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Mapping successful language use in international business: How, when and where do European companies achieve success?

In 2006, the first major all-Europe study ('ELAN') was undertaken of the use of languages by 2000 companies in 29 countries engaged in international business and commerce. The objective was to review the extent to which language skills were being managed by companies across Europe and the extent to which they enhanced trading prospects and business performance. The study revealed some startling findings: firstly, a significant amount of business may be being lost as a result of missing skills in languages and intercultural competence. Secondly, there is an apparent correlation between how more successful companies manage their use of languages. Thirdly, future growth trends in the study suggest which language skills will be needed for global (and local) markets and there may be changes in the role of English as the world's current *lingua franca* of business. While the study provides useful information on a wide spectrum of language use in European business, it also offers key recommendations for policy initiatives at European level, as well as for business and education, on ways of addressing language gaps and improving cross-border trade.

1. Studies which measure language and intercultural barriers as trade tariff equivalents

At the national level, different languages may be thought of as *a tax on trade*, according to Foreman-Peck (2007). For this reason, ELAN has incorporated data on companies' own evaluation of their lost business. For example, if a company's language skills are inadequate, they can reduce the opportunity for identifying profitable trade. The 'tax' is less, the more widespread the existence of language competence is in potential trading partners. The common language effect captures some of the trade diversion of language barriers. For example, in the case of the UK, the boost to well being from the reduction of even a one percent tax on British exports, that amount to one quarter of GDP, can be substantial, for it is equivalent to a similar rise in productivity; 1% of 25% of GDP is 0.25 percent, more than 4.4 billion Euro, from the 2005 GDP figure. On top of the direct effects of reducing the 'tax effects' of language deficiencies on exports are the productivity gains from accessing a wider market (Foreman-Peck 2007).

Frankel (1997), Frankel/Rose (2002), and Helliwell (1999) measure language differences as *trade barriers* and have quantified the costs of language barriers as between 15%-22% in terms of tariff equivalents. They also estimate that sharing a common language can increase bilateral trade by between 75% and 170%. However, Noguer/Siscart (2003) estimate that the tariff equivalent of language as a trade barrier is a modest 6% and the value of sharing a common language to be just 11%. The Noguer/Siscart (2003) model, however, points to a series of key variables:

– Measures of political and colonial association are likely determinants of current trade flows and are potentially correlated with sharing a common language;

– Price indices are implicit functions of bilateral trade barriers and any measure of the impact of language barriers on trade should account for their effect on the price indices;
– Adjacency: common languages are often spoken in countries sharing a common border;
– Political and free trade unions: we would expect the older members of the EU (who form a closer union) to have greater volumes of inter-trade.

Noguer/Siscart (2003) further argue that language barriers vary across sectors: the tariff equivalent of language barriers is close to zero they say in sectors such as agriculture, mining, petroleum refineries, iron & steel and food. However, there are large tariff equivalents of language barriers in printing & publishing (18%); clothing (14%); professional, scientific and controlling equipment (10%). Language barriers also adversely affect international integration through the effect on factor markets, notably migration and capital flows, and hamper intra-national social harmony.

The use of foreign languages in the export process can also be hypothesised as a separate variable in the successful internationalisation of SMEs within Westhead's definition of 'export capable' firms, though he does not refer to it specifically (Westhead et al. 2002). A fruitful method of enquiry is also to isolate the situations, or critical points of contact with the foreign customer at which use of the foreign language (or cultural competence) had its greatest impact. In ELAN, for example, a series of such situational variables (or *tipping points*) are tested to identify at which points individuals in companies are more likely to lose trade. There are, however, other factors at play; for example, cultural differences and the behavioural characteristics of managers.

2. Cultural and behavioural factors

Significant work has taken place in defining cultural differences and a series of analytical frameworks exist (Shenkar 2001). Following the example of such figures as Hofstede and Trompenaars, many academic researchers have done work in the field of cross-cultural management. Transnational firms no longer have a single national culture, in the present global communication age collaborative cross-cultural learning is increasingly necessary to generate real understanding.

