

THE ROLE OF BUSINESS NETWORKING TO ENCOURAGE INTERNATIONALIZATION OF SMALL MEDIUM ENTERPRISES

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ABSTRACT

ASEAN Economic Community (AEC) have enlarged the opportunity for Small Medium Enterprise (SMEs) in ASEAN countries to expand their market. AEC would establish ASEAN as a single market and production base. As a single market and production base, there will be no tariff and barriers among ASEAN countries which simplify SMEs in Indonesia to enter ASEAN market. The simple strategy to enter foreign market is exporting. Indonesian SMEs have to gain their competitive advantages in order to compete with other SMEs in ASEAN countries. One of important factor in doing business is networking. The purpose of this paper is to examine how the role of entrepreneur's capability in building business network to enter global market based on four types of SMEs in fashion industry. Qualitative approach has been conducted using observation and semi-structured interview with the entrepreneur of SMEs in fashion industry located in Indonesia. Findings from this study are; performance of export SMEs influenced by the business networking capability of entrepreneur and business networking capability of entrepreneur influenced by the entrepreneur's personality and education background.

Keywords: Business Network, Small Medium Enterprises, SME Internationalization, Type of SMEs, Entrepreneur's Capability.

INTRODUCTION

Fashion industry is one of the potential industries in Indonesia. The average number of Indonesian fashion export has been increasing since 2002 (Statistic Indonesia, 2013). Especially in Bandung, as a creative city, we can find many SMEs running this business. Bandung is well known as center of fashion in Indonesia. Bandung has opportunity to become center of fashion especially Muslim fashion in ASEAN. The increasing of SMEs in fashion industry open big opportunity to face ASEAN Economy Community (AEC).

SMEs have to recognize their limited resources to the best activities. Dividing the production process into several stages through linking and networking could give much better business outcome. Networking as important factors of entrepreneurial could influence the number of entrepreneur and business start-ups (Acs & Szerb, 2010). As networking one of the key factors to develop SMEs export activity, many SMEs have limitation to build networking with their parties (Tambunan, 2011). Networking related with capability of human resource, where capable human resource is also the barrier faced by SMEs (Mourougane, 2012; Aldaba, 2012). Beside networking and human resource, barriers faced by SMEs are standardized production, adoption technology, marketing and promotion, and lack of financial (Aldaba, 2012). Mappigaum (2012) stated that lack of innovation and strategy also becomes the limitation to SMEs. In order to improve the competitive advantage, overcome barriers in their business

activity.

Based on Rizqi & Dhewanto (2015), there are four types of SMEs in fashion industry; producer, seller, producer and supplier, and producer and seller. There are difference activities among four types of SMEs in fashion industry that will give different impact for performance of SMEs. The purpose of this study is to examine what type of SMEs that have more opportunity to enter global market and what factors influenced the capability of entrepreneur to enter global market. Therefore, they need different strategy to develop their firms.

This paper is organized as follows: section two provides information about SMEs, a brief literature review about SME's types and business networking in SMEs internationalization. Section three describes about methodology, and section four explains about the results. The last section presents conclusion and limitation of this study.

LITERATURE REVIEW

Four Types of SMEs in Fashion Industry

Based on Rizqi & Dhewanto (2015) there are four types of SMEs. Table 1 shows the differences between SMEs are their activities.

Type of SMEs	Activities	Problems	Solution
Producer	Getting order for sewing	Financing and innovation,	Increasing networking with financial institution and training institution
Seller	Selling their self manufactured products	Financing, producer, and buyer	Improving networking with financial institution, producer and buyer
Producer and supplier	Sewing for own product and selling products themselves	Human resources	Improving networking with training institution and wider market
Producer and seller	Sewing for their products and getting order for sewing too. Selling products themselves.	Financing and marketing	Increasing networking with financial institution and buyer

SME as producer

The main business of this SMEs is sewing for other brand or known as the vendor. Their client could be from large enterprises, medium enterprises, and from the seller. The lack of financing is the first constraints faced by them, they have limitation for save the stock to produce and sell their own products. Second, they face limitation of human resource who have innovation and creation. Networking with financial institution and training institution or community could improve to develop their business.

