Appraising the Cultural Competency and Network Competence of Indonesian SMEs on Export Performance

Cindy Augustie [#1], Norsafinas Md. Saad [*2]

*# International Business Department, School of International Studies,
Universiti Utara Malaysia, 06010, Malaysia*

Abstract

This study examines the impact of cultural competency and network competence on SMEs international performance. Data were gathered through a survey of 124 Indonesian SMEs engaged in international market. The results indicate that cultural competency and network competence positively impact international performance of Indonesian SMEs.

Keywords — *small medium enterprise, firm performance, international performance, cultural competency, network competence.*

I. INTRODUCTION

Increasingly, internationalized entrepreneurial firms are not only faster but also greater numbers than before (Axxin and Matthyssens, 2002). Some have gone as far as saying that the number of internationalized entrepreneurships is gaining in Asian countries (Lee and Tai, 2011). As well as in research and academic field that shows by escalating numbers of books, case studies, and articles (Yeoh, 2004), international entrepreneurship also emphasized the country's economy (Lee & Tai, 2011). Interestingly, this phenomenon also prevailed in Indonesia (Bhasin and Venkataramany, 2010). It shows by prior study (Tambunan, 2011) that Indonesia is ranked first among ASEAN countries in terms of entrepreneur numbers. However, the number of Indonesian international entrepreneurial firms only represents approximately 1.56 percent of the total population of Indonesia (Aryanto, 2012). Whereas, the ideal proportion in a developing country has to fulfill at least 2 percent of the total population (Sugiarto, Samtani, Naresh, Amaris and Kumar 2014).

As such, a better understanding of the determinants of international performance success is necessary to increase Indonesian SMEs performance substantially. Therefore, the antecedents of international performance need to be identified and examined. By doing so, the current study aims to help Indonesian SMEs to improve their international performance and contribute to international entrepreneurship literature by examining specific factors influencing SMEs performance. Despite such issues, more research has undertaken entrepreneurial orientation as determinants to examine SMEs' international performance. As for the current study, focus on how cultural competency and network competence is affecting the international performance of Indonesian SMEs.

International Entrepreneurship in Indonesia

In general, international entrepreneurship is acknowledged as a contextualized activity that occurs across a national border (Fletcher, 2004). International entrepreneurship theory, besides, it is highlighted by Ratten (2006) as a theory that verifies some different perspective, such as type of business and individual involvement, while the international business theory is focused more on the firm-level only. On top of that, she also claims that international entrepreneurship theory links the international business with classic entrepreneurship theory. Zahra and George (2002) stated it would be necessary if international firms accumulate their resources or competencies as preparation to go global. It means that firms need to be equipped with critical competencies as they are essential elements to compete and be a success in the international market. The reason being, entrepreneurial firms may face a hard time in the international market due to their size and lack of resources. However, the competencies could assist the firms in gaining the right qualities in operation, take risks, clearly identify the opportunities, and compete successfully with the competitors in the foreign markets.

In Indonesia, the number of firms that do business overseas is proliferating and these firms have become more important for the country's development process (Tambunan, 2006). In a study by Bhasin & Venkataramany (2010), Indonesian firms had exported products worth 126 billion USD, with around 4,495 Indonesian international entrepreneurs (Indonesian Ministry of Trade, 2015). However, it only encompassed 1.56 percent of Indonesia's total population. As a result, Indonesia has been considered as a country that does not have enough entrepreneurs who were going abroad, when in fact, Indonesia is the country that has the most

entrepreneurs amongst the ASEAN countries. Realizing the contradicting condition of Indonesian international entrepreneurship , it is worth the effort to further explore the factors that can affect Indonesian SMEs' international performance, that further could be guidance for SMEs who already expand their business abroad to enhance their performance, and to encourage domestic SMEs to go abroad. By doing so, current study desire to contribute to the low entrepreneurs which expand abroad issue in Indonesia.