According to Langhoff (1977), a firm's competence in dealing with managerial issues across markets is based on three different, but related abilities:
– coping with cultural heterogeneity across different international markets,
– harmonizing its products and services and their marketing with the symbolic learning which target markets in different cultures assign them, and
– identifying and exploiting new opportunities in foreign cultural contexts in expectation of gaining longer lasting competitive advantage.

Intercultural problems arising from the use of IT have been identified relatively recently. Russo/Boor (1993) suggest ways in which programme interface designers might develop their products for optimal use by people from different cultures.

While SMEs in the transition economies of eastern Europe identified price, product uniqueness and quality as the main competitive advantage in exporting, establishing good *customer relationships* is a key feature. For example, this can translate into customer relations. When the low-cost economies in eastern Europe rise to price parity with western European, competitive advantage (and the companies' survival) will increasingly depend on quality of service; notably, how well they understand and treat their customers. In other words, whether they can operate successfully in the customer's culture of expectation.

The language component is only one of many factors in successful exporting, Wolff/ Pett (2000) have previously suggested that organisational factors and environmental conditions play a key role in successful exporting, alongside linguistic competence. The *British Chambers of Commerce language survey* (BCC 2004), however, placed a particular emphasis on the attitude of individual managers in companies. It identified and segmented the different behaviours and attitudes held by individual exporters based in the UK in relation to trading in overseas markets and profile them, taking into account their motivations, ambitions, education and language competence.

3. Is there an impact on companies' bottom-lines?

The BCC study found that different behaviours on the part of export managers, including use of languages, are associated with different types of export performance in their companies. It identified four different profiles of export managers based in the UK, taking into account their motivations, ambitions, education and individual language competence and classifying them as (from the least proactive to the most): *opportunist*, *developer*, *adaptor* and *enabler*. These behavioural styles were then linked with different types of export performance in their companies. The survey found there was a direct correlation between the value an individual export manager placed on language skills within their business and annual turnover.

The most important finding of the *British Chambers of Commerce language survey* was the direct correlation between the value an individual export manager places on language skills within their business and their annual turnover. Only 33% of *Opportunists* have an annual export turnover above €750,000. This increases to 54% for *Developers*, 67% for *Adapters* and 77% for *Enablers*, who place the most value on language skills within their business. Moreover, export sales by *Opportunists* (the segment that least values language skills) are declining by an average of €75,000 a year per exporter, while *Enablers*' (the segment placing the highest value on language skills) exports are increasing by an average of €440,000 a year per exporter.

4. The ELAN research findings

The critical findings for the study are whether companies report having experienced loss of trade as a result of language and/or cultural deficiencies. Similar survey and studies have taken place (Hagen 1988, 1993, 1999, 2005), but ELAN is the most comprehensive of these that has sought to measure the impact of language skills on the success of individual companies, as well as offering a hypothesis on the macro-European economic perspective.

The questions on this aspect were phrased in a very direct manner, requiring respondents to identify lost contracts due to language and cultural problems. This contrasts with earlier studies which tended to measure 'communication barriers' rather than estimating impact. Not unexpectedly, it is a mixture of recent accession, candidate members (Romania, Turkey) and Scandinavian countries (three over 20%: Finland, Denmark, Sweden; and Norway lower at 16%, but still high) which tended to score more highly on this particular index than western European members. In the case the Nordic countries, there have always been greater awareness of the need to speak other people's languages, since their languages are not widely spoken. Turkish (and Finnish) exporters appear to have the greatest difficulties at 26%. However, across the sample, there is evidence that between 11% and 15% of SMEs in Spain, Italy, Sweden, Bulgaria and Norway appear to be losing trade due to language deficiencies. Evidence of loss is far less marked in the cultural domain (on average 4%), where, with the exception of Sweden (12%), Finland (10%) and Iceland (9%), the incidence of lost contracts is in single percentages for most countries. However, when companies were asked about encountering cultural barriers, as opposed to *losing contracts*, there was a significant upward shift in awareness in (notably) the Scandinavian/Nordic countries (Norway 42%; Iceland 39%; Sweden 37%; Finland 30%), where the European average was 18%. There was also an above-average response in more recent accession members, namely, Romania, Czech Republic and Hungary. There appears to be greater concerns in the more recent and geographically peripheral members of the European Union.