SME as seller

This type of SMEs includes the enterprises who have their own brand of fashion but didn't have the workshop for sewing their products. This type of SMEs usually utilizes the SMEs as producer to produce their products. Most of them promote and sell their products at online

shop. This type of SMEs faces the constraints are lack of financing and resources to have own workshop, hard to get the compatible producer suitable with their purpose, low quality of producer, and marketing. They need to build networking with the financial institution, producer and the buyer for broader the market.

SMEs as producer and supplier

This is the ideal condition that the enterprises have the workshop for sewing their own products, and they also sell the products themselves. The problem faced by these SMEs is productivity because lack of high quality human resources. They need to have networking with the training institution to get more employees to increase their productivity. Most of these enterprises are medium size enterprises so they have access to training institution and wider marketing.

SMEs as producer and seller

There are two possibilities of SMEs as producer and seller. First, they have abundant resources to sewing their own products and accept order to sew from another enterprise, this is the difference with the SMEs as producer and supplier that doesn't accept the order for sewing from other enterprises. Second, their own products have not well known in market. For this case, sometimes they pay a little attention for their own products because lack of financing and marketing. For the second case, they need to increase networking with financial institutions and networking with buyer.

Business Networking in SMEs Fashion Industry

The definition of SME varies in different countries, but the core concept of SME is based on the number of employees and fixed assets (Wadechorun & Toburi, 2013). In Indonesia, SME is defined as an enterprise that have Rp. 200.000.000 of maximum's capital and Rp 2.500.000.000,- of maximum's income and also the number of labors is not less than 5 and not more than 19 people (Enactment No.20 year 2008). The Ministry of Cooperative and SMEs in Indonesia (2009) stated that the number of employees which was absorbed by SMEs was gradually increases from 2005 to 2008. They also have a tremendous role by contributing for more than 90 percent of all firms outside the agricultural sector (Tambunan, 2009). Thus, it is clears that SMEs have given significant impact on the Indonesian economy through creating the job opportunity, decreasing the poverty, and contributing for non-oil and gas export.

But, SMEs still face many constraints to develop. The majority constraints of SMEs are productivity, human resources, technology, marketing, financing, and networking (Tambunan, 2011). Generally, researchers divide the constraints as endogenous and exogenous factors (Babakus et al., 2006). Endogenous factors such as entrepreneur's personal quality and strength or weaknesses in operational and financial management. Exogenous factors come from external of enterprise such as environmental uncertainty and inability to predict the changes. Some researchers believe that exogenous factors are important constraints impact competitiveness and survival of the firms (Theng & Boon, 1996).

Networking will establish relationship among SMEs in order to share knowledge and resources to support their business (Oldendorf, 1995) and help the entrepreneurs to get the information about the environment and make the decision to respond the uncertainty. Moreover,

build the business network will encourage export success, export penetration (Tookson & Mudor, 2012), and influence marketing performance of SMEs.

AEC open the opportunity for SME to globalize their business. There are positive and negative impacts of globalization. The positive impacts are chance for company to expand cooperation and marketing with a wider network. However, globalization also give negative impact for company if the company is not ready to compete, the consequences will be detrimental to the business (Permatasari & Dhewanto, 2013).

To create efficient networks for developing a business and ongoing success in ventures become important. To get access with the resources that might not be available, networking can be utilized by businesses to get the access to the resources. Open network with vary connection will give greater chance to gain a successful business than a single or closed network (Harris et al., 2012). In SMEs, entrepreneurs play a dominant actor in the development of firm (Wincent & Westerberg, 2005).

SME's Internationalization

Internationalization occurs when the company able to reach foreign market. Exporting, the presence of foreign subsidiaries, share ownership, franchising, licensing including as internationalization. Internationalization is a main dimension of the developing of a firm (Peng & Delios, 2006). It need more effort to enter international market because the process will be complicated and costly that requires scrupulous the opportunity, develop infrastructure, and set multiple strategies (George et al., 2005). Operating in international market, SMEs can reach bigger earnings than in their home countries. It was the reason many enterprise desire to enter international market especially for SMEs in developing countries like Indonesia.

