

Chapter 6

Discussions, Implications, and Conclusion



6.1 Discussion

The purpose of this study is twofold. First, this study argues that social network is a strategic resource according to the resource-based theory. As the main focus of the theory is on describing the characteristics of strategic resources that secure the firm's survival and sustainable success, social network is herein tested to see if it has the same characteristics as other strategic resources.

Second, this study demonstrates the relationship between social network and export performance. The three aspects of social network, i.e. network centrality, proximity, and expressiveness, are proposed as positively influence export performance. While centrality is argued to have a direct positive influence on export performance, the other two aspects function as the moderators of the relationship between centrality and export performance. The hypotheses of this part are by two complementary methods, i.e. multiple regression and correlational analysis.

Social Network of Thai Exporting SMEs

Social network components of Thai exporting SMEs reflect the purpose of its establishment. The components that are frequently referred, contacted with relatively high frequency, and with high level of closeness, are customers, suppliers, executives and officers of commercial banks, business friends in the same and different industry, executives and officers of provincial chamber of commerce, members of industrial associations, local politicians and ministers, agents of Department of Export Promotion and Department of Industry Promotion.

These entities mean differently to the firms. As financial matter is one of the major concerns for the firms, two entities that play a critical in this matter are customer and commercial banks. Customer is important for it is most, if not every, reason for the existence of the firm. In fact it is at the very first and last step of the operation. Porter (1980, p.4) emphasizes the importance of customer as one of the major five forces of competitiveness. All business strategies are invented to maintain the firms' customer account. Financial situation of the firms depends very much on how healthy the customer account is. In addition, customer is an import source of information of various issues. Firms can sense the level of competition within the industry through customer. As customer has to make buying decision for its best interest, price re-negotiation or shift of its suppliers tells something about changes in the industry such as new comers or new technology. In addition, customers can link the firms to other new customers.

Commercial bank, like customer, has very much to do with financial aspect of the firms, only differently. It keeps business going by supplying firms with working capital, and keeps business expanding with additional loans. In this light, commercial bank acts a similar role as suppliers in that they directly impact the operation of the firm. Supplier, like customer, is one of the five major forces of competitiveness (Porter 1980, p.7). Firms have to keep good relationship with their suppliers for the

continuation of quality raw materials, especially when scarce. In addition, supplier is also an information source as its customers are the firms' competitors.

Member of industrial associations and provincial chamber of commerce play two important roles. These two groups of people provide their members with relevant information, including business opportunities, marketing-related information, cautions of imminent threats, and governmental regulations, etc. Besides, they act as an intermediary between their members and the government in various issues such as quota allocation, regulation and law amendment. In the study on SMEs' networking in Europe, David Deakins and Toby Philpott (1995) found that industrial associations and chamber of commerce play an important role in coordinating support of various sources to benefit the member firms. They represent their members in voicing their needs to the relevant governmental agencies. Therefore, these industrial associations and provincial chamber of commerce are the source of bargaining power against the governmental bureaus. Being a member of and keeping a close relationship with these two organizations entitle the firm to benefit from the negotiations, and prevent it from being left behind other members firm.