5. Potential loss of trade across Europe

The survey of SMEs in ELAN found that this could potentially add up to a significant amount of business is being lost to European enterprise as a result of lack of language and/or cultural skills. Across the sample of nearly 2000 businesses, 11% of respondents (195 SMEs) had lost a contract as a result of lack of language skills. Many were unable or unwilling to indicate the size of the contract lost, but 37 businesses declared they had lost actual contracts which together were valued at between 8 million and 13.5 million Euro. A further 54 businesses had lost potential contracts worth in total between 16.5 million and 25.3 million Euro. At least 10 businesses had lost contracts worth over 1 million Euro. Clearly, the survey identified only those situations where companies were aware of the actual business lost or potentially lost, and the real unknown, or undeclared, figure is likely to be much greater. Hypothetically, if the proportion of businesses losing trade through lack of language skills were repeated across the whole EU exporting SME sector, we could calculate conservatively that at least 945,000 European SMEs may be losing trade as a result of lack of language competence. The average loss per business over a three year period is 325,000. If we multiply this by the number of businesses we estimate to be losing trade, the total losses to the EU economy through lack of language skills in the SME sector are in the region of 100 billion per year. SMEs experience intercultural as well as language barriers when operating across borders. In all but eight countries out of 29, more than 10% of respondents were aware of having encountered intercultural difficulties *additional to* linguistic problems.

6. Future language needs

Many companies in the samples recognise they will need to acquire additional language skills and, to a lesser extent, intercultural communication skills to enable them to meet their future trading plans (see Table 1).

This question is perhaps a clearer indicator of how companies assess their own language needs against their future export plans. Again, the recent accession members and candidates consistently expect a higher demand for language skills than most established member-countries. There are expectations of the need to export into new markets which will require new linguistic expertise. For example, 88% of Romanian and 71% of Bulgarian companies in the sample acknowledge they will need export-related language skills in future markets (and 69% in Turkey) where the average for the European sample is 42%. In a surprisingly high number and range of other countries (Spain, Latvia, Austria, Cyprus, Finland, Germany, Iceland, Hungary, Iceland) 50% or over expect they will need new language skills. Their need for particular languages is reflected in the all-European sample below.

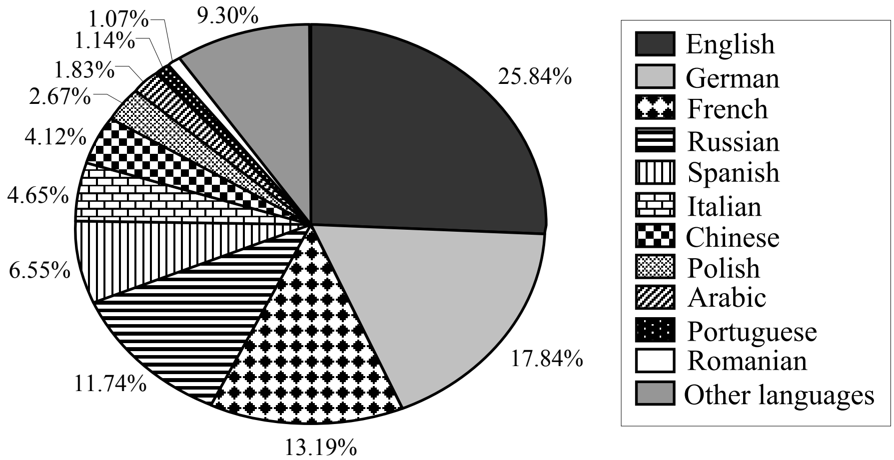

Table 1: The future language needs of SMEs in ELAN survey

If we compare SME language needs with future multinational company needs (defined in ELAN as operating in at least 10 European countries), we see that English is relatively stable between the two groups: SME 26%; multinational (over 250 personnel): 29%. German will apparently not be needed by multinational companies (SME: 18%, large: 0%); French is needed by 13% of SMEs, but only 6% of multinational companies; Russian very similar to French. However, four languages, apart from English, appear to be in greater need: Spanish (SME: 7%, multinational: 20%); Chinese (SME 4%, multinational: 17%); Arabic (SME: 2%, multinational: 10%) and Portuguese (SME: 1%, multinational: 6%).

