BUSINESS NETWORKING: A KEY TO SUCCESS IN SMALL AND MEDIUM-SIZED ENTERPRISES (SMES)

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Abstract
This paper reviews the management theories and literature on business networking and proposes a link-up between networking and the success of Small and Medium-sized Enterprises (SMEs). This paper focuses on the factors encouraging network formation and development mainly the six motives suggested by Oliver (1990) that may be driving factors for firms to be involved in business networking. It also looks at the importance of business networking as a critical success factor to SMEs in Malaysia. The paper concludes by proposing a conceptual framework that emphasising the motives of network building for the SME business success. The findings in this paper shall be useful for SMEs that are seeking for ways to grow and to achieve success in their business.

Introduction
Building relationships among business units is of growing competitive relevance nowadays. Relationships between businesses units or also known as Business Networking are largely enabled by the inter-organisational formal communication systems that have evolved since the 1960s. However, many companies have only recently begun to complement these systems with networking capabilities. Studies of networking between firms have revealed many advantages to Small and Medium-sized Enterprises (SMEs) which they can rely on their network of contacts for advice, support, finance etc. Networking involves forming and sustaining the relationships with others. The roles of business networking to SMEs are to gain more clients, shareholders, business associates, suppliers, workforce, technical and market knowledge, trustworthiness, business guidance and problem solving. In order for Malaysian SMEs to be successful, they have to be involved in building business networking.

The purpose of this paper is to incorporate the business networking literature into a set of reasons or motives for network formation. It is also to suggest directions for future research in which each motives are likely to be the reason for the formation of business networks for SMEs in Malaysia.

Research Background
Business Network
‘Networks’ are defined as a set of nodes and the relationships which connect them (Fombrun, 1982). A business network refers to a relationship, formal or informal, between one entity and another or many other entities that is interacting with one another to gain business growth and success (Indarti & Langenberg, 2004; Lin & Zhang, 2005; Danis et al, 2006). It is a mode of organising economic activities through inter-firm coordination and cooperation in order to exchange or share information or resources. It is an integrated and coordinated structure of ongoing economic and non-economic relations embedded within, among and outside business
While Johanson & Vahlne (2003) defined business network as a set of interconnected business relationships, in which each exchange relation is between businesses, firms conceptualised as collective actors.

Loasby (1998) pointed out that firms have to rely on the capabilities of many people and many organisations, and the ability to merge these external capabilities with their own needs could allow these firms to achieve distinctive advantages. These partners do not have to be formally linked by any formal structure and may include a variety of players. These players consist of individuals (e.g. business start-up), businesses (e.g. contractual agreements) or governments (e.g. grants, tax exemptions, loans, advisory services) (Abdullah, 1999; Lin & Zhang, 2005; Morgan et al., 2007; Lee & Lee, 2007). The activities the firms perform and the resources they employ in the network are interdependent (Anderson et al., 1994).

The business network concept suggests that the coordination of activities between two firms in a business relationship takes place within the wider business network context. Thus, each firm can be expected to be engaged in a limited number of connected business relationships, each one coordinating the firm’s activities with those of its counterpart (Hakansson & Snehota, 1995).

**Small Medium-sized Enterprises**

Small and Medium-sized Enterprises (SMEs) have been recognised as being one of the instrument of growth for many countries (Abdullah, 1999; Danis et al., 2006; Johan, 2007), including Malaysia (Aris, 2006). SMEs’ contribution to the economy are tremendous which include: contribution of output (i.e. products and services); creation of jobs opportunities; developing a pool of skilled and semi-skilled workers; provide opportunities for technological development; offer an excellent ground for entrepreneurial and managerial talent (SMIDEC, 2006).

In Malaysia, SMEs can be divided into two categories: manufacturing, manufacturing-related services and agro-based industries, and, services, primary agriculture and information and communication technology (Saleh & Ndubisi, 2006).

SMEs have to face various challenges in achieving their goals. Among the challenges faced by SMEs, particularly in Asian countries are: improving productivity and product / service quality; increasing entrepreneurial activity; encouraging innovation and technological upgrading among local firms; improving utilization of government incentives; developing human capital and encouraging smart partnerships (Habaradas, 2007). Saleh & Ndubisi (2006) suggested that Malaysian SMEs must develop business networking and strategic alliances as opportunities for SMEs to gain competitive advantages for successful business development.

