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The impact of cultural distance and language diversity on the internationalization process of a company

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Abstract

Title: The impact of cultural distance and language diversity in the internationalization process of a company.

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This dissertation analyzes the influence of cultural distance and language diversity in the internationalization process of a company, in terms of entry mode choice in a foreign market, impediments in negotiations, impact on type of internationalization, the effect on day-to-day operations and factors influencing the relationship between cultural distance and entry mode choice. The study includes five interviews to a top manager working for company A for 21 years.

Findings show that cultural distance and language diversity were considered in the company's strategic option of internationalizing incrementally, with the goal of decreasing these two phenomena's impact. Moreover, language diversity proved to be constraining during negotiation processes with clients that did not speak English, French, Portuguese or Spanish and would reject the option of not negotiating besides their native language, such as clients in Vietnam. On the other hand, cultural distance and language diversity posed complications and inefficiencies such as quality and security gaps, disruptions in the communication flows and pace of negotiations, leading delays on delivery, hindering day-to-day operations.

The final findings were the preference of company A for Wholly Owned Subsidiaries as entry mode choice in every country, despite the research suggesting otherwise, and the company A showing easier integration in Anglo-Saxon countries due its organizational culture being better aligned with their cultural traits.

The goal is to have these findings becoming appealing for future literature on the subjects as well as companies integrating them in their strategic planning and creating effective measures to lead with the expected impacts.

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1. Introduction

Cultural distance has been widely accepted in literature as an increasingly important factor despite globalization that can affect the success of companies when internationalizing and has been studied in several disciplines such as organizational behavior, finance, marketing and international business (Shenkar, 2001). The not consideration of this element as a strategic variable can have devastating effects and its importance can be overseen by managers (Shenkar, 2001). Cultural distance can strategically influence company's actions in a foreign market, leading it to opt to enter it via Wholly Owned Subsidiary or Joint Venture, hindering a company's profitability in their affiliates and by creating a "cultural paradox" (Brouthers and Brouthers, 2001; Shenkar, 2001; Tihanyi et al., 2005). This paradox arises due to the fact that, when cultural distance is high, companies tend to opt for Joint Ventures to deal with the lack of local market and environment knowledge (Kim and Hwang, 1992) However, at the same time, the foreign investor can be exposed to opportunistic behavior by the local partner (Chang, Kao, Kuo and Chiu, 2012), so companies would choose Wholly Owned Subsidiaries as entry mode (López-Duarte and Vidal-Suárez, 2010; Zhao et al., 2004). This dissertation aims at analyzing other effects that have been less mentioned in the current and past literature, such as its influence in day-to-day operations/management, importance in terms of strategic planning concerning what type of internationalization the company chooses (incremental organization, for instance) as well as the difference between the influence of a firm's national culture and its organizational culture, when internationalizing to new markets.

Language diversity is a factor that is particularly important since it tends to be forgotten in the literature and combined with cultural distance (Welch and Welch, 1997). However, it has been shown how information can be lost, altered to benefit some individuals in organizations, through the creation of new positions of power called gatekeepers (Andersen and Rasmussen, 2004; Harzing and Feely, 2008; Luo and Shenkar, 2006; Marschan-Piekkari et al., 1997; Marschan-Piekkari, Welch and Welch, 1999; Neal, 1998; Welch et al., 2005). On the other hand, language barriers can hinder relationship between partners in a Joint Venture; it can lead to inefficiencies and increase the perceived risk by foreign investors (Dermirbag et al., 2007; Harzing and Feely, 2008). Also, other issues such as knowledge transfer and lack of communication between groups of individuals inside a company can hinder its operational capability (Harzing and Feely, 2008; Fredriksson et al., 2006; Marschan-Piekkari et al., 1997;

Neal, 1998). This dissertation aims to understand what effect does language diversity has on company A, for instance in the process of negotiation.

In summary, previous studies show that cultural distance and language diversity have a deep influence on a company's success or failure in foreign markets, in terms of right or wrong strategic decisions (for instance entry mode choice) and profitability (in day-to-day operations for example). Due to the relevance of these two topics, this study has the goal to answer the research question "How do Cultural Distance and Language Diversity inside companies affect them in the process of internationalization?" as comprehensively as possible. The main objective is to have a complete knowledge on how these two concepts (cultural distance and language diversity) impact companies in their internationalization process, with the expectation of adding factors that were not mentioned in the past literature on these two subjects.

In order to answer the research question, five one-hour interviews were conducted to a top manager in company A, which is a Portuguese Multinational Enterprise operating in the manufacturing sector, having a presence in several countries and continents, making cultural distance's and language diversity's impact higher.

In the first chapter, the literature review tries to give a very deep and comprehensive understanding of the theoretical background on the impact and influence of cultural distance and language diversity. The second chapter refers to the methodology used in this thesis, giving both explanations on why a case study was preferred as a research method and on how the data was collected. In the third chapter, the findings are explained, discussed and compared to previous theories and knowledge, trying to understand where and why there are differences. Finally, the last chapter focuses on the conclusions of the case study, expressing also the limitations of this thesis as well as opportunities for future research on these two topics.

2. Literature Review

2. Definition of Internationalization and Multinational Enterprises (MNEs)

In the next sub-section, the concepts of internationalization and Multinational Enterprises (MNEs) will be defined and analyzed.

2.1. Definition of Internationalization

Internationalization has been an increasingly important topic throughout the years and it has been defined differently by several authors, such as Beamish, Welch and Luostarinen, Johanson and Mattsson. As a result, internationalization appears as a concept difficult to define, despite its great relevance nowadays. For instance, the definition offered by Beamish (1990, p. 77) states that internationalization is:

"… *The process by which firms both increase their awareness of the direct and indirect influences of international transactions on their future, and establish and conduct transactions with other countries*".

On the other hand, Welch and Luostarinen (1988, p. 156) defined internationalization as "*the process in which firms increase their involvements in international operations*", and it was accepted by Johanson and Vahlne (1977). Actually, Johanson and Mattsson (1993, p. 156) provided a definition of internationalization of their own, stating that it is a *"cumulative process, in which relationships are continually established, maintained, developed, broken and dissolved in order to achieve the objectives of the firm"*. Moreover, Calof and Beamish (1995, p. 116) adapted the definition as "*the process of adapting firms operations (strategy, structure, resource, etc.) to international environments*". On the other hand, Melin (1992, p. 101) states that internationalization is *"a major dimension of the ongoing strategy process of most business firms"*.

Some of these definitions try to create a bridge, by creating a link between internationalization processes with companies' overall strategy and future (e.g. Beamish, 1990) while others refer to internationalization as an extension of a company's presence and activities, operations and transactions in foreign markets (e.g. Welch and Luostarinen, 1988). The latter does not explicitly refers to internationalization as being a fundamental part of a firm's strategy as the former: the latter argues that companies simply extend their operations into larger foreign markets (in order to gain a larger base of customers for instance) but not considering internationalization as a fundamental part of a company's strategy and success (e.g. Beamish, 1990). For the purpose of this thesis, the definition chosen will be the one offered by Calof and Beamish (1995, p. 116): "*the process of adapting firms operations (strategy, structure, resource, etc.) to international environments*", since it captures the several dimensions that a firm must adapt and reconfigure in the process of internationalization.

Linked to companies' internationalization processes and strategy, there are several entry modes to be considered such as: exporting described by Johanson and Vahlne (1990) and Leonidou and Katsikeas (1996); contractual agreements, such as licensing and franchising considered by Alon and McKee (1999); joint ventures (JV) studied by Buckley and Casson (1996); Strategic Alliances described by Hamel (1991); turnkey projects analyzed by Hill (2008); wholly owned subsidiaries (WOS) considered by Chen and Hennart (2008). Furthermore, it will also be relevant to understand if this supposed entry mode choice has any link with cultural distance and language diversity throughout the company and the markets they enter, or if it is simply a company's choice influenced by its business model or other factor.

In the next sub-section, a definition of Multinationals Enterprises will be presented since it has been a major object of study related to internationalization.

2.2 Definition of Multinational Enterprises

Multinational Enterprises (MNEs) are an increasingly and incredibly important factor in the world's economy to a large degree as well as its development (Kleinert 2001). Actually, Rugman and Verbeke (2004) showed that a reduced number of MNEs control the majority of the world's trade and investment. Furthermore, the world's 500 largest MNEs are responsible for more than 90% of total foreign direct investment (FDI), conducting about half of the world's trade (Rugman, 2000). However, the empirical data suggests that MNEs are more regional than global (Qi, 2008). Rugman and Verbeke (2004) state that:

"Data on the activities of the 500 largest MNEs reveal that very few are successful globally. For 320 of the 380 firms for which geographic sales data are available, an average of 80.3% of total sales are their home region of the triad, this means that many of the world's largest firms are not global but regionally based, in terms of a balanced geographic distribution of sales across the triad."

Having said that, it becomes necessary to provide a definition of both MNEs and triad concepts (since the company studied in this thesis is a Multinational operating in several regions, where cultural distance and language diversity can have an extreme effect, although the company, apparently, opted for incremental internationalization over time), where MNEs are firms with value-added services in at least two countries (Rugman and Verbeke, 2001) and triad consists of NAFTA (North American Free Trade Agreement), the EU and Asia (Rugman and Verbeke, 2004).

