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# 1 The Role of Quality of Entrepreneurial Networking and Responsiveness to Global Business Environment in Improving the Marketing Performance of Indonesian Exporting SMEs

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## 1 Abstract

The purpose of this study is to examine the effect of quality of entrepreneurial network on export marketing performance. Moreover, the study aims to test the influence of the quality of entrepreneurial networks on the speed of entry of foreign markets and to examine the influence of responsiveness to the global business environment on the speed of entry of overseas markets, and to examine the influence of responsiveness to the global business environment on the performance of SME export marketing. The sample of this research is 205 owners and managers of furniture and handicraft SMEs in Indonesia. Data were processed and analyzed by Structural Equation Modelling using AMOS 21 software. The results showed that the quality of entrepreneurial network and responsiveness to the global business environment significantly and positively affects the speed of the company in entering the overseas market and improving the marketing performance of exporting SMEs. The result provides proof of the importance of an active search for the first international business opportunity, which in turn, affect on company performance. This research contributes to entrepreneurial research and provides new evidence to SMEs furniture and handicraft industry in penetrating global markets and successfully improving export marketing performance.

**Keywords:** networking quality, responsiveness to global business environment, speed of internationalization, marketing performance, exporting SMEs.

## 1. Introduction

Global trade growth and sales activity have increasingly emphasized the importance of exports for companies and countries. The process of globalization, global market competition and the perceived difficulties of entrepreneurs to export, led to increased interest from academics and practitioners to study in this subject (Sousa, Martínez-López & Coelho, 2008). The increasing market globalization, the pace of technological change and the declining role of the government in imposing trade barriers, are both opportunities and challenges for small and medium enterprises (SMEs) on an international scale (Andersson & Victor, 2003; Fillis 2000). SMEs have an inevitably important role in job creation, technological innovation and economic rejuvenation, that have been largely recognized among economists, management theorists and policy makers (Westhead, Wright & Ucbasaran, 2001; Yeoh (2000)). In Indonesia, the number of SMEs until 2015 is estimated at more than 52 million. This is including furniture and handicraft SMEs that continue to grow and give impact to the state revenue. It is therefore important to analyse the factors affecting the performance of SME export marketing, so that potential exports such as furniture and handicraft industries will be able to continue to grow.

Exporting is a fundamental strategy in ensuring company survival and growth. By exporting its products, companies can achieve competitive advantage in international markets, that is able to give positive influence on current and future performance (Navarro, Losada, Ruzo, & Díez, 2010). Hence, many companies are allocating more attention and resources in order to

1 be able to export their products to overseas markets (O'Cass & Julian, 2003; Lages & Montgomery, 2004; Navarro et al, 2010). In addition, contributing to the economic welfare of the nation is one of the important roles of exports (Köksal, 2008; Shamsud-doha & Yunus Ali 2006, Lages & Montgomery, 2004). For developing countries that is highly dependent on agricultural sector, exports have a profound effect for countries in terms of increasing activity and economic growth, increasing internal production and industrial development, reducing unemployment rates, creating lucrative trade balances, gathering foreign exchange reserves. For companies, exporting means improving capacity utilization and productivity, and creating new jobs. Thus, both companies and governments have a common interest to expand exports.

Research on export performance and international entrepreneurship on small and medium enterprises (SMEs) is ever-interesting because generally assuming the existence of limited resources, financial aspect and strength of entering global market is still weak compared to large companies (Nupus, Setiadi, & Soesanto, 2017). Compared to large ones, SMEs typically rely more extensively on network relationships as they pursue international opportunities (Coviello and Munro, 1997; Zahra, Sapienza & Davidsson, 2006). Moreover, some research results indicate that entrepreneurial networks have a positive and significant influence on the performance of SME exports (Stam and Elfring, 2006; Lee, Jeong, Lee & Sung, 2008; Chetty and Hunt, 2004; Coviello and Munro, 1995; Thoburn, 2010). Other studies have suggested that networks have no impact on export performance (Aldrich and Reese, 1993; Rowley, Behrens

& Krackhardt, 2000; Batjargal, 2003).

