

# **ELAN: Effects on the European Economy of Shortages of Foreign Language Skills in Enterprise**

## **Executive Summary<sup>1</sup>**

### **Key findings**

- A significant amount of business is being lost to European enterprise as a result of lack of language skills. On the basis of the sample, it is estimated that 11% of exporting European SMEs (945,000 companies) may be losing business because of identified communication barriers.
- Analysis of the findings from the survey identified a clear link between languages and export success. Four elements of language management were found to be associated with successful export performance: having a language strategy, appointing native speakers, recruiting staff with language skills and using translators and interpreters. There could be very significant gains across the whole EU economy if all exporting SMEs employed these techniques.
- English is a key language for gaining access to export markets. However, the survey results suggest that the picture is far more complex than the much-quoted view that English is the world language. Russian is extensively used in Eastern Europe as a lingua franca (along with German and Polish). French is used to trade in areas of Africa and Spanish is used similarly in Latin America. Longer-term business partnerships depend upon relationship-building and relationship-management. To achieve this, cultural and linguistic knowledge of the target country are essential.

### **Research methodology**

The research comprised five major components:

- A summary of previous work examining the linkage between language skills, cultural competence and exporting performance.
- A survey of nearly 2000 exporting SMEs across 29 European states (EU, EEA and candidate countries) to collect data on approaches to the use of language skills, intercultural competence, awareness of language strategies, loss of business owing to lack of language skills, future exporting intentions and hence projected requirements for further language skills.

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This study was commissioned by the Directorate General for Education and Culture of the European Commission in December 2005 and undertaken by CILT, the UK National Centre for Languages, in collaboration with an international team of researchers. Its objective was to provide the Commission and decision-takers in Member States with practical information and analysis of the use of language skills by SMEs and the impact on business performance.

- For each country, a review of the findings by five ‘influencers’ drawn from that country’s business, educational and political institutions, allowing a distillation of recommendations for action at local, regional, national and European level.
- A survey of thirty multinational companies to establish differences in perspective between them and SMEs in relation to language and intercultural skills in their business strategy.
- Macro-economic analysis of the SME survey data to provide indications of the economic impact of investment in language skills for exporters and at the level of the European economy.

Alongside the collection of statistical data a number of examples of good practice were collected, illustrating the value of language skills and their application across a range of industry sectors and European states.

### **Macroeconomic basis**

Research indicates 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 knowhow, market-awareness and cost or efficiency savings.

Given that SMEs account for more than 50% 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.

### **Lost business as a result of language and cultural barriers**

The survey of SMEs found that a significant amount of business is being lost as a result of lack of language 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. Of these, 37 businesses had lost actual contracts which together were valued at between €8 million and €13.5 million. A further 54 businesses had lost potential contracts worth in total between €16.5 million and €25.3 million. At least 10 businesses had each lost contracts worth over €1 million.

According to these findings, the average loss per business over a three year period is €325,000. Clearly, the survey identified only those situations where companies were aware of the business lost or potentially lost, and the real figure may be much greater.

SMEs experience intercultural as well as language barriers when operating across borders. In all but eight countries more than 10% of respondents were aware of having encountered intercultural difficulties.

### **Current language management approaches**

In 15 of the 29 countries at least 50% of respondents claimed to have a language strategy (defined as 'the planned adoption of a range of techniques to facilitate effective communication with clients and suppliers abroad').

Recruiting native speakers with language skills appears to be widely used as a language management technique, with 22% of businesses drawing on this resource.

Website adaptation was frequent with over 50% of businesses in 22 countries showing businesses providing websites in languages other than the national language.

There was varied practice in the use of translators and interpreters - between 4% and 84% of businesses per country. Use of local agents produced the most uniform set of responses with the majority of countries falling within the range 20%-40%. This tends to be a recourse of smaller businesses lacking the financial capacity to appoint additional staff to service the requirements of a new market.

A high proportion of businesses (48% across the sample) claimed to offer language training to their staff, with 15 countries exceeding a 50% return and only one falling below 20%. However, both small and large companies say they prefer to recruit staff who already have language skills rather than having to invest in training.

### **Future exporting intentions**

46% of businesses across the whole European sample plan to enter new export markets in the next three years.

Language skills needs will increase in future. In 13 of the 29 countries surveyed, at least 50% of respondents believed they would need additional language skills in the next three years. Intercultural skills were also widely predicted to be required in future, although not at the same level of response.

