



## **FULL LENGTH ARTICLE**

# **Study of Relationship between Cultural Differences and International Business Behaviors (Emphasizing on Sales Negotiations)**

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### **ABSTRACT**

Nowadays people around the world increasingly need to interact, negotiate and establish understandings with each other's cultures. Culture, as an environmental factor, has long been considered as the main cause of systematic differences in behaviors. Ignoring cultural differences has caused many business failures. However, understanding and managing cultural differences well, can lead to a creative and beneficial business operation. This paper aims to study the relationship of cultural differences and their three layers (infrastructural, super-structural and structural factors) with international business (emphasizing on sales negotiations). The method of this practical research is descriptive-qualitative. The research data is collected through questionnaires, interviews, and library and internet searches. The outcomes of this paper prove the relationship between international business and cultural differences. These results emphasize on the necessity for understanding the cultures and their influences on business process, particularly cross-border negotiations. Here, the significant role of negotiators for the development of business activities and foreign trades cannot be ignored. Consequently, to achieve the desired goals, it is necessary to provide the expedition with the other negotiation party's language and culture trainings.

**Key words:** culture, cultural differences, international business behaviors, sales negotiations

### **INTRODUCTION**

Nowadays, the process of globalization and internationalization of business are significantly important. The companies, which are globalizing their business and initiating international communications, are increasingly growing in number in a sense that international and cross-border business management method has become a big challenge for the world business. Accordingly, SMEs which intend to develop and internationalize their business are involved in a challenge which is choosing the best method for structuring a business activity in foreign markets (Osland, 2001).

In these conditions, if a novice company makes a wrong choice, its opportunities are reduced, the risks are increased and it steps toward a big financial failure. When an international business is formed, it is necessary to consider political, legal and economical milieus, however, Mayrhofer (2004) believes that cultural and social milieus are of higher importance. For instance; if all political, legal and economical troubles of the business are put behind successfully, but, in advertisements, social and cultural aspects are not considered properly, company's future is seriously endangered. Mayrhofer believes that to step ahead of rivals the companies should be well aware of the significance of countries' social and cultural factors.

A company that is aspiring to enter foreign markets should initially obtain sufficient information about the cultural traits of the target society. These traits include language differences, political, cultural and religious statues and even types of people demands in that society. By doing so, the way for collaborations will be paved; many of the obstacles will be removed and entering the target market will be more successful (Zacharakis, 1996).

In Iran, after the imposed war, corporations, first, started to grow their local activities and it is recently witnessed that they are developing their international businesses. Due to the high industrial, manufacturing, agricultural and services potentials in Iran, we were expected to have remarkable growth in exporting goods and services to regional and global markets. Despite the capabilities and capacities of

commercial sector, we were not welcomed well by the world markets. Regardless of political issues and international relations, it seems that some other influential factors can be traced for losing international business opportunities. Could these factors lie in other areas, such as; culture, society and interpersonal relationships? Answer to this question may be concealed in the success secret of industrialized countries such as China and Germany or in prosperity of newly industrialized countries such as Malaysia, South Korea or perhaps Thailand. This study aims to answer this question: What relationship is there between cultural differences and international business?

### **Review of Literature**

**Culture and Influence of Cultural Diversity on International Trade;** Culture is a set of beliefs and behaviors of a particular society. According to Moeen Persian dictionary the Persian equivalent for "culture" is composed of two words: "Far" and "Hang" that is defined as literature, education, science, knowledge, wisdom and customs.

Culture arises from biological, environmental, psychological and historical factors. Due to the existence of traditions and complexities in human relationships, even simple human needs that are in common with animals become cultural patterns. Culture is a different way of living or a living plan for a group of people. For example, a Japanese person represents a nation or a society. The Japanese person is concrete but the Japanese culture is abstract that could be understood by observing the principles and regular trends that exist in Japanese way of living (Cosser and Rosenberg, 1978). Cultural milieu is formed by principles and forces that affect basic values, perceptions, preferences and behaviors of the society. People grow in a specific society, a society that forms their beliefs and principles. They depict a world for themselves that determines their relationships with themselves and others.

