

# **Networking and Internationalisation of Small Firms in Indonesia**

Tri Wismiarsi

Holila Hatta

Wijaya Adidarma

*Bakrie School of Management, Jakarta*

## ***Abstrak***

*Internasionalisasi Usaha Kecil dan Menengah (UKM) telah menjadi perhatian para peneliti. Network atau jejaring adalah salah satu strategi yang memungkinkan perusahaan untuk merambah ke pasar internasional. Network memberikan pandangan yang berbeda mengenai upaya perusahaan memasuki pasar internasional. Dengan network, pasar merupakan jejaring hubungan antar pelaku bisnis. Internasionalisasi yang memanfaatkan network sebagai strategi, memusatkan perhatian terhadap upaya perusahaan untuk membangun, membina, memelihara dan mengubah hubungan untuk kepentingan keberadaan perusahaan di pasar internasional. Menurut konsep network, internasionalisasi dipengaruhi oleh hubungan yang terbina diantara network daripada keunggulan perusahaan. Anggota network mempengaruhi keputusan dan kegiatan perusahaan di dalam network. Penelitian ini bertujuan untuk memahami proses networking usaha kecil untuk menggarap pasar internasional dan dampak negatif network itu sendiri dalam bisnis internasional. Untuk mencapai hal tersebut, maka akan digunakan pendekatan penelitian yang bersifat kualitatif.*

*Keywords: internationalisation, network, negative impact of networking*

## **1. Introduction**

Research in the area of small firms internationalisation has grown attention of many researchers. Previous studies in internationalisation of firm argue that firm's operation in international market is subjected to firm characteristics, especially the firm size. Small firm's is related to limited resources, such as capital, financial resources, sales volume and the number of employees (Varaldo, 1987; Moen, 2000). These limited resources hinder the small firms to internationalise.

Born global theory has enriched the theory of internationalisation of firms. Different from prior studies, the born global theory claims that small firms have their international operations since their inception (Knight and Cavusgil, 1996; Oviat and McDougall 1997; Mort and Weerawardena, 2006). The born global theory also challenges the stage model or incremental model of internationalisation (Johanson and Vahlne, 1977; Cavusgil, 1980; 1982).

Previous research reveals that networking facilitates small firms to reduce their disadvantages to have international operations (Coviello and McAuley, 1999; Mort and Weerawardena, 2006). Limited number of studies in this area invites other researchers to investigate the roles of entrepreneurs in developing their networks (Rasmussen et al., 2001; Andersson and Wictor, 2003), roles of decision makers in taking business opportunities, developing and integrating their businesses (Chetty and Holm, 2000) and the roles of network development in small firms business (Mort and Weerawardena, 2006).

Existing research in the area of networking, i.e., the role of networking in internationalisation of firms, mostly focused on the positive impacts or advantages of network. On the other hand, the negative impact(s) has not been explored yet. The issue of property right violation recently in several parts of Indonesia which includes traditional craftsmen and foreign business owners may possibly be influenced by network developed by both parties.

This study proposes to investigate the process of small firm networking in its internationalisation and the negative impact of networking. The results of the study will expand our understanding of small firms behaviour in internationalisation through networking, especially using sample from less developed country like Indonesia. Furthermore, the negative effect(s) of networking will also enrich our knowledge on networking.

## **2. International Entrepreneurship**

International business is important to support the economy of a country. Countries which have international business usually show higher level of economic growth. Nowadays international business involves not only larger firms such as multinational companies or corporations, but their small counterparts. The involvement of small and medium-sized enterprises provides the recent area of studies, particularly international entrepreneurship which invites scientists from different areas of studies such as marketing, management, international business and entrepreneurship.

## 2.1 Marketing in Small Firms

Small firms have limitations related to their size, for example, their marketing activities frequently get limited impact, they also have limited fund for their operations and limited other resources (Carson and Cromie, 1989). With their constrictions, their marketing efforts are done through different strategies compared to larger firms. Marketing strategies which employ common marketing mix elements such as product, price, promotion and place simply fit to larger companies which produce fast moving consumer goods (Gronroos, 1999). Smaller enterprises on the other hand face different marketing environment. Therefore, relationship marketing which emphasises the ability to adopt and respond quickly to the marketing environment is more appropriate as their tools for marketing strategies (McKenna, 1991; Zontanos and Anderson, 2004). Relationship marketing, entrepreneurship and networking are intertwined (Anderson, 1998). In addition. Networking contributes to enlighten the association between the concept of entrepreneurship and relationship marketing (Walter and Gemunden, 2000).