Individual SME respondents mentioned that English might be used for initial market entry, but longer-term business partnerships depended upon relationship building. Thereafter, cultural and linguistic knowledge of the target country were essential. There was, however, widespread evidence of Anglophone complacency, an over-reliance on English, which is not restricted to Anglophone countries.

Skills in understanding business ways in particular countries, i.e. new intercultural skills, are also likely to be required, averaging one in five of the companies. Need is strongest amongst recent or candidate countries, i.e. Romanian and Bulgarian companies (over 40%), while Iceland is even higher (53%), again, there is an element either of geographical isolation or, for new and recent member of the EU, the recognition of the need to understand the cultures of future European trading partners better.

7. Solutions to overcoming barriers: The language (or communication) strategy

There is widespread recognition of the value of language strategies across most countries, except the UK where there is apparent evidence of complacency. There is now a significant body of evidence which points to the economic value of companies adopting a language, or communication strategy. Defined in ELAN as “having in place planned mechanisms for dealing with language and cultural problems in given markets”, nearly half Europe's international companies argue they already have a language strategy in place. Moreover, it is clear that there are a range of actions which companies and organisations can take that will enhance their export performance.

The ELAN Report shows that there is a correlation between a company adopting four specific elements of language management and disproportionately higher success. In other words, companies which have *a developed language strategy*, *appointed native speakers*, *recruited staff specifically with language skills and used translators/interpreters*, appear to be more successful at trading. However, it should always be borne in mind that correlation is not causation. Conversely, the main reasons given for companies losing trade are: *lack of staff speaking languages*, *lack of follow-up* and *lack of confidence* (*to deal with foreign customers*). They also report particular situations, or tipping points, where loss of business due to communication is more likely: switchboard problems, difficulties handling agents and distributors; lack of cultural affinity. However, the conclusion is that the greater the awareness of the issues the better, but then exporters need guidance on how to implement the particular strategy for their environment.

How does the proportion of sales abroad vary by country and by resources invested in languages? All four language investments (*a language strategy*, *employment of nationals*, *language skills acquisition*, *and use of translators*) help boost sales abroad, but agents do not (nor are they a hindrance). Taking the variable ‘acquiring or training staff with language skills’ as an example, with a coefficient of 0.7 in the ‘proportion of export sales’ equation, at the sample mean, the export sales proportion is driven up by 16.6 percentage points by this variable. An SME with all four investments may hypothetically achieve an export sale proportion 44.5 percentage points higher than an SME with none of these investments.

Bulgaria, Sweden, Luxemburg, and Iceland show positive country effects. That is they sell more abroad, controlling for skills and other language resources. Italy, France, Spain, Romania, Portugal, Latvia, Greece and Hungary show significant negative effects. These (generally negative) country effects can be even larger than the impact of individual types of foreign language investments.

Individual country effects estimated in the export sales equation can be compared with *Eurobarometer* scores on the grounds that the likelihood of nationals already possessing foreign language expertise may influence export performance. The *Eurobarometer* survey of the number of other languages spoken by the population in European countries placed the UK at the bottom and Luxembourg at the top with 244 percent as the aggregate of percentages claiming to speak non-mother tongues. Hungary came next to the UK and then Ireland – a matter of more significance for Hungary than for Ireland and the UK, who can deal in a widespread international language. Portugal, Poland and Turkey all score under 50% on the *Eurobarometer* scale. Consistent with this score, Portugal has the largest negative country effect in our analysis, followed by Spain (low on *Eurobarometer* with 54%) and then the UK. Luxemburg also has the second largest positive country effect consistent with Eurobarometer (Iceland is not recorded). Sweden has a high *Eurobarometer* score (126%) and shows a positive country effect in the first 'sales abroad 'model. The surprise is the Bulgarian country effect when the Eurobarometer records only 51%. One source of divergence between the *Eurobarometer* and the export model is of course that having a population able to speak a language will not help exports if it is not the language of the target markets for exports.