3. Cultural Distance

In the next sub-section, we will analyze how previous studies explain the influence of cultural distance on the internationalization process of companies. Their findings show that cultural distance has an impact on entry mode choice, profitability and also strategically (on both speed and choice of countries). According to them, cultural distance should be handled as a strategic factor by the company, since its effect can prove to be crucial for a firm's success or failure, when internationalizing.

3.1 Definition

Culture has proven to be a concept difficult to measure, conceptualize and evaluate (Boyacigiller, Kleinberg, Phillips and Sackmann, 1996). And as expected, measuring distance between cultural aspects is even trickier (Shenkar, 2001). Since there are several definitions for culture, two were chosen based on general acceptance. The first definition by Edward Hall claims that culture is constituted by "*those deep, common, unstated experiences which members of a given culture share, which they communicate without knowing, and which from the backdrop against which all other events are judged*" (Hall, 1966, p. 4). The second definition proposed by Hofstede defines culture as "*the collective programming of the mind which distinguishes the members of one category of people from another*" (Hofstede, 1991, p. 5). Having posed the definitions, cultural distance is seen as the gap between cultural aspects, which can influence a company's strategy and performance (Shenkar, 2001). It can also be defined as *"the degree to which cultural values in one country are different from those in another country." (Sousa & Bradley, 2006, p.52).*

Hofstede proposed a five-dimensional framework to measure cultural distance (Hofstede, 1980), where the five dimensions are: masculinity/femininity, short-term vs. long-term orientation, power distance, uncertainty avoidance and individualism/collectivism. Masculinity/femininity is a dimension where certain emotional roles are attributed according to gender. For instance, in a country with a high score in masculinity means values such as assertiveness and competitiveness are more present in men than in women. The dimension of long-term vs short-term orientation is related to the society's preferences. A long-term oriented country will prefer future compensations, savings and will have capacity to adapt to changing circumstances, while a short-term oriented one will value tradition, past history and pride. Power distance is related to how well the least powerful members of organizations accept and tolerate the existence of inequality in terms of power between individuals. The dimension of uncertainty avoidance refers to how societies accept uncertainty and ambiguity. A country with a high score in this dimension will have more emotional societies and will try to minimize the existence of unstructured situations, through strict laws for instance. Individualism/collectivism refers to how individuals value their in-group. In individualistic countries, individuals tend to look for themselves (and their families) with weak ties with other individuals. In collectivistic countries, there is a sense of belonging in extended in-groups, which remain trustworthy and loyal throughout an individual's life. Analyzing countries' scores on these dimensions and comparing between Portugal (since the company studied in this case is Portuguese) and other countries, will allow to establish which countries are high-cultural distant and close-cultural distant. However, it is important to consider the differences that might exist between national culture (in this case Portugal) and the organizational culture of the company. In fact, Shenkar (2001) argues that "cultural distance index used to measure the construct relies on national culture measures and implicitly assumes lack of corporate cultural variance". Corporate culture can alter and change the expectations aligned with national culture and affect the company in the internationalization process (Laurent, 1986; Weber, Raveh and Shenkar, 1996).

3.2 Influence on the Internationalization Process

The next sub-section will show how relevant cultural distance can be in the internationalization process of companies, in terms of entry mode (Wholly Owned Subsidiary or Joint Venture), profitability, speed and choice of countries as well as ways of reducing the impact of this phenomenon.

3.2.1 Entry mode strategy

To begin with, there is a basic relationship between cultural distance and control by the MNE: higher cultural distance requires higher the control (Root, 1987; Davidson and McFeteridge, 1985; Kim and Hwang, 1992). Goodnow and Hansz (1972, p. 46) argue that the "*degree of control declines as the environment becomes less favorable*". On the other hand, cultural distance has a deep influence on the entry mode decision of MNEs (Morschett, Schramm-Klein and Swoboda, 2010; Tihanyi, Griffith and Russell, 2005; Zhao, Luo and Suh, 2004). Due to different, and sometimes conflicting, beliefs, behaviors, norms and values, between the country of origin and the foreign country, operational deficiencies may arise (e.g. employees' lack of motivation, group conflicts, inter-groups inefficiencies and lack of communication, etc.) (Gatignon and Anderson, 1988; Kogut and Singh; 1988) which may oblige "*MNEs to scrutinize their degrees of control and resource* *commitment when they endeavor to establish overseas operations*" (Chang, Kao, Kuo and Chiu, 2012). However, there has been some conflicting results, when analyzing the influence of cultural distance on entry mode (Brouthers and Brouthers, 2001; Shenkar, 2001; Tihanyi et al., 2005). On one hand, high cultural distance should lead to Joint Ventures (Chang and Rosenzweig, 2001; Erramilli and Rao, 1993) since MNEs could use their partners' knowledge to avoid cultural differences (Kim and Hwang, 1992) and reduce overseas' costs (Gatignon and Anderson, 1988). So, MNEs would prefer JVs in this case (Brouthers and Brouthers, 2001; Slangen and van Tulder, 2009). On the other hand, Wholly Owned Subsidiaries could mean that MNEs have the power to avoid opportunistic behavior of the partner and reduce costs (Chang, Kao, Kuo and Chiu, 2012). Consequently, MNEs would choose WOSs when cultural distance is higher (López-Duarte and Vidal-Suárez, 2010; Zhao et al., 2004). At the same time, Erramilli and Rao (1993) defend that information acquisition costs increase in foreign environments, so a local partner could be a solution to decrease administrative costs and share operational costs (Brouthers and Brouthers, 2001). Furthermore, Anand and Delios (1997) argue that when cultural distance is high, knowledge barriers are relevant constraints to consider. Also, the cost of transferring knowledge is also higher in cultural distant scenarios, making JV an appealing solution (Wang and Schaan, 2008).

However, even though JVs allow MNEs to reduce risks, when entering culturally distant markets (Barkema, Bell and Pennings, 1996; Beamish and Banks, 1987) it also makes the MNEs to withdraw some control, endangering the firm, since it can become vulnerable to opportunistic behavior by the local partner (Chang, Kao, Kuo and Chiu, 2012). Therefore, it is also demanding to find perfect information about a possible partner, diminishing the capacity to predict opportunistic behavior (Gomez-Mejia and Balkin, 1992; Chang, Kao, Kuo and Chiu, 2012). Moreover, "*the costs of negotiating, monitoring and enforcing contractual agreements*" (Chang, Kao, Kuo and Chiu, 2012) can be extremely high, making WOSs a more appropriate solution. In summary, when cultural distance rises, JV can help lower the management costs, but it also leaves the MNE vulnerable to possible opportunistic behaviors (Chang, Kao, Kuo and Chiu, 2012). Fortunately, there are factors that contribute to solve this paradox and will be analyzed in the next sub-section.

As a result, another question can be formulated to be addressed in this case study:

Sub research question 1: How does cultural distance between the company's country of origin and host country, influence the entry mode?

As previously stated, there is a cultural paradox between choosing between Joint Ventures and Wholly Owned Subsidiaries, both seeming appealing solutions in certain circumstances. However, there are factors that can contribute to choosing either JV or WOS. The Host country's governance quality is one of the most important factors to consider (Chang, Kao, Kuo and Chiu; 2012). The "*Governance Infrastructure*", which represents the formal institutional environment of a country (Slangen and van Tulder, 2009) and it incorporates "*public institutions and policies created by governments as a framework for economic, legal, and social relations*" (Globerman and Shapiro, 2003, p.20) is especially important. Poor governance quality, translated into political instability, corruption, unsatisfactory regulations, terrorism, anarchy contribute negatively towards the entrance of MNEs, whereas a proper governance quality increases the probability and appeal of a foreign country (Gani, 2007; Globerman and Shapiro, 2003). On the other hand, a country with high investment risk (Agarwal and Ramaswami, 1992) and fragile intellectual property rights (Oxley, 1999) will make cooperation difficult, between the MNE and the local partner (Henisz; 2000). Furthermore, Roy and Oliver (2009) infer that a foreign country's legal environment affect the entry mode choice of MNEs (if corruption control is low, WOS will be preferred (Chang, Kao, Kuo and Chiu; 2012).

In summary, when there is high cultural distance between countries, and there is poor governance quality, WOS will be the preferred solution; if there is high cultural distance and good governance quality, JV will be the most appealing solution (Chang, Kao, Kuo and Chiu; 2012): high political risk causes the MNE to opt for much more control and enter the foreign country with a WOS (Lopéz-Duarte, Vidal-Suárez, 2010). The main goal will be to link these factors, as many as possible, to the company's studied in this case and verify if they were considered in the internationalization process.

This leads into the formulation of another sub research question to be studied in this case:

Sub research question 2: What factors influence the relationship between cultural distance and entry mode?

3.2.2 Speed and choice of countries of internationalization

In the next sub-section the Uppsala Internationalization Model will be addressed, since it explains how physical distance influences the internationalization process and the impact of cultural distance on this choice. Also, factors that influence the speed and choice of countries to internationalize will be explained.

