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The effect of foreign language knowledge and foreign market knowledge on success of foreign firms doing business in Kazakhstan

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Abstract

Knowledge is one of the most important resources of any company doing business abroad. Especially, manager's foreign language knowledge and foreign market knowledge were considered to contribute to company's success. Drawing from internationalization and knowledge-based view, this study focuses on exploring the effect of foreign language knowledge and foreign market knowledge on success of foreign firms doing business in Kazakhstan. The initial population consists of 128 foreign firms selected from the databases of the association of businessmen of Kazakhstan and Turkey (KATIAD) and American Chamber of Commerce. The results show that the lack of Kazakh or Russian language knowledge does not influence business success. However, top managers' knowledge about foreign markets has significantly correlated with companies' success in Kazakhstan.

Keywords: knowledge-based theory, language knowledge, entrepreneurship;

1. Introduction

In the body of research on the organizational antecedents of international entrepreneurship, there is consensus that top managers play an important role in firms' internationalization efforts (Miesenbock, 1988; Zahra & George, 2002). In particular, top managers' foreign market knowledge and foreign language knowledge emerges as being critical to such efforts serve as a source of competitive advantage contributing to superior firm performance (Kuemmerle, 2002; Musteen, 2006). Drawing on the internationalization theories and knowledge-based view of the firm, the objective of this study is to test the relationship between manager's foreign market knowledge and foreign language knowledge with company success in foreign markets. The literature on internationalization and knowledge is reviewed and summarized in the following section.

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2. Theory and hypothesis

2.1. Internationalization

Before the 1990s international business and entrepreneurship were two different areas of study that seldom intersected (Mcdougall & Oviatt, 2000). While international business researchers focus their studies on international activities of large multinational corporations, academics in entrepreneurship concentrate their works on creation and management of small and medium-sized enterprises (Tanvisuth, 2007). Early research on international entrepreneurship mainly focused on smaller and relatively young firms. However, over time, the definition and domain of international entrepreneurship has become more inclusive. Zahra and George suggested that the study of international entrepreneurship should include both new and established firms and defined international entrepreneurship as the study of “the process of creatively discovering and exploiting opportunities that lies outside of a firm’s domestic markets in the pursuit of competitive advantage” (Zahra & George, 2002). One of the fundamental questions identified by these scholars and believed to be investigated in future research is “What contextual factors influence the internationalization process of entrepreneurial firms?” Although, there has been some research on factors influencing internationalization with interesting insights, research associated with knowledge context has generally been characterized by inconsistencies and equivocal findings.

2.2. Knowledge-based view

The knowledge-based view considers knowledge as one of the most important assets to the creation of competitive advantage. It is largely accepted that the knowledge-based view builds upon and extends the resource-based view of the firm (Penrose, 1959; Barney, 1991; Grant, 1996). The resource-based view generally addresses performance differences among companies using asymmetries in knowledge (Hoskisson etal., 2000). However, knowledge-based view was developed further, since knowledge is being regarded as the most important strategic resource. Knowledge is defined as the justified true belief often based on information and seen as a high-value form of information that is ready to decisions and actions (Prahalad & Hamel, 1990; Davenport etal., 1998).

2.2.1. Foreign market knowledge

Foreign market knowledge is defined as the knowledge of business practices and opportunities in foreign countries, including knowledge related to local culture, politics, society, and the economy (Wang & Olsen, 2002; Bilkey & Tesar, 1977). In the literature grounded in the stage theories of internationalization (Johanson & Vahlne, 1997; Knight & Liesch, 2002) the gradual accumulation of knowledge about countries characterized by greater psychic distance has been viewed as an important driver in firms’ increasing commitment to foreign markets. Similarly, international entrepreneurship research identifies knowledge acquisition and learning as critically important factors in the decision of young, entrepreneurial ventures to expand into the foreign markets (Kuemmerle, 2002; Swift, 1991).

2.2.2. Foreign language knowledge

Managers’ foreign language knowledge is an ability to communicate in the native languages of individuals belonging to their international networks (Obben & Magagula, 2003). The literature on international management and marketing suggests that foreign language ability is important in cross-cultural communication and learning about foreign markets (Williams & Chaston, 2004; Mcdougall etal., 2003). In the context of founders/managers of entrepreneurial firms, the ability to communicate with their foreign contacts in a common language should help improve communication and improved ability to better grasp foreign market knowledge.

