

ROLE OF CULTURAL DIFFERENCES IN FINANCIAL INVESTMENT DECISIONS

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Abstract

Financing business is the most difficult question in our days. The flow of capital became essential not only in political and economical level, but also determines the social welfare. The working capital became more careful in selection its destination, while different business cultures and adaptation ability have special role. One of the most significant challenges facing managers is the increasing nature of cultural diversity in our business environment. Many companies are using "remote" accesses for operation, connecting to people of different cultures, different geography and different time zone.

The paper is intended to give an overall view about the importance of cultural differences in business decisions. In reality, there are cultural clashes and conflicts that emerge while doing business in our domain and outside. The key challenges are how to manage these conflicts and still maintain objectives. Findings can emphasise the differences and ensure suggestions and thoughts for successful cooperation.

Key words: *Financial investment, cultural differences, business decisions*

1. INTRODUCTION

Nowadays the development policies became more and more important. The flow of capital became essential not only in political and economical level, but it also determines the social welfare. Recent years the economic crises had huge effects on investments. International flows of investment capital (leaving aside currency markets and secured bank loans) take two forms: direct investment and portfolio flows. Broadly speaking, the critical difference between the two is the degree of managerial control taken by the investor. Portfolio investors purchase equities and bonds in open markets while direct investors take a significant stake in fixed productive assets (Ahlquist, 2006, p.685). Private equity and venture capital will get an ever growing role in the future because they can also handle the financial crises, take part in the betterment of economic life and also provide an alternative source for financing (HVCA, 2009, p.7). This promising future can be seen in the growing interest in private venture capital in the CEE region, including Hungary, although after the crisis the perspectives of the region became unsure after 2011 (Karsai, 2012). More and more authors put emphasis on the foreign direct investments in connection with business environment and cultural factors (Razin-Sadka, 2007, Sethi, Guisinger, 2002, Bhardwaj et al., 2007, Moran-Harris 2007, p. 222). According to practical experiences examination of cultural differences came into prominence (Kaya and Erden, 2008, Kilsgard-Nero-Sundin 2008).

As earlier stated, there is phenomenon to describe different ethnic cultures known to be a sub-cultural matter. Subcultures can be distinctive because of the age, ethnicity, class, location, and/or gender of the members. The qualities that determine a subculture as distinct may be linguistic, aesthetic, religious, political, sexual, geographical or a combination of factors. Schneider (2003 p. 25), explored the regional cultures evolved largely on these dimensions. He also mentioned categories of subcultures such as industry cultures which consist mainly of different characteristics of the industry predominantly nature of decision making, product and market characteristics, regulation, technology, core competencies acquisition and interaction effects.

All these differences are totally able to shift focus of an organization from its objectives and goals to merely solving issues and conflicts that arises. Conflicts arise as a function of disagreement and basically from cultural perspectives.

Culture is an essential part of conflict and conflict resolution. It is like underground rivers that run through our lives and relationships, giving us messages that shape our perceptions, attributions, judgments, and ideas of self and other. Though cultures are powerful, they are often unconscious, influencing conflict and attempts to resolve conflict in imperceptible ways.

As companies, individuals and governments globalize, cultures and conflicts grows bigger than ever. Cultures relate to the symbolic dimension of life. The symbolic dimension is the place where we are constantly making meaning and enacting our identities. Cultural messages from the groups and or country we belong to give us information about what is meaningful or important, and who we are in the world and in relation to others, which is basically our identities, which influence our business decisions as well.

Many literatures generally focus on the European, American and Asian, mainly on Chinese and Indian cultural differences (Walter-Kalmar-Szabo, 2009, Lintzen-Svedjeholm, 2006). In our work we draw attention to the cultural differences in the European Union, which cause difficulties despite the free flow of capital. The report is intended to give an overall view about the importance of cultural differences in business decisions focusing on the Hungarian and German market.