II. CONCEPTUAL FRAMEWORK AND HYPOTHESES DEVELOPMENT

In general, it has been identified from previous studies the factors that affecting firms' international performance is cultural competency (Ang and Inkpen, 2008; Calza, Aliane and Cannavele, 2010; Lee & Tai, 2011). Other factors that impact firms' international performance include network competence (Torkkeli, Puumalainen, Saarenkrto and Kuivalainen, 2012; Yoon, Kim and Dedahanov, 2018; Zhou, Barnes and Lou, 2010). The conceptual framework proposed in the current study portrayed that international performance is defined by both cultural competency and network competence.
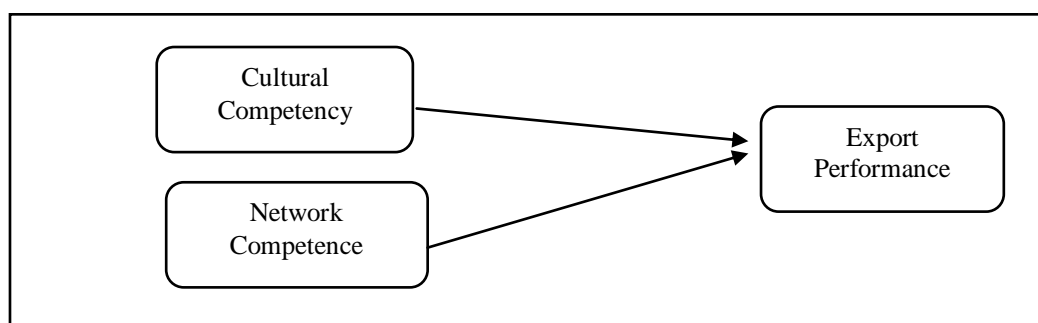

Figure 1. Conceptual Framework

It is important to note that, when internationalizing their business, SMEs need to combine between its competencies and knowledge to create economic value and sustain their competitive advantage (Desarbo, Benedetto, Song and Sinha, 2005; Zaridis and Logotheti, 2020). Knowing and learning about cultural differences is one of the requirements in international entrepreneurship (Lee & Tai, 2011). The main reason is that it has been argued that cultural values have an impact on performance (Burke, 1997). It is also believed that cultural competency will help international entrepreneurial firms to be more competitive and increase their ability to identify any opportunities in the market.

The other capability that is deemed essential for international entrepreneurs is network competence. According to Jeong (2016), when entering the foreign market, firms face difficulties in implementing their international activities due to several limitations, such as limitation to acquire significant resources and information. By leveraging network competency, entrepreneurial firms can overcome these limitations by gaining the know-how on business activities in the international market (Yu, Hao, Ahlstrom, Si and Liang, 2014).

Cultural Competency

Despite concerning economic, legal issues, or organizational forms and structures, international business research has been involved in national culture in the last two decades (Leung, Bhagat, Buchan, Erez, and Gibson, 2005). Culture is not only defined as a set of values and beliefs but also sees as something that is passed down from generation to another generation through learning and imitating processes, and it affects the behaviour (De Brentani and Kleinschmidt, 2004). Culture is argued to have a significant impact on business activities and performance (Leung et al., 2005). In their study, having cultural competency becomes crucial because, in the international market, the firms might face an un-uniform manner. Unpredictable and adverse consequences might be arising and could revert to their cultural patterns. Since behaviours are different geographically, entrepreneurial firms are required to consider culture diversity decisions as one of the requirements of going abroad (Lee & Tai, 2011) to be more understanding about the cultural differences in the new market.

Over and above that, cultural competency clarified as the capability to function and manage effectively in culturally diverse settings. Thus, Indonesia, as the most ethnically diverse countries, which consists of 779 ethnics and sub-ethnics group, Indonesian international entrepreneurial firms are expected to

understand about cultural differences when doing business in foreign markets. Having discussed the effect of culture on the internationalization process for the entrepreneurial firm, cultural competency reckons as an essential factor in influencing international SMEs' performance.

The significance of culture and cultural competence as the business assets is in an evolving role (Wilenius, 2006). Goodman (2012) stresses the importance of cultural competency by claiming that it can help a firm to acquire cultural awareness, understand the consequences of cultural assumptions, the cultural differences and build the effective working relations. Hence, the following hypothesis is formulated:

H1: The more sensitive entrepreneurs are towards the foreign culture, the higher the international performance.