2.3. Hypothesis development

Knowledge about foreign markets is viewed as the most critical resource in firm’s internationalization. Gaining knowledge about foreign markets and managing is central to the successful internationalization of new ventures. It has been posited that making managers more knowledgeable about business conditions abroad makes them more alert to international opportunities (Knight & Liesch, 2002). Especially, for resource-deficient small and medium-sized enterprises that cannot otherwise compete with the established companies in terms of their tangible resources and experience, knowledge about foreign markets may be the most critical resource for their internationalization (Yaprak, 1985). In a study of small and medium-sized U.S. firms, Yaprak (1985) found that exporting SMEs had, on average, more knowledge about operations in foreign markets than their non-exporting counterparts. Chetty and Campbell (2004) also identified rapid knowledge acquisition as an important characteristic of born globals. Knowledge intensity and foreign market knowledge has also been positively associated with international sales growth in a sample of Finnish technology-based new ventures (Lautanen, 2000). These findings suggest that foreign market knowledge is likely to improve entrepreneurial success of foreign firms doing business in Kazakhstan. Then,

Hypothesis 1: There will be a positive association between manager's foreign market knowledge and company success.

Relatively strong evidence has also been found for the notion that managers' knowledge of foreign languages is conducive to greater internationalization. Studies [30], [31] indicate that foreign language skills help overcome communication barriers with foreign customers, allow managers to grasp the nuances of foreign markets and establish close personal relationships with representatives of foreign customers, suppliers, and distributors (Swift, 1991; Obben & Magagula, 2003; Musteen, 2006). Such skills play a key role in increasing managers' confidence in dealing with foreign markets (Lautanen, 2000). Using a sample of small Finnish manufacturing firms, Lautanen (2000) showed that firms with managers having foreign language skills are more likely to quickly adopt an exporting strategy. In addition, studies by Obben and Magagula (2003) and Williams and Chaston (2004) have associated the linguistic ability of managers to increased firm internationalization. These arguments suggest that foreign language knowledge is likely to improve entrepreneurial success of foreign firms doing business in Kazakhstan Then,

Hypothesis 2: There will be a positive association between manager's foreign language knowledge and company success.

3. Research design

3.1. Sample, data collection and response rate

The sample of firms in this study was drawn from the list of foreign manufacturing ventures listed in the database of the association of businessmen of Kazakhstan and Turkey (KATIAD) and American Chamber of Commerce in Kazakhstan. The KATIAD database incorporates 162 companies of different sizes registered in Kazakhstan. The database has been used in previous research (Tayauova, 2011). The American Chamber of Commerce consists of mainly over than 100 big corporations. As mentioned in the theoretical part, foreign market knowledge and foreign language knowledge are especially critical for resource-deficient small and medium-sized enterprises that cannot otherwise compete with the established companies. Consistently, the starting sample was comprised of firms that were identified based on the criteria; firms had to be 1) small and medium-sized and 2) independently owned and operated. The initial population consists of 128 foreign firms from different industries in Kazakhstan.

The founders or managing directors of 128 firms identified in the database were used as a primary informant for the purpose of this study. First, in April 2011 questionnaires with cover letter about the purpose of the research and data confidentiality were mailed to their e-mail addresses. Out of the 128 letters sent, 32 letters were returned by the post office as being "undeliverable". Three weeks after the first mailing of the survey, I sent each non-respondent a letter reminding about the study and requesting their participation. On June 10, 2011 the total number of responses received was 37 representing a response rate of 38.5% (i.e., 37/96).

3.2. Measures

The *dependent variable* of this study *company success* was measured using three items identified in Zahra et al. (1997) and later used by Musteen (2006). It involved the respondents' degree of agreement (1 = strongly disagree, 5 = strongly agree) with the following statements: "Our company has been successful in its international activities," "Our company has outperformed its key competitors in international markets," and "Our company has made satisfactory progress in its international activities" (Zahra etal, 1997; Musteen, 2006).

