CHAPTER 2
LITERATURE REVIEW

The second chapter of this paper will include a brief description of each variable so that readers may comprehend the definitions and significance of each variable. Explanation of the hypotheses, which will be supported by a collection of previous research from various writers will also be included followed by the theoretical framework at the end. Small medium enterprises, importer commitment, cultural similarity, communication, relative advantage of importing, knowledge and experience, and importers relationship trust are among the variables that author will address.

2.1 Internationalization Process Theory

Designing a product in such a way that it can be accepted in many nations is known as internationalization. Companies who want to expand their global presence outside their native market use this technique because they recognize that consumers in other countries may have different interests or habits (Amdam, 2009). Several theories such as the resource-based view (RBV) (Barney, 1991; Wernerfelt, 1984) and the internationalization process (IP) theory by Johanson & Vahlne in 1977 have attempted to identify the factors that influence these importers trust, resulting to a committed relationship with foreign partners (Bianchi & Wickramasekera, 2016; Dikova, Jakli, Burger, & Kuni, 2016), as well as their commitment to the foreign suppliers. However, the behavioral perspectives of SME importers have been generally ignored in the research. Usually, when an SME starts internationalization, according to Gankema, Snuif, and Zwart (2000), it consists of five stages which are “(1) the domestic marketing stage; (2) pre-export stage; (3) an experimental involvement stage; (4) active involvement stage; (5) committed involvement stage”
2.2 Indonesian SME Importers

A study conducted in Medan, Indonesia has analysed that Indonesia is seen as a developing country whose industrial production cannot keep up with local demand. Indonesia's reliance on other countries in terms of consumer goods, raw and auxiliary materials, and capital goods reflects this. Indonesia engages in import operations because most native items are unable to compete with foreign products, local manufacturers cannot meet the demand and when it comes to daily products, the market feel a sense of satisfaction when they are able to purchase things from other countries (Purba, Rahmadana, & Fitrawaty, 2021). Imports have a significant impact on a country's economic growth, according to Sukirno (2004), because they are a component of total gross domestic income. When economic growth increases, local demand will as well increases, and in order to meet these demands, imports from other countries are carried out.

Doing business in a developing country can sometimes be challenging, especially for SMEs due to the rapidly changing environment and sometimes, SMEs lack of resources to keep up with the changes. It is also remains a challenge for these Indonesian SMEs to choose the right suppliers or partners as they are afraid in losing a competitive advantage or being too reliant with the other party (Hamel, 1991; Miles, Preece, & Baetz, 1999), which is why they tend to create relationship with partners if they perceived that the suppliers provide them with more benefits that it will then outweigh the disadvantages of having the partnership (Marino et al., 2008).

The rapid and significant changes in Indonesia’s policy of doing business throughout the years provide an interesting framework in which to investigate how enterprises learn about the internationalization process. Businesses must learn about other markets in order to build successful cross-border operations; past research has
revealed that the ability to comprehend foreign market characteristics and able to implement exchanging of information is linked to higher internationalization performance (Jonsson & Lindbergh, 2010). These importers may obtain these information from internal or external sources, however, this study focuses on the information obtained from the foreign suppliers by communicating to the importers.

In addition to that, it has been found in the study conducted by Gunawan and Rose (2014) in Indonesia that Indonesian importers are able to exchange information with the foreign supplier easier when they have similar environments and shared experiences. Similarity in terms of structure, values, and reward systems leads to more successful information exchanges, increasing the importers knowledge and the more information communicated (for example, through meetings or other communication methods), the better each party's awareness of the other's strengths and weaknesses should be, therefore, a higher trust will be formed between the two parties. Importers and foreign suppliers can supply useful market information that may allow both companies to grow, which is important in the internationalization process.

2.3 Small Medium Enterprises

According to The World Bank, SMEs are the backbone of economy as they massively contribute in lessening the unemployment rate as they create jobs and global economic development, however, its universal definition has not been solved yet (SMEs Safeguard Economy, 2020). Berisha & Paula (2015) cites an International Labor Organization research that identifies over 50 definitions of SMEs in 75 countries. There are different segments of SMEs which includes manufacturing, services, agricultural, mining, and other SMEs are the primary segments of SMEs
(Divakara & Surangi, 2018). They are referred to as tiny businesses by some, small and medium enterprises by others, and micro, small, and medium firms by others.

