

# **MANAGEMENT OF INTERNATIONAL BUSINESS TRANSACTIONS**

## **SUMMARY OF A DOCTORAL THESIS**

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“The business of international business is culture”  
(Geert Hofstede)

### **1. DEFINING THE SUBJECT OF RESEARCH**

World trade is a complex of businesses among regions in addition to intraregional commerce. The study of business with the European Union in particular follows from both the Hungarian system of economic relations and my chosen topic.

When analysing the structure of Hungarian foreign trade, one can conclude that in 2001 an overwhelming part of it was carried out with EU countries (74 % of export, 58 % of import). Germany and Austria were our most outstanding EU partners, their joint share of EU import and export was 33 % and 44 % respectively (source: <http://www.gm.hu>). The importance of German and Austrian relationships is further increased by capital relations. These two countries hold a traditionally leading position in the field of direct capital investments. Even in the Socialist decades, our most important partners after the Soviet Union were the GFR, Austria and GDR (Tóth, 1999). Our third most important trading partner is Italy.

When examining the economic history of our country (Kozma, 1996 and Zsigmond Pál Pach, 1986), it becomes clear that while Germany, Austria and Italy have been our traditional business partners for centuries, Japan and the US only entered this field in the recent past as a result of a global flow of economic - and commercial – capital and credits and a worldwide expansion of supranational companies. We have to take into consideration therefore the ability to operate within a relatively less-known Japanese and North American business environment, besides the decisive German/Austrian business culture.

#### **1.1. According to my main hypothesis, there is an inevitable demand for an awareness of different business customs and their creative application in the process of economic relationships, especially in the case of actual transactions and management because**

- a) there is no global business culture or system of customs**
- b) the trading contracts between EU countries “behave” like foreign trade contracts.**

According to EU terminology, trade between EU member countries is not considered foreign trade because of the customs union. Contrastively, since there is no unified EU regulation of civil law contracts concerning the transport of goods (Törzsök, 1999), international civil law applies to these cases. (With an exception in the situation when both

parties have ratified the Vienna compromise and have not outlawed its application.) More important than the legal angle is the fact that for instance a transport contract between a Portuguese and a British company is a foreign trade contract in character. (I am referring to the special payment procedures employed in international business, the definition of contract currency, the problem of permanent value, parity, the means of transporting, international cargo insurance, the language of the contract etc.)

From the Hungarian point of view this means that after entering the EU there will be a constant demand for a knowledge of the culture and technique of international business transactions, for - even if the customs borders disappear in a short time - cultural boundaries are to remain.

The differences in tradition have an effect on the operative or everyday level of business life as well. Managers have to adjust their behaviour to national customs and characteristics when making international market decisions and signing bills of sale.

International organizations such as the specialised committees of the UN operate in respect to national or regional customs when offering customary recommendations for the International Chamber of Commerce and international law.

**1.2. The second point of my thesis is the influence of the parties' business culture on the whole contract process** (preparation, negotiation, signing of the contract, realisation etc.). Therefore **the management of a foreign trade transaction is culture-bound** and cannot be simplified to technical details. **The aim of the thesis is an analysis of the complete procedure of entering into a contract and pointing out the role of cultural influences in the different elements of the process.**

1.3. The significance of cultural differences can be found in all parts of the marketing mix. Still, in practical commercial life it mostly applies to the process of personal selling. **The thesis concentrates on the verbal aspect of personal negotiation**, making use of the literature of applied linguistics.

1.4. Beside an analysis of the specific management techniques in international trade transactions, **my aim was to create a curriculum suitable for university teaching** as well.

## **2. RESEARCH METHOD AND LITERATURE REVIEW**

In order to fulfil the above stated purpose, my most important tool was the processing of relevant literature.

The research topic, namely the analysis of cultural determination in the field of operative foreign trade and especially personal selling, is a typical interdisciplinary question involving the following areas: foreign trade economics, international finance, techniques of foreign trade, international marketing, management, culture studies, psychology, linguistics, human studies, economic history and international law. As follows from the list, the relevant literature had to be narrowed down with respect to competence since the limits and focuses could have been very broadly defined. As the choice and orientation of the presented literature shows, I have stressed the angle of cultural determination in personal selling.