Network Competence

Along with cultural competency, network competence has also argued to be necessary. It said that network is one of the factors that help entrepreneurial firms to compensate for lack of the support needed in the new international market through their relational exchange network (Lee & Tai, 2011). According to Jeong (2016), networks play a crucial role in overcoming the constraints in the international market. He further added, the network also facilitates the internationalization process of firms by providing pieces of information that could enhance the decision-making process, market selections, and mode of entry.

On the same page, Zhou et al. (2007) denote several benefits of network competency on internationalization and the firm's performance. Firstly, the network competency of the firm can increase the opportunities to acquire substantial knowledge about foreign markets. Secondly, network competency has a vital role in improving the firm's experiential learning. And lastly, network competency provides the firms' referral trust and solidarity. From Indonesia's perspective, Tambunan (2009), who often examines Indonesian entrepreneurs, states that the network is prominent to a firm in order to secure their export activities. He discloses in his study that many entrepreneurs from Padang, Indonesia has successfully expanded its business internationally and preserve their market due to its network competency. Thus, it is no doubt that social networks are necessary for international entrepreneurial firms to perform well internationally.

The research's result of Zhou, Wu, and Luo (2007) stated that network competency is to help the firm to expand globally, since the network can provide linkages in a long-term relationship, and it can facilitate the information sharing process (Arias, 1995). After verified the weightiness of networking

on firms' international performance, a hypothesis linking network competence and international performance emerge as follows:

H2: Network competency is expected to facilitate entrepreneurs' international performance.

III. RESEARCH DESIGN

The study based on an empirical investigation of SMEs involved in exporting to foreign countries from Indonesia. The sampling frame including Java, Sumatera, Bali & NTT island, as the area which has the most SMEs in Indonesia. Ministry of Trade department provided the list of firms for the sampling frame.

To obtain valid and reliable measures of the variables, validated scales from previous studies used for all the constructs in the current study. Cultural competency measured from items taken from Ang and Van Dyne (2008) on the extent of firms' top management's cultural intelligence. Network Competency measured via items adopted from Zhou et al. (2010) and Walter (2006). Finally, the international performance measured via items tapping the extent of SMEs' satisfaction of their performance abroad adopted from Zou, Taylor, and Osland (1998) with higher scores implying greater satisfaction. All items were measured using scale poles ranging from strongly disagree (1) to strongly agree (7).

The test was conducted to assess the reliability and regression of the measurement items for each construct using Statistical Package for Social Science (IBM SPSS) version 25.0 This process involved distributing 124 questionnaires to SMEs managers and above in Jakarta. The respondents were asked to fill the questionnaire, and in return, as a token of participation, all participants received mugs with the logo of University Utara Malaysia on them. Next, the reliability and regression were performed on data obtained as the measurement to evaluate the internal consistency of each construct. The next pace in the future after obtained the reliability and regression result from the data gathered on the returned questionnaire will be analyzed using Partial Least Squares (PLS) 3.0 in order to achieve the actual relationship between cultural competency and network competence on Indonesian international SMEs' export performance.

IV. RESULT

Before analyzing the correlation between the constructs, the reliability test was performed. The data were initially analyzed using SPSS 25.0 to assess all the instruments. All items loaded appropriately with only Cronbach's Alpha of 0.7 being accepted. As shown in Table 1, the reliabilities for all scales were higher than 0.9 in all cases, which indicate the measurements were acceptable to examine the relationship depicted in Figure 1.

TABLE I
RESULT OF RELIABILITY TEST

Variable	No. of Items	N
Cultural Competency	9	124
Network Competence	7	124

Based on the reliability test, both items, cultural competency, and network competence can be rated as excellent and reliable as the factor to test the dependent variable, namely international performance in the current study. After the reliability test, the regression analysis was addressed. Regression or multiple regression to be specific was run with the intention of exploring the relationship between cultural competency and network competence towards the international performance of Indonesian SMEs. The reason of performed multiple regression analysis is because it can tell how well a set of variables is able to predict a particular outcome and further can shows which variable is the best predictor of an outcome (Pallant, 2013).

