



DO SOCIO-CULTURAL FACTORS AFFECT THE PERFORMANCE OF INTERNATIONAL BUSINESSES? – IN THE PERSPECTIVE OF LITERATURE REVIEW

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Abstract:

With the rapid development of technology, different businesses, in addition to operating in their country of origin, now have much easier to establish this activity in different countries. Certainly, there are many external and internal factors that affect the performance of businesses and we, in this paper are focused on socio-cultural factors that affect the performance of the international business in terms of literature review. From the review of various literatures, we have come to the conclusion that the key factors that affect the performance of an international business are: 1) *Culture*; 2) *Language*; 3) *Level of education*, 4) *Customer preferences*. Socio-cultural aspects are one of the most important environmental factors that have a considerable impact on international business economic activity and performance. Furthermore, managers of foreign subsidiaries have no control over socio-cultural issues. The goal of this research is to explain how certain socio-cultural aspects influence the performance of overseas subsidiaries. The contribution of the article is shown in the determination of essential socio-cultural characteristics that international business considers in order to evaluate the actual performance of foreign subsidiaries and their management, based on the acquired results.

JEL: L20; L23

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1. Introduction

International business is the process of doing business across the country on a global scale. It focuses on the globe's resources and the organization's objectives in the business

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including global trade in goods/services outside the borders of a country otherwise known as Global Business. The best example of international businesses are transactions on various e-commerce websites such as E-bay, Amazon or AliExpress, but we also have businesses that physically exist by offering their services directly to the clientele. Of course, with the development of technology and the world of the Internet, international trade/service has become easier, being closer to the rest of the continent.

From various reviews of the literature for different periods of time, we have come to the conclusion that the key factors in terms of socio-culture that affect the performance and business in their operations in various international markets are: Culture, Language, Level of Education and Customer Preferences. This statement has been supported by authors such as A. Masovic (2018), Trehan and Trehan (2009), Drury (2012), Dlabay and Scott (2011), Vasudeva (2007), Hargie (2011), Parboteeah and Cullen (2017), Aswathappa (2010), Frynas and Mellahi (2015), etc.

International business is doing business across borders, that is, moving goods that a businessman wants to trade to another country with the sole purpose of making a profit. Thus, it creates new markets in foreign countries and by expanding the business brings with it new challenges. It is challenging because it involves the people, the government and its laws and policies, the country's economy as well as the infrastructure and business and has to adapt to a new reality. In the last three decades, international business (IB) has been a special field of study but still, there is no exact theory of its definition as a discipline. Various theories related to international business, such as:

- David Ricardo's theory of comparative advantage,
- Raymond Vernon's product life cycle,
- John Dunning's eclectic theory.

All of these theories are essentially business explanations between firms or domestic regions, as well as international firms. Above all, the theory of comparative advantage says: "*Comparative advantage theory is an economic term that refers to the ability of an economy to produce goods and services at a lower cost than that of trading partners*". It is a fundamental principle in the theory of international comparative advantage gives a company the ability to sell goods and services at a lower price than its competitors and gain higher sales margins. Empirical studies have distinguished international business strategies and operations from domestic ones, but they have not resulted in an international theory of international business conduct. Given the importance of international operations and the challenges they face when operating outside their country, then the focus of this paper is on socio-cultural factors that affect the performance of businesses in different countries of the world, in terms of literature review by different authors.

The paper is structured as follows: Part I: Presentation of the problem, Part II: Literature review, Part III: Conclusions and recommendations.

2. Literature Review

Considering the importance of the socio-cultural factor in the performance of the business and in this regard, they have published various works and many authors such as the part of the **culture** as the first factor we have: (Ball & McCulloch, 1999), (Woods, 1995), (Hofstede, 1983), (Harris & Moran, 1996), (Griffin and Pustay 1999), Kuazaqui (1999), Huntington (2010), Bhagwati (2004), (Friedman, 2005), (Chan et al., 2006), (Ferrell et al. 2010). Authors for **language**: (Hargie, 2011), (Fatehi, 2008), Piekari et al. (2014), (Berthoud et al. 2015), (Brannen et al. 2014, p. 497; Brannen and Doz, 2012), Tener et al. (2017). Authors for **level of education**: (Aswathappa, 2010), (Agiomirgianakis et al., 2002; Psacharopoulos and Patrinos, 2004). Switzer and Huang (2007), Bollen et al., (2005), Youndt et al. (2004), Klarin et al. (2021). And authors for **customer preferences**: (Schall, 2003), (Victorino et al, 2005), (e.g., Chuang and Yen, 2007; Dmitrovic and Vida, 2007).

