

THE IMPORTANCE OF CROSS-CULTURAL COMMUNICATION IN BUSINESS: EVIDENCE FROM UKRAINE

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Abstract: *This paper explores the importance of cross-cultural communication in business which has become extremely important due to the processes of globalization and digitalization. We focus on the correlation between cross-cultural similarities and the level of cooperation in international business. In our research we conduct comparative analyses of Ukrainian culture and the culture of Ukraine's main partners in the EU. We also explore how cultural similarities of the countries affect the efficiency of business activity.*

Keywords: *cross-cultural communication, cross-cultural management, globalization, Ukraine, European Union.*

INTRODUCTION

The rhythm of life is getting faster every year. Among the key drivers of this phenomenon are further globalization, digitalization and growing impact of new generations: “millennials” - born in 1980-2000, and Gen „C“ („connected“) - born after 2000. These trends are changing dramatically not only people's everyday lives, they form quite new business landscape. They provide businesses with new opportunities of going global, accessing new markets, searching for newest information and developing new technologies in different fields. The emerging role of digital technologies fostered the boost of new high-tech startups all over the world. Internet and other technologies gave SMEs (small and medium enterprises) almost the same opportunities that used to be the privilege of large multinational corporations. Nowadays even a smallest company can get access to a global market just using Facebook, Amazon, PayPal etc. Decades ago only a small circle of large multinational corporations' top-managers needed cross-cultural communication skills. Nowadays they might become a competitive advantage for any entrepreneur: Kyiv-based IT company' man-

VAŽNOST MEDJUKULTURALNE KOMUNIKACIJE U POSLOVANJU: PRIMER UKRAJINE

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Apstrakt: *Ovaj rad istražuje važnost međukulturne komunikacije u poslu koja je postala izuzetno važna zbog procesa globalizacije i digitalizacije. Usredsređujemo se na korelaciju između međukulturnih sličnosti i nivoa saradnje u međunarodnom poslovanju. U našem istraživanju vršimo komparativne analize ukrajinske kulture i kulture glavnih partnera Ukrajine u EU. Takođe istražujemo kako kulturne sličnosti zemalja utiču na efikasnost poslovne aktivnosti.*

Ključne reči: *međukulturna komunikacija, međukulturni menadžment, globalizacija, Ukrajina, Evropska unija*

ager (looking for foreign investors or clients) or a girl producing authentic hand-made toys somewhere in Lviv (and selling them on Ebay).

The main aim of the study is to explore the role of cross-cultural communication in business and the correlation between cross-cultural similarities and the level of cooperation in international business.

LITERATURE REVIEW

Modern business environment requires new skills from managers including global thinking or „global mindset“ (Jeannet (2000), Rosen (2000)) [1, 2]. Investors, clients, employees and partners more and more often represent different cultures with completely different values and standards of behavior. Searching for new business opportunities managers must be well prepared for effective cross-cultural communication which is highly important for favorable intergroup relations (Gudykunst, 1986) [3]. Cross-cultural management and communication is pointed to improve the interaction between partners, employees, clients, managers etc from different nations or cultures (Adler, 1991) [4]. Cultural differences might become a competitive advantage for global companies (Luo, 2016) [5]. But the efficiency of cross-cultural communication is not always high. Among the most widespread obstacles or barriers for cross-cultural communication we should name language barriers, differences in values and standards of behavior, lack of experience, lack of trust, and lack of knowledge about other cultures or stereotypical thinking (Lifintsev, Canavilhas, 2017) [6].

RESEARCH RESULTS

Cross-cultural communication skills are extremely important during multicultural interaction. They might significantly facilitate the process of negotiations with partners from abroad. On the other hand the lack of such skills might become a problem for a manager in globalized business environment.

Globalization provides businesses with new opportunities. Nowadays it is much easier to reach new markets, find cheaper resources (including labor) and attract investment. Due to digitalization such opportunities are available not only for large corporations but also for small and medium enterprises. Online platforms such as Facebook, Instagram, YouTube, Amazon and Ebay have connected businesses with customers, suppliers and investors from all over the world and lowered significantly the cost of cross-border interactions and transactions.