One of the highly debated aspects of international entrepreneurship is the importance of having a proactive attitude towards the discovery of international business opportunities (Dimitratos and Jones, 2005; Zhang, Cavusgil, & Roath, 2003; Jones et al., 2011). Some studies argue that the search for an international business opportunity is an active cognitive process (McDougall and Oviatt, 2000). Zahra (2005), Liu, Li, Tao and Wang (2008) point out that employers can also react, instead of being only actively looking for opportunities. This proactive attitude in responsiveness has been developed into a responsive attitude to the global business environment. Some studies argue that by internationalization process, companies can rapidly grow by gathering capabilities and resources as expressed in internationalization theory (Bell, 1995; Crick, 2009; Knights & Cavusgil, 2004; Madsen & Servais 1997). However, evidence of the concept of internationalization remains scarce (Ellis, 2011; Zhang et al., 2003). In this context, this study aims to examine the effect of the quality of entrepreneurial networks on export marketing performance, and to examine the influence of responsiveness to the global business environment on the marketing performance of exporting SMEs.

## 2. Literature Review

The ability to seize opportunities is a fundamental dimension of entrepreneurship (Ardichvili, Cardozo, & Ray, 2003; Brettel & Rottenberger, 2013; Kiss, Shane, 2000). To be able to penetrate new markets, entrepreneurs need entrepreneurial processes that seek opportunities, create exchange relationships in locations where they have never existed before, and with partners not involved in previous trades (Chandra, Styles, & Wilkinson, 2009; Schumpeter, 1934; Zahra et al., 2006). The company for the first time enters the overseas market, it will be faced with unpredictable risks, resource exchange and commitments (Dimitratos & Jones, 2005; McDougall & Oviatt, 2000; Shane & Venkataraman, 2000). By entering new markets abroad, the company has taken entrepreneurial action. It means that the courage to enter the overseas market for the first time is the basis of a series of how to learn international business. It requires not only penetrate the unknown market, but also involved in internationalization – a process that has not known by the company (Chandra et al., 2009; Schumpeter, 1934; Zahra et al., 2006).

### 2.1. Quality of Entrepreneurial Networking

In the context of measuring the variable of quality of entrepreneurial networking, it is worth mentioning to explore the argument of Krebs & Holey (2002) about nodes and links, that reflect three terms of quality, strength and frequency that are utmost importance in networking. The quality of entrepreneurial network is reflected by density or number of ties as the proportion of the number of possible identifiable relationships. The strength of bond is measured by duration or length of relationship in time. Lastly, the frequency is number of contacts within a certain time owned by an entrepreneur (Krebs & Holey, 2002). Companies can exploit different strategies to find their first clients in new markets abroad, including trade shows, advertising, and various types of networks (Kontinen & Ojala, 2011; Seringhaus & Botschen, 1991; Toryanto & Hasyim, 2017). In China the use of social ties as a resource associated with ancient traditions relies on interpersonal relationships and trusts, network-based beliefs or called 'guanxi' (Ma, Yao, & Xi, 2009; Park & Luo, 2001; Xin & Pearce, 1996).

In the international business literature, it has been formally recognized the importance of networking for the internationalization of businesses, especially in the case of small and medium enterprises (Coviello, 2006; Johanson & Vahlne, 2009). Empirical evidence corroborates the theory, showing that companies based in developed and developing countries often rely