As the markets and organizations are being globalized, businessmen, politicians and consumers which make up these institutions have to interact, negotiate and cooperate with people of other cultures. Working with people whose principles, beliefs, languages and customs are different from yours can lead to misunderstanding and even costly business failures. All social behaviors are deeply associated with other principles and beliefs. It means that there is a high risk in mismanagement of cultural differences. Neglecting or managing these differences in a wrong way can bring about misinterpretations, inevitable mistakes in marketing and advertising and lack of success in creating sustainable sources with competitive advantages. However, successful management of cultural differences can lead to a creative business operation and sustainable sources with competitive advantages (Brooks, 2008).

Cultural characteristics that can affect marketing decisions are as follows:

- Sustainability of cultural principles
- Subculture

**Sustainability of cultural principles;** People in every community have their certain principles and beliefs. Fundamental beliefs and principles of a society are of high stability and members of the society, strongly, resist everything that hurts such principles. Therefore, market makers should pay enough attention to issues related to their potential customer's beliefs (Zinokota, 1998).

**Subculture;** Every society includes some subcultures. Subcultures are groups of people within a culture with behavioral patterns different from other groups in the larger culture to which they belong. Members of these subcultures have common beliefs, preferences and behaviors. If sub-cultural groups have different demands and purchase behaviors, each can be selected as one target market. Markets in different countries are influenced by many factors. Among those factors *culture* is one of the most important ones. Advances in a successful international marketing are depended on a thorough understanding of different cultures that exist in different countries (Zinokota, 1998).

Social and cultural factors affect all aspects of consumers and buyers' behaviors, so that considering the differences of these factors in different parts of the world is crucial for companies attempting to design and implement marketing strategies. Differences in languages lead to changes in intentions of slogans or differences in the structures of cultures cause that a good meets the needs of people of different levels in a society. A sewing machine may be regarded as an entertaining and efficient appliance in one culture, while in another culture it is critical for survival of a whole family (ibid).

Generally, considering and understanding cultural factors of societies are critically important for the growth of the global markets. Large multinational corporations attempt to understand the cultural characteristics of target societies; meanwhile, they tend to find cultural similarities and differences, so that they can expand the range of their costumers and develop their products (Mayrhofer, 2004).

However, for Iran, cultural differences and customers' tastes have been of less importance, while, increasing the quality and variety of products and packaging are receiving great considerations. Due to Iran's long involvement in international investment, trade and marketing and also unique capacities and capabilities of Iranian manufacturing sector and local industry, a thorough analysis of shortcomings of international marketing policies and comparing them to those of developed countries colored with

cultural and sociological approaches can guarantee Iranian corporations' success in interaction with global markets.

According to above explanations, this research attempts to determine a relationship between cultural differences of societies and international business. Therefore, the conceptual model of this research is designed based on Edgar Shine's cultural model and Terpstra's business theoretical model which are in harmony with the purposes of this paper. Terpstra believes that it is essential for market makers to get familiar with cultures and business behaviors in different societies before entering global markets. He has also listed people's cultural, social and aesthetic features and differences and, on this basis, he has designed a matrix that demonstrates the relationship between cultural factors and business, and how these factors affect the business. The following matrix presents cultural factors and marketing activities.

**Table 1: Matrix of cultural factors and marketing activities**

Cultural factors	Marketing Activities				
	Product	Price	Sales promotion activities	Distribution	Marketing studies
Material culture Education Language Aesthetics Politics Religion, beliefs and Social organization					

Considering the significance of pricing stage in the process of negotiation and international business, Terpstra, also, believes that *price* is a complex variable, because it is under the influence of variety of market, customer's attitudes, and technical, social, legal and political factors. Accordingly, price, alone, cannot influence international business and collaborations. When it comes to pricing in international markets, several issues must be considered.

