CULTURAL IMPACTS AND EXTENSION OF LASSERRE'S FRAMEWORK

KULTURALNI UTJECAJI I PROŠIRENJE LASSERRE-OVOG OKVIRA

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Abstract: *This work focuses on international business and influence of cultural differences when entering new markets by using Lasserre's framework. Cultural differences even in small markets play important role and as such those need to be addresses in structural and scientific approach. Differences are noticeable as described in framework through various components and factors but with lack of cultural component. Therefore paper suggests the way of extending existing framework by inclusion of additional cultural component before evaluating country/market attractiveness.*

Key words*: international business, cultural differences, Lasserre framework, Extended Lasserre framework, risk analysis*

Sažetak: *Rad se bavi međunarodnim poslovanjem i utjecajem kulturnih razlika prilikom ulaska na nova tržišta korištenjem Lasserre-ovog okvira. Kulturne razlike čak i u manjim tržištima igraju važnu ulogu te kao takve trebaju biti obrađene na strukturirani i znanstveni način. Razlike su uočljive i kao takve opisane u postojećem okviru kroz različite komponente, sa izuzetkom kulturne komponente, s toga se predlaže proširenje postojećeg okvira sa dodatnom kulturnom komponentom prilikom evaluacije privlačnosti tržišta ili države.*

Ključne riječi: *međunarodno poslovanje, kulturne razlike, Lassere-ov okvir, prošireni Lasserre-ov okvir, analiza rizika*

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1. Introduction

Historically research on country attractiveness and country risk has focussed upon financial components such as sovereign risk, growth, per capita income, market size and yet increasingly economics has come to be considered as only one in a range of factors that need to be taken into account. By looking only at economic factors can be misleading because indicators such as per capita income, growth, inflation and others, often obscures potential threats from other sources [1] [2]. However multinational corporations invest in new markets and emerging market economies in order to seek resources (e.g. low cost production), markets and learning (e.g. "frugal innovation" know how). Characteristics of national cultures have frequently been claimed to influence the selection of entry modes and risk assessments. However it is widely recognised that specific cultures often do not limit their geographic coverage to the borders of a nation state therefore it is also challenged is there such a thing as national culture or there are regional cultures only [1]. This work elaborates on that claim by developing a theoretical argument for why culture should influence the choice of entry, risk assessment and country/region attractiveness. Geert Hofstede contributed with his numerous papers about cultural dimensions on individualism-collectivism, power distance, uncertainty avoidance and masculinity-femininity and put foundation for further researchers [1][3][4]. Lasserre stated that "the purpose of country risk analysis is to assess the probability that adverse circumstances owing to political, economic, or social actions will negatively affect business performance" [5]. More specifically country level risk and country attractiveness are concerned with the chance of non-market events (political, social, and economic) causing financial, strategic or personal losses to a firm following FDI (Foreign Direct Investment) in a specific market. Based on his findings he proposed the framework for country attractiveness. This work inherits and extends that framework in terms of cultural component that hasn't been previously incorporated in original one.

2. Understanding country/regional risk and attractiveness

Country risk is a key issue in international business and as a result, numerous models and frameworks have been developed in order to assess the levels of risk that a company exposes itself to within a particular country and based on those risks to evaluate country attractiveness in terms of FDI or trade options [1][2][5]. The most basic of these risk prediction frameworks is PEST which takes into account four key factors (political, economic, social and technological). PEST echoes Lasserre's definition of country risk as it enables a business to examine how the identified factors might create opportunities or dangers for a firm investing within a context. One of the strengths of PEST is that it is simple and therefore leads to transparent risk analysis. PEST however does not stipulate the type of problems that may arise at the country level or the type of indicators that can be best used to examine these factors. Therefore Lasserre developed four factor framework for country risk analysis as well as framework for country attractiveness.

3. Lasserre's framework

Lasserre has provided rich and widely used framework for capturing key elements for country attractiveness assessments. Framework is often used for evaluating FDI, however even if it signals low country attractiveness for FDI it still can provide valuable information about the market and can suggest trade as option or no go decision. His framework for attractiveness is illustrated bellow.

Figure 1. Lasserre's framework for country attractiveness

Each component of the framework has questions that are embedded in it and answers those and as the results there are created inputs for calculation of country attractiveness. Market component deals with demand in the country or region, growth, size and customer quality. Resources component answers the questions about skilled personnel, raw materials, labour, innovation, learning and location. Country risk is foundational part and it evaluates political, economic, competitive and operational risks. This is also the central and most important component that is foundation of the framework as shown with figure 2 [5].