The Uppsala Internationalization Model (Johanson & Wiedersheim, 1975; Johanson & Vahlne, 1977) argues that firms internationalize after a specific period of home-country success. In this model, internationalization is a continuous and incremental process, where cultural differences and lack of market knowledge are very meaningful constraints (Johanson and Vahlne 1977, 2009; Figueira-de-Lemos, Johanson and Vahlne, 2011). The Uppsala Internationalization Model is applicable to the case studied, since the company studied in this thesis is a manufacturer and, according to Petersen and Pedersen (1999), the internationalization processes in manufacturers tend to be slower and more incremental than in service companies. This is particularly relevant, since the impact of cultural diversity and language diversity can be affected by incremental internationalization. On the other hand, due to the company's (studied in this thesis) internationalization pattern, first moving to closer and culturally similar markets, after enjoying domestic success in Portugal, appears to be following the Uppsala Model (Johanson & Wiedersheim, 1975; Johanson

& Vahlne, 1977), causing the necessity to study more in-depth its limitations and specific features.

The Uppsala Internationalization Model (Johanson and Vahlne, 1977) has been cited a huge number of times in several different articles and academic journals (8098 times in articles, according to Google Scholar). Johanson and Vahlne (1977) argue that companies expand internationally in a gradual, incremental and continuous way, instead of committing many resources to a foreign market. Actually, the resources' allocation processes constitute "*incremental adjustments to changing conditions of the firm and its environment*" (Johanson & Vahlne, 1990, p. 14). On the other hand, according to Figueira-de-Lemos, Johanson and Vahlne (2011), it is inferred that, in high uncertainty (high risk) situations, the commitment of resources will be slower and in less quantity. In other words, if the market knowledge of the firm is higher, the pace and commitment of internationalization and resources will be higher (Johanson and Vahlne; 1977, 1990; Figueira-de-Lemos; Johanson and Vahlne 2011). Finally, the reason behind the slow and step-by-step approach towards internationalization, defended by Johanson and Vahlne (1977), is related to the fact that, each time a company goes forward in terms of internationalization and commitment (e.g. exporting to establishment of sales subsidiary) it acquires increasingly more market knowledge, making it less uncertain to invest more resources and even expand to other markets with similar cultural, political, organizational and developmental features.

Considering the limitations of the Uppsala Internationalization Model, it lacks the explanatory capability when analyzing born-global firms (Freeman, Hutchings, Lazaris, Zyngier, 2010). Rennie (2003) describes born-global firms as organizations that start their internationalization process, in less than two years after its creation (Freeman, Hutchings, Lazaris, Zyngier, 2010). The proliferation of this "*accelerated internationalization*" (Shrader, Oviatt and McDougall, 2000) has diminished the explanatory power of the Uppsala Model (Freeman, Hutchings, Lazaris, Zyngier, 2010). Although the revisited model of Johanson and Vahlne (2003) tries to include some practices of rapid internationalization by giving emphasis to network relevance in facilitating strategic alliances, which contributes to rapid internationalization, it is still unable to explain other important phenomena (e.g. born-global firms and internationalization mainly as an outcome rather than a process), due to the fact that it adopts an incremental and responsive model (Freeman, Hutchings, Lazaris, Zyngier, 2010). This means that internationalization, according to Johanson and Vahlne, is still seen as a gradual process that firms undertake, instead of an outcome resulting from a firm's business model (Freeman, Hutchings, Lazaris, Zyngier, 2010). Although the Uppsala Model defends a gradual internationalization process, after a previous domestic success, Autio, Sapienza and Almeida (2000) argued that focus on the domestic market can jeopardize the pace of high-tech firms' internationalization. Finally, Freeman, Hutchings, Lazaris, Zyngier (2010) state that "*knowledge sharing is able to proceed rapidly because the drive to commercialize a product before a competitor, promotes the "mutual need" (co-dependency) to act quickly*", which is not addressed by Johanson and Vahlne (2003).

It can be enlightening to analyze that, if the company followed steps of the Uppsala Model, when and how cultural distance and language diversity posed difficulties for the company being studied. Furthermore, it will be interesting to analyze if the company moving to theoretically similar-cultural markets and geographical close countries led to successful or unsuccessful results, and what cultural dimensions had influence on the outcomes as well as language diversity. Moving to geographical close countries and to similar-cultural ones, factors such as cultural distance and language diversity might have a lesser impact and it might have been taken into account in the strategic planning. For instance, due to prior research, the internationalization to Brazil was not as successful as expected, even though there is cultural affinity (at least theoretically) between both countries, making it a significant case to study. On the other hand, it is important to study if this apparent incremental internationalization was made bearing in mind cultural and language aspects, or not.

Having said that, a sub-research question can be addressed in this case study:

Sub research question 3: How did cultural distance and language diversity impact the speed of the internationalization process?

3.2.3 Profitability

One of the main problematic and negative impacts of cultural distance is related to the fact that it can be a barrier to profits and disrupt affiliates' performance levels (Shenkar, 2001). Cultural distance can hinder the ability of MNEs to generate profits (through rents) when entering foreign markets (Chang; 1995). As an example, several US affiliates, whose partners were from different countries and cultures were more probable to fail (Li and Guisinger; 1991). On the other hand, cultural distance and language diversity can affect day-to-day operations and management, hindering even further the profitability and performance of the subsidiaries in foreign markets.

4. Language diversity

In this section, the concept of language diversity inside a company will be defined and analyzed separately (although it is often incorporated in cultural distance) due to its specific importance and strategic relevance. Consequently, the influence of this factor on the internationalization process of companies will also be addressed.

4.1 Definition

Language constitutes the several ways of communication that transforms cultural and personal identity and integrates one into a cultural group (Gollnick & Chinn, 2006). In a company, people from diverse language backgrounds can struggle when communicating, especially if their first language is not the home country's one (Lopéz-Duarte, Vidal-Suárez, 2010). Language diversity inside a company is related to when members of the company have different language backgrounds between each other, leading to the creation of clusters (Welch and Welch, 1997). These different language backgrounds are often related to the fact that people from the company's country of origin are working with local people from the host country, which hinders effective communication.

4.2 Influence on the internationalization process

In the next sub-section the influence of language diversity on the internationalization process will be addressed in terms of entry mode choice and effective communication.

4.2.1 Entry mode choice

Throughout several studies, research and publications, language diversity between members of organizations has always been incorporated in cultural distance (Lopéz-Duarte, Vidal-Suárez, 2010) and not considering its importance in the choice of entry mode. It seems to be a weakness of previous studies. For example, language diversity can increase perceived risk by foreign investors, leading to the creation of Joint Ventures (JVs), instead of Wholly Owned Subsidiaries (WOSs) (Dermirbag et al., 2007). At the same time, if language is an immensely important barrier, MNEs want to have extra control on their subsidiaries (Harzing and Feely, 2008). When language diversity exists, the uncertainty towards a local partner and the perceived risk over a foreign investment increases, leading the company to opt for an option in which it has more control (López-Duarte, Vidal-Suárez, 2010). Unfortunately, language has been known as "the forgotten factor" (Harzing and Feely, 2008; Marschan-Piekkari, Welch and Welch, 1997) despite of its importance. The relationship between a local partner and the foreign investor is fundamental for a Joint Venture's success or failure and it is language dependent (Tallman and Shenkar, 1994; Luo, 2001). Creating mutual trust between partners and effective collaboration is highly dependent on the existence/inexistence of language barriers that can hinder the communication process (Harzing and Feely, 2008). On the other hand, Luo and Shenkar (2006) and Root (1994) argue that the functional language in which the partners will work constitute a source of power for the native speakers, while at the same time, the other party feels uncomfortable for losing some control (Harzing and Feely, 2008). Furthermore, knowledge transfer and information spreading is linked to communication integrity (Kogut and Zander, 1992) where misunderstandings, filtration and distortion disrupt an effective communication process (Harzing and Feely, 2008) leading to higher costs and deficiencies in cooperation between partners. Finally, a new position of power is created called the gatekeepers, who, thanks to their language skills, acquire the power to influence and control the flow of information in an organization (Andersen and Rasmussen, 2004; Harzing and Feely, 2008; Luo and Shenkar, 2006; Marschan-Piekkari et al., 1997; Marschan-Piekkari, Welch and Welch, 1999; Neal, 1998; Welch et al., 2005). This situation will also lead to the creation of different clusters, hindering effective knowledge transfer and communication between clusters (Harzing and Feely, 2008; Fredriksson et al., 2006; Marschan-Piekkari et al., 1997; Neal, 1998).

In summary, language diversity causes transaction costs, related to cooperation, to increase (Luo and Shenkar, 2006) and, if there is no language diversity between home and host countries, Joint Ventures will be preferred over Wholly Owned Subsidiaries (López-Duarte, Vidal-Suárez, 2010).

Having stated that, one sub-research questions can be presented and studied in this case:

Sub research question 4: How does language diversity impact the process of internationalization?

4.2.2 Effective communication

Language differences can cause impediments in effective communication, which harms a firm's performance (Welch and Welch 1997). Welch and Welch (1997) refer to two different forms of impediments: filtration (where messages are partially transmitted) and distortion (where the meaning of the message is altered). As previously stated gatekeepers can appear as a new source of power, which can lead to distortion, filtration and blocking of information that can be reflected in management decisions and ultimately firms' performance (Welch and Welch, 1997). On the other hand, language diversity can disrupt effective partnerships between partners in a Joint Venture, impeding optimization and profitability of both partners (Harzing and Feely, 2008).

