

# Conceptualization of Network for Internationalization of Garments SMES in Gujarat'

**Amish Vinodbhai Udani**

*M.A. Student*

*Universiti Sains Malaysia*

**Shankar Chelliah**

*Associate Professor*

*Universiti Sains Malaysia*

**Sohail Akhtar**

*Ph.D Student*

*Universiti Sains Malaysia*

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## Abstract

*The purpose of this paper is to conceptualize network's significance for the internationalizations of Small Medium Enterprises (SMEs). SMEs are considered as a backbone of any economy and SMEs has been internationalizing rapidly during the last two decades. Management attitude, International Knowledge and International Experience plays an important role in internationalization; however studies suggest that SMEs lack management attitude, international knowledge and experience due to not having required resources. Besides, previous studies claim that network has a significant role in Internationalization. Garments SMEs in Gujarat is facing problem in knowledge, experience, foreign market, skills which leads them to avoid international business as it possess more risks of failure. In this era, as SMEs have potential to develop the economy therefore study of management attitude, International knowledge and experience have become important. As garments market of Gujarat contributes almost one third to the economy of the state, garment industry is more appropriate to take on this study. Therefore the objective of this paper is to discuss the moderating relationship of network to management attitude, international knowledge & experience for the internationalization of SMEs of Gujarat particularly in Garments industry. To conceptualize, thorough literature review has been carried out. This paper highlights the significance of network as a moderator for the internationalization of SMEs.*

**Keywords:** *International Knowledge, International Experience, Management Attitude, Network, SMEs, Readymade Garments*

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## 1 INTRODUCTION

### Garments Industry in Gujarat

Gujarat is one of the leading industrial states in India and textile industry in particular had contributed in a big way to the industrialization of the State. In fact, overall economic growth of the state is very much dependent on this sector (Desai, 2016). Textile industry plays an important role in Indian economy as well, it is an employment oriented industry, occupying the second position i.e. after agriculture. Around 25% of fixed investment, production value and employment of Small Scale Industry sector are from textile alone. Further 23% of GDP comes out of textiles in the state, 16% of the cultivated land area of the state is for cotton and Gujarat is the largest cotton producer in the country (Desai, 2016).

Even as Gujarat is hailed as a state with rich talents and drive in entrepreneurship and endowed with excellent business support infrastructure, the expectations regarding export performance by the manufacturing enterprises have not been materialized in reality. This is despite the state's several pro-business policies towards facilitating global participation by the local firms (Pradhan & Das, 2016).

## 2 RESEARCH OBJECTIVES

The main focus of this study is to analyze the relationship of network on management attitude, international knowledge and experience for the internationalization of Garments SMEs in Gujarat. As stated by (Das, Shil, & Pramanik, 2007), SMEs faces management problems such as (i) lack of accessibility to information and knowledge, (ii) lack of entrepreneurial, managerial and marketing skills, (iii) language barriers and cultural differences. Several studies suggest that networks can help in overcoming problem such lack of foreign experience, and improve in foreign expansions (Hymer, 1976) and outsider ship (Johanson & Vahlne, 2009). Given the current pace of change, SMEs need to continually improve their knowledge, experience, managerial skills i.e. management attitude to survive in international markets (Eberhard & Craig, 2013; Naudé, Zaefarian, Tavani, Neghabi, & Zaefarian, 2014). Several literature suggests that knowledge, experience and network plays an important role for the success of international business (Kalinic & Forza, 2012), however SMEs face trouble for internationalization as of lack of international knowledge and experience (Zaheer, 1995; Zahra, 2005).

As management attitude effects the internationalization of SMEs. A body of export literature exists upon which to gain knowledge of factors contributing to SME firm internationalization. Several authors conclude that management significantly influences international activities (Johanson & Vahlne, 1977) by affecting the speed, mode, and direction of internationalization. A review of export literature (Leonidou, Katsikeas, & Piercy, 1998) finds that both objective and subjective managerial factors influence SME internationalization. Concerning managerial determinants, (Leonidou et al., 1998) have highlighted the lack of consensus among researchers as to what constitutes a managerial factor in determining exporting, and what specific export dimensions are influenced by management. Managerial influences on exporting, the role played by management attitude and perceptions about exporting has received special attention (Leonidou et al., 1998; Manolova, Brush, Edelman, & Greene, 2002; Moon & Lee, 1990).

### 3 LITERATURE REVIEW

#### 3.1 Underlines Theories

After having thorough literatures most appropriate theories have been identified. Identified theories are Resource Based Views, Porter's Diamond Model and Network Approach Theory; these above mentioned theories will be used for developing a research framework for this study.