on networks of various types to seek, discover and exploit business opportunities in overseas markets, and to pursue corporate goals (Agndal et al., 2008; Chandra et al., 2009; Ciravegna, 2011; Jack, 2008; Khanna & Palepu, 2010; Ghofur & Susilo 2017; Kontinen & Ojala, 2011; Mort & Weerawardena, 2006; Musteen, Francis, & Datta, 2010; Nadvi 1999). Zhou et al. (2007) argue that using informal social networks is a preemptive strategy for accessing information and deploying relevant resources in a timely and flexible manner. Entrepreneurial networks enable entrepreneurs to solve common problems, provide satisfaction and keep commitments (Phan, Styles & Patterson, 2005), as well as to establish an entrepreneurial network that is essential, especially in the face of uncertain business environment, competition, changing consumer needs and government policy (Hasyim, Sahyar, & Mahmud, 2017). The highest quality of the network is that it provides the social networking structure of capital, characterized by the long-lasting relationship (Bourdieu, 1986; Coleman, 1988).

### 2.2. Speed of Internationalization

The commencement of internationalization by entering overseas markets may affect the subsequent international expansion of the company (Amal & Freitag Filho, 2010; Naudé & Rossouw 2010). The speed of exports, that is the time elapsed between the time elapsed between foundation and the first export, has attracted particular attention in the international business literature (Andersson & Wictor, 2003; Bell, Crick, & Young, 2004; Lopez, Kundu, & Ciravegna, 2009; Zhou, Wu, & Luo 2007). Various literature explains the importance of speed factors for market entry. Indication of the market entry speed that is if new products are developed and launched faster than competitors, completed before normal time, and launched into the market as planned (Akgun & Lynn, 2002; Wu & Zhang, 2013). Birbaum-More (1993), Eisenhardt (1989) defines the speed of market entry is when new products are introduced to the market faster than competitors. Kessler and Chakrabarti (1996) examining the speed of new products, find several important factors that influence on speed of internationalization, such as having a time goal, continuing project execution, and decreasing time testing.

### 2.3. Responsiveness to the Global Business Environment

Entrepreneurs are actors who actively engage in entrepreneurial action, internationalize their actions, scan potential opportunities in overseas new markets, evaluate available information, and decide whether to capitalize on one of the opportunities they find (Shane & Venkataraman, 2000). Some research indicates that proactive attitudes in seeking opportunities are among the most noticeable feature that distinguish international entrepreneurship (Andersson & Evangelista, 2006; Lumpkin & Dess, 1996; McDougall & Oviatt, 2000; Shepherd & De Tienne 2005). Some researchers on entrepreneurship argue that the discovery of business opportunities, both in the domestic and international markets, does not always stem from a proactive attitude or well-planned strategy (Ardichvili et al., 2003). Entrepreneurs may get the first opportunity for internationalization by chance, and only use it as part of "reactive" rather than "proactive" and unplanned processes (Kontinen & Ojala, 2011, 2012). Proactiveness is related to the market signal response, anticipating and acting on the needs of customers and the environment (Lumpkin and Dess, 1996).

## 3. Research Model

This study investigates the relationship between the quality of entrepreneurial networks and the responsiveness of the global environment, the speed of market entry and the performance of SME export marketing.