2.1 Cultural Factor

Living today and doing business is represented by an intense movement of people, goods and services. In this context, the cultural dimension is very important and a factor in the performance and strategic component in international businesses. Of course, in order to survive the competition, these businesses require companies, contacts, travel and meetings between potential buyers, sellers and partners interested in developing trade relations, negotiations and alliances for business success. In these activities, problems of a culture affect the development of negotiations. Culture is something invisible and maybe many managers when they go out of bounds pay attention to it because in addition to knowing you have to adapt to them. And this is a requirement of success for any business operating in a globalized economy.

During the research each researcher in relation to the phenomenon he / she is researching asks himself / herself what is culture and what is its impact on the performance of a business?

In today's globalized society, an increasing number of international businesses are confronted with numerous obstacles. Cultural factors are one of the most common and difficult barriers to be overcome by anyone doing business in an international arena. One view raised by critics of globalization is the fact that this process would create world models and consequently destroy some of the local culture. There is no unanimous definition of culture. Many authors present different concepts of culture. Hofstede (1984) defines culture as a collective programming of minds that distinguishes members of one human group from another. Griffin and Pustay (1999) define culture as a set of values, beliefs, behaviors, habits and attitudes that define societies and how doing business in different parts of the world is very challenging. Kuazaqui (1999) argued that culture is a collection of behaviors, beliefs, customs, and symbols that are passed down from generation to generation. As we examine these concepts, one perceives that culture is something impregnated in social groups with a very important role in determining the identity of a group of people or place. For this reason, it is important to understand it, so

as not to become a hindrance to business in other countries. All countries in the world have a culture that distinguishes them from others. Consequently, there is a specific culture in each region or country that makes each of them different, while several factors are considered. In this sense, Huntington (2011) emphasizes that people identify themselves in cultural groups, such as tribes, ethnic groups, religious communities, nations, and, to a greater degree, civilizations. While (Friedman, 2005) the importance of culture on the international stage is so great that it is increasingly influencing the relations between international actors. For Huntington (2011), since the end of the Cold War, international politics has been reshaped by cultural forces.

2.2 Language Factor

International business faces numerous obstacles due to the multiplicity of languages spoken in various overseas nations. Although there is a growing acceptance of English as a worldwide business language, firms are aware that it is met with criticism by locals in many of the countries where they do business.

Language's nonverbal components obstruct corporate communication much more. Due to the diverse meanings of its aspects in different nations, such as eye contact, facial expressions, gestures and tone, loudness, speaking tempo, etc. nonverbal communication presents issues for international business (Hargie, 2011). The performance of overseas subsidiaries and their managers is impacted by a lack of understanding of the local language. Language barriers can be mitigated by hiring expatriates or nationals who are fluent in the parent company's language and corporate culture to high management positions in the local subsidiary. Declaring that language pervades every aspect of worldwide business would be met with little resistance, especially among those involved in global business of any kind. Piekkari et al. (2014) noted, highlighting the theoretical and practical relevance of language in international business. Beyond top management's common but simplistic understanding that a specific national a language (mostly English) must always be used, scholars have begun to recognize the challenges of common corporate languages, which "*often represent the industry scope and the national language environment in the country of origin*" (Berthoud et al. (2015), Brannen et al. (2014), Brannen and Doz, (2012)). The third component of language that is commonly explored in business is English's role.