Despite referring to the same type of business, the definitions differ in terms of the degree to which these enterprises are involved in the generic name. These notions, on the other hand, can be applied alternatively and understood if an author or institution favours one over the other. To differentiate among businesses, Hatten (2011) suggest that the number of employees is the most prevalent metric used to distinguish between large and small firms (Berisha & Pula, 2015). SMEs in Indonesia are those firms with employees lesser than 300 people (Purwanto, 2021). On the other hand, The World Bank defines SMEs based on three quantitative criteria: (1) number of employees, (2) total assets in US dollars, and (3) annual sales in US dollars (IEG, 2008). To be classified as a micro, small, or medium business, a company must meet either one of these criterias.

2.4 Importer’s Commitment

When developing channels of distribution and information between the importers and exporters, commitment is required as it also contributes in the export learning process (Solberg & Durrieu, 2006). When it comes to commitment, its importance can be perceived from two perspectives, from the exporter point of view and the importer’s. To begin with, importers assist exporters in their internationalization process by providing continuous access to overseas markets, allowing the exporters to export their products to different countries. Secondly, through the importers perspective, having a commitment with foreign suppliers allows them to obtain a competitive advantage in the target market (Saleh & Ali, 2009).

intention to maintain or continue the partnership”. The term “commitment” has been used in the export literature to describe a long-term relationship in the export market or to maintain a relationship with foreign channels (Richey & Myers, 2001). When the importer commits to stay with a particular supplier, chances of them switching to other parties will be reduced as sometimes these suppliers tend to give them rewards (Bianchi & Saleh, 2010). As a result, importers commitment can be characterized as an importer’s willingness to make short-term sacrifices in order to maintain a close, strong and long-term relationship with the suppliers (Saleh & Ali, 2009).

2.5 Cultural Similarity

Internationalisation create firms to develop relationship with foreign partners and in this research, cultural familiarity refers to an “importer’s understanding of it exporter’s country in terms of language, business processes, political and legal systems, and marketing infrastructure” (Boyacigil 1990). Cultural similarity defined by Hewett, Money, and Sharma (2006) as “the degree to which an importer and a foreign suppliers have a similar culture in terms of style greetings, business procedures, formalities in negotiations, business ethics and terms of agreements”. Kale and Barness (1992) as cited in Lee, Lee, and Ulgado (2007) argues that the familiarity of an importer with the exporter’s country allow for more regular and direct communication between exchange partners and those who is more familiar is better able to adapt to cultural differences (Pornpitakpan, 1990).

International partnership or purchase is influenced by numerous factors, one of which is how similar the culture between the two firms (Bereksin, Byun, Officer, & Oh, 2017). The impact of cultural similarities on the performance of cross-cultural buyer–seller relationship, bargaining, and communication has gotten a lot of attention.
in the IB literature (LaBahn & Harich, 1997). Cultural similarity creates a psychological connection between the two parties that helps them to understand each other, not only that, it can also overcomes several communication hurdles, making it easier to share information between the two foreign parties (Nes, Solberg, & Silkoset, 2007; Swift, 1999 as cited in Saleh, Ali, & Mavondo, 2014).

2.6 Communication

In business relationships, effective communication is necessary to maintain partnerships and many businesses have recognized the value of replacing inventories with information is one of the most powerful way to win the market (Morsy, 2017). Dunn (2002) as cited in Adu-Oppong and Agyin-Birikorang (2014) as “the formal as well as informal exchanging of relevant and timely information between firms”

Willingness of both parties to provide vital information, according to Cannon and Perreault (1999), indicates more open information sharing. Lack of trust, on the other hand, might translate into a refusal to give information (Fawcett & Marnan 2001), making it difficult to communicate sensitive information like financial data, particularly in Asian industry (MOEA, 1999). As a result, Mavondo and Rodrigo (2001) raise the issue of cross-cultural communication and information sharing as a serious hurdle to business (Adu-Oppong & Agyin-Birikorang, 2014).

Keyton (2011) defined communication as the activity when one person share their knowledge or understanding about a particular subject to another person. Between sender(s) and receiver(s), it is the exchange or creation of ideas, perspectives, and understandings. It is necessary to create and maintain relationship during a partnership. However, communication does not begin until the sender and intended receiver have exchanged information and understand the meaning (Adu-Oppong & Agyin-Birikorang, 2014).
2.7 Relative Advantage of Importing

According to Rogers (2003), relative advantage is defined as “the degree to which consumers evaluated utilizing a product or service as much more beneficial than using it’s alternatives” (Yahaya, Shinkafi, & Haji-othman, 2017). However, Porter (1985) emphasized firm-level competitiveness in terms of low-cost and/or product differentiation competitive tactics. However, he did not provide a clear conceptual definition of competition in his statement. According to Thanh Duc Hai study that was cited on Ngoc and Tien (2019), when it comes to organizing import-export businesses, suppliers should market their strengths and benefits to ensure that the operations run smoothly.