Based on the SPSS Survival Manual book by Pallant (2013), for multiple regression analysis, the relationship between the independent variable and dependent variable should be > 0.3, and the bivariate correlation between independent variables should be <0.7 to prove that the independent variables are not measuring the same thing. Furthermore, the tolerance value of the collinearity statistic should be >0.10. Meanwhile, the VIF value must <10, the lesser, the better. The last part of being investigated is the residual statistic, which Cook's Distance that supposed to <1.00.

TABLE III
MULTIPLE REGRESSION ANALYSIS RESULT

Correlation

		IP	CC	NC
Pearson Correlation	IP	1.000	.404	.601
	CC	.404	1.000	.667
	NC	.601	.667	1.000
Sig. (1-tailed)	IP	.	.000	.000
	CC	.000	.	.000
	NC	.000	.000	.
N	IP	124	124	124
	CC	124	124	124
	NC	124	124	124

Coefficient[a]

Model		Unstandardized Coefficient		Standardized Coefficient	t	Sig.	95% CI for B		Correlations			Collinearity Statistic	
		B	Std. Error	Beta			Lower Bound	Upper Bound	Zero Order	Partial	Part	Tolerance	VIF
1	(Const.)	.458	.549		.835	.405	-.628	1.544					
	CC	.007	.125	.006	.057	.995	-.240	.254	.404	.005	.004	**.555**	**1.803**
	NC	.775	.127	.597	6.120	.000	.525	1.026	.601	.486	.445	**.555**	**1.803**

a. Dependent Variable: IP

Residuals Statistic[a]

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	3.6691	5.9360	4.6434	.58629	124
Std. Predicted Value	-1.161	2.205	.000	1.000	124
Std. Error of Predicted Value	.071	.391	.113	.046	124
Adjusted Predicted Value	3.6847	6.2473	4.6477	.59781	124
Residual	-3.37349	1.84657	.00000	.77990	124
Std. Residual	-4.290	2.348	.000	.992	124
Stud. Residual	-4.310	2.368	-.003	1.006	124
Deleted Residual	-3.40537	1.87761	-.00434	.80294	124
Stud. Deleted Residual	-4.666	2.415	-0.005	1.025	124
Mahal. Distance	.008	29.396	1.984	3.803	124
Cook's Distance	.000	**.246**	.010	.302	124
Centered Leverage Value	.000	.239	.016	.031	124

a. Dependent Variable: IP

The result of the analysis portrayed that the correlation between cultural competency and network competence towards international performance is positive. The bivariate correlation between independent variables is 0.667, the tolerance value is 0.555, and the VIF value is 1.803, which means cultural competency and network competence did not measure the same thing. Moreover, the maximum value of Cook's Distance for the current study is 0.246, suggesting no major problems. From the correlation table, we can see that cultural competency has a lesser value than network competence, 0.404, and 0.601 accordingly. In sum, for Indonesian SMEs, cultural competency and network competence influence their international performance, but network competence plays more important role when define their international performance.

V. CONCLUSION

The accretion of international SMEs is also perceived by Asian countries, as well as Indonesia. As stated above, although there are so many potentials SMEs that might help economic development in Indonesia, in fact, the number of Indonesian SMEs still not sufficient. Regarding previous literature, cultural competency and network competence are presumed as some factors that could influence international performance. Therefore, this study intends to discern how cultural competency and network competency might affect the export performance of Indonesian international SMEs.

From the analysis result, we can summarize that both cultural competency and network competence are factors that could be influencing Indonesian SMEs' international performance. Both factors have a positive relationship with international performance. Though network competence has a higher value on affecting the international performance, Indonesian SMEs should also look forward to cultural competency when running their business abroad. Besides exposed the interrelationship between cultural competency and network competence towards international performance, the findings of the current study also intended to practically help Indonesian SMEs to enhance their performance in the international market and could motivate the domestic Indonesian SMEs to go abroad.

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