

Original Article

Improvement of Internationalization of Smes Through Cultural Awareness (Theoretical and Empirical Studies)

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Abstract - Along with the growth of networks and communication between countries, the rapid growth of SMEs provides opportunities to enter into the international market competition. Internationalization allows SMEs to survive in the midst of intense competition. In line with the increasingly high business competition and the lack of ability of SMEs to face internationalization, an in-depth study of the strategy to increase the internationalization of SMEs becomes an important matter through theoretical and empirical studies. This research method uses a descriptive exploratory approach by analyzing the utilization of the increased internationalization of SMEs. This scientific work was developed using a literature review or putaka study approach. The theory/concept approach is carried out by referring to several sources, such as books and scientific journals. The results of this study indicate that the key to the success of SMEs in being able to survive in the midst of competition lies in the ability of SMEs to internationalize. The hybrid model is better able to provide a holistic picture of the internationalization process through cultural awareness. Cultural awareness factors include skills components in cross-cultural competencies that focus on communication and are fundamental tools in interacting in organizations.

Keywords - Internationalization and Cultural awareness

I. INTRODUCTION

Small and Medium Enterprises (SMEs) are a pillar of the economy in Indonesia. In 2018, the number of SMEs in Indonesia reached 99.99% of the total businesses in Indonesia and contributed 57.3% of the total Gross Domestic Income (Ministry of Cooperatives and MSMEs, 2018). Today, SMEs have developed into the largest group of industrial elements in most developing countries and have made significant contributions to the growth of manufacturing and employment in these countries. The contribution of SMEs can be seen in income growth, entrepreneurship training, application of technology, adaptability to changing market demands, job creation, disparities in lower wage rates for workers, the spread of

industry in suburban areas, and regional development (Katrak & Strange, 2002)

The contribution of SMEs in Asia in export trade is recorded at more than 35% (Hall, 2000). The development of SMEs in Southeast Asian countries has been placed as a development priority scale, as mandated in the Asia Pacific Economic Cooperation Forum (Harvie & Lee, 2002). Although the potential for growth globally remains strong, the development of Indonesian SMEs towards the global market era is still relatively lagging behind. For most of the SMEs from developing countries, the challenges faced by local SMEs are on the size and ability of SMEs in Indonesia to face internationalization, which is still limited. As a result, little is known about efforts to prepare SMEs for global markets.

Along with the growth of networks and communication between countries, the rapid development of providing opportunities for SMEs to enter into the international market competition. Previously, SME products that were only circulating in the local market must be able to improve quality so that they have export standards. Exports have a positive impact on the economic development of a country, and exporting companies usually have higher productivity than those that do not export (Achtenhagen, 2011). The problem faced by SMEs is how to create a competitive advantage due to the rapid competition both domestically and globally (Taher & Mehmoud, 2010).

Internationalization allows SMEs to survive in the midst of intense competition (Assaf et al., 2012). Internationalization is defined as the extent to which a company is involved in international business. These include exports, the presence of foreign subsidiaries, ownership of shares by foreigners, and the appointment of foreigners in the organizational structure (Chelliah et al., 2010). The reach of internationalization for SMEs refers to the extent to which SMEs around the world are able to reach (Lu and Beamish, 2001). In research conducted by Fernandez and Nieto (2006), Buckley and Casson (1976),



and Dunning (1977,1981) stated that the conceptual and theoretical internationalization strategy could be divided into two, namely internalization theory and eclectic theory. The internalization theory emerged due to the development of large companies in the 1970s, which could threaten the existence of MSMEs. Furthermore, in its development, this theory seeks to internalize the benefits that can be obtained from internationalization, localization, and ownership. Meanwhile, eclectic theory in the internationalization strategy emphasizes more on the resources it has and the knowledge of MSMEs in determining the market and network to be selected in marketing their products.

In line with the increasingly high business competition and the lack of ability of SMEs to face internationalization, an in-depth study of the strategy to increase the internationalization of SMEs becomes an important matter through theoretical and empirical studies.

