

Network and Innovation as SMEs Export Strategy: Causation or Effectuation Approach?

Indonesian Case Studies

Tri Wismiarsi
Muchsin S. Shihab

Abstract—This study is a qualitative research, which focuses on internationalization of born global SMEs. It was found that born global SMEs use networks and innovation to enter, grow and survive in their overseas markets. They used effectuation rather than causation approach to develop networks and do their innovations. The data were collected from 8 SMEs from different areas of Indonesia. The research findings contribute to the explanation theory of born global firms, especially through network development and innovation of SMEs.

Keywords—networking, innovation, effectuation, causation

I. Introduction

This study focuses on internationalization of SMEs, as SMEs have different characters from their larger counterparts. Furthermore, this area provides room for studying the international new ventures or the born global firms [1, 2, 3, 4, 5]. Previous studies show that SMEs can have their international operations since their inception, through networking [4, 5]. Although networking has been the interest of research for many scholars, however this concept has not been comprehensively understood, especially strategies for SMEs to enter the overseas market. Besides, recent authors highlight that scholars should look at network as a strategy, which is developed either by causation or effectuation theory [6].

To survive and grow in overseas markets, firms need to innovate. This is also an important area of study whether SMEs do innovate to grow their business, for they have little resources to innovate [7]. The same previous study explained that SMEs needs more time to innovate and more efforts when they sell the new products to the market.

Therefore, this study investigates SMEs strategy in their international market, i.e., networking and innovation. A two different ways of decision making, effectuation and causation, were used to discuss the decision making in these born global firms. Different from previous studies which have been done in developed nations, this research was done in one of developing economies, Indonesia.

Tri Wismiarsi
Muchsin S. Shihab
Universitas Bakrie
Indonesia

A case study method was used for this research, as research in this area is relatively new and needs more explanations. The results provide contributions to the development of SMEs behavior in their internationalization and strategies. It also enriches the development of entrepreneurship in the country, which is mainly used causation rather than effectuation theory.

II. Literature Review

A. Internationalization of SME

Generally, internationalization concept is divided into Uppsala Internationalization Model (U model), Innovation-related Model (I model) and networking [8, 9, 10]. Internationalization theory through networking is believed more appropriate to explain the internationalization of born global firms, as this model emphasizes on business relationship, social exchange, and inter dependency to develop and grow the business in overseas market, rather than to develop a firm specific advantage. Furthermore, internationalization through networking allows various resources of firms to flow in the relationship between firms, so that it may facilitate the achievement of firms objectives.

B. Network and SMEs Export Strategy

Network and relationship marketing are critical for internationalization of both larger firms and SMEs, because network provides activities and resources to support firms in their internationalization [12, 13]. Indeed, network is very important for small born global firms because of their limitations of various resources [14]. SMEs in their internationalization usually rely on certain products in certain markets, which can be managed by themselves through their networks, as the networks provide supports for them [15].

Network can accelerate international market development, product development and SMEs performance in overseas markets [4], since network facilitate to identify market opportunities and develop market knowledge [14] and develop firms' credibility [3]. Moreover, network can be developed further as partnership strategies such as alliance and or other forms of partnership strategies between firms [3]. Previous studies have put their interest in firms characteristics and efforts to develop and maintain their networks, and the roles of networks as international market entry strategy [13, 16, 17].

C. *The Theory of Causation and Effectuation*

Many authors believed that the development of a small firm to a significant firm is through activities that are planned to recognize and exploit business opportunities, and this belief is classified as causation school of thought [18, 19]. This school of thought grew in harmony with the ideas developed by experts in the field of business strategy [20]. Therefore, business strategy plan is critical to the development of a firm. On the contrary, the effectuation school of thought views that business strategy plan is not always beneficial to the business development, as firms need to learn, collect business information, improvise, modify and do what must be done to manage, maintain and survive the business [21].

There are 5 differences between effectuation and causation approach [18]. Firstly, non-predictive vs. predictive control, how far entrepreneurs predict the business future. Secondly, means driven vs. goal action, how entrepreneurs take action and decision. Thirdly, affordable loss vs. expected return, how entrepreneurs face business risks and benefits. Fourthly, partnership vs. competitive analysis, how entrepreneurs face and manage the business competitive environment. Fifthly, leveraging vs. avoiding contingencies, how entrepreneurs manage the unpredictable and uncontrolled situation to survive the business.

D. *SMEs Export Strategy: Causation or Effectuation Approach?*

According to causation theory, a well-developed strategic business plan can be applied both in the stable and unstable business environment [20, 22]. A business strategy can be created through a detailed and formalized plans by setting the goals to be achieved and organizing a variety of resources and preparing methods to accomplish these goals. As oppose to this, a well-defined strategic business plan cannot always be run in an unstable condition or in the situation which contain many changes [21]. To developed a well strategic business plan requires a long time and great resources, whereas these resources should be used to manage the market that have been selected.