#### 3.2 Management Attitude

Management attitude is vital for sustainable process of internationalization. Management attitude influences on exporting, the role played by management attitude and perceptions about exporting has received special attention (Leonidou et al., 1998; Manolova et al., 2002; Moon & Lee, 1990). a number of studies have discussed the role of international networks in firms' internationalization process. International network plays an important role in developing knowledge to create a business relationships for small firms (Evers & O'Gorman, 2011; Johanson & Vahlne, 2003; Tolstoy, 2010) as knowledge will improve the capabilities of SMEs and that leads them for performing well in international business. In several studies it has been observed that business relationships can play a critical role in the early internationalization of SMEs firm (Chetty & Holm, 2000; Child, Ng, & Wong, 2002; Hilmersson & Jansson, 2012; Johanson & Vahlne, 2003) that helps SMEs to increase their knowledge, make them aware with the market and give confidence them to increase their international business. It has also been discussed that network constructs can be used effectively for understanding and explaining SME Internationalization (N. E. Coviello & Munro, 1995; Hadley & Wilson, 2003; Oviatt & McDougall, 2005).

While understanding of the importance of management decisions, upon the internationalization of SMEs is at a relatively developed stage, one of the less studies aspects of SME internationalization both theoretically and empirically is the role of decision-makers' characteristics (Halikias & Panayotopoulou, 2003). Indeed, a review of the literature pertaining to management characteristics (objective and subjective) and the subsequent impact upon SME internationalization carried out by (Leonidou et al., 1998) revealed that this is one of the most widely studied, but least conclusive areas of exporting research. International commitment is the extent to which a firm's management has favourable attitude toward, and is willing to deploy necessary resources to internationalization efforts (Cadogan, Sundqvist, Salminen, & Puumalainen, 2005; Leonidou et al., 1998).

#### 3.3 International Knowledge and International Experience

SMEs encounter significant challenges in obtaining recourses, foreign market knowledge, overseas contacts and business opportunities, and achieving organizational feasibility for developing foreign business (Zaheer, 1995; Zahra, 2005). SMEs overcome their resource constraint by forming business networks to acquire these resources and to benefit from being larger in size as a result of their networks. For example, firms that have incomplete foreign market knowledge and experience seek this knowledge from their suppliers and customers (Welch & Luostarinen, 1988).

The two important elements in internationalization process are international networking and knowledge (Oviatt & McDougall, 2005). Network has a positive relationship between international knowledge & experience and internationalization (Udani & Chelliah, 2016). In SMEs manager plays an important role in identifying the stimuli for internationalization. The manager may not have the knowledge, however, to recognise these internationalization stimuli when they appear. It is the manager who decides whether the firm will pursue internationalization opportunities that their network counterparts initiate. A manager can inhibit internationalization of the firm although the network wants to drive it into internationalization (Chetty & Holm, 2000).

SMEs using less scientific or technical knowledge tend to be reactive in their decision-making, some may nevertheless be innovative and opportunity creating. There are, for instance, some clothing firms that intentionally develop new concept of designs and brand identities to become competitive in the industry, for example the string bikini company studied by (Sullivan Mort, Weerawardena, & Liesch, 2012). SMEs using symbolic (e.g. artistic) knowledge can therefore undertake explorative behaviour.

### 3.4 Internationalization

Internationalization itself entails considerable risks and challenges that are discouraging to most managers, particularly those who have partial knowledge of foreign markets and do not possess the experience of conducting business in such market.(Sapienza, Autio, George, & Zahra, 2006). Prior research revealed a variety of factors that influences firms' internationalization. Particular attention has been paid to the roles of decision makers, and their international knowledge, experience, formal and informal contacts (Styles, Gray, Sullivan Mort, & Weerawardena, 2006; Westhead, Wright, & Ucbasaran, 2001).

As business viewpoint, use of network is essential for the internationalizing SMEs based in developing economy – its relationships with domestic clients, colleagues and even casual encounters can provide firm with clients in new markets (Harris & Wheeler, 2005; Lopez, Kundu, & Ciravegna, 2009). International business opportunities can be found through a range of network-supported system, thus SMEs should consider network building and the use of social capital for internationalization (Ciravegna, Lopez, & Kundu, 2014).

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The two important elements in internationalization process are international networking and knowledge (Oviatt & McDougall, 2005). In SMEs manager i.e. his attitude towards management plays an important role in identifying the stimuli for internationalization. The manager may not have the knowledge, however, to recognise these internationalization stimuli when they appear. It is the manager who decides whether the firm will pursue internationalization opportunities that their network suggests to initiate. A manager can inhibit internationalization of the firm although the network wants to drive it into internationalization (Chetty & Holm, 2000). Prior knowledge, expertise and network contacts represent a vital resource for strategic decision-making pertaining to start international business operation, since such decision are highly complex and uncertain and require cultural and strategic knowledge and careful consideration of different alternatives (Nielsen, 2010). Further, the SMEs' ability to conduct international business is based on their experience in international markets and operations (Lindstrand, Melén, & Nordman, 2011). Internationalization increases the need for mutual networks and communication among SMEs in different geographic zones (Qian, 2002).

### 3.5 Network

According to (Johanson & Vahlne, 1990), firms develop and distribute products in foreign markets through business networks, which, through providing local market knowledge, lower uncertainty and therefore allow for faster internationalization. Networks can provide SMEs with resources which they would otherwise be unable to create or obtain on their own. The SMEs' ability to conduct international business is based on their experience in foreign markets and operations (Lindstrand et al., 2011). Internationalization increases the need for complex collaborative networks and communication among SMEs in different geographic zones (Qian, 2002).