The government also formed and led an agency, known as Small and Medium Industries Development Corporation (SMIDEC) which is responsible for coordinating the development of SMEs. Apart from offering advisory services relating to the development of the industry, the agency also provides training and development programmes for SMEs as well as the public (National SME Development Council, 2006). Other government’s support programmes include programmes on (Bank Negara Malaysia, 2007):
• Business loans and grants for example Development Financial Institutions (DFIs) and Enterprises Rehabilitation Fund (ERF),
• Consultancy services for example Business Advisory Centre and Standard Industrial Research Institute of Malaysia (SIRIM),
• Training and technical assistance for example National Productivity Centre (NPC) and Malaysian Entrepreneurial Development Centre (MEDEC),
• Advertising, selling and market research for example MEDEC and NPC, and
• Infrastructure facilities for example Free Trade Zones and Licensed Manufacturing Warehouse.

There are many factors that led to SMEs business successes. SMIDEC programme on SME Competitive Rating for Enhancement Tool (SCORE) found six factors that can enhance Malaysian SMEs businesses and lead them to successful performances. The factors are management, technical, financial, innovation, production and quality (http://www.smidec.gov.my). Indarti & Langenberg (2004) stated that characteristics of entrepreneur, characteristics of SMEs and factors such as information access, legality, government support, social network, capital access, entrepreneurial readiness, marketing and technology, would lead to business success. In view of the scenario, this paper aims to propose a research framework to further understand the role of business networking in attaining business success. Ultimately, the model will lead to the development of future research in this area of studies.

**Theoretical Review**
The theory that business networks constitute a source of ownership advantage for firms helping their growth in business is not a new phenomenon. It has been the focus of numerous recent studies, from both theoretical (Nohria & Eccles, 1992; Greif, 1993; Staber et al, 1996) and empirical aspects (Coviello & Munro, 1995, 1997; Yeung, 1998; Rauch & Trindade, 2002). The richness and variety of topics addressed under the business network concept have inevitably turned the topic into one of the most complex subjects in the area of business strategy (Ebers, 1997; Holmlund, 1997; Contractor & Lorange, 1988; Gulati et al, 2000).

Oliver (1990) integrated various literatures and proposed six general determinants or motives for businesses to form business networks. The six predictive motives are necessity, asymmetry, reciprocity, efficiency, stability and legitimacy. Each motive is separate and should be enough to build business networks, but they could also be used with one other when businesses choose to form networks.

**Necessity**
Organisations are ordered through law or regulation by authorities to establish a relationship (Oliver, 1990) by being member of a body or association, which governs the profession. Through these bodies, relationships can be fostered and, firms can increase their revenue and reduce competition by binding competitors as allies (Ebers, 1997; Porter & Fuller, 1986). Membership to a body would facilitate a more open stream of confidential information sharing between exchange partners, and reduce conflict (Borch & Arthur, 1995). In Malaysia, the Accredited Professional Services need to become members of a body or association, which governs the profession for example legal firms must be a member of the Bar Council and accounting firms must be a member of Malaysia Institute of Accountants (MIA).
Asymmetry
Asymmetry means businesses builds business networks on the basis that there is a probability of one party to exercise power or control over another or its resources (Oliver, 1990). For example, a firm may want to form a director interlock with a financial institution because then it may be able to control sources of capital and increase its power over the financial institution.

Reciprocity
Businesses can pursue common or mutually beneficial goals or interests through co-operation, collaboration and coordination with other businesses (Oliver, 1990). Lin & Zhang (2005) further emphasised that building business network increases the growth of existing resources and the ease of obtaining external resources. Saleh & Ndubisi (2006) found that building business network increases revenue and expand customer base. Gulati et al. in 2000 confirmed that a firm’s competitive advantage rested on collaborative business networks. For example, a joint venture of businesses that is of equal power, sharing knowledge of technology in their industry would result in an increase in productions.