Since the effect of language diversity is now being taken into account, measures should be developed, in order to diminish the effect of differences in language between companies and their members. First of all, MNEs must consider language as a strategic factor (Welch and Welch, 1997), instead of taking it for granted and including it in strategic planning and implementation. On the other hand, Reeves and Wright (1996) defend a language audit to discover the level of proficiency of the staff in the different languages and develop respective policies accordingly. Finally, these policies must be translated to the native language of each subsidiary to guarantee that all members of the company, regardless of their proficiency in foreign languages, are able to understand managers' language policies and what is expected from them in the future, without misunderstanding, distortions or filtrations (Welch and Welch, 1997).

Consequently, another sub research question can be posed:

Sub research question 5: In what way does cultural distance impact day-to-day operations/management, affecting efficiency?

5. Methodology

In this section there will be provided reasons to why a case study is better applicable as a research method than others (and which type of case study) in this thesis, as well as the explanation and description of the reasons why the company chosen is suitable to answer the research question. Finally, a description of the concrete approach followed will also be presented.

5.1. Research Method/Strategy and Research Approach

In this sub-section, the reasons behind choosing a case study over other research methods will be dissected as well as the research approach and the suitability of the company.

To begin with, according to Yin (2003) the five main research methods/strategies are: surveys, experiments, history, archival analysis and case studies. Each of these methods has better/worse applicability depending on the context of each situation and each has advantages and downsides (Yin, 2003). This applicability depends on three fundamental conditions: "type of research question posed; the extent of control an investigator has over actual behavioral events; the degree of focus on contemporary as opposed to historical events" (Yin, 2009, p.8).

Source: Yin (2003: 5)

Research Strategy	Form of Research Questions	Control over actual behavioral events?	Focuses on contemporary events?
Experiment	How, Why	Yes	Yes
Survey	Who, what, where, how many, how much	No	Yes
Archival analysis	Who, what, where, how many, how much	No	Yes / No
History	How, why	No	No
Case study	How, why	No	Yes

Table 1: Research Strategies

Table 1 summarizes the characteristics and relation of each research method with the three propositions presented previously.

Since my thesis bears the research question: “How do Cultural Distance and Language Diversity inside companies affect them in the process of internationalization?” requiring no control over behavioral events and focusing on contemporary ones, then case study is the best method. Also, the research approach of thesis is to understand what role do cultural distance and language diversity “play” in the internationalization processes of company A (if any) and compare/test the results with the (theoretical) expected behaviors and understand the differences that might occur. The objective of this research approach is to gain a very thorough and organized description and reasoning, in order to acquire a deeper understanding of the problem, thus, requiring a qualitative approach (Quinn, 2002). Therefore, it is needed an in-depth knowledge of company As’ internationalization processes and decision-making influencing factors as well as how the company deals with cultural and language dimensions, in order to facilitate integration in a new foreign market.

Finally, company A is a suitable company to answer this research question because it is a very successful Portuguese Multinational Enterprise, having 60 factories in 18 different countries across Europe, America and Asia. This means that the potential for cultural distance issues and language diversity inefficiencies is high. On the other hand, due to prior research on the company, it is known that not all the internationalizations proved as successful as expected, where cultural distance (sometimes unexpectedly) proved to be a barrier difficult to overcome. Finally, by being on 18 different countries, across several continents, the amount and quality of data is very promising.

5.2 Data Collection

In this sub-section it will be presented the data collection methods, the types and sources of data and the interview design.

First of all, it is relevant to note that the data collection method must be aligned with the research method chosen (case study). This data can be either primary or secondary (Sekaran, 1992), where the former is collected by the researcher with the objective of using it in a study (for instance) and latter are gathered by another researcher for a different purpose. Primary data is usually harder to gather, but it is usually more accurate than secondary one.

For this study, the primary data was collected by conducting five one-hour interviews. The interviewee was a top manager, who works for Company A for 21 years and has a deep knowledge and participation in the internationalization processes of the firm. The collected data has shown the factors that Company A takes into account when it decides to internationalize to a new market, displaying an evolution from the early internationalizations in 1994 to the more recent ones (in 2009, for instance). Also, it was able to provide means to understand the cultural distance's and language diversity's impact in the process of internationalization of the company, as well as how it deals when issues in these areas arise. Finally, it was also possible to understand the motivations and the way the company internationalized in the past and the differences in the planning for the near future. The secondary data collected was a Harvard case study found in their website about the company, internal presentations and documents provided by the top manager. It will be helpful when writing the report, helping to analyze the data and understand the reasoning of the company's decisions in terms of internationalization.

As for the interview design, there was a mixture of open and close questions, in order to let him speak in a broader way about certain topics, while keeping more specific ones as closed and quick-answer questions. One example of an open question is: What does company A take into account when choosing a country/region in which to internationalize? In this question I am not narrowing down the scope of his answer, so he can elaborate on the different factors and motivations of internationalization. An example of a closed question would be: In 1995, company A enters the Brazilian market. Language proximity was a factor to consider? In this question I am trying to understand what type of influence did language diversity (in this case proximity) had in the decision of the firm to internationalize to Brazil.

All questions were created with the goal of understanding the impact of cultural distance and language diversity in the internationalization process of company A, while, at the same time, trying to understand if the company followed any theoretical model (e.g. the Uppsala Internationalization Model).

Finally, the interviews have the objective of answering the previous propositions created (which are sub-research questions) since the will cover the most important aspects of cultural distance and language diversity impact on the internationalization processes of company A.

6. Company overview, data analysis and discussion

In this next section, an overview of the company and its internationalization process will be presented firstly followed by the results of the primary and secondary data researched. In the second part of the section each sub-research question will be addressed as well as a discussion of its implications, by comparing the answers to what would be expected theoretically.

6.1 Company Overview and Internationalization Process

Company A is a Portuguese Multinational manufacturer founded in 1976 and currently operates more than sixty factories in sixteen different countries such as Spain, Malaysia, Vietnam, Brazil, France and Czech Republic, for instance. The company opted to build plants for individual clients, instead of having a center-plant, which would satisfy the needs of many clients, in order to promote just-in-time delivery by locating the individual plants inside clients' facilities and adapting to their specific needs. This was extremely innovative at the time, allowing the company As' technical and management teams to develop close relationships with the clients' staff, while the headquarters in Portugal handled back-office, complex technicalities and coordination between plants in different regions. On the other hand, company A also opted for open-book strategy during negotiations as well as long-term contracts with its clients, in order to build and nurture a long-lasting and effective relationship. With this innovative way of operating (allowing for the company to have null transportation costs, since the plant was located inside clients' facilities) and development of close-relationships with its clients, company A never lost a client and managed to establish great relationships with multinational clients such as Coca-Cola, Nestlé, Danone, Heinz and P&G, for example. As the company became increasingly competitive and dominant in the Portuguese market as well as becoming extremely reliable as a supplier, it had to internationalize, in order to maintain the momentum and growing.

Consequently, company A started internationalizing in the nineties to countries like Spain, Brazil, France, United Kingdom. It was leveraging the fact that it had contracts with multinational clients, in order to enter the foreign markets easier (Coca-

Cola helped integration in France, for instance). In the 2000s, company A internationalized to other regions of the globe, such as North America, Eastern Europe and Asia-Pacific. The company seemed to have a preference for close (geographically and culturally) countries/regions since it began by moving to Spain, France and Brazil. On the other hand, company A always had its headquarters providing back-office support and coordination in each internationalization as well as sending project teams to help set up new plants and train new locally recruited managers, in order to guarantee high-quality standards, uniformity in terms of products and delivery systems and high-security control.

6.2 Data analysis and discussion

In the next sub-section there will be provided answers to the sub-research questions made in the literature review, using the data collected from the interviews with the top manager of company A as well as the secondary data mentioned in the Methodology section. We will analyze the similarities and differences between the findings and the previous studies.

6.2.1 How does cultural distance between the company's country of origin and host country, influence the entry mode?

Cultural distance has a deep influence on the entry mode decision of MNEs (Morschett, Schramm-Klein and Swoboda, 2010; Tihanyi, Griffith and Russell, 2005; Zhao, Luo and Suh, 2004). However, theoretically two distinct options arise: if a company is entering a high-distant cultural market, a Joint Venture with a local partner is an excellent opportunity to overcome the lack of knowledge of the environment (Kim and Hwang, 1992) and reduce overseas costs (Gatignon and Anderson, 1988); at the same time, this opens a door for opportunistic behavior by a local partner, which means that Wholly Owned Subsidiary would be a better option (Chang, Kao, Kuo and Chiu, 2012). Although other factors may influence the entry mode choice, as previously mentioned in the literature review, in this case, "company A always chooses Wholly Owned Subsidiaries, in order to gain full control, since the technical know-how required is extremely complex and the experience with a partner was very unsatisfactory". Despite the existence of arguments defending both Wholly Owned Subsidiaries and Joint Ventures as entry modes, cultural distance bears no impact to company A, since it always prefer to choose Wholly Owned Subsidiaries on principle. Company A by operating on just-in-time schedule and the fact that a delay in this industry as the interviewee stated "can reach up to thousands of euros per minute, it is necessary for everything to work perfectly. Thus, a partner, which is not comfortable with the extremely complex technical know-how, will raise the probability of delays and inefficiencies in general". This causes the need for full control, where cultural distance has no impact on that choice, due to the technical complexity of company's A business model overcomes the importance of dealing with cultural distance.