2. LITERATURE REVIEW

As organizations go far beyond what we imagine to operate and do businesses globally, so shall issues related to different cultural effects gain wider attention to management scholars. Within individual firms as they search for working capital and growth potentials, cross border M&A, joint ventures, alliances and buyer-supplier relationships awareness of cultures help to realize the expected objectives and synergies very often depends on establishing structures and procedures that encompass both cultures in a balanced way. It is imperative that employees live and work within the four walls of culture be it individual, group or corporate cultures; we are bounded and breathe in cultures.

The definition of culture has being very different from viewpoints of anthropologist, sociologist, psychologist and politicians. Lisa Hoecklin (1995 p. 23) wrote that even if you are fluent with another language, there are also some hidden differences. She defined culture as a shared system of meanings. She continued to say that culture dictates what groups of people pay attention to. It guides how the world is perceived, how the self is experienced and how the life itself is organized. Allan N. R. & Simon C. (2009. p.130) defined culture as the sum total of the beliefs, rules, techniques, institutions and artefacts that characterize human populations. Susan C. Schneider & Jean-Louis Barsoux (2003 p. 21) defined culture as shared patterns of behavior. Allan N. R. & Simon C. believed that there are strong consensus that key elements of culture include language, religion, values, attitudes, customs and norms of a group or society.

The journey of our cultural approach starts from the socialization process influenced by parents, friends, status, countries, communities, education and other forms of interactions. These influences result in learned patterns of behavior common to members of a given society (Allan, p. 131).

Notably there are many set of subcultures that impact our adulthood behaviors. These subcultures can be distinctive dimensions because of the age, ethnicity, language, class, location, and/or gender of an individual or group. Susan (pp. 25-32) explored that subcultures evolved largely on these dimensions. He mentioned categories of subcultures such as industry cultures which consist mainly of different characteristics of the industry, predominantly nature of decision making, product and market characteristics, regulation, technology, core competencies acquisition and interaction effects. Schneider also mentioned professional cultures, functional cultures and finally corporate cultures which explores deeper into role of founders, leadership method, administrative heritage, stages of development, nature of product and interaction effects.

Today, firms are global citizens which mean the existence of a perfectly integrated world economic system. In such a global system there would be perfect mobility of financial capital, goods and people. Culture is the back-born of all these three key components of globalization and these are the beginning of conflicts within any organization. Globalization usually brings in cultural differences. According to

Taylor Cox (p. 108), this is always interpreted in terms of nationality but he also questions the narrow view on this interpretation. He reckons that national differences has six orientations such as time and space orientation, leadership style orientation, individualism versus collectivism, and competitive versus cooperative behavior. Susan (pp. 9-10) pointed out that one of the major seeds in potential cultural conflicts and misunderstandings are cultural differences. Taylor and Schneider viewpoints go also in line with Taylor Cox nationality dimensions. These authors argued that countries, regions, states and communities differs in these cultural dimensions and once an organization has cultures of such multiple plagues, there are high tendencies of conflicts. Taylor pointed out an example with space orientation where he said that physical distance between people from Arabian countries are much closer compared to people from the USA and the British. Violations of space norms creates psychological discomfort and that most Americans often moves away to create the distance that they are comfortable with. Such movements may be interpreted as rude by persons from other cultures and set the stage for interpersonal misunderstanding (Taylor Cox, p. 109). As in case of German and Hungarian approach of things would be a bit different in many terms.

3. MATERIAL AND METHODS

The accessible information basis and the inspection to the chosen area gave us the opportunity to form an opinion and to carry out the given research. The report is a summary of the most relevant findings that coming partly from expert interviews and partly from literature study.

The investigation is based on the actual literature and also on previous Hungarian studies but most of the report is written by the authors and it gives the opinion, which was formed through several personal interviews with relevant persons. Findings are presented in the form of figures and a table, but in several parts added information about our personal opinion can be read that can differ from opinion of others however during the work rationality and dispassionateness are tried to be applied.