8. Other measures taken by companies to address communication gaps

If the market is working, then SMEs will acquire language skills when their value to the firm exceeds their cost. This will depend on SMEs' export markets, both current and projected, as well as on the skills of their established staff. The UK, Iceland, Cyprus and Lithuania are less likely to have acquired language skilled staff – perhaps because they do not need to, whereas the Czech Republic, France, Romania, Spain, and Hungary are more likely to have done so. Possessing a language strategy increases the likelihood of acquiring language skills, as does employing nationals, translators and agents, as well as sales abroad. For those countries that affirmed having hired staff with specific languages skills due to export needs: 18% of the firms hired staff with German knowledge for export needs to German, while 9% of the firms hired staff with French skills for exporting to France. It is worth noticing that the companies also hired staff with English skills for exporting needs to Germany, the Middle East and Netherlands.

Nearly half of companies in the total ELAN SME (49%) sample already offer language training to their employees. Some appear more committed than others. There is a discrepancy between companies that *offer* and those *undertaking* language training. The latter is much lower. The major users of language training appear to be companies in: Czech Republic (79%), Spain, Austria, Slovakia, Luxembourg, Finland and Germany. A number of interviewees from smaller companies identified that language training was mainly a pastime of the 'larger' companies. The medium sized and small companies could simply not afford to invest in this training and thus their profits suffer. Of those interviewed in the Czech Republic, 40% mentioned the problem of small and medium sized companies not having the resources for language training. Furthermore, 60% of those interviewed from Lithuania commented upon the problem. One said that now not only the larger companies in Lithuania but also the medium sized ones were waking up to the idea of a language strategy, which was clearly only a luxury that the larger companies could afford before this.

On average, 22% of the firms have employed native speakers who also support their foreign communication needs. This is a growing trend and it is being encouraged by higher mobility across the EU and the impact of globalization on jobs.

9. Are large companies very different?

Dhir/Goke-Pariola (2002) analyse multinational language planning in large corporates and the development of language policies. They identify how managing cultural diversity and linguistic complexity can be turned into a critical asset for large companies in the global knowledge-based economy. Knapp (1997) illustrates that the difficulties of communication between employees of the German headquarters of a large business company and the staff of its British subsidiary.

Indeed, with the projected growth of international operations, additional international business education programs would need to be developed, particularly programs with a focus on Asia. At the very least, they argued, all business graduates needed to have an *appreciation for cross-cultural differences* and *a global perspective.* Additional training programs, both degree and non-degree, were also needed to provide management personnel with the higher levels of knowledge needed to address the competitive challenges of the global business environment.

Large companies in the ELAN study (with a sample of 30) also prefer to recruit staff with language skills rather than train pre-existing staff. Of the companies, 73% of them had a widely practised scheme of recruiting language-skilled employees whereas only 45% had a programme of intercultural training for managers. Companies are clearly aware of language skills but they would rather employ staff with language skills than undertake possibly expensive training schemes for managers and employees. In an analysis of the language of business transactions, English is not so exclusively used for international trade transactions as might be imagined: while English may be the predominant language in international business for most of these European companies, there is also significant use of French, German, Italian and Spanish as foreign languages; clear evidence of the importance of the use of Scandinavian languages in Denmark; and small, but noticeable use of East Asian languages, such as Chinese and Japanese, in Scotland.

However, only half of the multinational companies surveyed regularly audited their available language skills against their needs. This would certainly suggest a lack of language planning and strategising on the part of these Companies, and some SMEs were further ahead in this regard. Furthermore, 73% had no language departments or had tried to start one, but abandoned it. However, they usually had a vigorous and watchful recruitment strategy.