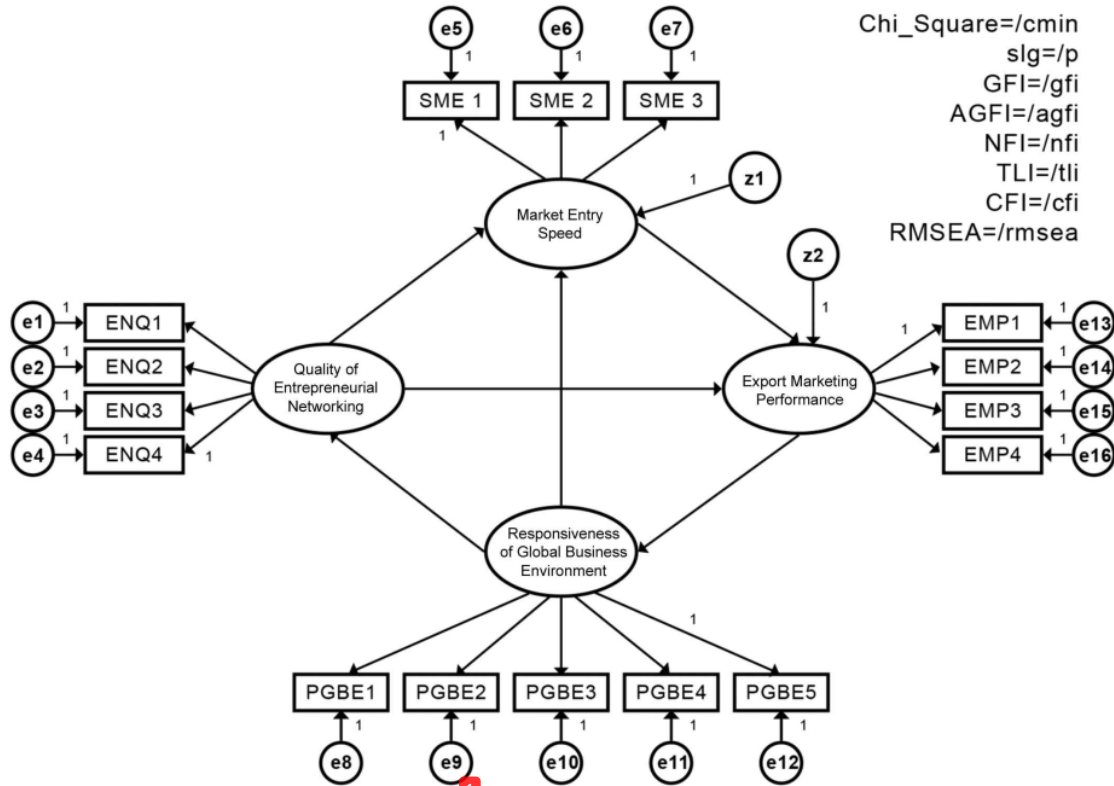


Figure 1. Model Testing

4. Hypothesis Development

4.1. Relationship between Quality of Entrepreneurial Networking and Market Entry Speed

SMEs with all its limitations compared to large companies can focus on developing the capability of their networks to be able to enter the market quickly. The research conducted by Ritter & Gemunder, (2004), Jenssen & Greve, (2002) state that an entrepreneur who often makes contact with many parties, such as with suppliers, customers, relations, employees, government and even competitors, to achieve various information and other resources is likely able to accelerate SMEs in entering the market.

Some researchers argue that the network contributes to the success of companies entering global markets by helping identify new market opportunities and contribute to building market knowledge (Chetty and Holm, 2000). The results of studies conducted by Andersson (2011) show that a company can enter the global market in a short time by working with industrial network partners.

H1: The quality of entrepreneurial networks has a positive effect on market entry speed.

4.2. Quality of Entrepreneurial Network and Export Marketing Performance of SMEs

The use of networks has been documented to have a positive contribution to the company's performance (Peng & Luo, 2000). Managers who have been operating longer in the international market are more likely to develop the networks necessary to

support internationalization (Madsen & Servais, 1997; Mort & Weerawardena, 2006). Hence, marketers having more developed networks should be more likely to use these networks when looking for business opportunities (Ellis, 2011). The following is the second hypothesis:

H2: The quality of entrepreneurial networks has a positive effect on SME export marketing performance.

4.3. Responsiveness to the Global Market Environment and Market Entry Speed

McDougall and Oviatt (2000: 903) define international entrepreneurship is 'a combination of innovative, proactive, and risk-seeking behavior that crosses national boundaries and is intended to create value within the organization.' Businessmen who actively seek international business opportunities from an early stage demonstrate a strong and clear commitment to internationalization. Previous literature regarding new international ventures argue that firms having a more proactive approach to internationalization tend to perform better than others in terms of speed, intensity and scope of exports (Crick, 2009; Kuivalainen et al., 2007; Madsen & Servais, 1997).