2.3 Level of Education Factor

Education has a significant impact on a population's lifestyle, way of thinking, and attitude toward work in any country around the world. The educational level differs per country. The quality of education, on the other hand, is rising in many countries. The level of education and literacy of a country's population are measures of the quality of its potential workforce. Any nation's economic capacity and progress are determined by its population's level of education. Education, on the other hand, has a significant impact on global trade (Aswathappa, 2010). Recent empirical investigations have confirmed the existence of a link between education and corporate performance. Workers with

specialist skills and know-how are more effective at more difficult tasks. These individuals have unique skills, such as dialogue and decision-making abilities, problem-solving abilities, and the ability to adapt to a constantly changing environment (Agiomirgianakis et al., (2002), Psacharopoulos and Patrinos, (2004)). According with Switzer and Huang (2007), direct links to the characteristics of human capital management directly affect the performance of international business. Bollen et al., (2005), on the other hand, argue that the link between human capital and corporate success is more nuanced and varies by industry, depending on the level of competition. In industries with high levels of competition, the strongest correlations between human capital and business performance can be seen.

Moreover, it is now widely accepted in the available literature that human capital can be better even especially in terms of the ability to generate a competitive advantage. Using information from 208 organizations, Youndt et al. (2004) discovered that human capital investments are much more productive than other forms of capital and has an impact on the performance of entities operating abroad.

2.4 Customer Preference Factor

"Consumer preference" is a marketing expression that refers to a consumer's preference for one product over another. For example, a trend may imply that people prefer to pay for things with debit cards rather than credit cards. Important Consumer Preference Theory Terminologies: The additional satisfaction gained from the use of an additional unit of an item or service is referred to as *marginal utility*. It is defined as the increase in total utility brought about by the use of one extra unit of a specific commodity. *Total utility* refers to the total amount of emotional satisfaction gained from the consumption of a specific amount of an item. As a result, total utility is equal to the sum of all marginal utilities derived from the consumption of each successive unit of a given item.

In both development and product, a poor understanding of client preferences leads to issues (Schall, 2003). According to research, the most successful IBs are those who have thoroughly anticipated guests' wants and are aware of client preferences, allowing them to tailor their service plan to meet the needs of their target market (Victorino et al, 2005). This perspective is compatible with a lengthy history of study on consumer preferences and "*country of origin*" impacts e.g., Chuang and Yen, (2007), Dmitrovic and Vida, (2007).

3. Conclusion and Recommendations

Socio-cultural factors cover a people's way of thinking and reasoning, as well as their life philosophy and styles. As a result, it is critical to do research on the impact of culture on businesses since, if done more frequently, knowledge will be built and relationships will be fostered that will be substantial investments in the future. This research paper explores the impacts of culture on international business, on the other hand, examines several components of culture in an attempt to explain how different civilizations interact and

behave while conducting business, demonstrating the power and depth of socio-cultural factors.

3.1 About Culture Factor

The study's major finding supports the notion that cultural differences in today's global economy can have a considerable impact on international commerce. Those operating on the international market should diagnose the culture of the country with which they will enter into business relationships in order to eliminate or at least minimize the cultural factor of entrepreneurs then, recommended develop strategies in different markets based on the diagnosis made.

3.2 About Language Factor

One of the challenges of many businesses operating in different parts of the world is language as a factor in communication with the inhabitants of those countries. For this amount international business pay special attention to language as a factor of socio-cultural importance. From the literature reviews related to this research that the linguistic aspect is in progress over the years especially in the last decade. But, on the other hand, our review also reveals that we have serious knowledge gaps in theory, variety, methodology and content.

3.3 About Education Factor

Education is one of the most important points of performance of a business in international markets. Strong human capital makes an international firm safe in the market but also competitive with other businesses. Therefore, from the literature reviews we have come to the conclusion that investing in human capital will have "feedback" positive on the enterprise.

3.4 About Customer Preference Factor

Customers' likes and dislikes can only be understood if you pay attention to them. To engage in all of the aforementioned activities only to comprehend clients may appear to be a difficult task. Recommended to begin with, you will considerably boost your company's image. Second, you'll see a lot of return business and even referrals. Customers' opinions are really important. Because most individuals rely on their friends, families, and coworkers to tell them about the greatest products and service providers. As a result, a single unpleasant client experience can turn away a large number of potential customers. As a result, it's critical that a company spends as much time as possible learning about its customers' preferences.

Conflict of Interest Statement

The authors declare no conflicts of interests.

About the Author

The author (Kosovare Mustafa Sadiku) is PhD candidate at the University of Tetovo in the Republic of North Macedonia. His field of study is Marketing.

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