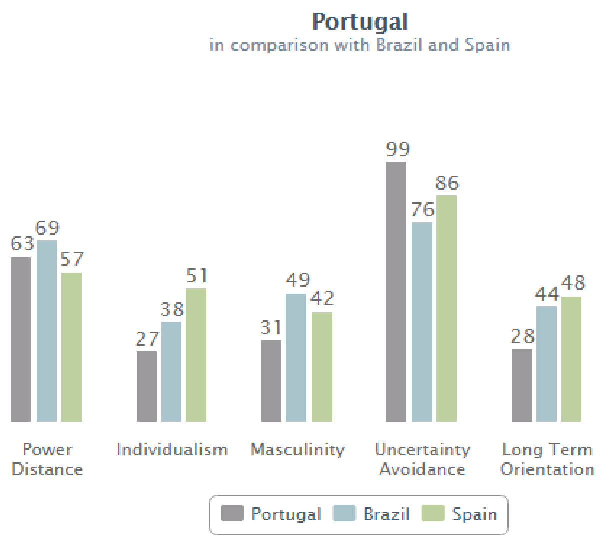
6.2.2 What factors influence the relationship between cultural distance and entry mode?

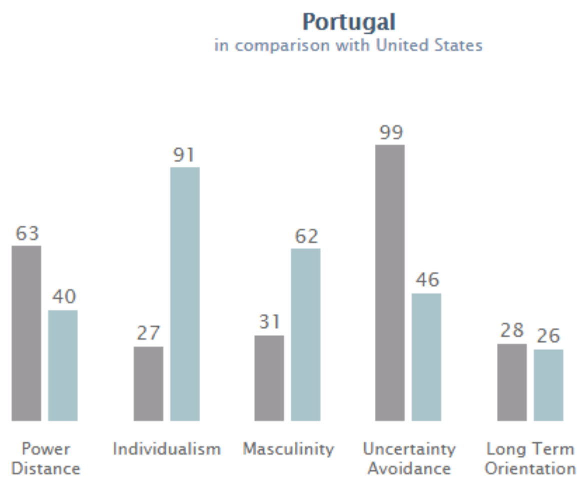
The company prefers Wholly Owned Subsidiary in order to maintain full control and avoid unsatisfactory partnerships, which damage the company's profitability and operational excellence. As the interviewee stated "company A's business model and way of operating requires a very technical know-how and tight scheduling. We tried a partnership, but it did not work due to company's A extremely complex model. We prefer to have full control in order to satisfy schedules and maintain the high quality standards". In summary, there are no factors that influence the relationship between cultural distance and entry mode in the case of company A. Company A never takes into account cultural distance as a primary factor for entry mode choice, since it always prefers Wholly Owned Subsidiaries, due to its complex business model and failure of previous partnership. There is no relationship between cultural distance and entry mode.

6.2.3 How did cultural distance and language diversity impact the speed of the internationalization process?

Due to secondary data, the company seemed to have followed incremental internationalization throughout the years, enjoying domestic success during a few years and moving to close (geographically and culturally) countries during its early stages of internationalization. After establishing itself in countries like Spain, Brazil, France, Italy, the United Kingdom, company A moved to countries such as Malaysia, Czech Republic, Ukraine and Vietnam. The Uppsala Internationalization Model (Johanson and Vahlne, 1977) argues that companies internationalize in an incremental and continuous way, instead of allocating large quantities of resources to new foreign and far away markets. By using Hofstede's dimensions, we can see that Portugal, Brazil and Spain, are fairly similar countries, while Portugal and the United States are fairly different.

The next graphs are a verification of cultural proximity between Portugal, Spain and Brazil (and cultural distance between Portugal and the United States), using Hofstede's cultural dimensions:





As we can see, although some differences between Portugal, Spain and Brazil, the similarities are much higher, than in the case of Portugal and the United States, where the only similarities are the in long-term orientation and (somewhat) power distance dimensions. Also, during an interview, the interviewee stated that "the company opted for incremental internationalization to close countries (such as Spain and France) and cultural similar ones (such as Brazil) due to the belief that integration and control from headquarters in Portugal would be easier in those countries". On the other hand, he also argued that, since the process of recruiting human resources is very hard and it would be easier to send people to geographical close areas than otherwise. Furthermore, he also explicitly defended that company A moved to Brazil, due to a cultural affinity between Portugal and Brazil, justifying the cultural proximity between countries found in Hofstede's dimensions. Also, he defended that the company always searched for countries, taking into account their geographical proximity and cultural affinity, pursuing new markets with easier integration, while avoiding saturation in others. Only lately the internationalization process was affected by the company's partners, since they are extremely valuable to the company to the point it sometimes moves to new regions, in order to offer full support to them. Answering to the proposition, it is logical to say that the company followed the Uppsala Internationalization Model (at least some aspects), although not to a full extent, due to the internationalization to Brazil, which is a country in a different region and continent, being separated by thousands of kilometers.

Having stated that, company A had domestic success before starting to internationalize to geographically and culturally close countries such as Spain, France and Brazil, suggesting that it followed the Uppsala Internationalization Model to some extent. It internationalized throughout Western Europe due to its geographical proximity and easiness to control complex situations from its headquarters in Portugal. Also, in terms of language diversity, the company never faced any problems, until reaching countries such as Malaysia, Ukraine and Vietnam, leading to a decreased impact of this factor. Company A, through its top managers was comfortable when the other part communicated in English, French, Spanish and Portuguese, but in countries such as Vietnam, the native language and the difficulty and reluctance of speaking English, created many complications to company A, namely in negotiations and developing long-lasting relationships. On the other hand, the interviewee stated that one of the goals (the main objective being an easier allocation of human resources) of this incremental internationalization was to minimize the impact of both cultural distance and language diversity, which they ultimately succeeded at. Answering the proposition, in this case, cultural distance and language diversity were factors with reduced impact, due to incremental internationalization. Actually, it was one of the reasons to opt for this type of internationalization.

6.2.4 How does language diversity impact the process of internationalization?

The main goal of this sub research question was to understand if language diversity could have an influence in the internationalization process of a company, whether by forcing them to opt for Wholly Owned Subsidiaries or Joint Ventures, depending on the restraints and impediments that this diversity would pose. Since language is known as the forgotten factor (Harzing and Feely, 2008) it tends to be considered as a part of cultural distance (Lopéz-Duarte, Vidal-Suárez, 2010).

When considering company A, the data collected shows that there is no connection between language diversity and entry mode choice. In fact, the interviewee stated that “the company always opts for Wholly Owned Subsidiaries as entry mode, since it prefers to have full control due the rigor, just-in-time way of operating and the absolute need of being always on schedule. The operational and technical activities were very different and A’s business model requires a very specific technological know-how, which is not easily available in the market”. In conclusion, the answer to the proposition is that, in this case, language diversity has no influence/impact on the entry mode choice of the company, since it always prefers wholly owned subsidiaries despite of language diversity existence or not.

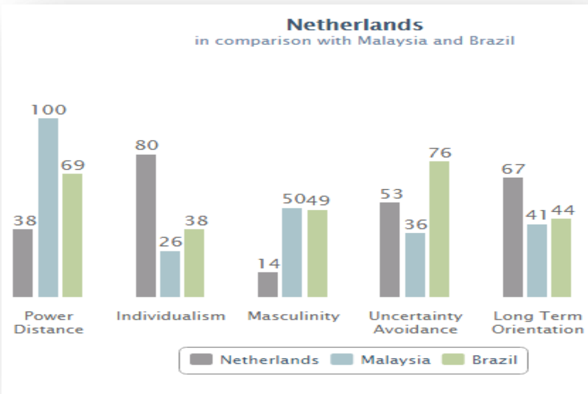
During an interview to a top manager of the company, he argued that only in very specific cases languages becomes an issue. In most cases, company A feels comfortable during the process of negotiation, since its managers are completely comfortable with English, Portuguese, Spanish and French languages and they pose no complications. As the internationalization process went to countries such as Spain, France, United Kingdom, Brazil, Canada, United States, Holland, there were no difficulties regarding language diversity during a negotiation process. However, when moving to countries such as Malaysia, Vietnam and Ukraine, it became harsher to deal with, because the company is not comfortable with the languages of those countries, and they struggle when speaking English, insisting on negotiating in their native languages, which works as an impediment. Also, since one of the core values of the company is to have a close relationship with clients and partners, these language impediments can hinder the fulfilling of these values. Answering the proposition, in the case studied, in countries/regions, where language diversity is higher, it leads to more impediments in negotiations, but only in very specific cases (countries like Malaysia and Vietnam, which struggle hard on high-levels of English).

In summary, the impediments on negotiations and a difficulty on maintaining effective communication stated in previous studies was verified in company A, despite not confirming the creation of gatekeepers or not. However, entry mode choice was not influenced by language diversity as it was expected and this factor only proved to have an impact in very specific countries and conditions (native language not dominated by company A and refusal and difficulty for the other part to speak English) such as Vietnam or Malaysia.