### **2.1. Hungarian literature**

Roughly half of the literature contains works in the Hungarian language, mostly written by Hungarian authors. These are mainly about foreign trade, negotiation techniques and communication. Hungarian works on foreign trade handle the question of international business transactions chiefly from **the technical point of view**, in a “technocratic” way so to say. The same can be observed **in university teaching**, as the titles of the following textbooks clearly show: *The techniques of foreign trade* (Obláth, 1956), *The techniques and organization of foreign trade* (Szanyi – Gulyás, 1970), same title by Hegyi – Törzsök – Gulyás – Metz – Sipos (1989). The following “technical” works represent a similar viewpoint, although with varied titles: *The business transaction* (Törzsök – Csányi – Mikolayné – Simon, 1992), *The techniques of foreign trade* (Balázs – Constantinovits – Mádi – Sipos, 1993), lecture outlines for upper graduate courses in foreign trade by KOTK (1997), such as *Foreign trade in practice* by Mrs László Mikolay (2001).

Another aspect to the techniques of foreign trade concerns **the risk taking side**: *Techniques of foreign trade – risks on the foreign market* (Constantinovits – Sipos, 1999). The present study also relies heavily on the above work but it locates the origins of risk factors in the cultural uncertainty of the partners.

Hungarian literature on marketing does not deal with the overall operative side of international business transactions but only certain points of it. For instance Gábor Rekettye (1994) covers parity and international payment procedures as a part of price formation, as factors merely influencing price. According to his system, international transporting belongs to distribution, while personal selling can be found under influencing the market. On the other hand, in his work Tamás Tóth (1996, 2001) deals with the operative layer of foreign trade through international marketing, promotion, personal selling and logistics while exploiting the question of cultural environment as a limiting factor in the work of an international marketing manager.

### **2.2. Foreign literature**

Similarly to Hungarian books on international marketing, **the Anglo-Saxon literature** of the field relates the elements of international transactions (such as payment procedures, Incoterms parities, international forwarding) to the areas of either international business (Czinkota – Ronkainen – Moffett, 1999 and Daniels – Radebaugh, 1994) or international

marketing (Cateora, 1996). Thus they lack a “pure” view from the point of international transaction.

On the other hand, **German literature on foreign trade offers a detailed treatment** of foreign trade techniques, under the term of “Aussenhandelstechnik”. Professor Sonnendorfer mentions this hundred-year-old approach in his *Technik des Welthandels* (1905) already dealing with special transaction techniques within the international exchange of certain raw materials of primary importance. The author of the present study had the opportunity to monitor the teaching and research of the topic in the Foreign Trade and Overseas Business Institute of the University of Hamburg.

The conclusion is reached that **the teaching and research of foreign trade forms an independent discipline** in small countries with a sensitivity towards it (such as Hungary or Austria), along with larger, **foreign trade-oriented countries** (like Germany). Conversely, **in countries with a large internal market - and consequently lower motivation towards foreign trade – (USA, Canada, UK), it is not an autonomous field** but a part of either international marketing or international business management.

The literature investigating cultural aspects contains some basic works in English which have not yet been translated into Hungarian (like Hall and Hofstede). The rest is specific to such an extent that I only could make use of certain parts or thoughts in the actual thesis.

### **2.3. Personal experience**

In writing the study, I was able to employ my former research achievements and subjective experience in a creative way. I took an active part in foreign trade for 10 years, followed by a teaching position at the Foreign Trade Department of the University of Economy, Budapest. I also conducted research in the field of foreign trade techniques and intercultural communication. I have gained cultural experience while working and teaching by visiting nearly 35 countries and consulting multinational companies. I have also made use of my empirical experience gained from foreign and postgraduate students.

Due to the lack of financial resources, I was unable to conduct empirical questionnaire studies. However I am convinced that this type of research is not only expensive but often unreliable as well, since the companies are not willing to submit confidential or internal information. Of course I could rely on “classical” empirical studies (such as Hofstede, 1980) which have examined national business cultures from an organizational point of view.

### **3. RESULTS**

3.1. The thesis opposes the traditional view of world trade as “an exchange of goods and services between national economies”. Instead, it presents **world trade as business conducted among formerly isolated regions, as an interregional trade counterbalanced by transfers within vast supranational companies.**

The stress shifts not only towards the transgression of national boundaries but also joint business transactions among regions. **While interregional (tax free) commerce is inclined towards becoming internal trade, due to the different cultural characteristics, it practically remains foreign trade.** Interregionalism is a result of globalisation since markets and consumers are homogenized and unified. The concept of globalisation itself is connected to the expansion of supranational companies (Theodor Levitt, 1983).