Prior to ELAN, the most recent work on language policies and their implementation in larger, or global, companies is *Talking Sense*, a research study into the management of language skills in major companies. (Feely/Winslow, 2005). The analysis is based on a sample of 151 companies, the majority having their global headquarters based in the UK, Germany and France. Respondents to the survey evaluated each of these nine modes of language management on a scale from 1 (the company has not employed this method) to 4 (the method is widely practised throughout the company). An aggregate Language Management score was then calculated by summing the nine responses and reducing the totals to a scale of 1 to 10. The study found that French and German companies were generally more flexible than the UK companies, offering to work in a mix of languages or in neutral English, where they could not work in their partners' language. Only a handful of French and German companies expected to work in their own language and this applied not only to customers and joint venture partners, but also to suppliers and subsidiaries.

10. Comments from study participants

There were a range of comments from participants from different countries, which give important personal insights into how important some companies view language competence:

– "The personal contact with foreign customer is necessary for every method of trade; it is not just a question of the language capabilities of negotiators, but also of the technical support of the product" (Czech Republic).
– "Improved communication (written and verbal) in foreign languages and a better understanding of cultural differences will have an important impact on doing business abroad successfully" (Belgium).
– "They enable to receive better information about the business environment and new ideas about production, raw materials, marketing and trade channels" (Estonia).
– "It will lead to an increased volume of the export activity and also to a more professional and smooth business communication within international business partnerships" (Romania).
– "Those who are involved in foreign relations are – as the survey showed – able to hire the employees with the necessary language skills" (Hungary).

11. Conclusions

Lack of a common language is a barrier to trade. Overcoming the barrier is costly but there are widespread benefits from doing so that may warrant public intervention. Information shortcomings, network effects, problems arising from the indivisibility of substantial investments in language skills, complementarities between firm-specific skills and languages, and uncertainty, all suggest that underinvestment in overcoming the language barrier to exporting may be particularly marked for smaller firms. The payoff from effective intervention in language investment could be large (Foreman-Peck 2007).

These payoffs normally cannot be measured by market returns to individuals' investment in language skills. In the absence of barriers, higher than 'normal' returns will encourage more investment that will, in due course, eliminate excess payoffs. Moreover, Studies in the dynamics of the small firm have suggested that, in general, SMEs are less productive than large companies. Research also indicates, though, that exporting SMEs are more productive than those which do not export and that there is often a hidden bonus for exporting companies through exposure to increased technical know-how, market-awareness and cost or efficiency savings.

Given that SMEs account for more than fifty percent of employment within the European Union, it would thus appear that, if a greater number of SMEs were to become successful exporters, and if those currently exporting were to expand their markets, there would be a significant impact on the European economy and also that there could be considerable additional benefits in terms of greater innovation and market-awareness, which in turn could impact on productivity within national economies.

ELAN's findings support the argument for investment in language skills for a range of SMEs. Investment in language skills represents one of the fixed costs of exporting to certain countries. Thus the analysis of the management and impact of this investment by business represents critical information for governments and support agencies concerned with the economic health of the small business sector. The outcomes of the Study, moreover, demonstrate the real possibility of measuring the impact of language skills on economic performance. Four elements of language management were found to be correlated with successful export performance: *having a language strategy, appointing native speakers, recruiting staff with language skills and using translators/interpreters*.

An SME investing in these four elements was calculated to achieve a potential export sales proportion 44.5% higher than one without these investments. Assuming a model where SMEs accounted for 45% of output (the range across the EU is 30%-60%) and supposing that half of the SMEs responsible for that output adopted the four language management elements listed above, we could speculate that exports would rise by an astonishing 10% of GDP – equivalent to more than 1 trillion Euro. Furthermore, it is likely that there would be productivity gains from exporting which would wash back to the internal economy. Total Factor Productivity for exporters can be as much as 3.7% higher than the industry mean. A 3.7% productivity spill-over from exporting could imply a very substantial additional impact from these investments in language skills – 3.7% of 10% of GDP is 0.037% of GDP, which for the EU as a whole, is equivalent to over 4 billion Euro.

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