An international network helps the entrepreneurs in spotting the opportunities, establishing international relationships, and accessing information. Recently, (Johanson & Vahlne, 2003, 2009)also noticed the importance of international networking while revisiting their model. They argue that the major obstacle in internationalizing no longer consists in the liability of foreignness but instead in the liability of outsidership; i.e. is being or not being part of a network that makes difference, therefore it is crucial for SMEs to develop their own network for increasing their international performance, that helps them developing international knowledge, make aware from international environment and decreases the chances of failure in international operations.

Research following the network perspective has focused on how existing business networks influence the behaviour of the internationalizing firm. For example, (N. Coviello & Munro, 1997; N. E. Coviello & Munro, 1995) found that the business network influences the SME's mode of entry. (Martin, Swaminathan, & Mitchell, 1998) revealed that the business network influences the pattern of internationalization. (Chen & Chen, 1998) underlined that location of foreign investment is strongly influenced by the firm's business network and (Ellis, 2000) found that the business network influences the first step abroad.

Several studies link network to international performance. They suggest that networks can help accelerate expansion processes and overcome liabilities of foreignness (Hymer, 1976) and outsidership (Johanson & Vahlne, 2009) foreignness is one of the major aspect that discourage SMEs to go international as it possess a maximum risk of failure. For SMEs, the ability to network effectively is itself a crucial capability in the sense that it generates value by creating and accessing a variety of resources, such as new knowledge (Hoang & Antoncic, 2003). Given the current pace of change, SMEs need to continually create, adapt, and reconfigure their resources and network ties to stay competitive (Eberhard & Craig, 2013; Naudé et al., 2014), i.e., they need to develop dynamic capabilities.

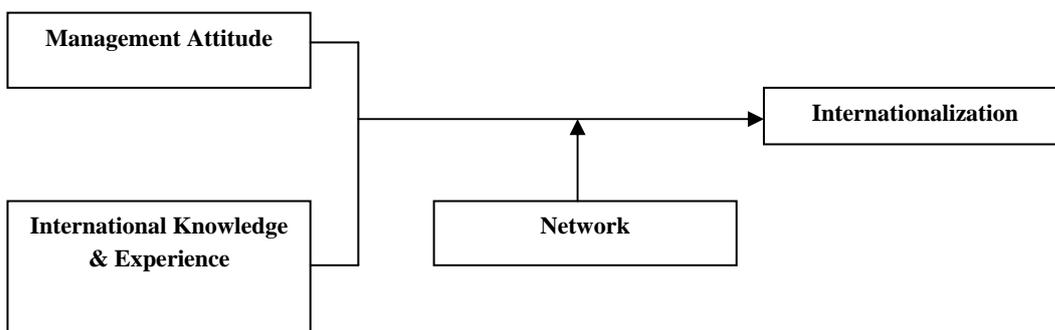
Several studies have discussed the role of international networks in firms’ internationalization process. International network plays an important role in enhancing knowledge creation in business relationships for small firms (Evers & O’Gorman, 2011; Johanson & Vahlne, 2003; Tolstoy, 2010). In several studies it has been observed that business relationships can play a critical role in the early internationalization of SMEs firm (Chetty & Holm, 2000; Child et al., 2002; Hilmersson & Jansson, 2012; Johanson & Vahlne, 2003). It has also been discussed that network constructs can be used effectively for understanding and explaining SME Internationalization (N. E. Coviello & Munro, 1995; Hadley & Wilson, 2003; Oviatt & McDougall, 2005).

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After going through a thorough literature we found that there is a scarcity in the literature suggesting relationship of network between management attitude, international knowledge & experience on internationalization moderated by network. Many studies suggests that network has a positive relationship with internationalization (N. E. Coviello, 2006; Oviatt & McDougall, 2005), several studies have stated that network can accelerate internationalization processes and overcome liabilities of foreignness (Hymer, 1976) and outsider ship (Johanson & Vahlne, 2009), Given the current pace of change, SMEs need to continually create, adapt, and reconfigure their resources and network ties to stay competitive (Eberhard & Craig, 2013; Naudé et al., 2014), i.e., they need to develop such an attitude that can make them survive in the industry. Some other literature suggests that network has a significant role with knowledge (Evers & O’Gorman, 2011; Johanson & Vahlne, 1990, 2003; Tolstoy, 2010) and lack of experience can be countered by seeking information from network (Welch & Luostarinen, 1988).

Thus we, assume that network would have positive relationship between management attitude and internationalization as well as between international knowledge and experience and internationalization. Therefore, we suggest following conceptual framework that suggests that network would have significant relationship between management attitude, international knowledge and experience with internationalization, moderated by network.

**Figure 1 Role of Network in Internationalization (Conceptual Framework)**



**CONCLUSION**

We expect that this study will contribute to the literature of internationalization, and its practical implementation will be helpful to the garments SMEs to increase their international business operation and improve their export performance, this model might also be helpful to some other SMEs in same region or different region furthermore it might be applied to industries other than garments SMEs.

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