II. THEORETICAL REVIEW

A. MSME Internationalization Theoretical Model

In the literature related to the study of the internationalization of business, the following theoretical models can be distinguished:

a) *Experiential (empiric) learning models.*

This model is based on company behavior and growth, which is called the "incremental internationalization model" or the Uppsala model. This model describes the way in which existing knowledge relating to foreign markets determines entry strategies and changes current business practices. The company internationalizes gradually and in several stages and at the same time acquires specific knowledge at each of these stages. The emphasis is on the specific knowledge of a market that is gained by doing business in that market and has a direct influence on determining which stage to move to the next stage. For example, a company does business in the domestic market, and contacts with foreign markets first occur through direct ordering. Export decisions are not automatically taken, or exports may be carried out irregularly (irregularly) and in limited quantities. As orders increased, the company started fulfilling demand through its international agents. In cases where the foreign market is showing satisfactory conditions, the company's management may move to the next stage. The third stage represents the establishment of a branch abroad (the foreign market). If the results remain satisfactory, the company can move to the final stage of internationalization and open manufacturing facilities in the country.

b) *Systematic Planning Model*

This model sees internationalization as a process that is carried out systematically and planned, occurs gradually, and uses strong market research to improve marketing performance in its international market. Yip (2000) calls his model the "Way Station Model" of SME internationalization, which includes 6 stages: motivation and strategic planning, market research, market selection,

selection of entry strategies, problem planning, and post-entry behavior. The characteristics of the entire Systematic Planning Model are its rationality, and the process is strictly gradual, and these two are the characteristics that receive the most attention and criticism. Among them is how to explain SMEs' rapid entry in the current turbulent business situation. Nor does this model account for the fact that many decisions today are made simultaneously rather than sequentially.

c. *Accidental Perspective Models*

This model states that the internationalization process depends on the current situation in which the company is located. How the process will be carried out is determined by the environment, the industrial structure of which the company is part of that structure, and the marketing strategy. Boter and Holmquist (1996) stated that small and medium enterprises (SMEs), which do business in the traditional economic sector, internationalize their business in the long run, while companies from the high-tech sector adopt an accelerated internationalization model as it relates to product development. Unpredictable and new product functionality. This model emphasizes the unpredictable nature of the internationalization process of SMEs, and criticism is leveled at its inability to provide a coherent framework for recent studies.

d. *The Hybrid Model*

This model was created by integrating the experiential learning model and the systematic planning model with the elements of the contingency model. This model is called the best model compared to each of the previous theoretical approaches. This model provides a holistic picture of the internationalization process but is not intended to replace previous models. This model is applicable to upgrade existing theoretical research. There are three most important aspects that differentiate the hybrid model from all other models. By integrating the systematic planning model and the experiential learning model, a more proportional picture of the internationalization process is achieved, and the combination of the two models makes the argument stronger. The current internationalization process for SMEs is unpredictable, which is why a model cannot explain all these phenomena. The internationalization process according to this model is carried out in 3 phases: basic (antecedent) phase, planning phase, execution phase.

e. *Born Global Model*

Many small companies have succeeded in becoming global players in a relatively short period of time. Examples are common among software companies and knowledge-based industries (e.g., Amazon, Google, E-Bay, Skype, YouTube, Facebook). 'Born global' companies use marketing activities aimed at the global market, mostly because of the nature of their product or they wish to do business in a particular niche market in a domestic market where demand is promising. Reid (1981) states that many 'born global' companies do business in industries where knowledge is a key factor (knowledge-intensive

industries), and these companies undertook an internationalization process within the first five years of the company being founded.

III. CULTURAL AWARENESS

Culture is basically defined as the product of any human association where individuals meet, communicate and interact, and thus individuals create culture (Durkheim, 1956). According to Hofstede (1989), culture is defined as the collective programming of thoughts that distinguish members of one category of people from other categories. In this case, the keyword for culture is collective programming which describes a process that binds everyone as soon as we are born in this world. Kluckhohn (1959) states that culture consists of patterned ways of thinking, feeling, and reacting, and these patterned ways are acquired and transmitted mainly by symbols which are typical achievements of human groups.

Cultural awareness, according to the National Center for Cultural Competence (NCCC, 2014), is an awareness, carefulness towards similarities and differences between cultural groups. Awareness of cultural differences and their impact on behavior is the beginning of intercultural effectiveness (Winkelman, 2005). Winkelman (2005) states that cultural awareness includes the recognition of the influence of one's own culture on values, beliefs, and the influence of culture on the world of professional work. Achtenhagen (2011) created an internationalized competency framework known as the POMI Framework (Personal international orientation, Experiential knowledge, Experiential market knowledge, Experiential knowledge of institutional frameworks). Cultural awareness is one of the important components in a personal international orientation (Achtenhagen, 2011). By having a high cultural awareness, UKM players will be successful in the internationalization process of SMEs.