Hoffman (2000) developed the definition of competitive advantage which is when a firm is the only one in the market that implement a unique value to a product that is difficult to duplicate by other competitors. However, this concept obviously emphasizes a firm’s competitive advantage based on firm-specific characteristics (Gupta, 2015). In addition to that, Barney (1991) argues that a firm must use their resources and their maximum capability to maintain a unique focus and try to differentiate their offering from other firms that may sell or offer similar products or services to achieve market advantage. For firms that conduct businesses globally and target international buyers, Kotabe and Murray (2004) suggested, a supplier’s quality, warranty, prices, terms of payments and delivery, smart salespeople and technical ability can be a source of achieving a sustainable competitive advantage. This study will measure the advantage of importing from a specific suppliers from the importers perspectives.
2.8 Knowledge and Experience

Knowledge is an abstract term that has no connection to the real world. It is a powerful concept, but still there is no direct definition for it yet. People have sought to define “Knowledge” from the Greek philosophers up until today’s professionals in knowledge management but the findings are still hazy (Bolisani & Bratianum, 2018). Throughout the years, “market knowledge” has become a high discussion by several scholars, and market knowledge is now known as very critical to a firm’s success or failure (Hart & Tzokas, 1999; Jaworski & Kohli, 1990; Narver & Slater 1990). In the international marketing literature, firms that operates in international markets encounter unfamiliar export environments face uncertainty (McAuley, 1993) and market information is crucial to influence the firm’s export behaviour (Diamantopoulos, 2003).

During export import, the willingness to learn new things and develop new talents has been demonstrated to be quite important (Burpitt & Rondinelli, 2000). When importers are familiar with international purchasing or has experience international purchasing, it helps to create a positive relationship with the foreign suppliers (Min & Galle, 1991). Lack of knowledge regarding internationalization, according to Eriksson, Johanson, Majkgard, and Sharma (1997) as cited in Saleh, Ali, and Mavondo (2014) has a significant impact on both business and institutional knowledge, which, in turn, affects the perceived cost of internationalization.

2.9 Importer Relationship Trust

The element of “Trust” according to several researchers is crucial to develop long-term relationship with foreign suppliers in the export import literature (Doney & Cannon, 1997; Villena et al., 2011). According to Nes, Solberg, and Silkoset (2007),
trust is the basis of any business relationship, especially when building a long-term relationship. In the literature, trust is defined as an individual perception that the other party will not act opportunistically and take benefits from the partnership without the other party’s approval or awareness (Dyer & Chu, 2000; Villena et al., 2011).

Trust is included in the relationships amidst a relationship of a group of people and built depending on a specific goals and purposes. According to Leonidou et al. (2002) cited in Ismail, Alam, and Hamid (2017), trust is defined as “one party’s perception that the other person behaviour is honest, sincere and fair”. Trust can be measured using three levels, from weak to strong. When there is trust, constant flow of information is easier, which means that transfer of knowledge is easier and it may minimize the negative consequences of cultural differences (Barney & Hansen, 1994).

2.10 Hypotheses Development

This study consists of 6 hypotheses that will be tested further. In this section, the author will provide supported evidence from past researches and explain further the influence of each variables.