**The core of the new approach presented in the thesis is the recognition that regional cooperation has developed primarily between countries of a similar civilization. The forming of regions is not only rooted in economic and historical traditions but cultural factors as well.** Consequently, cultural identity (religion, religious traditions etc.) creates a cohesive force inside a region.

3.2. I have proved through an analysis of interregional commerce that **in the most integrated region, the European Union, trade between the members is *de jure* internal but *de facto* foreign trade.** I also pointed out that the reasons of this strange contradiction lie in the distinct cultural backgrounds and the multilayered nature of culture. It follows that **the management of international business transactions is culture-determined.** There are totally different ways of transaction and negotiation in a company from a monochromic culture of a small context (e.g. German) and that of a polychromic culture of a larger context (e.g. Spanish).

3.3. **The operative level of interregional marketing** equals the preparation, making and realisation of international business transactions, while the controlling of the process is **the management of international business transactions itself.** This process has been presented and **analysed from a cultural aspect.** This is in total **contrast to the purely “technocratic” approach:** cultural characteristics (suspicion, readiness to risk taking etc.) have a decisive role the whole way from acquisition to the signing of the contract.

**From a Hungarian point of view,** foreign trade relations are determined by **the dominance of a German / Austrian business culture** but I have also included the angle of **Anglo-Saxon influence.**

To illustrate the abovementioned points, here are **a few examples** from contractual conditions.

The basic rule of selecting a parity, “sell with CIF, buy with FOB”, is being overshadowed by the American practice of supranational companies (in Hungary as well), namely the utilisation of **the Incoterms 2000 DDU parity on the basis of the VMI (Vendor Managed Inventory) principle in their import.**

As for the means of payment, the British **Bill of Exchange Act** and the American **Uniform Commercial Code** offer for the use of bills regulations differing basically from the “continental” Geneva act of bills ratified in our country too (e.g. bills payable to the bearer or the claim for a bill of exchange depends on the basic transaction etc.). The Anglo-Saxon

practice gives special rules for cheque as well: it has a date of expiry and can so form means of credit.

In international commerce the most widespread means of payment through letters of credit varied to a certain extent. **On the German / Austrian scene acceptance credit** is the most wide-spread form, while in the **Anglo-Saxon areas the commercial letter of credit** (or negotiation credit) and **in America the stand-by letter of credit** are the most popular.

I have described the payment practice of supranational companies as **a new tendency**, since they force their subcontractors to accept the means of open transportation, or varieties of deferred payment of cash against documents in which the companies have to present a promise of payment.

**3.4. Personal interaction remains a central element of business** - a tendency that conforms to the concept of relationship marketing. **The most outstanding cultural differences arise within the process of personal selling and negotiation.** I have devoted a whole chapter to the analysis of this procedure, with special stress on an interdisciplinary area so far neglected: the verbal characteristics of personal negotiation.

There is a separate treatment of cooperative negotiation which was considered as the most effective. I have adapted literature on speech perception and sociolinguistics from the field of applied linguistics.

I have also analysed the **communicative conditions** of a successful cooperative negotiation process. Furthermore, I investigated the optimal **textual structure** of certain negotiation phases **on both macro- and micro-levels**, not to mention the generally applicable culture-bound points.

In the process of an oral negotiation, the effective communicational components are the following:

- a) **situational suitability and competence** of the speaker in the relevant linguistic forms
  - the thesis deals with the initiative “small talk” before the negotiation and the cultural differences between forms of politeness
  - **a suitable measure of elaboration in the linguistic code** is a decisive factor in the acceptance of a negotiating partner
- b) **relevance**
- c) **authenticity**: in an oral negotiation **the balance of the verbal and nonverbal** is crucial

The macro-level components of a successful communicational model are as follows:

- recognition and keeping alive the **main topic** during the discourse, proportion and order of topic and comments in the utterance
- a linguistic structure matching the initial hypothesis of speech perception
- **order of issue and event**
- **keeping to the main topic** through allusive linguistic means, role of **redundancy**: the proportion of new and old information is a central factor in comprehension and suggestion

The micro-level components of a successful communicational model:

- **optimal level of syntactic embedding** (max. to the 7<sup>th</sup> level of depth)
- **choice of words**: the thesis evaluates the positive and negative elements first in general terms, then through social circles

#### **4. NEW SCIENTIFIC ACHIEVEMENTS**

4.1. According to my principal goal, I have verified the hypothesis stating that **the influence of cultural differences is visible in every moment of foreign trade management**: in the preparation and signing of the contract (questions of written vs. oral communication, Letter of Intent, the regulations of the Vienna compromise, parity choices of the Incoterms, choice of the payment procedures, vis maior / Act of God etc.) as well as in its realisation process. Therefore **they are crucial from the viewpoint of a successful transaction**.

