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Market orientation as key factor of assimilation of the cultural variable within a process of international development

Abstract

This paper discusses corporate internationalization strategy. It focuses on the selection of the target market and the development of a true system of value (i.e. to carry out an alignment of the value chains of the members) with foreign partners of the target market. It underlines the difficulties of managing the cultural factors within internationalization. It discusses the benefits of a market orientation for the selection of the market, and for the construction of a value system. It shows that market orientation through behavioral and cultural dimensions can help for a better management of the cultural gap. It can also help to build a sustainable and powerful system of value. These reflections lead us to the proposal of a grid of reading of the internationalization process with partnership on the target market.

Keywords: *Internationalization, market orientation, partnership, organizational culture, cross-cultural management.*

Track: *International and Cross-Cultural Marketing*

Introduction

After fully developing business opportunities on their domestic markets, western companies, for more than 50 years, have turned to new markets starting a geographical diversification process. Thus, Coca Cola sold its first soda bottle in France in the 20s, the first Mac Donald's restaurant opened in France, in Creteil, in 1972, on January 2007 the first Chinese car was sold in France (the Landwind X-pedition), Carrefour opened its first hypermarket in Romania in 2001, ACCOR Group opened its first hotel in China in 2009, etc

Failure or relative success of certain companies in developing their commercial presence within international markets raises many questions. In October 2009, Carrefour announced its withdrawal of the Russian market, the same occurred to Leroy Merlin in 2003 on the Belgian market. Pizza Hut restaurants and Starbucks Coffee have experienced only tentative success on the French market. These examples make us think. These companies developed a well-grounded and tested business model on their domestic market which appears to be completely or partially inoperative on other territories.

It is usually admitted that the first stage of internationalization is the study and analysis of target markets. This stage can be somewhat mechanical and disembodied. It focuses a lots on the analysis of economic (size of the market, purchasing power, etc.) and strategic indicators (competition, entry barriers etc.) but generally neglects the importance of cultural factors, as a variable which can influence the business model. This is probably because most companies have a well-controlled and proven business model upon which they rely, which works in their domestic market and similar markets. Yet, the failure to incorporate cultural factors appears particularly critical, because internationalization cannot be regarded as a simple short-term action especially because it requires creating local partnerships within the target country.

Therefore, this paper explores the use of market orientation as an analytical tool to evaluate the adequacy of a business model when applied to the local target market. In other words, it is a question about the way in which local culture can be used to advantage, and for better understanding the links with local partners.

1. Internationalization and Cultural Dimension

1.1. Motivations at the origin of internationalization

Internationalization remains a very fuzzy concept. However one can admit without risk that this is a strategy adopted by companies in order to continue their growth and development. It results in an evolution of the geographical perimeter (development of a presence on new territories) and also by changes to the technical perimeter (development new activities and/or new products). The choice of the target country results from an analysis of the potential of the market, even if one cannot exclude the fact that the choice of certain territories can result from a political decision or only a wish of the leader. Many theories contributed to identify the determinants of these choices. The first economists Smith and Ricardo showed internationalization as a solution to the inequality of resource allocation between the nations. This theory remains completely up to date if one considers that the companies which delocalize their production seek to benefit from cheaper labor in exchange for basic technical knowledge which is not readily available within the local market. This approach answers cost logic; however, cannot be considered as a long-term strategy, except in rare cases of production of standardized products or services that are accepted as-is by the market (Rochette, 2006).

In markets characterized by an intensification of competition, and a progressive saturation of the markets, internationalization becomes a means of escaping frontal competition. In this case, it generally takes the form of diversification (Porter, 1985), which makes it possible to exploit new layers of value creation (collecting a virgin market, reaching critical mass, scale economies, uncovering hidden demand, imposition of an economic model, a product or a norm as a standard...). This approach answers market logic, and the objective is then to develop a sustainable industrial and/or commercial presence (Rochette, 2006). If the economic and strategic motivations of the companies with regards to internationalization seem obvious, the method of internationalization is less obvious.