Previous research conducted by Balabanis & Katsikea, (2003); Dimitratos & Jones, (2005); McDougall & Oviatt, (2005) state that the elements of entrepreneurial orientation are the ability to innovate, risk acceptance, and the application of proactive attitudes. These elements can explain the company's decision to pursue overseas market opportunities. A proactive approach to the environment supports the capacity to innovate and reduce risk (Hart, 1995; Sharma and Henriques, 2005). Moreover, these factors are critical to successfully competing in international markets.

Under conditions of global market competition, it takes dynamic capability in the face of a constantly changing market. Proactive entrepreneurs seeking for the first international business opportunity should be possible for faster, more intensive internationalization, and for larger quantities of the market. This is the cause of the development of the third hypothesis as follows:

*H3. The responsiveness to the global market environment has a positive effect on market entry speed.*

#### 4.4. Responsiveness to the Global Market Environment and Export Marketing Performance

One of the difficulties of internationalization is finding a suitable overseas opportunity (Chandra et al., 2009). Finding clients in new markets is risky. Managers who take a proactive posture for internationalization tend to utilize a variety of resources, including networks (Ellis & Pecotich, 2001; Harris & Wheeler, 2005; Ojala, 2009; Ozgen & Baron, 2007). There is evidence that in a private network, the Chinese context is one of the most frequent resources exploiting entrepreneurs in order to achieve their strategic objectives (Acquaah, 2007; Agndal et al., 2008; Coviello & Munro, 1997; Park & Luo, 2001; Uzi, 1996; Xin & Pearce, 1996). Lankinen, et al. (2007) states that company ability to sense an event and market trends faster than its competitors will encourage to find the market and improve the performance of the company.

*H4. Responsiveness to the global business environment has a positive effect on SME Export Marketing Performance.*

#### 4.5. Market Entry Speed and Export Marketing Performance

A superior internationalization performance, in terms of percentage of the average total export sales, the number of markets they have penetrated is expected when the network is used for the discovery of the first international business opportunity. Mort & Weerawardena (2006) state that a network will likely enable the identification and exploitation of market opportunities, facilitate the development of the knowledge intensity of products and companies in achieving international market and global corporate performance.

*H5. Market Entry Speed has a positive effect on Export Marketing Performance.*

## 5. Methodology

### 5.1. Sampling and Data Collection

The research design is a structured plan to investigate and get answers to research questions (Cooper & Schindler, 2006). This research is based on non probability sampling by using survey research with purposive sampling technique. This study focuses on furniture and handicraft SMEs whose products have been sold overseas, or have exported by themselves or through intermediaries. This study initially distributed 302 questionnaires. After scanning process, it is obtained 205 respondents of managers or owners of SMEs furniture and handicraft in Central Java and Yogyakarta. Out of 205 respondents, the number of male respondents as much as 167 (81.5%) and female respondents as much as 38 (18.5%). The majority of respondents received undergraduate education, as much as 96 (46.8%) and high school education (71.6%). Majority of firms owned has run between 3 and 5 years, with assets between 500 million rupiah and 3 billion rupiah.

The data obtained were then collected and processed by AMOS and SPSS analysis tools. Hair et al (2010) state that 100-200 samples are eligible to analyze using SEM. Thus, the number of respondents as much as 205 in this study has been declared eligible and can be further processed.

**Table 1. Respondent Characteristics**

Respondent Characteristic	Number of Observations	Percentage
<b>Gender</b>		
Male	167	81.5%
Female	38	18.5%
<b>Education</b>		
High School	108	52.6%
Bachelor degree	96	46.9%
Master & Doctoral degree	1	0.5%
<b>Age of company</b>		
3 – 5 years	104	50.8%
5.1 – 10 years	70	34.1%
>10 years	31	15.1%
<b>Asset</b>		
≤ IDR 500 M	78	38%
> IDR 500 M – 3 B	95	46.3%
> IDR 3 B – 5 B	31	15.1%
>IDR 5 B – 50 B	1	0.6%

## 5.2. Measurement

To test the hypothesis, the indicator of each variable was based on previous research for construction measurement. All constructs were measured using a ten point Likert scale ranging from strongly disagree (1) to strongly agree (10).