6.2.5 In what way does cultural distance impact day-to-day operations/management, affecting efficiency?

Although company A is from a Latin country (Portugal), it follows and operates with core values of the Anglo-Saxon culture such as rigor, discipline and focus. Since it has a strong organizational culture, better identified with the Anglo-Saxon countries, company A has no difficulties when integrating these countries. At the same time, its headquarters are in Portugal, and the top management is well-aware of the features and characteristics of Latin countries as well, which helps them to adapt their way of working, training and recruiting, depending on which country they are entering, as long as they are developed economies. However, the company has faced some difficulties when entering countries with less developed economies such as Brazil and Malaysia. Although Portugal and Brazil are culturally similar, as shown by Hofstede's dimensions in the previous graph, the company's organizational culture is very different. This cultural distance impacts day-to-day operations because, as the interviewee stated "factors such as corruption, hierarchized and stratified society, bureaucracy, inflation, lack of high-skilled individuals and lack of formal structure disrupt the company's operations. Corruption, bureaucracy and inflation diminish the plant's profitability and it becomes increasingly harder for the company to have fast returns on its immense investment. Lack of formal structure is linked to weak regulatory systems such as intellectual property rights, taxes and contractual obligations, which damages the company's profitability and production capacity/productivity. The combination of these factors with lack of high-skilled individuals leads to the impossibility of company A to meet its "just-in-time" deliveries in terms of speed and quality". Also, the difference in terms of quality and security standards between some countries (such as Brazil and Malaysia) and the European ones can cause bad reputation, since the company is expected to have uniformly quality and security products. These issues are faced on a daily basis.

The next graph shows the difference between an Anglo-Saxon country, Brazil and Malaysia, in order to understand the cultural distance between a European, South-American and Asian country:



7. Conclusions, Managerial Implications, Limitations and Further Research

In this section the conclusions regarding the effect of cultural distance and language diversity in the internationalization process of a company will be presented, based on the findings and data analysis as well as theoretical expectations, analyzing the implications they can have for managers. Furthermore, limitations on the data collected and the case study itself will be addressed as well as opportunities for further research in the future.

7.1 Conclusions

It was shown throughout the case study that cultural distance and language diversity inside companies influence and affect them during their internationalization process in numerous ways. Research shown that in occasions of high cultural distance, firms can opt for Joint Ventures or Wholly Owned Subsidiaries (Morschett, Schramm-Klein and Swoboda, 2010; Tihanyi, Griffith and Russell, 2005; Zhao, Luo and Suh, 2004). Wholly Owned Subsidiaries can be better in preventing opportunistic behavior by a local partner (Chang, Kao, Kuo and Chiu, 2012), and Joint Ventures can become an appealing solution when bridging the gap of local market and environmental knowledge and facilitating the integration of a multinational (Kim and Hwang, 1992; Brouthers and Brouthers, 2001; Slangen and van Tulder, 2009). On the other hand, research also shown that other factors such as poor/good governance quality (which translate into inefficiencies such as the rise of corruption), weak/strong formal and legal structure of a country, aligned with cultural distance can influence the entry mode choice of multinationals (Globerman and Shapiro, 2003; Gani, 2007; Lopéz-Duarte, Vidal-Suárez, 2010; Chang, Kao, Kuo and Chiu; 2012). Despite this theoretical background, company A has opted to follow an entry mode choice of Wholly Owned Subsidiaries in every country, despite of high or low cultural distance. In theory, we should expect companies' entry mode choice in a foreign market would be influenced by cultural distance, but in the case of company A, the intrinsic preference and poor experience with a partner led to the unquestionable preference of Wholly Owned Subsidiaries, regardless of the country's (or region's) features.

Although the entry mode choice was not affected by cultural distance or language diversity, these two phenomena were considered as very important when the company opted for incremental internationalization. Company A's interviewee argued that human resources allocation and easiness to control operations was easier in geographical closed countries, however, the early internationalization to Brazil, Spain and France was also due to the fact that these countries are culturally close to Portugal, reducing in fact the impact of cultural distance and language diversity. In that sense, cultural distance and language diversity clearly influenced the strategic option of internationalizing incrementally and the choice of specific countries.

On the other hand, integration was easy in Anglo-Saxon countries, theoretically culturally different and distant from Portugal, because the organizational culture was aligned with core values present in those countries. By being a Portuguese company, operating under strong Anglo-Saxon values such as rigor and discipline, company A was able to integrate fairly easy in countries supposedly different, such as Spain and the United Kingdom for instance. Nonetheless, when moving to countries such as Malaysia, Ukraine or Brazil, where the economies are not so well developed, integration was much harder, due to factors such as corruption, inflation, adverse political and legal environment, high hierarchized and stratified societies. These factors raised the difficulties related to cultural distance, where the organizational culture and local culture were too distant, causing disruptions in just-in-time delivery systems and high quality and security standards in day-to-day operations.

Finally, language diversity, in research, normally leads to disruptions in the communication flows and the creation of gatekeepers, which affect a firm's profitability (Welch and Welch 1997; Harzing and Feely, 2008). Also, it can hinder negotiations, since the part negotiating in their native language has a higher degree of control, leading to discomfort from the other part (Root, 1994; Luo and Shenkar, 2006; Harzing and Feely, 2008). This was partly verified in company A. In languages such as French, English, Portuguese and Spanish, company A was perfectly adapted and could negotiate without complications. However, in countries such as Malaysia, Ukraine and Vietnam, company A was not comfortable with the native language and the negotiators refused to negotiate in other language, causing inefficiencies in terms of nurturing long-lasting relationships with clients and partners, which was one of the core objectives of the company. In that sense, language diversity hindered negotiations in specific countries such as Vietnam, Ukraine and Malaysia.

7.2 Managerial Implications

In terms of implications for managers, research has shown strong indicators that cultural distance and language diversity can have a deep impact on a company's success and performance. It can influence the entry mode choice of a company, disrupt the information flow, creating gatekeepers or leading to discomfort during negotiation processes (as it happened on company A) as well as existing quality and security gaps in day-to-day operations, leading to inefficiencies, decrease on quality, delays on delivery times and, consequently, loss of reputation. Managers must consider the challenges posed by cultural distance and language diversity and incorporate those two phenomena in the internationalization process strategic planning from the beginning. By knowing how these factors affect the company in an internationalization process means that it can adapt to challenges it will face when integrating a new foreign market. This adaptation can be done by discovering the level of proficiency of the staff in several languages, developing specific policies accordingly (Reeves and Wright, 1996) and translating these policies to the native language of each subsidiary. Another example is promoting frequent communication and interdependent work between groups of individuals from different cultures, in order to create a sense of membership.

7.3 Limitations

The first limitation was the fact that only one company was studied and interviewed in this case study. Company A, despite all the interviews and time given, only represents one company, from a specific sector in Portugal. The data collected is far from being representative of the manufacturing sector or the country and regions. However, the in-depth interviews made gave comprehensive knowledge and extensive information on the topic addressed.

The second limitation was the number of interviews made. Although the interviewee was extremely helpful and tried to be as available as possible, the number of interviews is still low that ideally would be. This is also linked with another constraint, which was time, since, with more months, much more interviews and an even more in-depth data and knowledge on the topic could be gathered.

The last limitation was the number of people interviewed. The person interviewed had a large amount of experience and data at his disposal, had been present in the company for 21 years and occupied a high position, which had him dealing with much information from the internationalization process of the company. However, some information might have been biased from his personal beliefs or experience, so, ideally, interviewing more people to compare and contrast answers given in the interviews would increase this thesis explanatory capability.

7.4 Future Research

This case study showed that are several topics that should require more attention from researchers and their impact is still not being taken thoroughly into account in current or past research. First, the relationship between a company's organizational culture and the country where it belongs can disrupt the existing theoretical background. For instance, even though company A was from Portugal, a Latin country, its organizational values were more in line with an Anglo-Saxon country, making its integration easier than expected. Secondly, in some occasions, companies might have intrinsic and personal beliefs or preferences that might be unconsidered by theoretical background such as the fact that company A preferred entering new countries via Wholly Owned Subsidiaries, despite the type of country it entered. An opportunity for further research would be analyzing other factors such as companies' preferences to modes of entry, with no real connection to the type of country they are entering. Finally, an opportunity for further research would be how to build a concrete strategic plan to deal with cultural distance, language diversity and their respective impacts. Although there has been some general guidelines pointed out as possible solutions, there is still no presentation or suggestion of an elaborated strategic plan or plan of action has been presented or suggested. There are several potential mechanisms that could help diminish the effect and negative impact of cultural distance (Shenkar, 2001). One of those mechanisms is globalization and convergence at the organizational level (Shenkar, 2001), where it focuses on the fact that better and more frequent communication and interaction help reduce the cultural gaps between different cultural systems (Webber, 1969). Another mechanism is linked to geographical proximity between affiliates (Shenkar, 2001), where it reduces entry barriers (Buckley and Casson, 1979) due to lower costs of coordination, control and monitoring, while also easing up knowledge transferring (Vachani, 1991). Acculturation is defined (Berry, 1980) as "*changes induced in systems as a result of the diffusion of cultural elements in both directions*", which generally reduces cultural distance to the foreign country. Cultural attractiveness is important in the sense of choosing foreign countries with cultures similar to the home one (Shenkar, 2001). Finally, staffing is very relevant, since groups affect the national and corporate cultural distance (Shenkar, 1992) where bicultural individuals, especially managers, have a very important role in creating a sense of membership throughout the groups (Weber, Shenkar and Raveh, 1996).