The literature mentions two distinct types of internationalization orientation, inward internationalization and outward internationalization. Inward internationalization where the enterprises utilize management skills, develops new technology, and get direct investment from foreign enterprises. Outward internationalization includes seeking and selling products or services in foreign countries and developing alliances with foreign enterprises.

Internationalization encourages large enterprise and SMEs to operate across the national borders and compete with others foreign enterprises (Barkema et al., 2002). Barney, 2001 state that resources are diverse across enterprises and are imperfectly portative. The scarcity of resources in SMEs may impact on their ability to enter foreign market and become limitation to reach more stages of internationalization (Westhead et al., 2002). Compare with large enterprises, SMEs have to overcome greater obstacles. Utilizing SMEs' advantages and invent niche markets may able cover their disadvantages (Pleitner et al., 1998). Evidence indicates that in the last few decades, many SMEs have successfully to operate outside their home countries and the role is crucial in contributing to future growth (Gjellerup, 2000). SMEs can choose internationalization as their strategy for growth (Skrut & Antoncic, 2004).

There are many factors encourage enterprise to enter international market, success in domestic market can be greater factor for firm to internationalization (Cavusgil et al., 2008) Entrepreneurial behavior, customer networks (Mathews & Zander, 2007), developing of low- cost technology to connecting people and locations, dismantling of trade barriers and financial deregulation, widespread economic restructuring and liberalization. While Barlett & Ghoshal, (2000) describe two major motivations for firm's internationalization; traditional motivations and emerging motivations.

Man et al. (2002) state that small firm is not a scaled-down version of a larger firm.

Smaller firm have lack of managerial style, independence, ownership and scale of operations (Coviello & Martin, 1999). Differences structure of organization, different response to the environment and how they compete with other firms (Man et al., 2002). Another literature also states two important interrelated characteristics of small firms; resources constraints and resources commitments in conditions of environment uncertainty. Ruzzier et al. (2007) propose four internationalization dimensions; operation, market, product, and time. Their study shows significance relationship between internationalization and performance.

Lack of appropriate market, product and technology related information, the need to meet and demonstrate compliance with quality standards, buyer requirements, trade regulation, tariff and non-tariff barriers, and are exacerbated by limited access to finance. Many literatures mention about the competitive advantages as a mediating variable between market orientation and government regulation with internationalization of SMEs (Afsharghasemi et al., 2013).

METHODOLOGY

This study is conducted based on qualitative approach by observation and semi-structure interview. This research has been conducted to the entrepreneurs of SMEs in fashion industry. This approach can explain people in construct their identities (Neuman, 2006). We use observation and interview as way to explore more about the possibility of SMEs to enter the global market.

Semi-structure interview is best method to get more than one chance to interview people (Bernard, 2006). It provided a “*Clear set of instructions for interviews and can provide reliable, comparable qualitative data*” (Cohen and Crabtree, 2006). Semi-structured interviews are conducted in informal and unstructured interviewing with the open-ended questions in order to allow the researcher to develop an unexpected information and new ways of seeing and understanding the topic. The respondents are five fashion SMEs located in Bandung, Indonesia. The respondents are selected after author conduct observation. Interviews are conducted with the owner of SMEs. The interviews contain about the background, business networking, and experience of entrepreneur. The questions are deeply to know about the entrepreneur as the key factor of SMEs. Usually, the entrepreneur in SMEs has big influence to the activities of firms.

RESULTS

The result of the observation is the classification of the SMEs based on the four types of activities. The respondents are shown in Table 2. To enter global market, enterprise can choose different entry mode such as; exporting, franchising, joint ventures, strategic alliances. Exporting is the easy way to enter global market, SMEs have big opportunity for doing export. Many factors influence the export performance of SMEs.

SMEs	Types of Activities	Background of Entrepreneur	Business Networking
1	Seller	Management Fashion	Good
2	Producer	Accounting	Poor
3	Producer and Supplier	Engineering	Poor
4	Producer and Supplier	Design	Good
5	Producer and Seller	Engineering	Good

After conducted the interview with the owner of SMEs, it is founded that the opportunity

for all types of SMEs to enter global market almost same, the differences only come from the personality of entrepreneur. How the entrepreneur takes the decision, how the background, and how their business network with other counterparts to solve the problems they face.