**Table 2. SME Export Performance Indicators**

Source	Indicators
Zou and Stan (1998)	- Export Sales Growth
	- Export Market Growth
	- Export Profit Growth
Knight (2000)	- Market share
	- Sales growth
	- Profit growth
Lages and Montgomery (2004) Sousa (2004)	- Export Sales Growth
	- Export Market Growth
	- Export Profit Growth
Stam and Elfring (2006)	- Sales Growth
	- Employee Growth
	- Market share
	- Gross profit
	- Net profit margin
Chung (2011)	- Export Sales Growth
	- Export Market Growth
	- Export Profit Growth
Leonidou et al. (2011)	- Export Sales Growth
	- Export Market Growth
	- Export Profit Growth

The variable of networking quality (NETW) was measured by some items, including the density or number of networks (NETW1), the closeness of networking relationships (NETW2), relationship duration (NETW3), frequency of contact (NETW4).

The variable of speed of internationalization (INTR) was measured by some items, including achieving international market faster than planned (INTR1), faster than competitor (INTR2), and faster to get market access (INTR3).

The variable of responsiveness to global market environment (RESP) was measured by understanding the changing issues of global markets (RESP1), adaptability to global market demand (RESP2), following the development of Information technology (RESP3), ready to face global market challenges (RESP4), fast responding the global economic conditions (PGBE5).

The variable of export market performance (PERF) was measured by some items, including export sales volume (PERF1), number of overseas buyers (PERF2), export sales revenue (PERF3), and export sales growth (PERF4).

## 6. Results

### 6.1. Normality Test

Normality test is conducted with the aim to assess the distribution of data in a group of data or variables, whether the distribution of data is normally distributed or not. The normality test can be done on each variable, called univariate, assuming that if each variable meets the assumptions of normality then all variables (multivariate) is also considered to meet the assumption of normality.

Table 3. Normality Analysis

Indicator of variable	Univariate
Density / number of networks (NETW1)	1.800
The closeness of networking relationships (NETW2)	-0.651
Relationship duration (NETW3)	-0.462
Frequency of contact (NETW4)	-0.232
Faster than planned (INTR1)	-0.390
Faster than competitor (INTR2)	-0.767
Quickly get market access (INTR3)	0.689
Understanding the changing issues of global markets (RESP1)	-0.484
Adaptability to global market demand (RESP2)	0.886
Following the development of Information technology (RESP3)	-1.018
Ready to face global market challenges (RESP4)	1.642
Fast responding the global economic conditions (RESP5)	2.032
Export sales volume (PERF1)	2.038
Number of overseas buyers (PERF2)	0.656
Export sales revenue (PERF3)	0.355
Growth in export sales (PERF4)	0.764
Multivariate	4.230

Table 4. Validity and Reliability Analysis

	Convergent Validity	Construct Reliability	AVE
Networking Quality		0.842	0.886
NETW1	0.760		
NETW2	0.686		
NETW3	0.689		
NETW4	0.774		
Speed of Internationalization		0.688	0.948
INTR1	0.822		
INTR2	0.881		
INTR3	0.834		
Responsiveness to Global Business Environment		0.927	0.925
RESP1	0.822		
RESP2	0.908		
RESP3	0.908		
RESP4	0.867		
RESP5	0.808		
Export Marketing Performance		0.940	0.949
PERF1	0.858		
PERF2	0.923		
PERF3	0.879		
PERF4	0.883		

### 6.2. Validity and Reliability

Validity and reliability tests are intended to omit each indicator of the variable that must be above the required value of AVE 0.5. The AVE value greater than the cut-off value ( $> 0.60$ ) means that an indicator has reliable value of construct reliability.