## 2.2 Indonesian SMEs: Strategies to Export

SME is one of economic stimuli in the country development. Past research reveals that SMEs provide critical contribution to the economy, especially in enhancing the export growth and providing job opportunities (Tambunan, 2006; 2009, Wismiarsi et al., 2008). They added that during the economic crisis since 1997, Indonesian SMEs proved that they stayed survive and grow. This was because SMEs were more flexible and responsive compared to their larger counterparts, although many of them were not survived during the crisis (Berry et al., 2002).

Indonesian government through NAFED (National Agency for Export Development), provide supports to Indonesian SMEs which have the objective to penetrate the international market(s). Generally NAFED offers subsidies to SMES which would like to be involved in international exhibitions. These supports are given to SMEs which fit to their standards which are required to penetrate the global market (Wismiarsi et al., 2008). However, these opportunities were limited and could not cover all expenses to be engaged in the international exhibition(s). Moreover, the information related to subsidies for SMEs from the government could not be utilised equally to SMEs around Indonesia, since many of them did not get the access to this valuable information (Wismiarsi et al., 2008). The same study also found that SMEs in different stages of internationalisation face different obstacles to export. This condition gave result, such as different marketing strategies used by SMEs. SMEs, which were in the

preliminary stage of internationalisation, had problems of finding the potential buyers and the right buyers, which meet their weaknesses, such as limited production capacity, fund and offering lower or competitive prices. On the other hand, they did not know how to overcome their weaknesses. Most of the SMEs in this stage tried to build business contact through their involvement in exhibitions. SMEs which were in the further stage of internationalisation, said that they developed relationship with their business partner(s), therefore they could adapt to changes in the business environment, such as the economy and environmental issues, and adjust their strategies to fit their customers' specific needs (e.g., offer competitive prices, adjust the product design and materials). In addition, strong and good relationship between SMEs and their business partners could generate more business between them. One of the SMEs in the study imparted that its individual buyer, which did not involve in business, grew as its main business channel in one of European countries. Hence, networking and good relationship between business partners are critical for SMEs survival and growth.

### **2.3 Internationalisation of SMEs and Networking**

Internationalisation is a term which largely used to describe the process of business activities from the home country to other countries (Young, 1987; Turnbull, 1987). Other said that internationalisation is the process by which firms increase their awareness of the influence of international activities on their future, established and conduct transactions with firms from other countries or geographically located outside the home country (Beamish et al., 1997).

There are at least three concepts of internationalisation of firms. The Uppsala internationalisation model is the most prominent model which developed by Johanson and Vahlne (1977). This theory suggests that internationalisation influences by managerial learning. International operation will grow as long as it is supported by market knowledge and firm commitment. Other approach of internationalisation is innovation model. This model suggests that internationalisation is considered as innovation, as a firm which has international activities sell its product in the market(s) which is (are) different from domestic market. The last model of internationalisation is networking. Based on their previous model, Johanson and Vahlne (1990) developed the theory of internationalisation through networking. This theory suggests that internationalisation includes effort such as the development of relationship marketing. In addition, it also requires social exchange and inter dependencies to support the firm's grow in its internationalisation (Coviello and McAuley, 1999). Hence, there is a flow of resources in networking.

Existing literature specifies that network and relationship is critical to internationalisation of both large and small enterprises, as through the network, the firms' activities and resources are maintained for their existence in their international market (Chetty, 2003; Andersson and Wictor, 2003). Network resolves the problems of limited resources which bind to Small and Medium-sized Enterprises (SMEs) (Coviello and Munro, 1995), since the born global frequently relies on certain product(s) in certain overseas market(s) in which they obtain international partner(s) which support their existence (Oviatt and McDougal, 1997; Coviello and Munro, 1997). Through networking, SMEs are facilitated to identify overseas market potential and develop market information (Coviello and Munro, 1997; Chetty and Holm, 2000; Madsen and Servais, 1997). Network also contributes to the development of new product (Chetty, 2003), international market entry strategy and capability to enter the overseas market (Harris and Wheeler, 2005). Other researchers look at the roles of firm characteristics and their relationship with networking capability (Ritter and Gemunden, 2003), the roles of entrepreneur in developing international network (Andersson and Wictor, 2003). Previous studies found that network speeds up the international market development and provides positive impact on SMEs performance in their international markets (Mort and Weerawardena, 2006). These findings show that network imparts positive effects on internationalisation. However, certain evidence such as dispute between a local SME and its business partner in Bali recently, may indicate that network has also negative impact on business.