From the semi-structured interview, the growing of SMEs is very influenced by the capability of entrepreneur to strengthen the network with counterparts of firms such as supplier, buyer, association, and government. It is aligned with the previous research state that entrepreneurial traits based on their powerful and influential position in their firm will affect their firm's choice of strategic direction (Kisfalvi, 2002) and will affect firm performance. The clear differences condition is showed by the relation between seller type and producer type. From this study, the type of the SMEs that the activity is only selling but have good networking and utilize the information and communication technology (ICT) can be faster to grow than the SMEs that only produce the products where their activity is only take order for sewing from seller type. It shows by the range of the market share, for the SMEs who harness the development of information and communication technology can sell the products to foreign country that it doesn't happen with the SME that only produce the products.

It happens because the entrepreneur of the SMEs who include as seller type is the graduate from the management of fashion and the producer type is the graduate from the accounting. This education background can be the one of the crucial factor influence the capability of entrepreneur. Entrepreneur of SME in seller type have information about the fashion industry and have the network with the people in this industry but the entrepreneur of producer type didn't have. Therefore, the SMEs type as producer slowly growing. The second reason, because the seller type can give the price twice from the cost and the producer type usually had to minimize the cost because of the weakness of bargaining power with the seller type. The background of the entrepreneur also affects the capability to solve their problem such as limitation of innovation, lack of financial, marketing and promotion. They have the information to the source of financial and know how to get the loan, they also know the access to government and community to get the assistance.

The third type is producer and supplier. In this type, actually firm have a big opportunity to grow but the entrepreneur in this type sometimes not to focus on their brand. Therefore, the firm is hard to grow because in this case, entrepreneur does not use the networking as strategy to increase competitive advantages. The different condition happens in forth type (producer and seller), which is considered as the ideal one of the fashion company. Many of the success firms come from this type. Although, the entrepreneur does not have the fashion educational background but the owner can utilize the business network to enhance their business activities and solve the problem faced.

DISCUSSION AND LIMITATION

Previous research state that favorable perceptions of environment and current performance influence the internationalization of firms (Pett et al., 2004) which is in SMEs entrepreneur's mental capacity will influence the firm performance (Lucky & Mohd, 2013). Mental capacity including business handling, resolve business issues which have correlation with the networking capability of entrepreneur. Although, sewing is the major skill needed to enter the fashion industry but the networking plays the crucial role for the next step of firm development. Networking is a source of new knowledge and to spread internal knowledge (Vanhaverbeke & West, 2006). Business network can open access to human resources and financial resources. Although, the entrepreneur or owner didn't have the skill to sewing they still can grow in their

fashion business. So the important factor for running and compete in this industry is business network which in SMEs is based on the entrepreneur capability and background.

Lack of networking will hamper countries to reach the next stage of development (Porter, 1990). Align with the condition of SMEs, lack of networking become barrier to develop their business. Today, SMEs have big opportunity especially when the AEC was implemented. Therefore, entrepreneurs as the key factor of SMEs need to utilize this condition by increasing networking with their horizontal and vertical alliances to get access of information, develop innovation, generate specific advantages for SMEs development, and motivated to produce good quality (Phinaitrup, 2011).

Based on the result, the strategy to increase the internationalization of SMEs can be proposed to support SMEs in global market. Government can launch the program that suitable based on the types of SMEs and the important think also with the personality of entrepreneur. Personality of the entrepreneur is important because it play dominant role in SMEs performance and activities.

This study gives contribution for knowledge about how the SMEs fashion can compete unless the entrepreneur doesn't have capability in technical activity. The important thing to gain the competitive advantage is business networking. Business networking will open the opportunity to get knowledge from outside the firm and to connect with other business partner that will support the enterprise.

This study only provides the possibility of four types SMEs in fashion industry to enter global market and seek the role of entrepreneur's business network to support the activities. The limitation of this study is the generality of the result, so it needs tested using the quantitative approach.

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