1.2. Choosing the method of internationalization

The development of a presence abroad will be conditioned on one hand with the evaluation of the risks taken and on the other hand with competencies and resources available to the company.. The risk taken can be studied from two dimensions: the difficulty of entering the market and the cultural factors which can result from proximity or cultural distance. The first dimension refers to the entry barriers (economic, logistics, legal, etc.); the second refers to the difficulties that a company, eager to internationalize, can have to determine the behaviors of partners within the target market. It is on the basis of these two dimensions, that Horovitz and Kumar (1999) propose a matrix showing the strategies of market entry: organic growth, franchising, acquisition or joint-venture. The choice of a mode of internal or external growth is widely dependent upon the possibility of reproducing the business model of the domestic market (Lehmann-Ortega and Schoettl, 2004). Indeed, key success factors on certain markets are not necessarily usable on others markets, thus a strong business model on the domestic market is not necessarily transposable.

1.3. The place of cultural factors in internationalization

Most authors agree that “*companies are generally internationalized via a successful formula which they export to various markets*” (Dupuis, 1991; Dioux and Dupuis, 2005). However, in certain cases of strong cultural distance, the need for creating value for the customer requires the integration of specificities of the target market. This is particularly important if the concept or the product is not powerful enough to become a homogeneous standard.

If the failure to integrate cultural factors raises obvious difficulties within the framework of an internationalization based on organic growth, it becomes particularly critical when it deals with acquisition, joint venture or franchising. The recourse to a local partner can reduce the cultural distance between the company and its customers. Commercially, the adaptation of the offer to the market is facilitated. However, in parallel the recourse to these partnership formulas to enter a market increases the difficulty of management of the business model as the company seeks to transpose its operational organizational standards, its techniques, its values with partners who do not share necessarily the same technical and organizational cultures. Then location of the “business distance” becomes crucial (Dupuis and Prime, 1996).

2. Market Orientation

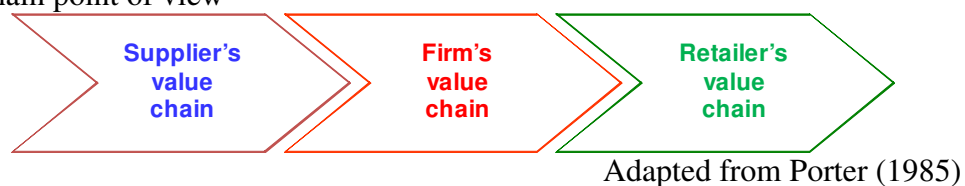
2.1. Interest in a step of internationalization

Today, it is impossible to consider the partnerships and the development of a sustainable presence on foreign markets without taking into consideration market orientation. The need for market orientation results from the increase in worldwide competitiveness (Pras, 1999) and the search for competitive advantages in any point of the value chain. Two research publications in 1990, (Kohli and Jaworski, 1990; Narver and Slater, 1990) defined the market orientation concept. Market orientation is approached in its cultural (Webster 1992) and behavioral (Kohli and Jaworski, 1990) dimensions. Initially, this concept articulates both around “customer” and “competitor” orientations. These two dimensions will be supplemented thereafter by a “technological orientation” highlighting the importance of innovation as a factor of satisfaction of the customer and of competitiveness. Research shows the positive impact of market orientation on innovation. More recently, because of the integration of distributors’ and suppliers’ power in the analysis of the value creation system and the description of the layers of competitiveness of which they can initiate, “supplier orientation” and “distributor orientation”, are also perceived like demonstrations of market orientation. These are the dimensions we will be more specifically discussed in this paper.

The deployment of market orientation and its impact on company performance are conditioned by a certain number of elements: the attitude of top executives, organizational configuration, the nature of relations between partners, and between departments (Gotteland, 2004). The characteristics of the environment can support or destroy the adoption of behaviors and/or a favorable diffusion of a culture. Market orientation makes it possible to limit the risks associated with internationalization, by bringing a better knowledge of the local situation. On the other hand, it allows identification of red flags (behaviors, culture...) which prevent the development of a presence on the targeted-territory.

