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Firm internationalisation within the Muslim world

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ABSTRACT

Business transactions within the Muslim world have received only limited attention from International Business scholars. This exploratory study investigates whether a shared adherence to the Islamic tradition can reduce perceived cultural distance between countries, thus affecting the internationalisation pattern of firms. The experiences of six small- and medium-sized enterprises in the electronics and electrical (E&E) sector in northern Malaysia are presented. The findings suggest that a mutual affiliation to Islam among countries does contribute to reducing cultural distance, thus also affecting the path of firm internationalisation.

1. Introduction

Firms operating across national markets often face a number of problems arising from various discrepancies between their home and host countries. The seminal work of the Uppsala School (Johanson & Vahlne, 1977; Johanson & Wiedersheim-Paul, 1975), for example, highlighted the significance of "psychic distance" – that is, differences in language, education, business practices, culture, and industrial development – between countries as a key factor in determining the pace and pattern of firm internationalisation. Kostova and her colleagues (Kostova, 1999; Kostova & Zaheer, 1999; Kostova, Roth, & Dacin, 2008) have built on work by Scott (1995) to suggest that variations in the regulatory, cognitive, and normative environments – or "institutional distance" – between firms' home and host countries also plays a significant role in explaining the behaviour of multinational enterprises (see also Xu & Shenkar, 2002).

However, existing studies have not fully considered the potential significance of *religion* as a major factor in minimising cultural distance and determining internationalisation (Dow & Karunaratna, 2006). Even Hofstede's (1980) much-acclaimed work on culture does not really consider religion in much depth. All this is somewhat surprising when one considers that 84 percent of the world's population is religiously affiliated (Pew Research Center, 2012) and that religion often shapes business and workplace ethics (Weaver & Agle, 2002). Returning to Hofstede, national cultures may diverge along the four dimensions he proposes but could still largely share a firm commitment to the values espoused in a particular religious tradition. Egyptians and Indonesians, for example, differ in their degree of "uncertainty avoidance" and "individualism/collectivism",[1] yet both countries are overwhelmingly Muslim and, therefore, are likely to share similar views on the "place", "purpose", and "responsibilities" of human beings in this life.

The failure to give due consideration to religion in most existing studies on internationalisation and cultural distance needs to be addressed. The present article, which focuses on religious (specifically Islamic) ties as a distinct factor in firm internationalisation, is an effort towards achieving this end. More precisely, the objective of this exploratory study is to examine whether and how religion supersedes the cultural dissimilarities between Islamic countries, thus reducing the cultural distance perceived by observant Muslim managers of internationalising firms and potentially shaping the path of their foreign expansion.

We focus specifically on Islam, firstly, for its emphasis on *tawhid* (unity) – a concept discussed in more detail below – and, secondly, because of its continued (and some might even say increasing) role in moulding ethical and social behaviour among its followers, even in the face of secularising and modernising forces that have reshaped much of human life in recent times. Taken together, these two factors make Islam a particularly potent force among the world's religious traditions in unifying diverse cultures.

Despite sharing a common religious tradition, there are important ethnic, linguistic, and other factors that divide the Islamic world into what some scholars see as being five broad "zones" (the Arabic, Iranian, Turkish, Malay, and Sub-Saharan African zones), each of which can be further sub-divided into numerous sub-zones (Nasr, 1981; Tibi, 2001). These zones differ not only along linguistic lines, but are also distinct in more subtle ways. The Malay zone's Hindu-Buddhist past, for instance, has

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[1] See http://geert-hofstede.com/.

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inspired much of the arts and architecture that we witness in the region today, while the Sub-Saharan African zone is defined by its unique tribal and regional complexions (Nasr, 1981). The Turkish zone, meanwhile, differs from the other zones due to its Sufi-oriented, state-centric culture and its greater mix with vernacular cultures (Yavuz, 2008).

There is a great deal of diversity within the Islamic world. Against the backdrop of this diversity, however, it is imperative to underline Islam's central role in the lives of its adherents, thus making it a key source of cohesion and unity. According to the Islamic view, there is no facet of human life that lies outside the religion's orbit, since this would automatically violate the principle of *tawhid*. Therefore, observant Muslims endeavour to ensure that all their actions are consistent and in harmony with the spirit of the tradition. In this study, we seek to shed some light on whether and how these common cultural components supersede the dissimilarities between Islamic countries, thus reducing the cultural distance perceived by internationalising firms and potentially shaping the path of their foreign expansion.

2. Literature review

2.1. Cultural distance and firm internationalisation

Contrary to the predictions of certain scholars (for example, Giddens, 2002; Levitt, 1983), rapid developments in technology and the increased globalisation of markets and production have not generated a universal and homogeneous "global" culture (Husted, 2003; Leung, Bhagat, Buchan, Erez, & Gibson, 2005). Instead, countries continue to differ from one another not only linguistically and socially, but also in terms of their legal structures, educational levels, consumer behaviour, and purchasing power (Stottinger & Schlegelmilch, 1998). Together, these and other related factors determine the perception of cultural distance between countries and often influence the internationalisation pattern of firms, with countries considered more similar to the home country (in other words, those that are culturally proximate) usually being the preferred choice of foreign market, especially during the early stages of internationalisation, because firms presume they have a better understanding of the "local psyche" and thus anticipate fewer risks and challenges (Bell, 1995, 1997; Hitt, Franklin, & Zhu, 2006; Moen, Gavlen, & Endersen, 2004; Zhang & Dodgson, 2007).