The *independent variables* of this study are *foreign market knowledge* and *foreign language knowledge*. Foreign market knowledge was assessed using a scale comprised of twelve items identified in Musteen (2006) based on previous literature (Johanson & Vahlne, 1977; Lord & Ranft, 2000). The items measure knowledge about foreign markets at the time of first international sale along six domains: foreign competitors, customers, channels of distribution, political/legal environment, foreign cultures and opportunities in foreign markets (1=Very low, 5=Very high). The foreign language knowledge of respondent was measured as the number of foreign languages that the respondent was proficient in (1-5) and proficiency in official languages spoken in Kazakhstan, namely Kazakh and Russian languages (1=Very low, 5=Very high).

4. Data analysis and hypothesis test results

Measures used in this study were based on those used and validated in prior research. Scales were translated from English to Russian language. To avoid misunderstandings arising from the wording of questionnaire items or the responses, back-translation was used (Brislin, 1970). Cronbach alpha associated with the foreign market knowledge and company success measures indicated generally high levels of reliability, 0.86 and 0.73 respectively.

Table 1 reports the means, standard deviations, and the correlations among the study variables. As can be seen in Table 1, the mean firm age was 14.22 and duration of firm activity in Kazakhstan 7.08 years. Companies, on average, employed 81 employees in 2011. The highest correlation (0.756) is observed between foreign market knowledge and company success.

Table 1. Descriptive statistics of variables (N=37)

Variables	Mean	Standard Deviation	Min.	Max.	1	2	3	4	5	6
1. Firm Age	14.22	4.73	3	25	1					
2. Firm Duration	7.08	3.09	2	15	.583** (.000)	1				
3. Firm Size	81.40	51.29	20	200	.078 (.646)	.069 (.683)	1			
4. Company Success	3.69	0.56	2.33	4.67	.248 (.139)	.216* (.199)	.033 (.847)	1		
5. Foreign Market Knowledge	3.81	0.93	2	5	.020 (.909)	.165* (.328)	.012 (.942)	.756** (.000)	1	
6. Foreign Language Knowledge	1.54	0.86	1	4	.225 (.180)	.085 (.617)	.383* (.019)	.087 (.305)	.163 (.168)	1

**. Correlation is significant at the 0.01 level (2-tailed)
*. Correlation is significant at the 0.05 level (2-tailed)

The hypotheses were tested using regression analysis. The results of the regression analyses examining the effect of foreign market knowledge and foreign language knowledge on company success are reported in Table 2 and Table 3.

Table 2. Model summary

Model	R	R²	Adj.R²	S.D.
1	.756[a]	.572	.560	.37726

Table 3. ANOVA test

Model		Sum of Squares	df	Mean square	F	Sig.
1	Regression	6.658	1	6.658	46.781	.000[a]
	Residual	4.981	35	.142		
	Total	11.640	36			

a. Predictors: (constant), foreign market knowledge
b. Dependent variable: company success

Hypothesis 1 predicted that manager's foreign market knowledge will be positively related to company success. The beta coefficient for foreign market knowledge was positive and statistically significant ($p<0.001$) and thus provided support for Hypothesis 1. Thus, managers with more knowledge about foreign markets appear to lead to greater company success in international markets. Hypothesis 2, wherein I predicted that foreign language knowledge will have a positive effect on company success, was not statistically supported. Though the beta coefficient for foreign language knowledge was in the predicted direction (positive), it was not statistically significant.

5. Conclusion

The primary implication of this finding is that foreign market knowledge is a valuable resource that can be an important source of competitive advantage. In fact, Musteen argue that knowledge about foreign market and the opportunities therein also provides them with the advantage of being able to exploit the opportunities before their rivals. My finding is consistent with this viewpoint. Countries tend to be very different in terms of market dynamics, competitors, institutional environments, language and culture. The study found support for the hypothesis that foreign market knowledge positively affects company's success in international markets. However, there was no support for the positive effect of foreign language knowledge on company success. This might be due to the fact that the effect of manager's language proficiency was just too small to have any significant impact on the overall success of their firms. Although, managerial linguistic skills are accepted as key predictors of success in international business and it is particularly true for foreign companies doing business in non-English speaking countries like Kazakhstan, manager's ability to speak and understand Kazakh or Russian languages, by itself, may not be the primary reason of their success. The other possible reason might be the existence of demand to foreign-made products in the country due to the lack of production and conditions associated with transition economy. Moreover, foreign companies may rely primarily on informal relationships and networks, with which they share common language. These views present some interesting insights for further research on internationalization and company success.

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