Network is a strategy for entering and developing international markets, due to the existence interdependence relationship, the flow of resources and can be a barrier for competitors to enter the same market [5]. A business relationship in the network is a knowledge development process, so that the companies involved will learn its partners and creating new knowledge with the existing network. With more and more information obtained and provided by each actor in the network, it will form trust and commitment of each actor [5]. Commitment can be in the form of effort to maintain the relationships between partners in the network, for example the investment that had been made and the fulfillment of the promise that had been agreed upon. It is clear that the network is built based on effectual approach, as it is quite often the company cannot predict the network will be obtained, due to the limitations of its resources. In addition, the development and maintenance of the network takes a long

time and considerable investment, especially for a network that is considered to have a close relationship and have an important roles to the company existence [3].

P1. How network is used to enter international markets and what kind of network is developed by SMEs?

P2. How network is developed, whether through causal or effectual approach?

The role of network in SMEs internationalization is quite significant, including in the development of new products [12, 23]. Firms can rely on research to develop innovations, but it is quite often found that research is not always reliable to create the cutting-edge innovations that have been developed based on existing innovation, especially in the unpredictable situation [23]. A born global new venture, takes more time to develop innovation, e.g. new product, and requires a lot of interested parties and costs to increase market demand of the new product. When this happens for too long, it will reduce the level of novelty of its innovation. Innovation, which is organized through a formal planning is less appropriate to be adopted by company that is operated in a dynamic business environment [7, 21, 24]. The development of innovation can be done in an atmosphere, which is friendly to creativity, so that the necessary means and the atmosphere is more appropriate to support the innovation. It can be concluded that the innovation will be more manageable, when it is done through effectual approach which is more flexible in nature, rather than using the causal approach that is more rigid.

P3. How innovation is adopted by SMEs, whether through causal or effectual approach?

III. Method

This study is qualitative in nature that uses a case study approach to fill the gap of existing theories [25]. This method is important to strengthen the existing theories [26]. The data were collected from 8 Indonesian SMEs located in different areas. From these SMEs, there were 6 from creative industry, 1 from food industry and 1 from information technology industry. Information was taken from the business owners and important decision makers. The criteria of the respondents include (1) the business is owned by Indonesian citizens, (2) the business has been run for a minimum of 3 years 4, and (3) the business has a minimum of 25% of export sales [1]. For the data analysis, this study used content analysis, as well as within-case and cross-case analysis.

IV. Results and Discussion

The research results show that SMEs use network to enter the international market. The SMEs work hard to get the right networks, because it is difficult and costly for them to introduce their products through the conventional media that might reach overseas buyers. Therefore, SMEs try to find a network or networks which can facilitate them to enter the overseas markets. In this case, the majority of respondents gain access to international markets through international trade exhibitions. They have been involved in the international trade

exhibitions with the help and support from the government or other agencies aid (such as foreign aid). Through this involvement, SMEs will be looking for a potential buyers of their products. Other than that, i.e. buyers, SMEs also develop other networks such as suppliers, experts/trainers/export consultants, high schools/universities, industry associations, and the mass media to support their business so that their products can enter a wider international market. They also build relationship with other SMEs, as sometimes they need to accommodate their employees, especially when the business situation is in decline.

The network(s) is usually developed through effectual approach, because it was usually made without detail and formal planning and it is highly depended on resources owned by the network(s). Moreover, the development of SMEs networks have been done on the basis of possible risks, which they can afford. For example, they will only provide the business orders based on the number of orders which have been agreed upon, and not expecting higher return, but taking higher risk. The SMEs also do have positive attitudes to the counterfeiters. For them, this was a good sign, since the products which were imitated were the reflection that the products were highly demanded. SMEs have high willingness to do the product improvement to stay competitive. In the case of facing a difficult situation, they will deal with it through network(s) which can support them. For example, in the case of limited resources to meet the production quantity, SMEs will collaborate to meet this demand. This is in line with previous study - network can be extended to a partnership strategies, such as alliance and or other forms of partnership strategies [3].

The networks developed by SMEs are networks which are close in nature, ranging in size from 4 to 10. This is similar to the previous research [3]. The density of the network was considered thick, because it was a business relationship. Network is maintained through the fulfillment of the promises and commitments made, for example by meeting the product quality needed by the buyers.

The development of innovation was done through effectual approach, by not making strict targets for the innovations undertaken. Moreover, innovation is done by exploiting their networks. For example, SMEs use feedback and inputs from their networks to design their new products, rather than creating their own ideas to fill the market demand. The level of innovation they made is in the range of low to medium innovation. Through this innovation, some SMEs meet the market demands, while their competitors fail to do so.

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