At times, however, a paradox may be observed, with firms encountering more difficulties than expected in countries perceived as being culturally close to their home market. O'Grady and Lane (1996), for example, demonstrated certain erroneous assumptions concerning the cultural proximity of Canada and the United States. This led to managers overestimating the similarities of the two markets and disregarding the need to prepare for cultural differences. Similarly, Park and Ungson (1997) found that their sample of U.S.–Japanese joint ventures lasted longer than U.S.–U.S. joint ventures. Wang and Schaan (2008), meanwhile, suggest that both high and low levels of cultural distance can cause internationalising firms problems. Instead, they suggest that the optimum target market is in fact one of *median* distance. Other studies have shown that firms often target culturally distant markets early (rather than late) in their internationalisation process (Ojala, 2008; Ruigork & Wagner, 2003; Zou & Ghauri, 2010). Moreover, the emergence of firms that internationalise rapidly upon inception ("born globals"), and which tend to skip the incremental stage-defined process of internationalisation, casts further shadow over the accuracy of traditional internationalisation models which posit a gradual process, both in terms of progressive resource commitment and, more importantly from the present article's perspective, increasing cultural distance (Bell, McNaughton, & Young, 2003). Therefore, the suggestion that firms initiate international expansion in culturally close markets may not be universally generalisable.

As a result, certain scholars have placed greater emphasis on *regional*, rather than global, firm expansion (Barkema & Drogendijk, 2007; Rugman, 2003; Rugman & Verbeke, 2004, 2005). A close relation is evident between cultural and geographic proximity. Ghemawat (2001, 2011) argues that both must be considered when discussing firm internationalisation. This may not be too surprising since culture is, after all, rarely restricted to individual nation states, but rather usually exists, to some degree at least, at the regional level, thus incorporating multiple countries in close geographic proximity. For example, we might refer to Latin American, North African, Scandinavian, and Southeast Asian cultures. Instead of analysing cultural distance at the national level, then, it is argued that firms may be more concerned with cultural distance between regions (Lado, Martinez-Ros, & Valenzuela, 2004). In other words, firms often adopt a regional, not global, approach in their internationalisation (Ghemawat, 2011). This has been shown by various studies conducted around the world, including in the Australasian (Chetty & Campbell-Hunt, 2004), Central American (Lopez, Kundu, & Ciravegna, 2009), Southeast Asian (Pang & Komaran, 1985; Yeung, 1999), and Baltic (Jansson & Sandberg, 2008) regions.

In summary, cultural differences, whether between countries or geographic regions, remain a key determinant of internationalisation patterns, as demonstrated by empirical evidence gathered from various industrial and geographic contexts (Barkema, Bell, & Pennings, 1996; Barkema & Drogendijk, 2007; Blomstermo, Sharma, & Sallis, 2006; Maholtra, Sivakumar, & Zhu, 2009; Sakarya, Eckman, & Hyllegard, 2007). Even born globals – some of which quickly establish themselves in culturally distant foreign markets – have been shown to generally prefer starting their journeys in culturally similar markets before progressing to these culturally more distant markets (Chetty & Campbell-Hunt, 2004; Freeman, Hutchings, & Chetty, 2012; Hashai & Almor, 2004). Therefore, the persistent impact of cultural distance on the internationalisation "route" of firms cannot be denied. In spite of advanced information and communication technologies, which have exposed us more than ever to different people in distant regions of the world, distinctions along cultural lines continue to strongly influence the choice of foreign markets by internationalising firms.

2.2. Islam's role in bridging cultural distance

In order to fully understand the Islamic *Weltanschauung*, we must return to a concept introduced earlier, *tawhid*, which is usually translated as "oneness" or "unity". This notion of unity lies at the very heart of Islamic life and thought. In fact, the first part of Islam's testimony of faith (the *shahadah*) affirms the Oneness of God: "(there is) no divinity but the sole Divinity"[2] (*la ilaha illa 'Llah*), which in its most profound sense means that there is no reality save the Absolute Reality and that, consequently, all other "realities" are merely relative and transitory (Nasr, 1993; Schuon, 1998). However, the applicability of this concept is not strictly limited to God, even if Divine "unicity" is its most fundamental assertion. Rather, for Muslims, the Oneness of God implies also the unity, inter-relatedness, and interdependence of all existence, including mankind (Moris, 2003; Moten, 2005), since, for them, God's creation must reflect His Qualities.

At the same time, a particularly strong bond exists between devout Muslims. *Tawhid* applies also to their lives as social beings,

[2] The second part attests that "Muhammad is the Messenger of the Divinity" (*Muhammadun Rasulu 'Llah*). It is through these two testifications that one bears witness to being a Muslim.