I have also proved that **the choice between the possible elements of a foreign trade contract (e.g. parity, payment procedures, means of payment, law to be applied etc.) is culture-determined**. This study also presents the increasing risk factors of an international business transaction as an uncertainty originating from the lack of cultural knowledge. **The differentia specifica of international business transactions presents a diversity in the cultural environment** analysed in detail in the course of the present study.

4.2. The influence of culture in the process of personal selling is usually connected to cultural surface factors, protocol and varied communicational patterns.

It is a valuable scientific recognition that **the structure of verbal communication is highly decisive in the effectiveness of a foreign trade negotiation**. The thesis shows that

- a) the effectiveness of a cooperative negotiation depends on agreement and mutual acceptance on the level of linguistic codes
- b) the linguistic structure of the cooperative communicational process can be paralleled with the elements of the AIDA-model utilized in marketing.

Consequently, with a conscious use of knowledge, it is possible to formulate the verbal structure of effective business communication.

## **5. CONCLUSIONS AND MOTIONS**

Here I summarize the most important conclusions drawn from the thesis.

### **5.1. Conclusions**

5.1.1. As a result of the open nature of Hungarian economy, **it is of national economic interest to form an optimal structure of foreign trade connections and manage foreign trade and capital relations in a professional way.**

The effectiveness of business depends on the recognition of the importance of cultural diversity between partners. For Hungarian commercial and economical relations, it is of crucial importance to become intimated with the dominant cultures and cultural groups. For us these consist mainly of the German and Austrian cultures but with the fervent growth of American and Japanese capital and credit market knowledge of these cultures is obligatory as well.

5.1.2. The Hungarian structure of foreign trade relations connects us closely **to the European Union. After our possible integration, there will be a continuous need for special knowledge of foreign trade on account of the unchanged nature of cultural-technical characteristics of the transactions following our entering in the internal market.** For this reason, it is of central importance **to educate experts in this field.**

5.1.3. **The role of personal negotiation and selling has been untouched by the advance of e-business in the 21<sup>st</sup> century.** The deep levels of culture can only be learned by **acquiring the relevant interpretative skills** and personal presence. The developing of intercultural skills among managers can be accomplished through further research of negotiation culture. **There is an excessive demand for a detailed study of the decisive cultures from our point of view. Without this background, Hungarian foreign trade interests cannot be carried into effect.**

## **5.2. Motions**

5.2.1. There are tens of thousands of small and medium-sized enterprises with a foreign trade profile in our country. The preserving of their compatibility after the integration into the European Union is of national interest. The entrepreneurs have to be trained to face the challenges awaiting them. It is important

- a) to acquire culture-bound knowledge of foreign trade**
- b) to develop intercultural communicational skills.**

With respect to a successful integration, the government should take part in the process as well as the chambers of trade and universities.

5.2.2.1. The thesis presents a basis for **a university curriculum** which offers an intercultural approach to international business and capital transactions, i.e. the management of foreign trade.

With the help of this strategy, the management of international business transactions could be integrated into **both the graduate and postgraduate** university education of economists. According to the widely known open nature of Hungarian national economy, it is a pressing responsibility to guarantee the constant presence of experts familiar with the operative management of foreign trade.

5.2.2.2. The other chapters of the thesis (on **cultural environment, interregional marketing communication, negotiation strategies and tactics**) could offer a starting point for a further **university class** which would analyse the cultures dominant for Hungary from the viewpoint of intercultural communication.

## **6. PUBLICATIONS OF THE AUTHOR IN CONNECTION WITH THE TOPIC**

**Scientific book or chapter of a book**

**Scientific article**

**Lecture held at an international conference and published among the papers on the conference**

**Textbook or chapter of a textbook**

**Other publications**