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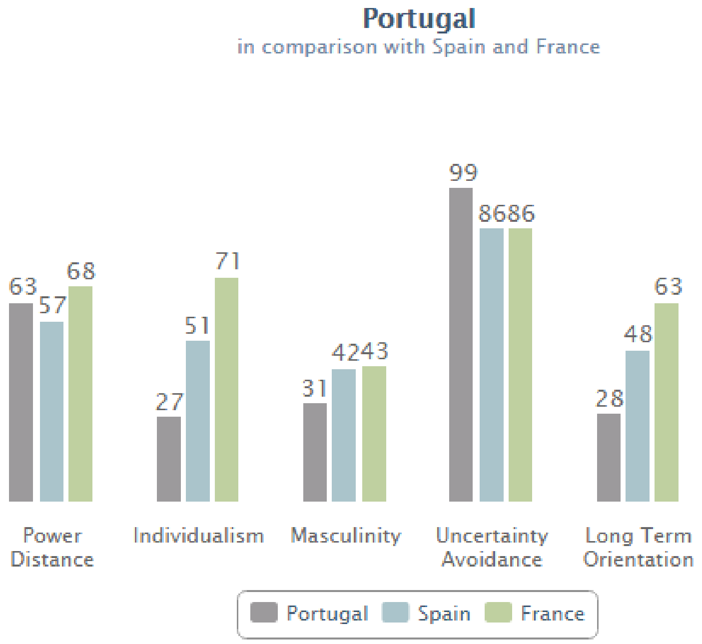
Appendix 1 – Hofstede's Dimensions

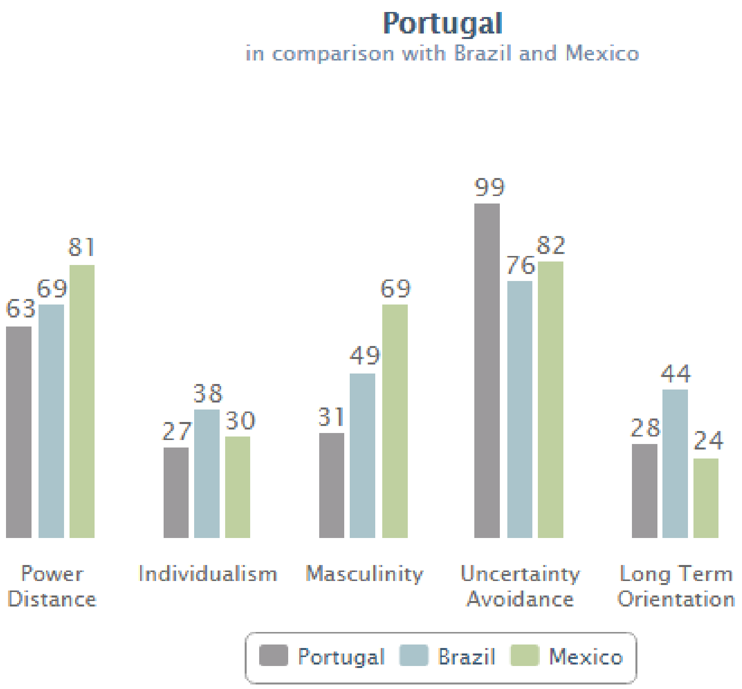
Table 2 – This image summarizes the Hofstede's Cultural Dimensions Framework and provides examples of countries that have high scores on specific dimensions

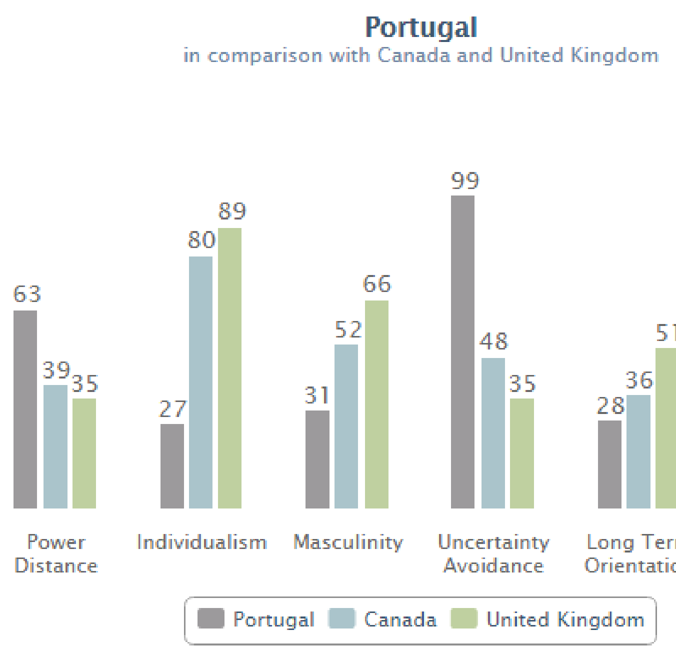
Dimension	Description	Example
Power Distance	Extent to which less powerful members accept that power is distributed unequally. High PD many hierarchical levels, expect authoritative figures to take the lead. Low PD, flat organizational structures	High for Latin, Asian, African countries. Lower for Germanic countries
Individualism vs Collectivism	Degree to which individuals are integrated into groups. Individualistic: loose ties, individual most important. Collectivism: Group is the most important unit. Individuals tend not to explicitly show their strong opinions against the group.	Individualism high for Western and developed countries. Collectivism high for underdeveloped and Eastern countries. Japan takes a middle position.
Masculinity vs Femininity	Distribution of roles between the genders with an assertive pole seen as "masculine" and a modest, caring pole as "feminine". In masculine countries, women display masculine traits, but not as much as the men, there is a distinct expectations of roles	Masculinity high in Japan, Germany, Austria, Switzerland. Moderately high in Anglo countries. Moderately low in France, Spain, Thailand. Low in Nordic countries and Netherlands.
Uncertainty Avoidance	Society's tolerance for the uncertain, ambiguous and unstructured situations. Societies that avoid uncertainty tend towards strict rules, laws, safety and security measures. Those that accept uncertainty are more tolerant of differing opinions, have as few rules as possible and tend towards relativist attitudes.	High in Latin countries, Japan and Germanic countries. Lower in Anglo, Nordic and Chinese cultures
Long Term vs Short Term Orientation	Long Term – tend towards thrift and perseverance Short Term – respect for tradition, fulfilling social	Long term Orientation mostly found in East Asian countries: China, Hong Kong, Taiwan, Japan and

Appendix 2 – Cultural distance between countries

Figures 3 to 6 - Cultural distance and similarities between the most discussed countries in the case study






Portugal
in comparison with Canada and United Kingdom
63
39
35
27
80
89
31
52
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99
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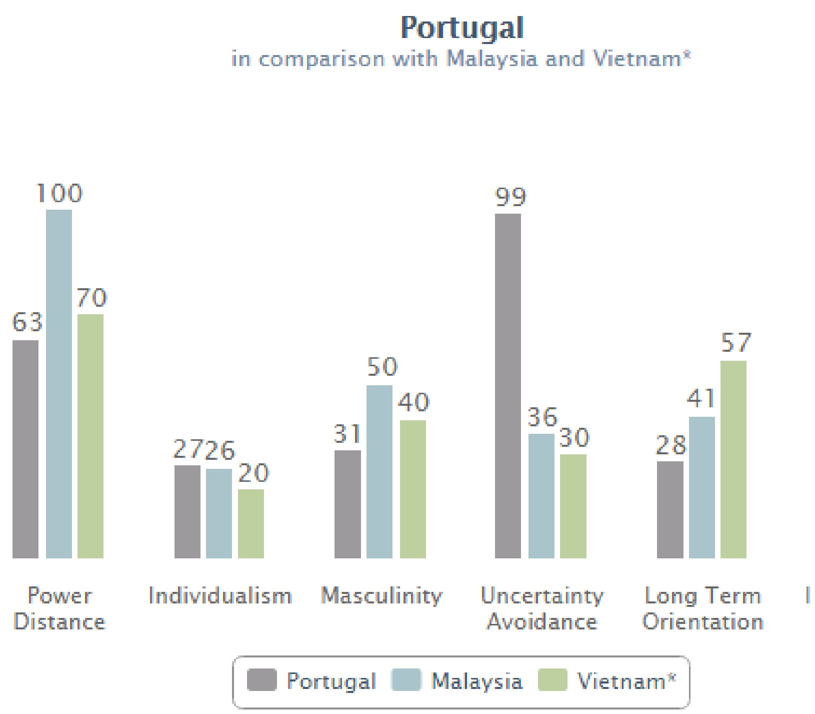
35
28
36
51
Power Distance
Individualism
Masculinity
Uncertainty Avoidance
Long Term Orientation
Portugal
Canada
United Kingdom


Portugal
in comparison with Malaysia and Vietnam*
63
100
70
27
26
20
31
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99
36
30
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41
57
Power Distance
Individualism
Masculinity
Uncertainty Avoidance
Long Term Orientation
Portugal
Malaysia
Vietnam*

Appendix 3 – Interviews Summary

In this appendix, a summary of the interviews including the relevant information for the understanding of the company's internationalization process and useful general information about company A will be presented.

Interview by areas

Why the European agreements led to company's A Business Model become more appealing?

The opening of frontiers and free circulation led to industrial units being able to serve more than one country, therefore enhancing their market reach and increasing the volume of units produced in each plant (consolidation of Produced Volumes). Company's A Business Model naturally fits in Industrial Units of major volume/Production, since the investments can be easily depreciated in the production volumes, causing the Distribution costs impact to be higher, justifying the integration of packages' production.