2.10.1 Cultural Similarity to Importer’s Knowledge and Experience

International businesses have given a considerable amount of attention to the importance of cultural similarity during cross-culture buyer-seller interactions, communication as well as negotiations (Saleh, Ali, & Mavondo, 2014). During the initial stage of internationalization, firms prefer to build foreign business relationship with firms that have culturally similar markets to gain knowledge and experience as an equivalent business practices, and styles contribute the knowledge gathering process, it can be concluded that cultural similarity is favourably related with the transfer of knowledge (Swift, 1999). Also, by forming ties with similar culture suppliers, importer may gain experience (Kurhonen, Luostarinen, & Welch, 1993).
When both parties share similar cultures, they share the same value, hence, a psychological bond will be created as they tend to understand each other more, which tackles any information-sharing hurdles, avoiding miscommunication between the two parties. Thus, it will help in maintaining their relationship as the buyers can get enough information from the foreign suppliers (Nes, Solberg, & Silkoset, 2007). Liang and Parkhe (1997) insists that when someone encountered an unfamiliar environment or place, their information processing tends to be simplified, which helps them make less dangerous decisions. Ulgado (2007) strongly believed that when they share a similar way of doing business, they will have a mutual understanding and it will be easier for the importers to adapt to cultural differences if they are familiar with their suppliers’ country. In a study conducted by Saleh, Ali and Mavondo in 2014 found similar results that doing business with suppliers that have similar cultures can increase the importers knowledge and experiences. Since previous studies have found that cultural similarity may influence importer’s knowledge and experience, the proposed hypothesis will be as follows:

“**H1: The greater the SME importer’s perceived cultural similarity with their foreign supplier, the higher the SME’s knowledge and experience will be of the foreign supplier**”

![Figure 2.1 Hypothesis 1](image)

Source: Bianchi & Saleh (2020)

### 2.10.2 Cultural Similarity to Importer’s Trust

In building and maintaining relationships, trust is one of the most crucial elements in both parties (Morgan & Hunt, 1994). Researchers have been identifying what factors increases trust between international buyers and seller to keep the
partnership going and according to the internationalization literature, similarities in terms of languages and how they conduct business make companies perform better in foreign markets that are culturally similar to their home market and they are more likely to also form long-term partnerships which has a high potential to build trust for long-term business success (Hewett, Money, & Sharma, 2006). Also, since it has been explained in the previous section, cultural similarity overcome several communication and information-sharing hurdles, which is also a way to maintain a trust-worthy and healthy partnership with foreign suppliers (Nes, Solberg, & Silkoset, 2007) as the process of learning through constant interaction and training improve trust between both parties (Boyce, 2001).

Amelung (1994) cited in Bianchi, Constanza, and Saleh (2010) posits that cultural similarity between foreign partnerships not only reduces transaction costs but also encourages the development of ethical connections, based on transaction cost theory. Furthermore, trust may reduce negative effects of several cultural differences (Nevins & Money, 2008). Although there is a study conducted by Ha, Karande, and Singhapakdi in 2004 which found that the suppliers cultural background had no effect on trust, the research suggests that importers in culturally similar markets are likely to appear to be more trustworthy. On the basis of these arguments, the proposed hypothesis is as follows:

“H2: The greater the SME importer’s perceived cultural similarity with their foreign supplier, the higher the SME importer’s relationship trust will be in the foreign suppliers”
2.10.3 Communication to Importer’s Trust

A high level of trust is needed for a committed and a long-term international business relationships (Milosević et al., 2018) which has a high potential to build trust for long-term business success (Hewett, Money, & Sharma, 2006). An effective and efficient communication between the buyer and the supplier is a vital aspect in establishing strong, trust-based partnerships that allow for the continual exchange of resources needed to achieve their independent but dependent long-term objectives. According to Giles et al. (1987) as cited in Karungani and Odhiambo (2021) study, communicators tend to facilitate one another. For a partnership to succeed, it is necessary to address the price, how they conduct business, their contracts, delivery schedules, technical details, and other strategic problems so that the importer knew the capabilities and trustworthiness of the foreign suppliers, therefore, communication is important in the formation of a relationship and trust (Prahinski & Benton, 2004).

In addition to that, Johanson and Vahlne study in 2009 had also found similar results that relationship trust could benefit from regular communication between foreign export suppliers and importers (Miocevic, 2016). Not only that, communication can also extend the longevity of partnerships between the buyers and foreign suppliers, however, the most important factor to a long-term relationship is trust and a way to generate trust is by constant communication and meaningful information exchange between both parties (Lancastre & Lages, 2006), these communication activities could be regular discussion about the importers wants and needs or any business changes or updates as well as exchanging information that can benefit one another (Lancastre & Lages, 2006). Since communication is one of the
most important ways to build trust between both parties, the proposed hypothesis is as follows:

“H3: The higher the communication perceived by the SME importer with their foreign supplier, the greater the SME importer’s relationship trust in a foreign suppliers”