4. RESULTS AND DISCUSSION

Capital is not only a sum of money but such a value, which during its movement provide added value. It has a multiplication effect. It influences the regional development in a good way, raises the employment of a region and enhances the living standards as well. In this case it is very important question how to attract capital mainly working capital, where the investor gives not only the capital to the company but also its professionalism, knowledge and relationships.

In general it is obvious that a foreign investor will take into consideration many things like the good location, the improved infrastructure, mainly the transportation facilities, the higher competitiveness, the high level of education and also the level of technological development in case of a decision (Fuat Vardar, 2010).

What kind of advantages can a region have from inflow of working capital? It can

- foster the regional development
- inspire the local economic development
- reduce the lack of capital
- facilitate the owners awareness
- help the improvement of small and medium sized companies
- improve the technical and technological level
- motivate the other entrepreneurs for development
- hire local employees and reduce unemployment
- create the possibility for additional financing

- increase the competitiveness
- contribute to increase the living standards
- broaden the external relationships and others (Abonyine, 2001, p. 4).

As reader will see professional investors provide working capital, along with the experience, support, insight, guidance, and contacts to help small companies grow. A high rate of Small and Medium Sized enterprises is interested in special financing structures like Venture Capital. Nowadays Central and Eastern Europe is becoming more and more attractive for foreign investors, however the source collection of Venture Capital Funds fell down from 1 billion Euros to 0,7 billion Euros regarding 2011 and 2012 (Karsai, 2013). According to Cherif and Gazdar (2011) the GDP growth, market capitalization and research and development expenditures are the important macroeconomic determinants of European venture capital investments.

Thanks to the complexity of this business the management has special, important role in decisions and that is the main reason why cultural differences are declared and presented. Respect of other mentality, proper, quite formal behavior and other demonstrated elements always should be taken into consideration in advance to avoid misunderstandings.

It is necessary to make clear the definition of venture capital to understand why the management and cultural differences have an important role in decisions. There are several different definitions for venture capital and there is no one standard definition for it. It is, however, generally agreed that the traditional venture-capital era began in 1946, when the first public corporation (American Research & Development) was established for specializing in investing in illiquid securities of early stage issuers. Important that in the Anglo-American literature “venture capital” is usually used in the sense of early-stage and expansion financing. The German understanding of “venture capital” is more comprehensive and also includes the financing of buy-outs, buy-ins and later-stage financing operations of more mature, small and medium-sized companies. This meaning is the same in Hungary. The term “venture capital” as used in Germany is therefore more in keeping with the American notion of private equity. In the United State the venture capital could be mentioned as the part of the private equity (Franzke, Grohs & Lauw, 2003).

The venture capital is determined as the collection of special conditions, which are common in a venture capital business:

- It is a participation investment and its financing role is not only to ensure capital for the development but also the participation in the management,
- time period of venture capital investment is about 3-7 years,
- the target of the investment are the companies, which are not listed on the stock exchange yet
- the investor of the venture capital is not only interested in the maximalisation of the dividend but the soonest realization of the development and the betterment of the company and the growth of the company value
- the venture capital is leaving the company not through capital subtraction but through the selling of one part of the capital

There are different stages of supported companies according to the actual situation of the company. The venture capital is mainly participating in the early stage and development financing when new ideas, technologies are supported or in the development financing, where further capital is needed to ensure the continuous improvement.

To understand the importance of the management process of venture capital investments are presented in Figure 1. It consists of four main parts as the selection, the investment, the additional financing and the exit.