These issues are listed in the following model:

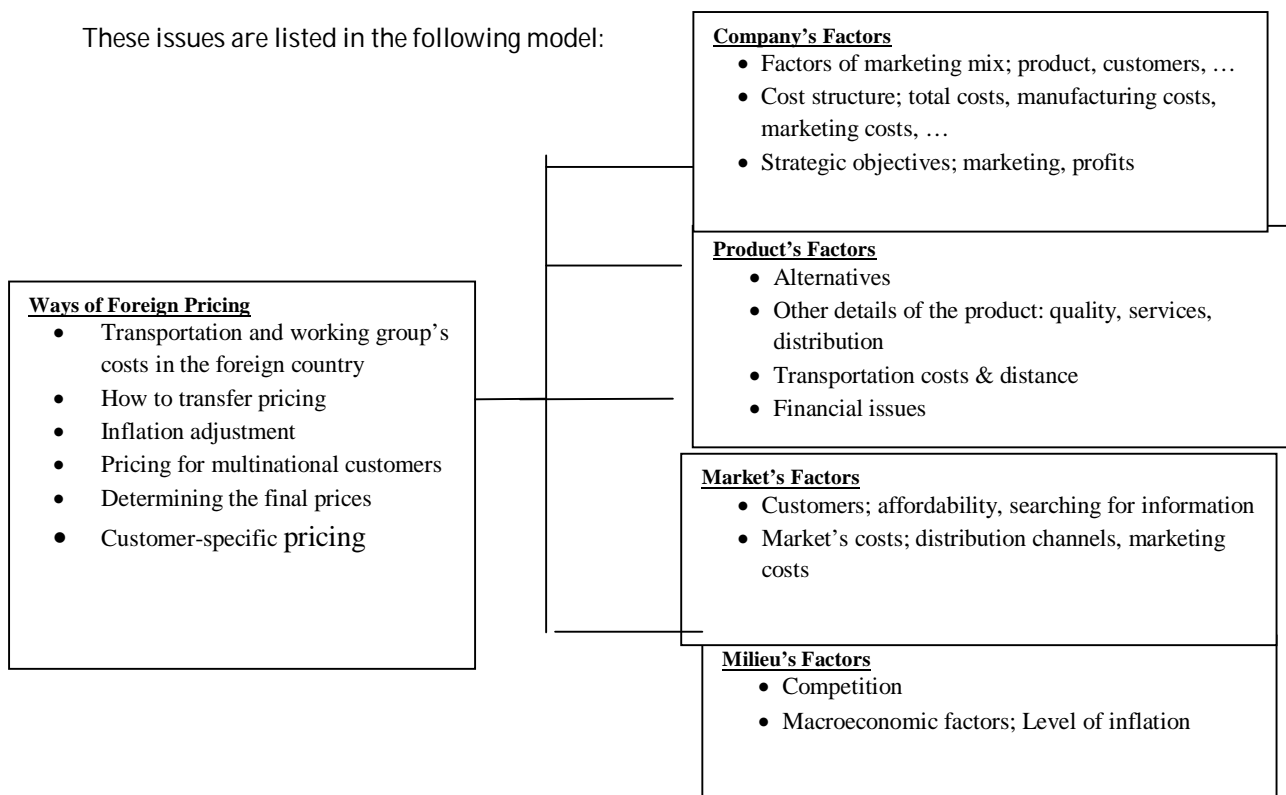
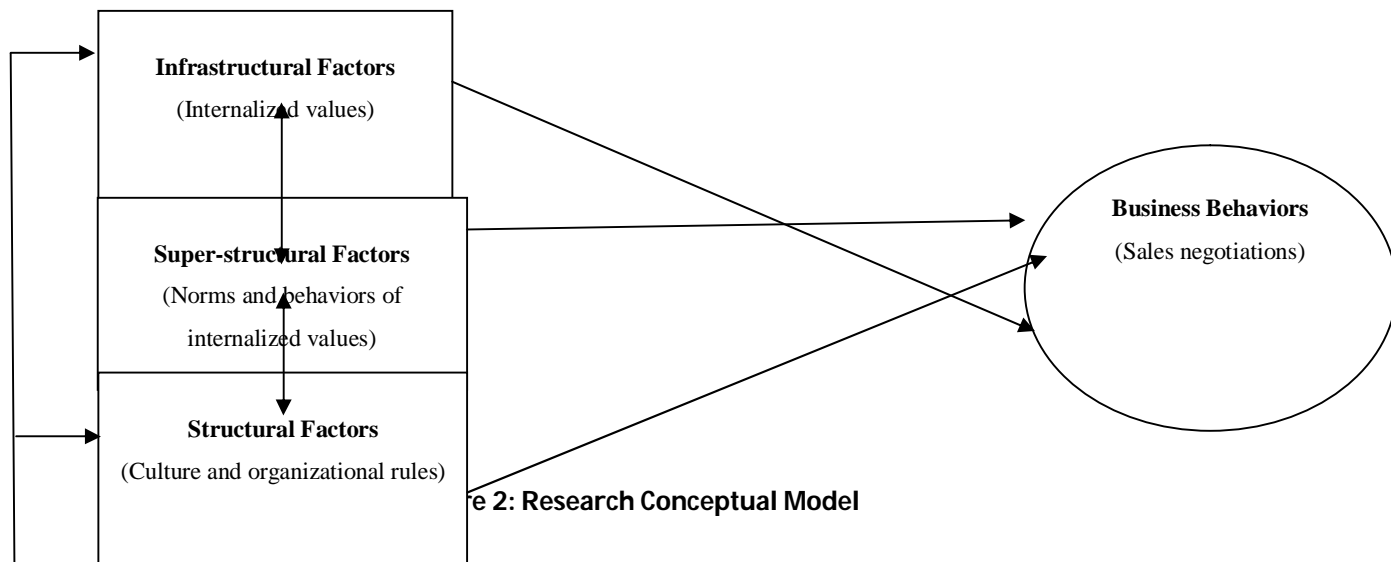


