatic plants or the provenience of different sorts of cheese are so important that they could not be replaced.

The positive evolution of the transition process towards the market economy, the privatization, the liberalization of the prices and tariffs, the new fiscal regulations and the Romania's acceptance in the European Union in 2007 are the main factors that contributed to continuing changing in the Romanian cultural beliefs and habits.

### ***The retail international companies' competitive advantages building***

The Romanian cultural proximity to the Western values represents a great advantage for international retail companies (IRC) having the country of origin in Europe or America, while some barriers are encountered by companies located in Asian developed or emerging countries, due to the cultural differences.

The specific Romanian cultural issues briefly presented above could substantiate the international retailers' strategies of building and sustaining the competitive advantages on the Romanian host market.

Generally, the successful strategies should be differentiated in the process of competitive advantages setting based on the specific elements of culture (figure 2).

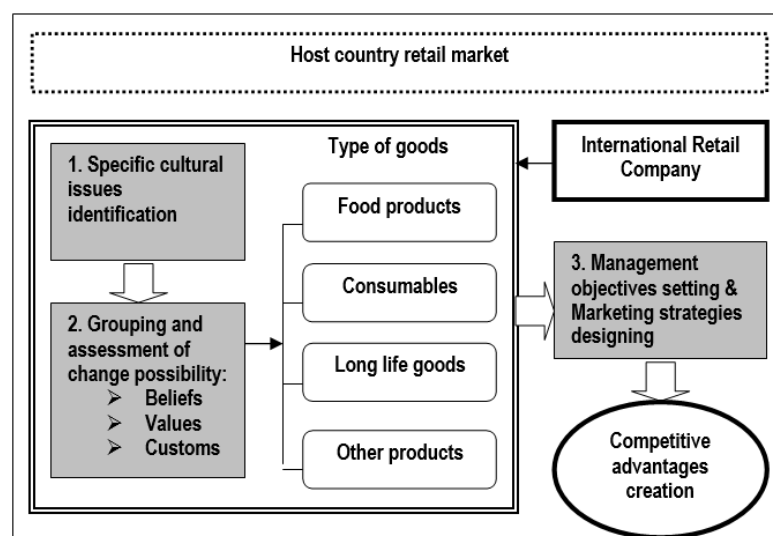


Figure 2 The process of IRC competitive advantages creation based on specific cultural issues

The process implies 3 main steps that are leading to the competitive advantages creation, maintenance or development, based on the differentiation and/or cost reduction and considering all specific cultural issues:

- Step 1: the identification of the specific cultural issues that influences the IRC management objectives and strategies;
- Step 2: the grouping and assessment of the changing possibility of the cultural elements (beliefs, values and customs) according to the type of products/goods;
- Step 3: the management objectives setting and strategies designing according to the specific cultural issues.

The analysis briefly presented above is supporting the following twelve directions of action for successful strategies design:

1. Keep pace with the conventional traditions regarding fasting and special meals on different feast days when offering food products.
2. Offer real discounts for consumables.
3. Offer the best ratio between quality and reliability against prices for the long life goods, as well as longer term guarantee period.
4. Keep encouraging the staff to be nice with the buyers.
5. Induce confidence and trust in the customers' minds by introducing the fidelity cards with discounts and maintenance facilities.
6. Develop the friendship with the buyers by offering presents with different special occasions.
7. Be aware at the time of the day and the days the consumers are free for shopping to ensure the goods diversity and enough staff providing.
8. Offer gradually and carefully samples of other world cultures, as well as their stories.
9. Communicate with the consumers and be aware of advertising methods, messages, symbols and images: use very short TV advertising spots, based on images and very few words; avoid discourses and singing words and better use the booklets and Web messages with goods/products images and prices to help buyers to compare and decide.
10. Avoid too much or aggressive advertising because people will act contrary, considering the goods as being not attractive.
11. Be flexible and fair in responding anytime to the consumers' desires, avoiding any disappointment (such as advertising a specific product which is not present in the store) or conflict (for example, based on the difference between the advertised or offered product and the buyer's expectation).
12. Purchase most of the goods, especially food products, from the domestic suppliers to contribute to the host country value added and satisfying the local consumers.

These directions of action represent an advice to be considered when an international retail company enter or develop competitive advantages.



#### 4. Conclusions

Cultural issues are sustaining or putting barriers to the competitive advantages creation or development. The role of the cultural issues in the international companies is underlined by many authors and the literature is sustaining this statement.

The evolution of the Romanian consumers' preferences has evoked new cultural elements and in the same time other elements are strongly persistent and probably would never change, so that the consequences could be seen in the consumers' behaviour.

The Romanian preferences have changed during the last 25 years, considering four stages of development: (1) based on imported goods, (2) based on brands, (3) based on lower prices and (4) the last stage, which is in progress, based on national and ecological products.

The special characteristics of the Romanian culture could occur to ten advices for the foreign international retail companies that are to support their strategies to gain or sustain their competitive advantages.

The proposed directions of action could be used as a support for the competitive advantages strategy's design of any international retailer for any host country, if appropriate.

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