IV. METHOD

This study uses a descriptive exploratory approach by analyzing the increase in the internationalization of SMEs. This scientific work was also developed using a literature review or literature study approach. The theory/concept approach is carried out by referring to several sources, such as books, scientific journals, and the internet. All descriptions of existing ideas are combined in one arrangement of thought framework.

V. DISCUSSION

A. *Cultural Awareness in increasing the internationalization of SMEs*

Can the internationalization of UKM without cultural awareness competence? Of course, it will be difficult to create a marketing network with cultural differences both in individual life and in business patterns. Competence in the internationalization process of MSMEs is the key to success in entering the international market.

The international market has a different pattern and culture than the domestic market. One of the keys to an

effort to enter this market is choosing the right strategy. Every company needs an appropriate strategy in order to increase profits and win the competition. Strategy is an integrated and coordinated action and commitment designed to maximize the company's core competencies (Hoskisson & Hitt, 2011). So, in general, strategies are carried out to increase or maintain company profits

Cultural awareness factors include skills components in cross-cultural competencies that focus on communication and are fundamental tools for interaction in organizations. Verbal and nonverbal communication varies from culture to culture. Bush et al. (2001) found that cultural awareness in communication is a crucial factor in building communication competence. Wisemen et al. (1989) stated that cross-cultural communication competence is closely related to cultural awareness competence.

Intercultural communication competence increases the character of communicating in the context of values and also the ability to generalize and react to messages that come from different cultures. This competency can be transferred and applied not only to one culture (Beamer, 2001). Matters that affect cross-cultural negotiations increase the ability to analyze communication behavior in the context of values as well as the ability to analyze communication behavior in the context of values and the ability to generate and react to communication messages as if the negotiator came from the culture of the interlocutor. Therefore cross-cultural communication competence is important. (Chairsakeo and Mark, 2004).

Ross (2008) defines cross-cultural competence as the development of knowledge and skills through experience and training that results in complex cultural difference schemes, perspective-taking skills, and interpersonal skills, where individuals act flexibly (or adaptively) and apply them through a willingness to be involved in a new environment. Even in the face of considerable ambiguity, through self-monitoring and through self-regulation to support mission success in a dynamic context.

Jaccarino & Kendall (2004) suggest that a cultural competency program to be successful in helping organizations become culturally competent must include four elements of the cultural competency model. Organizational strategy to reflect the desire and commitment of the organization to become culturally competent, build awareness within the organization to create the right atmosphere for cultural change and acceptance, assessment of workforce skills to determine the status quo and future needs, and development planning to implement and implement strategies that will affect cultural competence.

Cross-cultural competence includes four elements (Jaccarino & Kendall, 2004), namely cultural awareness, skill development, development planning, and organization strategy. These elements are used as key factors in cross-

cultural competence. The internationalization process of MSMEs will experience difficulties if they are not able to carry out business negotiations properly. Competence in communicating across cultures will greatly affect the success of MSMEs in entering the international market. An understanding of the components of communication, namely verbal, nonverbal, and paraverbal, is always required to avoid misunderstanding in communicating.

Cross-cultural competence does not happen immediately but occurs for a long time (Barera, 2010). Cross-cultural competence is a concept of ideas that arise from cultural awareness and sensitivity (Williams, 2001). Cultural competence enables individuals and organizations to work or respond effectively across cultures with recognized values, beliefs, traditions, and customs (Williams, 2001). Mason (1993) describes cross-cultural competence as a series of unity of five stages, namely cultural destructiveness, incapacity, blindness, pre-competence, and competence. Chan (1990), in his research, stated that there are three important elements in cultural competence, namely self-awareness, knowledge of information, especially on culture, and cultural understanding skills.

VI. CONCLUSION

The key to the success of SMEs in being able to survive in the midst of competition lies in the ability of SMEs to internationalize. The hybrid model is better able to provide a holistic picture of the internationalization process. The internationalization process according to this model is carried out in 3 phases: basic phase, planning phase, execution phase through cultural awareness. Cultural awareness factors include skills components in cross-cultural competencies that focus on communication and are fundamental tools for interaction in organizations. Intercultural communication competence increases the character of communicating in the context of values and also the ability to generalize and react to messages that come from different cultures. The internationalization process for SMEs will experience difficulties if they are not able to carry out business negotiations properly. Competence in communicating across cultures will greatly influence the success of SMEs in entering the international market.

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