If the company adopting a market orientation pays a special attention to factors which impact it (customers, distributors, competitors, suppliers, and technology), supplier and distributor must integrate this market orientation and the rules which result from this, for the implementation of a real value creative partnership. Thus, a system of value is set up, in the meaning of Porter (1985), which is the result of a value chain alignment among partners.

Figure 1: Representation of the system of value: the alignment of partners’ value chains from a Supply Chain point of view



This alignment of the value chains is more complex in an environment showing important cultural differences insofar as it requires beforehand a form of training between the partners.

2.2. To use a key of cultural reading: cultural factors and market orientation

If this alignment of the values chains makes it possible to develop competitive advantages, it does not do so without raising many difficulties of a cultural nature. The first one is the necessary domination of one actor in the system and which can either be accepted or it generates resistance behaviors from other members (Poirel 2004a). In the literature on internationalization, the dominating actor is usually the foreign company entering on the market (Burt, 1993; Gielens and Dekimpe, 2001), more especially when it is an emerging market. It enters with its culture, techniques, and tested operating processes from its domestic market.

The second difficulty is the cultural variation existing between foreign company and local partners that have to be reduced. However, the identification of the contents of this variation is complex. Indeed, the culture returns to ethnological, sociological and organizational dimensions (Rabasso and Rabasso, 2007), with visible and invisible aspects (Hall, 1969), with innate values called implicit cultural dimensions (Hall, 1969, 1990) and acquired ones, named cultural explicit dimensions (Hofstede, 1984). In fact, it is difficult for a foreigner to have a clear representation of the culture of the target country and to understand operating processes of potential partners, and vice versa. The company which decides to internationalize must manage various dimensions of the cultural factors, to pay more attention on two levels: national culture and organizational culture. The proximity of these cultures increases the chances of success; insofar the company entering on a market has only to concentrate on the organizational culture. The culture includes a managerial dimension which the dominating actor can deal with more easily. From this point of view, some regard it as being mechanical. It is, then, a set of learned rules and which arise under the impulse of a stimulus in a given context. It is programming, it refers to the organizational culture in the meaning of Hofstede (1984, 2001) or Trompenaars and Woolliams (2003) who define it as a: *“series of rules and methods which an organization set up to face the particular problems to which it faces”*. The value system cannot function without a strong organizational culture. To be effective, it requires the division of values, methods and rules among all partners. Theoretical work on market orientation underlined two of its aspects: culture and behaviors without specifying if one was a precondition to the other or if they coexisted. We postulate that the creation of a strong organizational culture requires common work, methods and operating rules, i.e. consensually decided by partners. According to us it brings us back to a behavioral dimension of market orientation. The setting up of an organizational culture between partners is facilitated when one of them is dominating in the value system, and initiates the definition of harmonized operating processes by a codifying of behaviors. It is on the basis of these convergent behaviors that can be born or grow a true common culture (a third culture?) resulting of national and organizational cultures of partners.