### 6.3. Goodness of Fit

The data size is declared to be fit if the value of CFI, NFI and TLI is more than 0.90 and the RMSEA is less than 0.08. In this research, the model is declared fit, indicated by the value of CFI = 0.918, NFI = 0.949, TLI = 0.980 and RMSEA = 0.046.

### 6.4. Hypothesis Testing

Hypothesis 1 states that the quality of entrepreneurial networks has a positive and significant effect on market entry speeds. The results show that H1 is accepted, indicated by the value of  $\beta = 0.342$ , and  $p < 0.05$ .

Hypothesis 2 states that the quality of entrepreneurial networks has a positive and significant effect on the performance of SME export marketing. The result shows that the quality of entrepreneurial networks has positive and significant effect on SME export marketing performance, indicated by the value of  $\beta = 0.623$ , and  $p < 0.05$ . Thus, H2 is accepted.

Table 5. Hypothesis Testing

Hypothesis	Coefficient	Result
Entrepreneur Network Quality $\rightarrow$ Speed of Market Entry (H1)	0.342*	Accepted
Entrepreneur Network Quality $\rightarrow$ Export Marketing Performance (H2)	0.283*	Accepted
Responsiveness to Global Business Environment $\rightarrow$ Speed of Market Entry (H3)	0.623*	Accepted
Responsiveness to Global Business Environment $\rightarrow$ Export Marketing Performance (H4)	0.486*	Accepted
Speed of Market Entry $\rightarrow$ Export Marketing Performance (H5)	0.207*	Accepted

\*sign at 0.05

Hypothesis 3 states that the responsiveness to the global environment has a positive and significant effect on the speed of market entry. Testing results indicate that H3 is accepted, indicated by the value of  $\beta = 0.623$ ,  $p < 0.05$ .

Hypothesis 4 states that responsiveness to the global environment has a positive and significant impact on the performance of SME export marketing. The results show that the proven responsiveness to the global environment has a positive and significant impact on the performance of SME export marketing ( $\beta = 0.486$ ,  $p < 0.05$ ). Thus, H4 is accepted.

Hypothesis 5 predicts that market entry speed has a positive and significant impact on the performance of SME export marketing. The result shows that this hypothesis is accepted, indicated by the value of  $\beta = 0.207$ ,  $p < 0.05$ .

## 7. Discussion

The results show that companies claiming to have actively sought clients in overseas markets tend to export higher than their sales and have increased the number of markets higher. The findings reveal that the quality of networking and responsiveness to the global market environment are likely able to encourage the pace of market entry and improve the performance of SME export marketing. SMEs that are responsive to the global market environment allow them to enter the market faster. Furthermore, the networks that entrepreneurs have will likely able to shorten the time for exports. This is in line with previous studies (Bell, 1995; Knights & Cavusgil, 2004; Madsen



& Servais, 1997).

The results about global environmental responsiveness also support previous research conducted by Balabanis & Katsikea, (2003), Dimitratos and Jones, (2005), McDougall and Oviatt (2005). The results of this study also support the opinion of Lumpkin and Dess (1996) stating that entrepreneurship orientation is a process, practice and decision-making activity to seek new markets, with which marketing performance will increase. Lankinen et al. (2007) state that the ability to sense an event and market trends faster than its competitors will encourage finding markets and improving company performance. Entrepreneurs who are proactive and responsive attitude to the global business environment and use their networks will achieve maximum results in their export marketing performance. This is in line with

results revealed by Coviello (2006), Musteen et al. (2010), Sharma and Blomstermo (2003), Xin and Pearce (1996).

The result of the influence of the quality of entrepreneurial networks on the speed of market entry is in accordance with research conducted by Ritter & Gemunder, (2004) and Jenssen & Greve, (2002) revealing that an entrepreneur who often make contact or relationship with many parties, such as with suppliers, customers, relations, employees, government and even competitors, will provide access to information and other resources. Li et al. (2008) argue that there is a positive effect of social network on corporate performance. The network may have ceased to be an effective way to support corporate strategy, especially in international markets, and managers with experience are more likely to adapt faster than those with less experience.