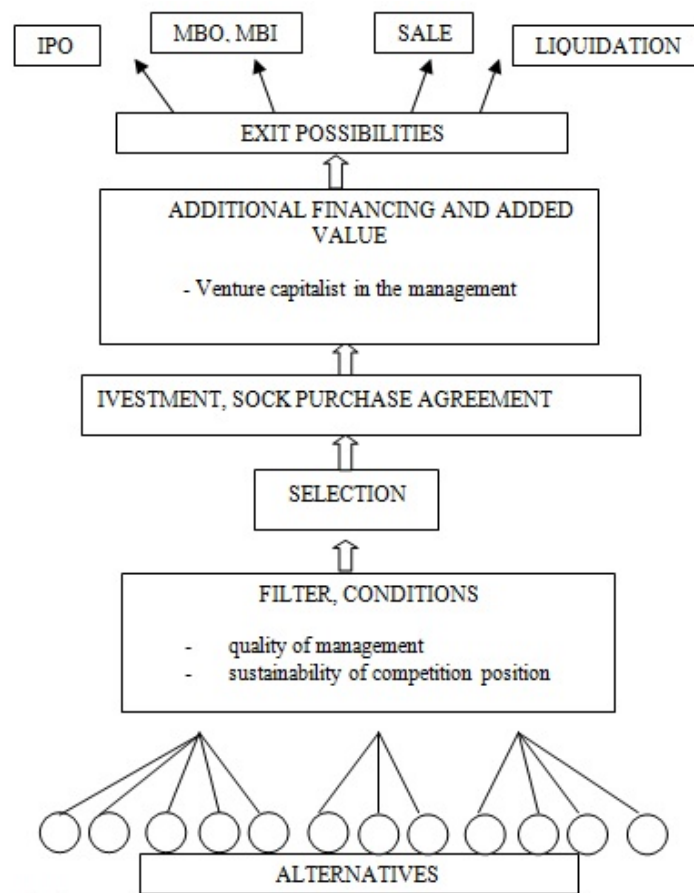


Figure 1. Process of venture capital investments

Source: Own construction

1. Selection

The generation of the intention for investment and the selection between the possible alternatives are needed to make a successful capital investment. More than 90% of the tenders, which was presented to the venture capital associations were blocked and become refused in this phase. The decisions of venture capital investment are depend on several different factors. According to the analysis of the European venture capital decisions it can be determined that the most determinatives are the quality of management, the sustainability of the position of the company in the market competition and the chance for exit (BÉT, 2003; Fekete-Farkas, Toma 2011).

2. Investment

The relationship between the investor and the financed company is served and regulated by the stock-purchase agreement.

3. Additional financing and added value

The role of venture capital investor is not finished at the gaining one part of the ownership. The participation of venture capital investor in the management can draw down with many inestimable advantages. The whole personal network can be offered to the company by the investor and his or her experience and success can mean a kind of guarantee in persuading the other outer investors. The venture capitalist can be seen as a factor, which can ensure added value to the company.

4. Exit

The venture capitalist is inspired to the investment by the expected return. The increase in value itself is not enough, profit has to be realized. There are four different way for the exit:

- Public Offering (IPO)
- Buying back the shares by the company or by the entrepreneur
- Sale of the company to other investor
- Liquidation of the company

In case of a possible investment more effort has to be done to help to improve the supported company. In this point the role of management is determinative. Several businesses are made between different nations, where not the same business culture can occur. In this point the habits can have a huge effect on the business itself.

Figure 2. shows the participation of business angels in the supported company. It is for the private investors but some important conclusions can be done according to it.