2.10.4 Perceived relative advantage of importing to importer’s relationship commitment

Several researchers believe that the importer’s perceived relative advantage of importing from a supplier may have the power to influence their relationship commitment. According to a study of Kim and Frazier in 1997 supported the findings of Skarmeas and Robson in 2008 in which an importer that receives sufficient benefits in comparison to alternative suppliers' offerings in terms of product quality, warranties, terms of delivery & payment, pricing, knowledgeable salespeople and so on will realize that it is much more beneficial to have a relationship with that particular supplier instead of any other alternatives. Such supplier offerings may provide a long-term advantage for SME importers, enhancing the importer's tie-up committed connections with international suppliers (Barney, 1991).
A study by Abu et al. (2010) found that when a supplier is not opportunistic, competent and is highly knowledgeable regarding the market or product, the importer’s level of commitment tend to be stronger and last for a long time. Furthermore, Saleh et al. (2014) claim in foreign relationship, the more the supplier may provide to their buyers, it attracts the buyer’s attention more, increasing the likelihood of them staying in the relationship for a longer period of time. This means that the higher benefits the importers perceived on having by importing from a particular supplier will have a positive influence with their commitment to maintain the relationships, therefore, the proposed hypothesis is as follows:

“H4: The higher the SME importer’s perceived relative advantage of importing from a foreign supplier, the greater the SME importer’s relationship commitment to a foreign supplier.”

2.10.5 Importer’s knowledge and experience to importer’s commitment

When a firm first begin to go international, building partnerships with foreign suppliers, they gain knowledge about the foreign market (Johanson & Vahlne, 1977). The importers may adjust their product prices when they are aware of the suppliers’ products, benefits, and market information (Homburg et al., 2002). Since importer may gain knowledge and experience by forming ties with foreign suppliers, it supports the growth of inward international activities that results in a greater commitment with the foreign suppliers (Karlsen et al., 2003). It is also supported by several studies, for instance Zahra (2005) has found that in order for these SMEs to succeed during internationalization, knowledge about the foreign market is essential, as it may help
them in developing partnership with the foreign parties as well as to seek opportunities available in each countries (Liesch & Knight, 2002; Musteen, Datta, & Butts, 2013).

Furthermore, information gained from commercial operations in overseas market has been discovered to be the key factor of growing commitment to the foreign market, which is critical for a greater commitment to a foreign supplier (Johanson & Vahlne, 1990). Within the domain of international purchasing, importers' ability to cope and solve problems encountered in international exchange is influenced by their level of experiential knowledge of a specific foreign supply market (Katsikeas & Dalgic, 1995). When an importer have overseas experience, its reputation and product image can be higher, and a deep understanding regarding the supplier's way of business allow importers to maintain and increase relationship commitment with their foreign suppliers (Musteen, Datta, & Butts, 2013), therefore, the hypothesis is as proposed:

**H5: The greater the SME importer’s perceived knowledge and experience gathered from a foreign supplier, the greater the SME importer’s commitment to the supplier**

2.10.6 Importer’s trust to importer’s commitment

Trust is one of the most crucial element for a healthy and long-term relationship. When there is no trust between two parties, buyers and suppliers may be hesitant to provide information requested because they believe it will raise their vulnerability. These unsatisfactory relationships must be modified in order to improve both buyer and supplier performance, and this can only be accomplished through the creation of trust (Inayatullah, Narain, & Singh, 2012). According to Paulraj et al.
(2008), a mutual will to collaborate can only formed long-term relationships as they both agree to share beneficial information.

The relationship between trust and commitment has gotten a lot of attention from different scholars. Morgan and Hunt's study from 1994 has become a standard in the International Business world. According to Morgan and Hunt, commitment leads to exposure (to risks), leading businesses to seek out a reliable partner. This is supported by several studies conducted by several researchers. For instance, Chen, Chen, and Yeh (2003) found that when there is no trust between both parties, firms tend to not take any risk and grant a higher demand of protection against betrayal. This means that importer’s trust is important for a greater commitment to the foreign suppliers. In addition to that, Moorman et al. (2000) study cited in Ismail, Alam, and Hamid (2017) study also supported their findings in which there is a positive relationship between the two constructs, therefore, the proposed hypothesis is as follows:

“H6: The higher the SME importer’s trust in the relationship with its foreign supplier, the greater the SME importer’s commitment to the relationship with this supplier”
2.11 Theoretical Framework

Figure 2.3 Hypothesis 4, 5 and 6
Source: Bianchi & Saleh (2020)

Figure 2.4 Theoretical Framework
Source: Bianchi & Saleh (2020)