Figure 1: Terpstra, 1994

According to the research topic, cultural differences and their influences on international business, Edgar Shine's cultural model is strongly in harmony with the research purpose; and Terpstra's theoretical model

about international business and factors affecting the negotiations is considered as the research framework.

The conceptual model of this research can be applied to analyze the empirical findings. There is a mutual relationship between the marked parts of the conceptual model. The most basic layer of culture is called infrastructure that includes beliefs and values which appear in form of norms, behaviors and actions in second layer. The last layer contains laws and organizational culture which affected by the other layers brings about cultural differences and affects business behaviors and sales negotiations.



**Research Hypothesis**

- There is a relationship between cultural differences and international business
- There is a relationship between infrastructural factors and international business
- There is a relationship between structural factors and international business
- There is a relationship between super-structural factors and international business

**Research Methodology**

Considering the purpose, this study is categorized in practical researches and considering the data collection method it is a descriptive-qualitative research. Since the field of this research is specific, the target community for sampling includes about 100 cultural management, and business and marketing management's professors and PHD, MA and BA students in Islamic Azad University of Tehran. Then, using Morgan Gorjersy's table, 80 individuals are chosen randomly as samples.

To collect the needed data to test the research hypotheses, standard questionnaire on culture and business behavior was used. The validity of questionnaire was evaluated by 10 professors of culture management and marketing management, then, after applying their suggestions the questionnaire was confirmed by applying face validity method. To calculate the reliability of the questionnaire, Cronbach's alpha coefficient was used. The results indicate that the Cronbach's alpha coefficient for the whole questionnaire is equal to 76% which is highly desirable. In addition, the series of questions in each category of the questionnaire were separately estimated by Cronbach's alpha coefficient and the results of variables reliability are shown in table 2.