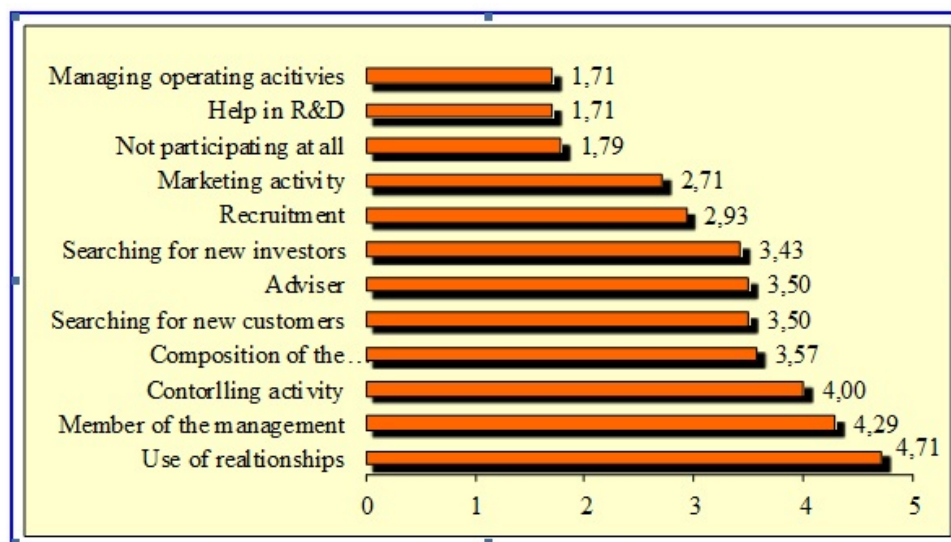


Figure 2. Participation of business angels in the supported company

Source: Makra – Kosztopoulos 2004.

It is also confirm the necessity of advising activity however this issue was in the middle range on the scale but according to my opinion this kind of support is also needed before the investment itself to help the companies to find the suitable investors and make a successful cooperation with them. Use of relationships was the most important and it is much more important at the beginning of the business activity mainly in a foreign country. As the destination of investments can be other countries as well but emphasis of the cultural differences becomes necessary.

Differences between the German and Hungarian business culture. How to adapt and cooperate?

Social psychology permeates all aspects of intractable conflict. Cultural differences can create conflict in organization due to different perception, fear, norms and beliefs. However if different cultural backgrounds are well managed and coordinated, there is no doubt that different cultures could offer value added and competitive advantage to an organization. Social customs differ from one country and culture to another, and there is simply no way to fit in and be at home unless you learn what is and isn't appropriate behaviour in the given country or region. It is impossible to make generalizations that can be applicable to every situation. Therefore, it is not inappropriate to inquire politely about local customs and social niceties. Although cultural values refer to almost any basic human activities, the

most important is regulating behavior that is the interplay of individuals. Because of the above mentioned reason it is necessary to introduce the most important cultural differences in Hungary and in Germany that could be surprising for a foreign (Toma, Fekete Farkas, 2009). The main differences and essential items are shown in Table 1.

Table 1.: Comparison of the Hungarian and German business culture

	Germany	Hungary
Time	Focus on one activity at a time	Focus on more activity at a time
	Keep appointments strictly	Appointments are approximate
Individual/group	The individual person is emphasised	More collectivist, but interest of the individual sometimes is above the group
Present or past	Interest in the present relationships	Talk about history and long relationships
Documents	Extended, in written form	Summarised, sometimes only in speech
Space	Larger personal distance	Closer relationships, (handshaking, kissing)
Masculinity/Femininity	Women are more accepted	Generally man as a boss
Bureaucracy	Really high	Lower
Legal	Rules are strictly followed	Rules sometimes are avoidable
Others	Following initial plans	Following where relationships lead

Source: Own construction based on Mole 1996, Schipper-Veen 2004, Hofstede 1994

Hungarians like doing everything at the same time, and it could happen that during a business meeting they are thinking about a totally different thing, which is more important to them at that moment, but in contradiction to this they are very attending but sometimes not so well prepared as Germans.

In Hungary time is also money but we like speaking about nothing a lot during the discussions so our partner should be patient and try to drive the meeting to the direct way. Germans are always concentrating on one thing at a time. Hungarians and Germans are very good cooperation partners but the most important is that both of them should be treated as an equal partner.

As the present or past orientation Hungarians like speaking about their history and they build their business based on preterit experiences and they try to be very prudential as the circumstances of a business, while Germans are also careful, but they focus mainly on present situation.