Access to new markets is important for any economy but especially to such developing economies as Ukraine's. One of the main competitive advantages of Ukrainian companies is a comparatively cheap labor force. Export orientation has become one of the most profitable strategies. The export geography is wide: from USA and Canada to Japan and Australia. But Ukraine's largest trading partner is the EU (40,6% of total trade in 2016). Ukraine exports to the EU amounted to €13,1 bn in 2016. The EU is a large investor in Ukraine as well. Small and medium sized enterprises in Ukraine can receive support from the EU's SME Flagship Initiative (access to approximately €200m of EU grants). These are some of the most important new trade opportunities with the EU that have been created by DCFTA (Deep and Comprehensive Free Trade Agreement) [7].

Such fundamental changes in the business environment have made cross-cultural communication skills very important. Looking for opportunities to access new markets, Ukrainian managers need to be more flexible during the negotiations adapting their communication style and standards of behavior to the patterns of behavior of their foreign partners.

Ukrainian largest trading partner – the European Union – obviously is an example of multiculturalism. 28 countries with unique cultures and even numbers of unique regional and ethnic cultures within every independent state represents an amazing level of diversity. Every single international business contact should be treated with respect. Any cross-cultural negotiations must be well-prepared. Analyzing the geography of Ukrainian exports to the EU countries we explored not only the volumes of trade but also the percentage of imports from Ukraine in the structure of import of the country concerned. This data shows the “importance” of Ukrainian goods and services for each EU economy. And also it shows Ukrainian companies’ “efficiency” in the respective markets (Table 1).

Table 1. Top EU import countries (2016).

Country	2016 Imports Total	2016 Imports from Ukraine	% Total Imports 2016
Germany	\$1.061 trillion	\$1.91billion	0.18%
United Kingdom	\$635.6 billion	\$780.7 million	0.12%
France	\$560.6 billion	\$572.2 million	0.1%
Netherlands	\$504.2 billion	\$1.14billion	0.23%
Italy	\$404.6 billion	\$2.05 billion	0.51%
Belgium	\$372.7 billion	\$311.3 million	0.08%
Spain	\$302.5 billion	\$1 billion	0.33%
Poland	\$188.5 billion	\$2.4 billion	1.27%
Austria	\$157.6 billion	\$499.6 million	0.32%
Sweden	\$140.7 billion	\$193.8 million	0.14%
Czech Republic	\$140.3 billion	\$618.7 million	0.44%
Hungary	\$92 billion	\$1.2 billion	1.3%
Denmark	\$ 85.2 billion	\$253.9million	0.3%
Ireland	\$77 billion	\$77.5 million	0.1%
Slovakia	\$75.2 billion	\$498.5 million	0.66%
Romania	\$74.6 billion	\$774.6 million	1.04%
Portugal	\$67.6 billion	\$232.5 million	0.34%
Finland	\$60.5 billion	\$81.6 million	0.13%
Greece	\$47.2 billion	\$185.6 million	0.39%
Slovenia	\$30.5 billion	\$32.1 million	0.11%

Bulgaria	\$28.9 billion	\$445.1 million	1.54%
Lithuania	\$27.5 billion	\$285.9 million	1.04%
Croatia	\$21.8 billion	\$40.8 million	0.19%
Luxembourg	\$19.1 billion	\$13.1 million	0.07%
Estonia	\$15.8 billion	\$243.7 million	1.54%
Latvia	\$13.6 billion	\$209.2 million	1.54%
Cyprus*	\$6.6 billion	\$292.5 million	4.43%
Malta*	\$6.2 billion	\$110.2 million	1.78%

(Sources: 8, 9, own calculations)

* we excluded countries often used by Ukrainian companies for tax optimisation etc from our further research

According to the statistics, the top 5 most important economic partners (regarding exports) for Ukraine (in the EU) are Poland (imports from Ukraine in 2016 - \$2.4 billion), Italy (\$2.05 billion), Germany (\$1.91 billion), Hungary (\$1.2 billion) and Netherlands (\$1.14 billion).

In the same time Ukrainian imports had a bigger share in the markets of Bulgaria (part of Ukrainian imports were 1.54% of the total imports in 2016), Estonia (1.54%), Latvia (1.54%), Hungary (1.3%) and Poland (1.27%).