Efficiency
Oliver (1990) stated that this motive is internally oriented. Business networks are formed due to the need for a business to improve its internal input and output. Through business networking, firms can achieve efficiency by anticipating increases in return on assets or reductions in unit cost and waste (Oliver, 1990). Engaging in business networks, firms can reduce costs as a result of economies of scale (Contractor & Orange, 1988). Ebers (1997) pointed that, “Firms engaging in inter-organisational networking may enjoy comparative advantage over self-sufficient firms, because they can draw on specialised yet complementary partner contributions that extend the resource base and capabilities of the networked firms, and can entail production cost advantages...Through networking, firms can gain competitive advantage because they can gain access to desired resources and capabilities that are complementary to their own; they can thus in different ways enhance their abilities, share risks, gain market power, or realise economies of scale and scope”.

Networks can also increase flexibility and efficiency (Lorenzoni & Baden-Fuller, 1995), and allow access to critical network resources at minimal transaction cost (Casson & Cox, 1993) and reduced risk (Gulati et al., 2000), ultimately leading to higher performance (Dyer & Nobeoka, 2000). Lin & Zhang (2005) suggested that forming business networks may minimise business risk taking, reduce production cost, increase flexibility and increase firm’s knowledge.

Stability
Forming business network ensured that firms could better forestall, forecast, or absorb uncertainty affecting their activities (Oliver, 1990). Contractor & Lorange (1988) said that joint research, marketing, or production could be achieved through the formation of business networks. Saleh & Ndubisi (2006) further acknowledged that strategies to access new markets could be jointly achieved by participating in business networks.

Legitimacy
Oliver (1990) stated that business networking could establish or enhance the business reputation, image and prestige. Relationships fostered with firms that are unique, well known and
prestigious resulted in an advantage for the lesser partner to gain competitive advantage in a business (Anderson et al, 1994). For example, if a business is able to obtain a partnership with another business that is a member of a prestigious organisation, this will boost the former business image and reputation.

**Proposed Framework**

Based on the pertinent literature and theories, a conceptual framework has been developed to understand the relationship between Business Networking and Business Success (see Figure: 1). Oliver’s (1990) six motives of business networking relationship were chosen as the basis for developing this proposed framework. The six motives are *necessity, asymmetry, reciprocity, efficiency, stability and legitimacy*. By using any one motive independently or a combination of any of the six motives or all the motives, this would lead to building business network. Positive relationship in a business networks would eventually lead to business success for SMEs.

![Proposed Framework on Business Networking and SME Business Success](image)

Figure 1: Proposed Framework on Business Networking and SME Business Success

There is an increase in businesses that engage in business networks (Smith, 1997; Lin & Zhang, 2005). Therefore, it is important to understand the motives for forming business networks that will lead to business success for SMEs. An assessment of the circumstances of the motives of forming business networks disclosed general factors that influenced by necessity, asymmetry, reciprocity, efficiency, stability and legitimacy. These are laws and regulations, competition, compatibility with other businesses, relationship cost and benefits and business risk applied in this context. The conditions of building business networking suggest that:

- The motives of efficiency are influenced by internal factors of the business.
- The motives of reciprocity are affected by the properties of the businesses in the network and the degree of similarity with one another.
- The motives of necessity, asymmetry, stability and legitimacy are affected by external factors.
These deductions propose that the dissimilarity in this theoretical paradigm is partly dependent on the differences in the businesses’ own need or situation.

**Conclusion**

In conclusion, the present study shows that it is a must for SMEs to establish a business networking with various firms/party to be competitive. For instance, strong ties with government through frequent contacts with local governmental agencies are essential to stay informed about environmental regulations. However, the SMEs typically lack of expertise to fundamentally form a business networking. Specific trainings and education programs could therefore be organized to increase the SMEs’ confidence and expertise to actively involve in forming business networks. The theoretical review and conceptual framework for the networking are presented in this paper. It is suggested in the paper that motives to building business networks should be considered a core feature of emerging the business networking. Lastly, this paper suggests a proposed model that needs to be tested to observe its reliability and validity in building business networking among SMEs in Malaysia which ultimately leading to SMEs’ business success.

**References**