**Table 2: Cronbach's Alpha Coefficients for Research Variables**

Variable	Number of Items	Cronbach's alpha coefficient
Super-structural factors	9	0/71
Infrastructural factors	9	0/69
Structural factors	12	0/73
Cultural differences	13	0/78
Business behaviors	9	0/66
<b>Entire questionnaire</b>	<b>39</b>	<b>0/76</b>

## Analysis of Research Data

### Checking Data Normality Assumption (Kolmogorov–Smirnov test)

Before using statistical tests to find deductive data and confirming or rejecting research hypotheses, data distribution status was checked through SPSS software and Kolmogorov–Smirnov test. The results are shown in table 3. According to the results, since, the significance value of all variables is 0/05, the distribution is homogeneous and closer to the normal distribution, and parametric tests can be used to assess the societies mean.

**Table 3: Kolmogorov–Smirnov Test Results to Fit the Distribution**

Observed Variables		Infrastructural Factors	Super-structural Factors	Structural Factors	Business	Cultural Differences
The Sample		80	80	80	80	80
Normal Parameters	Mean	3/61	4/11	3/98	3/14	4/34
	Standard Deviation	0/892	0/856	0/878	1/01	0/81
Maximum Difference	Absolute	0/230	0/310	0/206	0/215	0/268
	Positive	0/191	0/227	0/169	0/148	0/207
	Negative	-0/230	-0/310	-0/206	-0/215	-0/268
Kolmogorov-Smirnov		2/06	2/77	1/84	1/92	2/39
Significance Level		0/000	0/000	0/000	0/000	0/000
Conclusion		Normal	Normal	Normal	Normal	Normal

Test distribution is normal

## Research Hypotheses Analysis

### Main Hypothesis

There is a relationship between international business and cultural differences.

With the Pearson correlation coefficient equaling to 368% it is indicated that there is certainly a significant and positive relationship between international business and cultural differences.

**Table 4: Results of Pearson Correlation Coefficient Test between Business and Cultural differences**

Business (Sale Negotiation)			
Cultural Differences	Pearson correlation coefficient	Significance Level	Number (N)
	%368**	%001	80

\*\* The significance level is lower than 1%

With the confidence of 99% and margin of error less than 1% the results of correlation coefficient test prove that there is a significant relationship between two mentioned variables. (Sig=0/001)

### Sub-Hypothesis 1

There is a relationship between super-structural factors of culture and international business.

With the Pearson correlation coefficient equaling to 296% it is indicated that there is certainly a significant relationship between international business and super-structural factors of culture.

**Table 5: Results of Pearson Correlation Coefficient Test between Business and Super-Structural Factors**

Business (Sale Negotiation)			
Super-Structural Factors of Culture	Pearson correlation coefficient	Significance Level	Number (N)
	%296**	%02	80

\*\* The significance level is lower than 1%

With the confidence of 99% and margin of error less than 1% the results of correlation coefficient test prove that there is a significant relationship between two mentioned variables. (Sig=0/02)

### Sub-Hypothesis 2

There is a relationship between infrastructural factors of culture and international business.

With the Pearson correlation coefficient equaling to 305% it is indicated that there is certainly a significant relationship between international business and infrastructural factors of culture.

**Table 6: Results of Pearson Correlation Coefficient Test between International Business and Infrastructural Factors of Culture**

Business (Sale Negotiation)			
Infrastructural Factors of Culture	Pearson correlation coefficient	Significance Level	Number (N)
	%305**	%006	80

\*\* The significance level is lower than 1%

With the confidence of 99% and margin of error less than 1% the results of correlation coefficient test prove that there is a significant relationship between two mentioned variables. (Sig=0/006)

**Sub-Hypothesis 3**

There is a relationship between structural factors of culture and international business.