It is obvious that such a proportion is affected by dozens of political, economical, social, technological and other factors. Cross-cultural communications skills can only help to achieve the needed result. Though sometimes their role might be significant.

We recommend Ukrainian managers to use the Hofstede 6-D model as a basis for understanding national and business cultures of different countries. Geert Hofstede and his colleagues provided probably the deepest analysis of national cultures' dimensions which represent independent preferences for one state of affairs over another that distinguish countries (rather than individuals) from each other. The Hofstede model of national culture consists of six dimensions including power distance, individualism/collectivism, masculinity/femininity, uncertainty avoidance, long term/short term orientation, indulgence/restraint (Hofstede, 2001; Hofstede et al., 2010, Minkov, 2017) [10, 11, 12]. This data provides managers with basic knowledge about cultural peculiarities of their clients, partners or investors from abroad.

In our research we conducted comparative analyses of Ukrainian culture (Fig. 1) and the culture of Ukraine's main partners in the EU (Tables 2-13). We also explored the correlation between cultural similarities of the countries and the efficiency of business activity (we used the share of Ukrainian goods and services in the structure of imports of a specific country's market as an indicator of „the efficiency of Ukrainian business activity“).

1. Power distance index (PDI). This dimension shows the degree to which the less powerful members of a society accept and expect that power is distributed unequally. The fundamental issue here is how a society treats and deals with inequalities among people (Hofstede et al., 2010), [11].

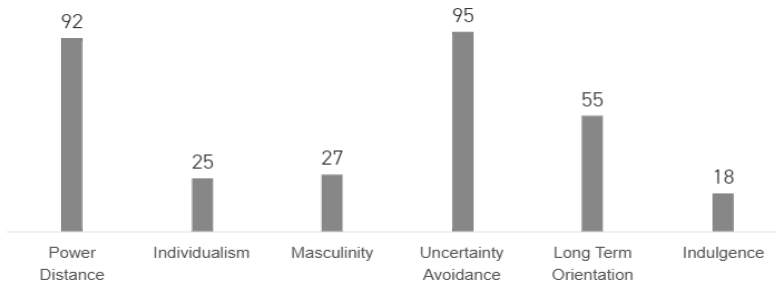


Fig. 1 Cultural dimensions of Ukrainian culture (The Hofstede 6-D model)

(Source: 13)

Table 2. PDI in the EU countries – largest importers of Ukrainian goods and services (2016).

Country	PDI
Poland	68
Italy	50
Germany	35
Hungary	46
Netherlands	38
Average (non-weighted)	47.4

(Source: 13)

Table 3. PDI in the EU countries where Ukrainian businesses showed highest efficiency (2016).

Country	PDI
Bulgaria	70
Hungary	46
Poland	68
Latvia	44
Estonia	40
Average (non-weighted)	53.6

(Source: 13)

Ukraine, scoring 92, is a country where many managers and other power holders are rather distant from other people. The average PDI of the countries from the second group (where Ukrainian businesses had higher efficiency) is closer to Ukrainian culture.

2. Individualism versus collectivism (IDV). A society's position on this dimension reflects whether people's self-image is defined in terms of "I" (myself, my family and close friends) or "we" (our community, company, country etc)(Hofstede et al., 2010), [11].

Table 4.IDV in the EU countries – largest importers of Ukrainian goods and services (2016).

Country	IDV
Poland	60
Italy	76
Germany	67
Hungary	80
Netherlands	80
Average (non-weighted)	72.6

(Source: 13)

Table 5.IDV in the EU countries where Ukrainian businesses showed highest efficiency (2016).

Country	IDV
Bulgaria	30
Hungary	80
Poland	60
Latvia	70
Estonia	60
Average (non-weighted)	60

(Source: 13)

With a score 25 Ukraine is a mostly collectivist society. Ukrainian managers should be ready to communicate mostly with the representatives of individualistic societies. Only Bulgaria is in the same group (low IDV) with Ukraine while the rest of its key partners are high-IDV countries. The average IDV of the countries from the second group is closer to the Ukrainian indicator value.

3. Masculinity versus femininity (MAS). The Masculinity side of this dimension represents a preference in society for traditional „masculine“ values: achievement, assertiveness, material rewards for success etc. „Feminine“ values are cooperation, modesty, caring for the weak and quality of life (Hofstede et al., 2010), [11].