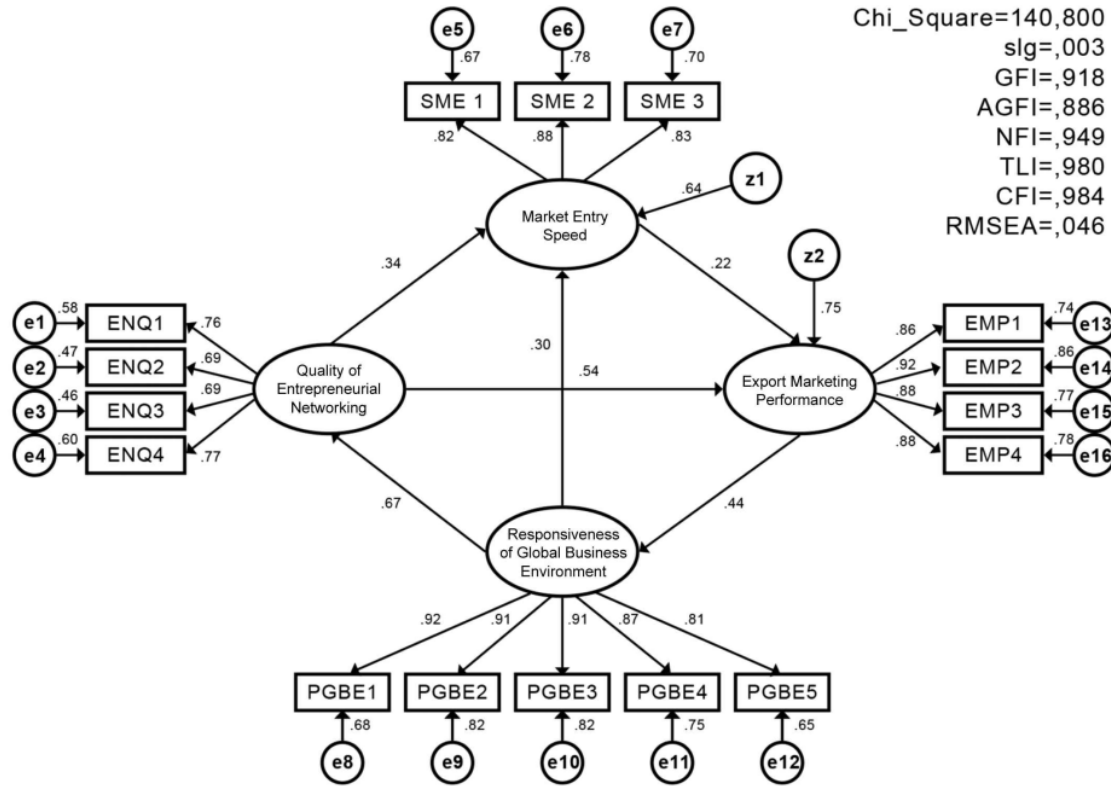


Figure 2. Model Testing

## 8. Conclusion and Implication

This study contributes to the study of the internationalization of Indonesian SMEs which largely still have low technology. Indonesian SMEs need to explore more opportunities by more searching for network strength and fostering a prompt attitude toward the global business environment. The results contribute to the theory of international entrepreneurship by linking the first international study of business opportunity discovery with subsequent internationalization speed research, corporate intensity and scope (Javalgi & Todd, 2011). This provides proof of the importance of an active search for the first international business opportunity, which in turn, affect on company performance.

This study has some limitations. First, this study is conducted only on a small sample of furniture and handicraft exporters. Secondly, the research only takes respondents from two regions in Indonesia namely Central Java and DIY, which

reduces the scope for further generalization. Thus, future research should take sample outside the furniture and handicraft industries such as herb products, herbal beauty products, other export potential products.

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