With the Pearson correlation coefficient equaling to 338% it is indicated that there is certainly a significant relationship between international business and structural factors of culture.

**Table 7: Results of Pearson Correlation Coefficient Test between International Business and Structural Factors of Culture**

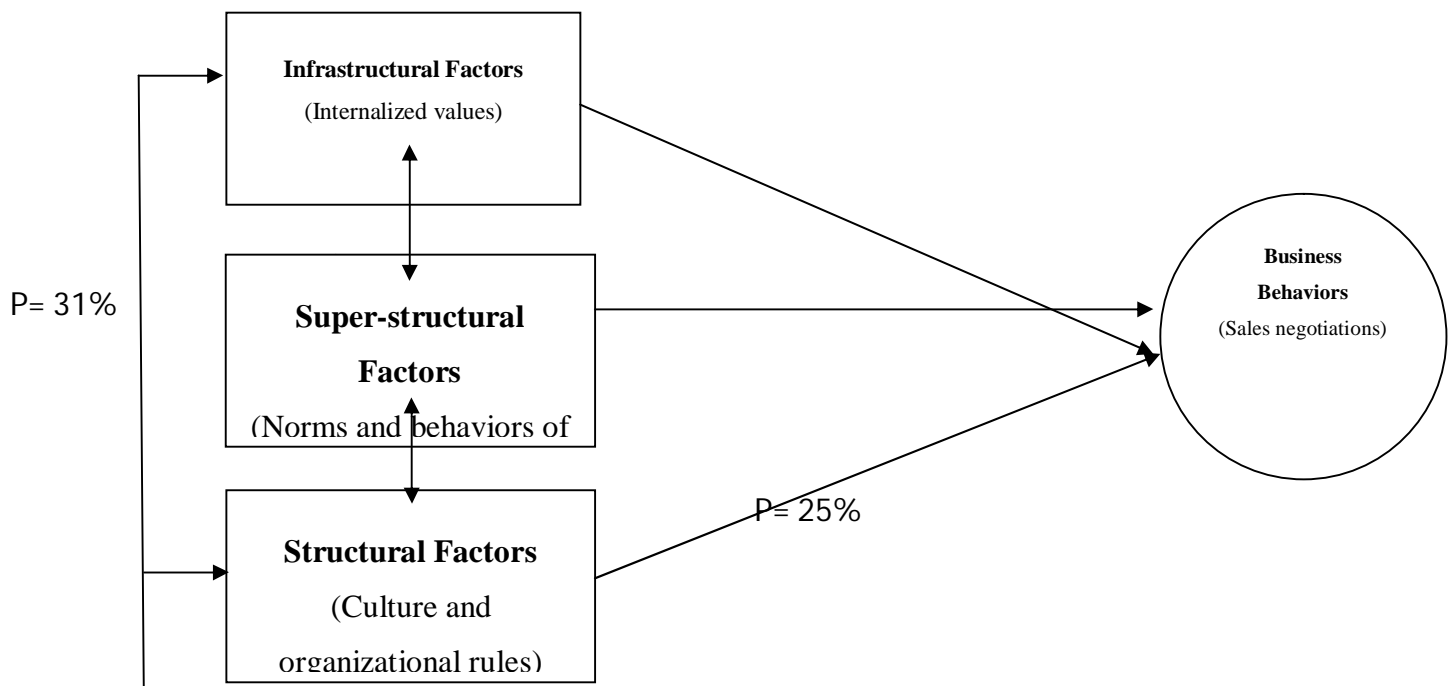
Business (Sale Negotiation)			
Structural Factors of Culture	Pearson correlation coefficient	Significance Level	Number (N)
	%305**	%006	80

\*\* The significance level is lower than 1%

With the confidence of 99% and margin of error less than 1% the results of correlation coefficient test prove that there is a significant relationship between two mentioned variables. (Sig=0/002)

**Path Analysis**

Path analysis is a method for studying direct or indirect impacts of independent variables on dependent ones in a casual mechanism. Consequently, in the related table, all paths leading to the dependent variable are identified and calculated in order to obtain the total impact of independent variables.