Based on the literature review, the study proposes three research questions:

*H<sub>1</sub>: How does network facilitate small firms to internationalise?*

*H<sub>2</sub>: What are the negative effects of network? What is the most negative effect of network which influences small firms' strategies?*

*H<sub>3</sub>: How network negatively affect small firms' strategies in their internationalisation.*

### **3. Method**

This research is a qualitative study which applies case study approach (Yin, 2003). The samples are drawn based on their relevance to the study and not based on their

representativeness (Yin, 2003). It will take four to ten samples, depends on the incremental learning which is obtained (Eisenhardt, 1989). When the incremental learning declines, then the sample withdrawal is stopped (Eisenhardt, 1989; Mort and Weerawardena, 2006). The sample is taken from the data base developed by Research Centre of Bakrie School of Management. This data base was developed from:

- Ministry of Cooperative and SME
- National Agency for Export Development
- List of exhibitors of various exhibitions (e.g., Inacraft, Pekan Produk Budaya Indonesia).

The criteria of the samples include:

1. Small enterprises which are owned by Indonesian citizen.
2. Small enterprises which have been established for at least three years (Mort and Weerawardena, 2006)
3. Small enterprises which have minimum of 25% export sales (Knight and Cavusgil, 1996).

Respondents will be interviewed by using open ended questions in questions guidelines which have been tested. The questions are developed based on existing literature. The key informants in this study include business owners or top level managers. They have been chosen as they have comprehensive knowledge on firm characteristics, strategies and performance (Snow and Hrebiniak, 1980). In addition to interviews, this study uses observation and other sources which can be utilised as data source or information.

#### **4. Conclusion**

This paper proposes a research framework on entrepreneurial marketing. Entrepreneurial marketing, especially networking, has gained a growing attention especially from less developed country like Indonesia. Previous research shows that networking has been applied to Indonesian SMEs in their effort to engage in international market(s). This area of study focuses on an understanding of the process of small firm networking in its internationalisation and the

negative impact of networking. The study will make use of qualitative research, i.e., case study approach. Interviews, observation and other sources of information are utilised as data sources. The result of the study will expand our understanding of small firm behaviour in internationalisation through networking. Finally, the negative effect(s) of networking will deepen our knowledge on networking, especially its impact on small firm strategy.

## References

- Anderson, A. R., (1998), "Environmental entrepreneuring", *Journal of Change Management*, 11 (2): 135–144.
- Andersson, S. and I. Wictor, (2003), "Innovative internationalisation in new firms: born globals-the Swedish case", *Journal of International Entrepreneurship*, 1 (3): 249 – 275.
- Beamish, P.W., A. Morrison, and P.M. Rosenzweig, (1997), *International management, text and cases*, Homewood/III: Irwin.
- Berry, A., Rodriguez, E. and Sandee, H. (2002), "Firm and group dynamics in the small and medium enterprise sector in Indonesia", *Small Business Economics*, 18(1-3): 141-161.
- Carson, D. J. and S. Cromie, (1989), "Marketing and planning in small enterprises: a model and some empirical evidence", *Journal of Marketing Management*, 5 (1): 33–50.
- Cavusgil, S. T., (1980), "On the internationalisation process of firms", *European Research*, 8 (November): 273–281.
- Cavusgil, S.T., (1982), "Some observation on the relevance of critical variables for internationalisation stages", in Czinkota, M. and G. Tesar, (eds), *Export management: 272–285*, New York: Praeger.
- Chetty, S. K. and D. Holm, (2000), "Internationalisation of small and medium-sized manufacturing firms: a network approach", *International Business Review*, 9 (1): 77–93.

