Foreign Market Entry Strategies in the North-Adriatic Area: The Role of Cultural Distance

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ABSTRACT

The consolidation of economic and political relations in the North-Adriatic area and their formalization encouraged by the new institutional structures of Euro-regions are phenomena of central relevance to the actual European economic environment. These conditions have a significant influence on the strategic choices of local firms. In spite of the geographical proximity between Italy, Austria, Slovenia, and Croatia, cultural differences still act as important determinants in leading foreign investment strategies. The current study aims at analyzing the role played by cultural distance between the examined countries in affecting entry mode strategies followed by companies of the Italian region of Friuli-Venezia Giulia. In particular, the analysis suggests that a larger cultural distance, together with specific market characteristics, may force companies to choose entry forms with a lower degree of control, while specific firm characteristics may have an opposite impact on the internationalization strategies.

Keywords: Cultural Distance, Entry Mode Choice, North-Adriatic Area, Perceived Risk, Structural Equation Modeling

CULTURE MATTERS

Companies around the world are part of an increasingly complex and competitive environment. New pressures have gradually transformed the global competitive landscape, requiring changes in the international strategic approaches. Each company has to manage the opportunities and challenges of international markets under the pressure of regionalization and globalization processes. Nonetheless, only few players have achieved significant results, thriving in the international competitive arena. Most of them have been merely surviving, struggling to adapt to a complex and contradictory demand (Bartlett & Ghoshal, 1998).

The globalization process has failed to comply with the convictions of those who see in this socio-economic phenomenon the basis of setting up a cultural “melting pot” (Keisei Tanahashi, 2010). Even if the Westernized approach has spread worldwide and the globalized metropolis seem to be similar for architecture and ways of living, cultural differences remain beyond this façade. The echoes of these issues have quickly reached the economic environment, exacerbating the difficulties of the operators in managing intercultural relations and

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forcing them to integrate their strategies with cultural sensitivity and competence (Routamaa, Hautala, & Tsutuzuki, 2010; Almutairi, 2008). However, culture should not be considered as a mere shortcut to address these issues. It is a fundamental determinant able to promote the awareness and knowledge needed to pursue the path of international success.

The significance of cultural aspects and their influence on the strategic choices of firms also affect the countries and regions of the North-Adriatic basin (Zagorsek, Jaklic, & Stough, 2004; Tavakoli, Keenan, & Cranjak-Karanovic 2003; Morosini, Shane, & Singh, 1998). In spite of the geographical proximity between Italy, Austria, Slovenia and Croatia and their gradual economic integration, cultural differences still have an impact on investment decisions. The knowledge of the main cultural factors is a precondition to support international businesses towards development paths based on a better comprehension of the motivations that drive local consumers and human capital as well as the characteristics of the relations with the stakeholders (Froese & Peltokorpi, 2011; Lopez-Duarte & Vidal-Suarez, 2010).

Nonetheless, most part of previous analysis has not investigated the impact of cultural distance in influencing foreign market entry strategies with reference to the North-Adriatic area. The study aims at providing an additional perspective to the existing body of knowledge, by testing the relevance of cultural elements in affecting entry mode choices in the examined area. In addition, the study suggests an interpretation of the cultural distance construct based on the contextualization of the analysis. Several scholars (Gatignon & Anderson, 1988; Kogut & Singh, 1988; Hennart & Larimo, 1998; Brouthers, 2002) stressed that a greater level of cultural distance can be associated to entry strategies characterized by a lower degree of control, in order to better monitor foreign activities through a centralized decision-making process and to reduce communication costs and opportunistic behaviors. By testing the role of cultural distance in a specific context, the study argues that the cultural distance construct is characterized by a strong degree of contextualization. As stated by Brouthers and Brouthers (2001), previous scholarship linking cultural distance and entry strategies provides contradictory results related to important cultural factors that may influence strategic decisions from home country, host country and cultural distance perspectives. Therefore, it is believed that cultural distance may have different meanings and influences depending on the countries, markets and cultures involved.

This study aims at suggesting a study model in order to investigate the role played by cultural distance between Italy and other countries of the North-Adriatic area (Austria, Slovenia, and Croatia) in influencing market entry strategies and policies. In particular, the analysis will be focused on the companies of the Italian region of Friuli-Venezia Giulia. The choice of this region lies in its geographical proximity with the countries involved in the study and in its stable and strong socio-economic relationships with them. For example, the foreign trade between Friuli-Venezia Giulia and the analyzed countries reached 17.16 billion euros at the end of 2010 (13% of the total foreign trade of the Italian region and 6.17% of total foreign trade of the three countries). In addition, the examined area is characterized by historical relationships (the areas involved in the study were part of the same country, the Austro-Hungarian Empire, until 1918). It is also part of the Adriatic Euro-region (a transnational co-operation structure between contiguous territories located in different European countries) established in 2006 and the recipient of several European transnational co-operation programs, such as the Interreg program and the Ipa-Adriatic program.

The study was undertaken during the period January-December 2007 and involved the sub-
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