These findings present that direct impact rate of infrastructural factors on business behaviors is equal to 27%, the sum of its direct impact is 0.05% and finally its total impact is 32%. For super-structural factors variable, the direct impact rate is reported 12%. The coefficient of structural factors direct impact is equal to 25%, indirect impact of structural factors is 0.02% and sum of its impacts is 28%.

**DISCUSSION AND CONCLUSION**

The results of research multiple regression analysis indicate that the main hypothesis of this study (There is a relationship between cultural differences and business) is reaffirmed by 3 sub-hypotheses. The obtained Multivariable regression equation indicates that international business behaviors are related to the intensity of their relationship with independent variables, super-structural, infrastructural and structural factors of culture, age and education. In other words, infrastructural factors have the most direct and positive impact on the international business behaviors with beta of 0/266 and super-structural factors as independent variables have the least impact on international business behaviors with beta of 0/123 (table 8).

**Table 8: Direct and Indirect Impacts of Cultural Layers**

<b>Infrastructural Factors</b>	Direct Impact = 27% Super-structural Factors = 43% → Infrastructural Factors Business = 12% → Factors Super-structural Structural Factors = 31% → Infrastructural Factors (43%)(12%)(31%) = 5% Indirect Impact = 2% Total Compact (sum of direct and indirect compacts) = 29%
<b>Super-structural Factors</b>	Direct Impact = 12% Structural Factors = 22% → Super-structural Factors Business = 25% → Structural Factors (22%)(25%) = 5% Indirect Impact = 5% Total Compact (sum of direct and indirect compacts) = 17%
<b>Structural Factors</b>	Direct Impact = 25% Super-structural Factors = 22% → Structural Factors Business = 12% → Super-structural Factors Infrastructural Factors = 31% → Structural Factors (22%)(12%)(31%) = 1% Indirect Impact = 1% Total Compact (sum of direct and indirect compacts) = 26%

In the last analysis, the paths of remaining variables of the equation were analyzed in a path analysis model and the total direct and indirect impacts on respondents' business behaviors were calculated. This analysis marked that the variable of infrastructural factors has the most direct and indirect impact on business behaviors and variables of structural and super-structural factors stand on next stages respectively. If you respect people's (customers) thoughts, behaviors and lifestyles, you will have the opportunity to open good negotiations. Informing the negotiating team members about cultural differences of the target society, before the expedition, helps you achieve your goals, and it is of much value for growing your business. Nowadays multinational corporations consider cultural studies as an important factor in their activities. International trade, free from cultural considerations, is doomed to failure. Discovering cultural differences of societies is a key to success for capital owners. Culture is a key factor that plays a great role in the entire business process from marketing to sales negotiations. This software is rooted in human mind that strengthens personal and business relationships in societies. As it is seen in the research model, when a conflict occurs, the relationship is not formed. Little problems are manageable, but if they occur continuously and grow larger solving them will be difficult. The bigger mistake happens when the process of selecting negotiating members is not given enough attention. Members' qualifications should be evaluated accurately. Here are special qualifications the negotiators need to have: technical knowledge, political sense, emotional intelligence, high PR, familiarity with the language of negotiation and the most important one familiarity with cultural differences. Culture, with all its differences, is too effective for reducing the negotiation risk and avoiding conflicts and misunderstandings. Some cultures are sensitive about mistakes of these types and occurrence of such conflicts will interrupt the negotiation. Accordingly, returning to the starting point and rebuilding the initial trust would be impossible. Cultures and companies can learn from each other and later collaborations would come up with more confidence and ease.

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