### **View of national influencers**

The interpretation of data from the national surveys was confirmed as largely accurate by the national influencers at interview. The influencers were asked further if they were aware of any national initiatives or policies aimed at increasing the level or quantity of language skills available to business. Only 50% knew of such policies and, of those who did, none felt that the policies were effective.

Strong views were expressed about the need for work experience in other countries for employees to improve not only linguistic skills but also awareness of different business cultures.

### **Findings from large companies**

Results from the survey of large companies reinforced much of the material gathered from the main SME survey:

- Recruitment of staff with language skills is commonplace (73% of respondents had an established scheme for recruiting language-skilled employees whilst a further 20% said it was common practice).
- English appeared to be more extensively used as an intermediary language than was the case with SMEs, possibly reflecting its use also as a corporate language in many multi-nationals.
- Despite this, demand for skills in languages other than English was greater than the demand for English itself. Spanish and other global languages were a significantly higher priority in terms of future need than in the returns from SMEs.
- For the sake of efficiency, English was often encouraged or stipulated as a corporate language, even in countries with international languages as mother-tongues, such as France.
- However it is not clear to what extent actual language use in the organisation follows these policies. There is a parallel encouragement of informal networking and this, together with flatter management structures, tends to favour a multilingual environment.

### **The macro-economic dimension: language skills and export success**

Information volunteered by respondents relating to business performance (turnover, profits, value of lost contracts) was limited for the purpose of protecting commercial confidentiality. Nevertheless, sufficient data was available across the full EU sample to model scenarios involving possession, or not, of language skills. The outcomes demonstrate the real possibility of measuring the impact of language skills on economic performance.

Four elements of language management were found to be associated with successful export performance: having a language strategy, appointing native speakers, recruiting staff with language skills and using translators or interpreters.

An SME investing in these four elements was calculated to achieve an export sales proportion 44.5% higher than one without these investments. 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, and a 3.7% productivity spillover from exporting could imply a very substantial additional impact from these investments in language skills.

### **Summary of recommendations**

- 1.** The findings of this report need wide dissemination in order to engage policy-makers at European, national and regional levels.
- 2.** Questions on language skills should be included in the EC's Community Innovation Survey, in order to track the extent to which improved supply and demand for language skills are contributing to the EU economy.
- 3.** Improve Business-Education links in relation to languages. Identify and disseminate models of successful collaboration between Business and Education especially, but not exclusively, directed towards the promotion of language skills.
- 4.** Examine the potential for adaptation of existing mobility programmes to accommodate periods of work experience ('stages') in other countries for SME employees.
- 5.** Develop and support programmes to raise awareness of the importance of language skills and (as these come on stream) of the availability of support systems.
- 6.** Focus on Regions as the ultimate delivery agents for support measures in language skills for business and identify the appropriate platform for engagement within and across regions.
- 7.** Improve the articulation between European/national/regional/local language policies and the needs of business.
- 8.** Support businesses to become more expert at managing language skills and in applying the four elements of language management which are associated with improved export performance.
- 9.** Businesses should be encouraged, through incentives where appropriate, to:
  - record, exploit and develop language skills available within their company
  - provide training for employees through links with local providers
  - provide work experience opportunities for foreign students or employees
  - become involved in international business-to-business exchanges
  - make use of the language skills available, including those of migrant workers
  - support education and training programmes linking languages and enterprise, working with schools, colleges and universities.
- 10.** Strengthen (foreign) language education within education and training at all levels.

- 11.** Improve the match to employer need by:
  - diversifying the range of languages taught, particularly in tertiary and vocationally-oriented education
  - improving the contextualisation of courses and qualifications to the business context
  - embedding periods of work experience abroad, with explicit opportunities to use the target language, within courses which combine languages with other subject areas relevant to business
  - improving flexibility to meet changing employer needs.
  
- 12.** Improve the supply of interpreters and translators in less commonly-taught languages such as Chinese, Arabic, Russian (in Western Europe) and Japanese.
  
- 13.** Make a period of mobility in another European country an expectation for every student in tertiary education.
  
- 14.** Build on existing language skills by encouraging development of the languages spoken by children of migrant workers alongside the national language of the host country.
  
- 15.** Conduct further and more detailed research into the economic impact of language skills both on export trade and on other areas of the economy such as tourism, inward investment and services.