3. Proposal of a Grid of Reading of the Internationalization of the Company through a Local Partnership

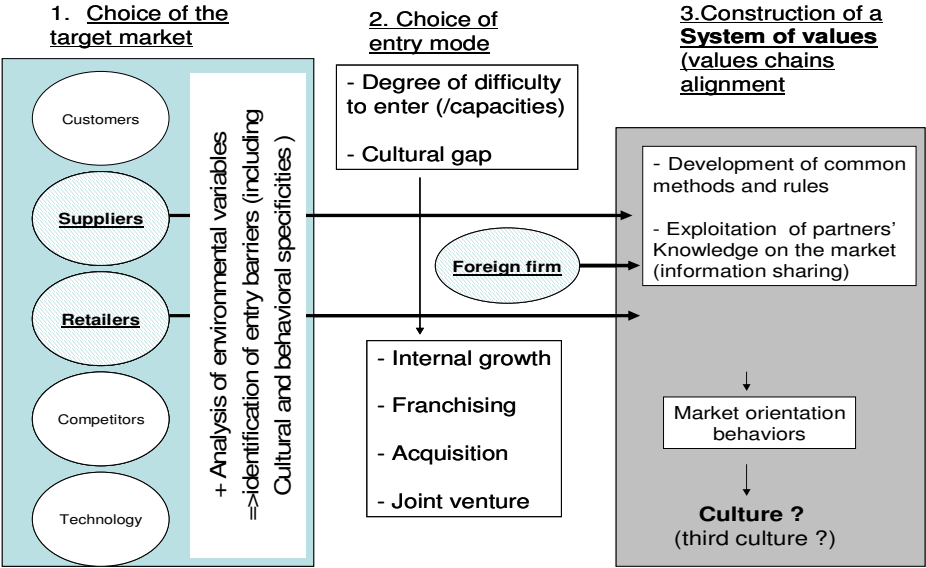
3.1. The construction of a grid of reading

Thus, within the framework of sustainable development on overseas market, the company may find it beneficial to adopt very early a market orientation. This involves first, information collection, analysis and diffusion. On one hand, market orientation will enable it to identify characteristics of the target-market in terms of competition, types of consumers, technologies used (industrial or commercial), in order to determine which positioning must be retained, the potential targets, and the necessary adaptations of the offer. It enables the company to identify potential partners (local suppliers and retailers) on whom it can rely to develop its local presence.

The analysis of various dimensions of market orientation compared to the analysis of more general variables makes it possible to identify entry barriers and especially to identify the red flags of behavioral and cultural nature. Many companies consider their international expansion with the development of partnership relations, in order to limit certain risks. In this context, the company may find it beneficial to be focused more particularly on suppliers' and retailers' behaviors: their practices, structuring, organization, attitudes, etc. Thus the degree of difficulty of entering the market and the cultural variation (organizational and national) can be

more finely identified. It is on the basis of these elements that the company can identify the entry method to use. Once the method is selected, the company's second task is to work on the building of a true value system. Partners offer a precise knowledge of the cultural context which leads to an adaptation of the offer and business practices to the market and facilitates its assimilation. In addition, it works on the development of methods and common rules in order to improve the performance of the economic model and for a long-term installation on the target market. In this third phase, it works on development of market-oriented behaviors which should allow the operation system to be more flexible, and to facilitate the necessary adjustments to the market and between the partners playing a role in the system. From this point of view, market orientation presents at the same time a strategic operational and teaching nature, which can lead to the creation of a third culture (Kim, 2001) built and shared by the members of the system.

Figure 2: The three stages of internationalization with a partnership on the target market



3.2. The step of appreciation of the relevance of the grid of reading of internationalization

This grid of reading (figure 2) concerns companies which have a tested business model but which cannot impose it on the target market as-is because of characteristics of the market and more particularly of the cultural identities (national vs. organizational). Our proposal of grid of reading does not relate to companies which have an (Universalist) business model, i.e. which is exactly duplicated on the target market as it is on the domestic market. Even if companies associate with local partners to understand the market, the latter are often subjected to the business model the newcomer, generally because a lack of alternatives and because the entering company offers a fast opportunity of profit to them. We propose to evaluate the relevance of this model by confronting with French firms having decided to enter on the East-European markets by using a simplified model of the value system. This model will be subjected to the managers' appreciation thanks to a 3 parts questionnaire. The first one relates to the evaluation process of the target market and the place of the market orientation. The second point to identify entry barriers, the weight given to identification of cultural variation, and the way these variations were located and the criteria taken into account to choose the entry method. The last point is related to the way partnerships are built and the share given to oriented-behaviors and culture as possible drivers of improvement of the efficiency of the value system.

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