Table 6.MAS in the EU countries – largest importers of Ukrainian goods and services (2016).

Country	MAS
Poland	64
Italy	70

Germany	66
Hungary	88
Netherlands	14
Average (non-weighted)	60.4

(Source: 13)

Table 7. MAS in the EU countries where Ukrainian businesses showed highest efficiency (2016).

Country	MAS
Bulgaria	40
Hungary	88
Poland	64
Latvia	9
Estonia	30
Average (non-weighted)	46.2

(Source: 13)

Scoring 27, Ukraine is an example of a feminine society while most of its major trade partners represent masculine cultures. The average MAS of the countries from the second group is closer to the Ukrainian indicator value.

4. Uncertainty avoidance index (UAI). The Uncertainty Avoidance dimension expresses the degree to which the members of a society feel uncomfortable with uncertainty and ambiguity (Hofstede et al., 2010), [11].

Table 8. UAI in the EU countries – largest importers of Ukrainian goods and services (2016).

Country	UAI
Poland	93
Italy	75
Germany	65
Hungary	82
Netherlands	53
Average (non-weighted)	73.6

(Source: 13)

Table 9. UAI in the EU countries where Ukrainian businesses showed highest efficiency (2016).

Country	UAI
Bulgaria	85

Hungary	82
Poland	93
Latvia	63
Estonia	60
Average (non-weighted)	76.6

(Source: 13)

Scoring 95 Ukrainians are still very careful about ambiguous, non-standard situations. But their biggest partners from the EU represent the same high-UAI group of cultures. The average UAI of the countries from the second group is closer to the Ukrainian indicator value.

5. Long term orientation versus short term normative orientation (LTO). This dimension describes people's attitude to deep analysis of situations and readiness to change norms and traditions if it is needed. Long-term orientation in a business context is often called pragmatism (Hofstede et al., 2010), [11].

Table 10. LTO in the EU countries – largest importers of Ukrainian goods and services (2016).

Country	LTO
Poland	38
Italy	61
Germany	83
Hungary	58
Netherlands	67
Average (non-weighted)	61.4

(Source: 13)

Table 11. LTO in the EU countries where Ukrainian businesses showed highest efficiency (2016).

Country	LTO
Bulgaria	69
Hungary	58
Poland	38
Latvia	69
Estonia	82
Average (non-weighted)	63.2

(Source: 13)

Scoring moderate 55, Ukraine does not express a clear preference on this dimension while some of its main partners (like Germany) are very pragmatic which must be kept in mind before and during the communication process. The average LTO of the countries from the first group is closer to the Ukrainian indicator value.

6. Indulgence versus restraint (IND). Indulgence stands for a society that allows relatively free gratification of basic and natural human drives related to enjoying life and having fun. Restraint stands for a society that suppresses gratification of needs and regulates it by means of strict social norms (Hofstede et al., 2010), [11].

Table 12. Top IND in the EU countries – largest importers of Ukrainian goods and services (2016).

Country	IND
Poland	29
Italy	30
Germany	40
Hungary	31
Netherlands	68
Average (non-weighted)	39.6

(Source: 13)

Table 13. IND in the EU countries where Ukrainian businesses showed highest efficiency (2016).

Country	IND
Bulgaria	16
Hungary	31
Poland	29
Latvia	13
Estonia	16
Average (non-weighted)	21

(Source: 13)

With a very low score of 18 on this dimension Ukrainian culture remains restrained. Average IND of the countries from the second group is closer to Ukrainian indicator value.

Conclusion

Globalization and digitalization fostered the emerging role of cross-cultural communication in business. Cultural intelligence, knowledge of cultural peculiarities of different nations and cross-cultural communication experience are competitive advantages of the modern manager. While political, economic, social and technological factors still playing major roles in business the role of so-called „soft skills“ might be crucial during business negotiations with partners representing quite different cultures.

The results of our research showed the correlation between cultural similarities and international trade efficiency. Ukrainian companies are more successful on the markets of the countries with more similar cultures to their own. But in our globalized world managers should be more flexible to use the opportunities dealing with representatives of different cultures to reach new markets and increase revenues for their companies.

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