Early success of company A and international planning

How successful was company A in the first few years of Business?

It was very successful in the first years due to prior experience of the owner and partners. It held 80% of the market before internationalization.

What do you think prompted the success of the company?

The superior Business Model.

In what way? Can you give examples?

All success bases itself exclusively on this Business Model. If it was not this way, company A would not have consolidated growths of 15-20% over the years.

When did internationalization start being a plan?

After the European Agreements the internationalization to other European countries became easier and more appealing. On the other hand, since the company had 80% of the national market, it was becoming saturated and limited in terms of profitability.

What motivates you to internationalize?

In the beginning it was the pursuit of higher profitability and saturation of national market. Nowadays, there is no pressure to neither internationalize nor need to do it. The reason why Logoplaste internationalizes nowadays is to aid its strategic partners (other Multinational enterprises) and act as supporter to its partners. Practically the sole reason is the needs of its strategic partners.

Why does company A "need" to aid its partners to the extent of internationalizing to a new market? Does it happen for all partners or just very specific ones?

Just for what it calls real strategic partners. Their strategic partners are Global Partners, which require a global support and presence.

Internationalizations of company A

Your first internationalization was to Spain in 1994. What were the reasons behind that choice?

The biggest reason was essentially the geographic proximity, due to knowledge of the market and reduction in transportation costs and easiness to "control" the new subsidiary.

In 1995, A enters the Brazilian market. Language proximity was a factor to consider or the theoretical close relationship between Portugal and Brazil?

Language proximity was not a factor. The main reason was the affinity that the company expected in cultural and value aspects between Portugal and Brazil.

The internationalization process continued throughout Western Europe: France, another expansion to Spain (Barcelona), Italy, and England. Afterwards, you moved to Czech Republic, Austria, Holland, USA, Canada, Ukraine, Malaysia and Mexico. Do you plan internationalization based on regions?

No. Essentially it begins by geographical proximity and affinity, then by going incrementally through Europe, pursuing new markets and avoiding saturation in others. Lately, it is mainly planned through needs of strategic partners.

Why not moving to Scandinavian countries? Try to find specific reasons for each country?

The production volumes in these areas and market segments where company A has its core Business are relatively low in these countries, when compared to the larger European countries, where the production volumes are way larger.

What main difficulties do you face, when internationalizing to a new country?

High-qualified human resources are the main issue. Also, cultural conflict can happen, but the company deals it with by having many administrative and corporate functions consolidated centrally, where the structure has a higher involvement and impact in more countries where the integration is more difficult, such as Brazil. Brazil should be a culturally affined with Portugal and integration should be easier. It is not the case.

What does the company take into account when choosing a country/region in which to internationalize?

It searches ideally for countries with purchase power medium-high, in order to compensate the very high investments and have the return on them faster.

Geographical proximity and cultural affinity is very important too, as well as needs of its strategic partners.

Cultural distance influence on internationalization

Was cultural distance taken into account? If yes, during what phase of the strategic planning?

The cultural factor is taken into account into an extent where it does not destroy the DNA of the company. Company places locals with a formation period and explanation of company's values, beliefs and high-standards. It is taken into account since the beginning in the strategic planning, and countries expected to cause more cultural "conflict" will have a higher support by the central units.

You said that the cultural factor had importance since it did not destroy the company's DNA. What do you mean by destroying the company's DNA?

The cultural issue cannot overcome corporate values, which are: transparency, pro-activity, high technical skills and competences, and put their partners first.

How does cultural distance (in countries like Malaysia and Vietnam) affect the company in terms of quality and security standards, since, in those countries, the rigor might not be the same as in more developed countries of Western Europe?

Tipically in those regions, the Quality standards are inferiors to the ones in CEE, which causes difficulties in perception of minimum quality for a company's A unit. Even though it is built in other countries, units are supposed to have the same quality levels and respect the norms of security as any other Industrial unit produced in the company.

How do you deal with cultural conflict?

The company develops a plan of action to deal with this problem. There is a strong intervention by the central structures thanks to formation, optimization of operational resources, and replacement of people if needed.

What other mechanisms does company A employ? What is the rate of success when dealing with these issues?

Above all nice judgment: They try to train people from different regions in order for them to become local mentors. And they also try to incentive people to have some change-spirit.

Did you opt to closer countries to Portugal, due to possible cultural similarities?

Yes and geographic proximity. The process of recruiting human resources is very hard, and is easier to send people to geographical close regions than to distant ones, meaning that doing it incrementally is better accepted.

Did you find any problematic situations due to different governance quality, formal structure in different countries?

Yes, since Africa is very problematic and extremely corrupted, the company believes that the market is very appealing economically, but it will not internationalize to that continent, due to poor governance quality and lack of formal structure mechanisms.

Integration and choice of entry

How did you enter the foreign countries? WOS? JV? Other form? What influenced that choice?

WOS for all markets due to preference of having full control of operations

Why is there the need to have full control?

The business model requires a management and technical know-how very specific, which is not easily available on the market.

Did you consider choosing a local partner to facilitate integration in any country?

No, never.

Why did you never consider the possibility of a local partner to make integration easier?

They have done it before and it did not work well. There were always many differences in the implementation part, which compromised relationships.

Did Cultural distance and language diversity ever led to the preference of wholly owned subsidiary over local partner? Or it was not even considered as entry mode option?

Normally Joint Venture is not even considered as an option.

What main factors can difficult integration?

Language, since there are countries and markets where even English is a difficulty and makes the finding of qualified workers even harder. Another factor is the cultural distance between countries because it requires even more presence by the central structure in dealing with the conflict. An example was Brazil.

Other factors and ranking of the existing ones?

- Political Situation
- Language/Culture
- Financial situation of the country
- Inflation

In what way each of them pose difficulties?

Political situation – examples such as Ukraine and Venezuela, which are dangerous areas, with extremely complicated political situations, leading to a total unpredictability of the business; it can also provoke complex situations during the importing of Industrial Production platforms.

Language/Culture – In countries where languages and cultures are extremely different, these factors can lead to difficult integration, since there is not a fluid communication flow between company's structures, clients and Strategic Partners. Usually this leads into complex situations with very complicated management.

Financial Situation of the country – countries with a difficult financial situation have consumers with low purchasing power.

Inflation – when the inflation rates are too high, they cause difficulty in obtaining high returns on investments. In this sector, the start-up investments are very high and high returns on investment is a priority.

All of these factors cause problems and they are not isolated from each other. Example: a complex political situation leads into a financial situation unbalanced and, consequently, to high inflation rate.

What was your most unsuccessful internationalization? Why? What difficulties did you face?

To Brazil. The bureaucracy, financial constraints such as taxes, investments and devaluing of the Real, inflation, interests, and huge investments required makes it extremely hard to be successful in that country. Also, although there is a theoretical cultural affinity between Portugal and Brazil, the company culture and Brazil's culture is very different. Company A is not a hierarchized company, the rewards are attributed based on performance, quality, autonomy, JIT production, high skills and responsive capacity are very important values. In Brazil, everything is complicated, stratified, and bureaucratic and slow, what collides with the company's culture.

What is the most probable region you will internationalize next?

The main goal now is to consolidate the North American Market, due to its size and incredible potential. Future internationalizations will depend on the strategic partners' needs.

Where was integration easier? In Latin-Countries? Anglo-Saxon? Indifferent?

In developed economies and Anglo-Saxon countries.

Integration was easier in Anglo-Saxon countries and developed economies. Why did that happen, if Portugal is a Latin Country? In which countries did you find higher cultural distance and conflict?

Company A, even though is a Portuguese company in a Latin Country, its business model is very rigorous and pragmatic. These elements are more connected to Anglo-Saxon countries, reason that explains why the company "fits" easier. On the other hand, the Industrial Model is composed by large Production Units, and the Production Units in Portugal are, generally, smaller or medium. The Industrial Units in the Anglo-Saxon countries are, generally, 5-10 times higher than the Units in Portugal.

Language diversity

Is language diversity ever a problem? If yes, in what ways?

In Malaysia, Ukraine and Vietnam it is difficult because the company is not comfortable in the languages of those countries, and they have some struggles with speaking English with high quality. This leads to a lot of inefficiencies. English, Spanish and French pose no trouble at all for company A.

You said that in countries like Malaysia and Vietnam, language diversity has posed some problems. What kind of problems? Impediments in negotiations?

Company's A success englobes a great proximity between partners and clients. That is one of the biggest differentiation factors compared to competition. Language diversity is obviously a disturbing factor, in what the company intends to be a differentiation factor.

In what way does Language Diversity cause any trouble?

Language diversity has not been one of the biggest obstacles, with the exception of countries where languages are very specific and different of the usual ones, causing the necessity of extra effort (Malaysia, Vietnam, for instance).

Do you find problematic addressing affiliates in foreign markets due to language differences?

Not by linguistic issues as long as the goals and rules of Logoplaste are easily explained.

What are the biggest influences in day-to-day operations of company's A due to cultural distance (distance between organizational culture and national culture) and language diversity? How do these two phenomena affect the different areas of company A (Production, Distribution, Human Resources, Negotiations, etc.)?

Company's A industrial model, for being "just-in-time" requires exceptional reactionary capacity, both in terms of delivery time and of commercial/technical content.