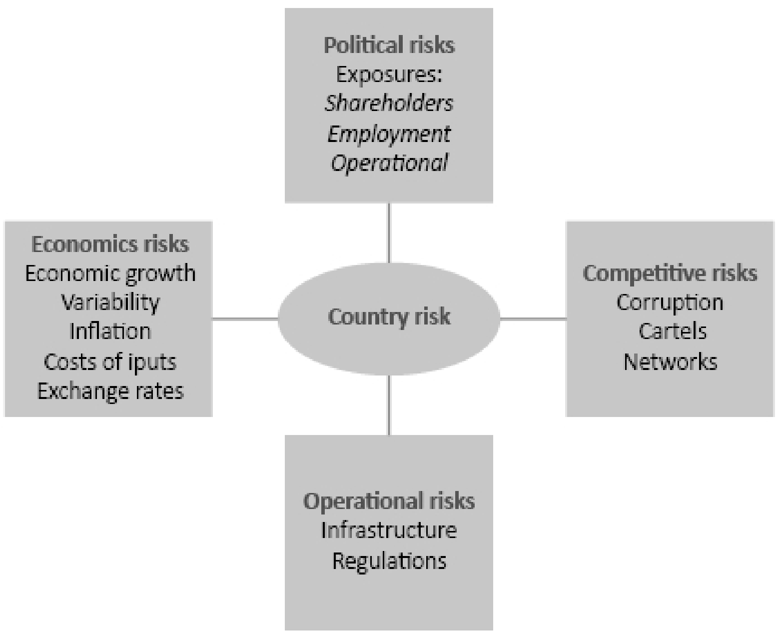

Figure 2. Lasserre's four factor framework for country risk analysis [5]

Assessing country risk component requires large amounts of relevant, high quality and timely data and the ability to collate it in a meaningful way (research within country/region context, inside information or specialist consulting services). Many multinationals have entire departments dedicated to the subject and the most data, much of which is available online, comes from specialist consultancies and organisations such as The World Bank and The International Monetary Fund. Ease of doing business component has factors such as taxes, subsidies, and infrastructure and government contracts. Each described component produces result and based on the sum of the outputs country attractiveness is evaluated.

4. Proposal for framework extension -Extended Lasserre

As described, classical Lasserre framework requires previous PEST analysis in order to address cultural factors in order to calculate country attractiveness and risks. In order to avoid it, this work suggest introduction of additional component - Culture.
Culture varies within a region, society or sub group. Cultural "spheres of influence" may also overlap or form concentric structures of macro cultures encompassing smaller local cultures. Because of these elements, culture cannot be specified as a factor and included in country risk component but it should be treated as separate component. Therefore we suggest extension of the country attractiveness framework when dealing with country attractiveness (Figure 3).

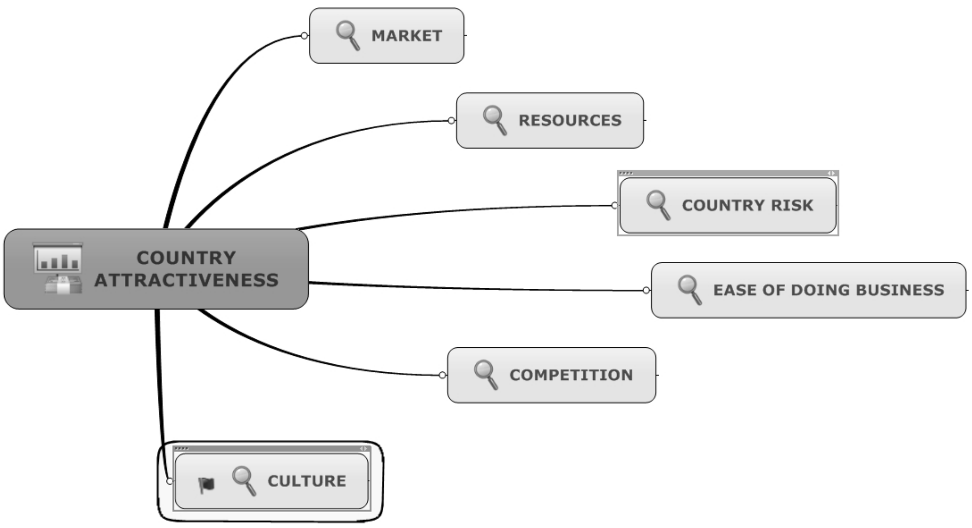

Figure 3. Extended Lasserre's framework

Newly introduced component – Culture requires factors. One approach would be to follow Hofstede's four dimension of culture or extensions of those (Trompenaar or GLOBE) [1]. However those are too detailed and for the country attractiveness evaluation the focus should be on the business context since the company is in early stage and it has to make decision on high – strategic level. Therefore we recommend the approach that includes factors that are summarized with table 1. Those are at the most general level links between business contexts and particular characteristics of individuals or groups in a particular region and follow the basic idea of Rugman [1].

Factors	Cases	Context
• Language • Knowledge/experience • Behaviour • Rituals	• Meetings • Negotiation • Communication	Face to face
• Organisation • Hierarchy and decision making • Labour relations • Attitudes towards work	• Contracts • Alliances • Joint Ventures • Mergers & Acquisitions	Company to company
• Consumer preferences • Quality on demand	• Marketing • Product development	Company to consumer

Table 1. Factors of Cultural component

5. Conclusion

Culture is important domain that must be addressed when evaluating country attractiveness, so far frameworks such as Lasserre's haven't addressed those. Instead analysts had to perform separate researches and to follow other models in order to address culture. Extended Lasserre framework simplifies addressing cultural specifics in country attractiveness evaluation by incorporating additional Cultural component. At the strategic level it is important to focus those factors on the business context and not to go into the details.

6. References

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