In Hungary agreements are also written down but they are prone to ensure not all the extra information but only the most important ones and because of this reason the documents are not as extended and comprehensive as in Germany so it is advisable to make clear what kind of information you need, the necessary points, data and documents, before the negotiation.

It is common that Hungarians are intimate by the meaning of handshaking and kissing each other. As a Hungarian you have to be careful with this kind of behavior with other nation, because you can cause a negative approach with the exaggerated informality.

Masculinity is very strong attitude of present routine for Hungarians. It can be recognized in stereotypes of young adults probably more for Hungarians, while ambitious women making career are not deprecated anymore for the German society.

Other main difficulties could come from the different business mentality which is common in Central and Eastern Europe. To make any business activity comparing to Western European situation is merely complicated. This arises from different mental software and historical background in individual's mind. A foreign language skill of a particular population is also an important factor in international trade, as many middle-aged businessmen do not speak any world language in Hungary. In Germany it is not causing a problem because English is spoken widely.

Recommendations and important issues for doing business between different nations (Toma, Fekete Farkas, 2009):

- Friendship and sympathy is indispensable.
- Respect of other mentality during negotiators, as the individual plans or relationships. Try to find an appropriate national cooperation partner who acts for your interest in case of a problem.
- During negotiations proper, quite formal behavior and dress are important. Suits are essential; woman also should be dressed elegant.
- Different verbal and non-verbal behavior is getting to be accepted. Try to accommodate to the partner habits.
- Respect of people who know what they're doing.
- Asking personal questions for the first time may be seen as intrusive, be careful with it.
- Touching another's back, shoulders or arms takes place mainly in close relationships but sometimes in business actions. Try to keep formality.
- Sometimes Hungarians are slow in making decisions because of ensuring every angle before final commitment. Germans could be quicker, but if you inform the partner about the necessary time it can not be a problem.
- Respect the country itself. Do not say any negative statement. Do not forget that you would like to do business.

As a summary of this section it can be said that these two countries do not have serious problems in conducting business with each other. They are very similar. However it is always important to take into consideration the cultural differences. Hungarians use more gestures and on the average are speaking a little bit quieter, which can be strange for the German businessmen for the first hearing but it is not because of the lack of assertiveness. This behavior is just because of politeness. However, as a manager, cultural diversity is becoming a significant issue for companies of all sizes, not just multinationals. The rise of global business, with an increasing number of joint ventures and cross-border partnerships, greater cooperation and the business need to embrace people from a variety of ethnic backgrounds and cultures, have all contributed to the need to develop a cultural sensitivity. Problems can arise in international operations because of cultural ignorance or insensitivity.

5. CONCLUSION

Regarding the complexity of decisions in business environment, the importance of management and behavior the following final conclusions can be drawn up.

As the world becomes a global market place, organizations explore new markets for search of growth and profitability, the working places are increasingly becoming cultural diverse and if not managed properly could lead to poor performance, decrease in productivity and profits.

Many conflicts have element of cultural issues. As many authors wrote that culture is multi-layered and this means that what you see on the surface may mask differences below the surface. This is why this paper was important to test and ask the people whether what could lead to conflict could be a result of diversity working environment or not.

Ways in attraction of working capital and mainly of venture capital for many conditions have to be adopted and fulfilled. Not just the location and economic circumstances should be taken into consideration but also cultural habits and differences between nations. Both Hungary and Germany are familiar with business etiquette and formal business meeting. Being late is not allowed. Sophisticated vocabulary, professional presentations with wide background information are typical for both cultures. As the adaptation to the different culture one alternative could be that the foreign investors try to know the domestic environment and try to adapt on by own or they can cooperate with local partners as employees or as a real partner in the planned company.

Most of the above mentioned critical points are recognizable also in other countries because some of them are general in business life and there is no one common suitable solution to avoid and to solve them because of the natural contradictions. Trust between the partners is determinative, they should be flexible and the different, not experienced business culture in the VC market should be accepted, always show respect towards your partner and doing so you can not make a terrible mistake as the behavior.

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