- Chetty, S. K., (2003), "Explosive international growth and problems of success amongst small to medium-sized firms", *International Small Business Journal*, 21 (1): 5 – 27.
- Coviello, N.E. and H.J. Munro, (1995), "Growing the entrepreneurial firm: Networking for international market development", *European Journal of Marketing*, 29 (7): 49–61.
- Coviello, N.E. and H.J. Munro, (1997), "Network relationships and the internationalisation of small software firms", *International Business Review*, 6 (4): 361–386.
- Coviello, and A. McAuley, (1999), "Internationalisation and the smaller firm: a review of contemporary empirical research", *Management International Review*, 39 (3): 223–256.
- Eisenhardt, K. M., (1989), "Building theories from case study research", *Academy of Management Review*, 14 (4): 532–550.
- Gronroos, C., (1999), "Relationship marketing: a change in paradigm and a focus on determinants of success", *Journal of Business Research*, 46 (3): 327–335.
- Harris, S. and C. Wheeler, (2005), "Entrepreneurs' relationships for internationalisation: functions, origins and strategies", *International Business Review*, 14 (2): 187–207.
- Johanson, J. and J. E. Vahlne, (1977), "The internationalisation process of the firm - a model of knowledge development and increasing foreign market commitments", *Journal of International Business Studies*, 8 (1): 23–32.
- Johanson, J. and J. E. Vahlne, (1990), "The mechanism of internationalisation in industrial systems – a network approach, strategies in global competition", *International Marketing Review*, 7 (4): 11–24.
- Knight, G. A. and S.T. Cavusgil, (1996), "The born global firm: a challenge to traditional internationalisation theory", in Cavusgil, S. T. and T. K. Madsen, (ed), *Export Internationalising Research – Enrichment and challenges, advances in international marketing*, New York: JAI Press, 11–26.



- Moen, O., (2000), “SMEs and international marketing: investigating the differences in export strategy between firms of different size”, *Journal of Global Marketing*, 13 (4): 7-28.
- Mort, G. S. and J. Weerawardena, (2006), “Networking capability and international entrepreneurship: how networks function in Australian born global firms”, *International Marketing Review*, 23 (5): 549–572.
- Madsen, T. K. and Servais, P., (1997), “The internationalisation of born globals: an evolutionary process?”, *International Business Review*, 6 (6): 561–583.
- McKenna, R., (1991), *Relationship marketing: successful strategies for the age of the customer*, reading, M.A: Addison-Wesley.
- Oviatt, B. M. and P.P. McDougal, (1997), ”Challenges for internationalisation process theory: the case of international new ventures management”, *International Review*, 37 (2): 85–99.
- Rasmussen, E.S., T.K. Madsen, and F. Evangelista, (2001), “The founding of the born global company in Denmark and Australia: sense making and networking“, *Asia Pacific Journal for Marketing and Logistics*, 13 (3): 75–107.
- Ritter, T. and H.G. Gemunden, (2003), “Network competence: its impact on innovation success and its antecedents”, *Journal of Business Research*, 56 (9): 745–755.
- Snow, C.C. and L.G. Hrebiniak, (1980), “Strategy, distinctive competence, and organisational performance, administrative science quarterly, 25 (2): 317–336.
- Tambunan, T.T.H. (2006), “Development of small and medium enterprises in Indonesia from the Asia-Pacific Perspective”: Jakarta: LPFE-University of Trisakti.
- Tambunan, T.T.H. (2006), “Export-oriented small and medium industry clusters in Indonesia”, *Journal of Enterprising Communities: People and Places in the Global Economy*, 3 (1): 25-58.

- Turnbull, P. W., (1987), "A challenge to the stages theory of internationalisation process, in Reid, S. and P. Rosson, (eds), *Managing Export Entry and Expansion*, New York: Praeger, 21–40.
- Varaldo, R., (1987), "The internationalisation of small and medium-sized italian manufacturing firms", in Rosson, P.J., and S.D. Reid, (eds), *Managing Export Entry and Expansion: Concept and Practice*, New York: Praeger: 203-222.
- Walter, A. and H.G. Gemunden, (2000), "Building the gap between suppliers and customers through relationship promoters: theoretical considerations and empirical results", *Journal of Business and Industrial Marketing*, 15 (2/3): 86–105.
- Wismiarsi, T. Shihab, M.S., and Adidarma, W. (2008), *Hambatan ekspor UKM Indonesia: Hasil studi pada industri mebel, kerajinan dan biofarmaka*, Jakarta: Kompas.
- Yin, R. K., (2003), *Case Study Research: Design and Methods*, 3<sup>rd</sup> edition, Thousand Oaks: Sage Publication.
- Young, S., (1987), "Business strategy and the internationalisation of business: recent approaches", *Managerial and Decision Economics*, 8: 31–40.
- Zontanos, G. and A.R. Anderson, (2004), "Relationships, marketing and small business: an exploration of links in theory and practice", *Qualitative Market Research: An International Journal*, 7 (3): 228 236.