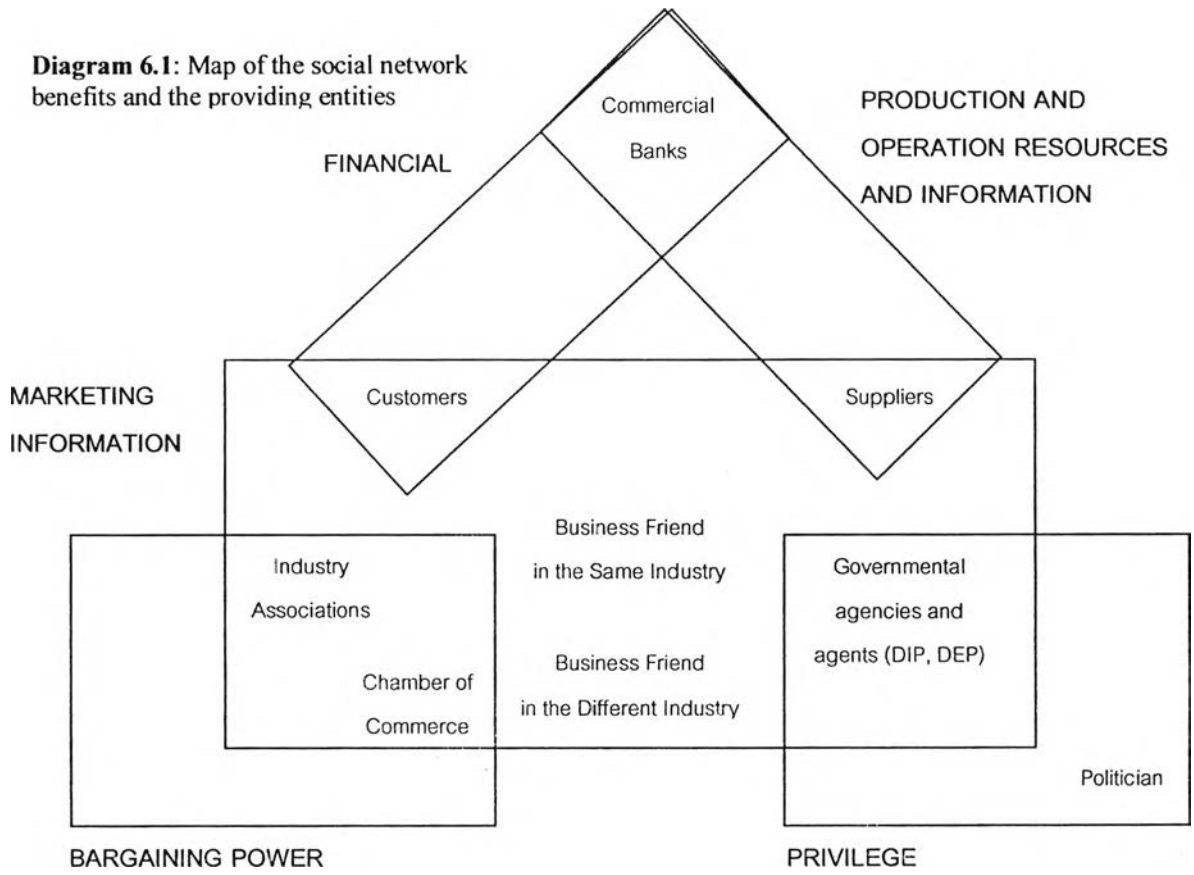
Governmental agencies such as the Department of Export Promotion and the Department of Industry Promotion also play a role of information disseminator. As governmental agencies function to facilitate the operations of private sectors under a fair play, they provide firms with training, update information, and smooth procedures. These two organizations have been recently active in such roles after the government campaigns to revive and electrify SMEs. However, governmental agencies are notorious about red-tape operations, and are unavoidable to deal with. Therefore, firms have to maintain a good relationship with almost every level of agents to help smoothing the necessary procedures. As a result, governmental agencies and agents, to the firms, are a source of information and privilege.

From the data collected, some firms, with high performance in particular, are reportedly in frequent and close contact with politicians and even ministers for the benefit of export activities. Owners' of the firm who participated in the in-depth interviews are reluctant to reveal the annual spending on gifts for this group of people. However, they admit that the amount is enormous. What the firm gains from politicians and ministers mainly are privilege and a shortcut through the red tape. In this light, politician and ministers, like the governmental agents, provide the firms with privilege.

In sum, social network of SMEs is constructed to render 5 areas of benefit, i.e. source of marketing information, financial source, production and operation resources and information, bargaining power, and privilege. Diagram 6.1 shows the map of these benefits and the network entities that provide them.



Diagram 6.1: Map of the social network benefits and the providing entities



Social Network Characteristics

This study argues that social network functions as an important contributor to the firm's export performance but has been neglected from the literature as a resource of the firm. After an extensive review on the general characteristics of social network, the researcher proposes that social network has the 4 characteristics of and can be categorized as a strategic resource, as prescribed by the resource-based theory. The correlation between each of the social network dimensions, i.e. centrality, proximity, expressiveness1, and expressiveness2, and each of the 4 strategic resource characteristics, i.e. heterogeneity, imperfect imitability, imperfect substitutability, and imperfect mobility, is therefore explored by Bivariate correlation to prove hypotheses 1-4.

The results of the study fails to demonstrate that social network is a strategic resource of the firm, as prescribed by the resource-based theory. The examination of the correlation of the overall respondents confirms only a positive correlation between the characteristic of imperfect substitutability and proximity. After dividing each social network dimension into high group and low group, expressiveness1 reveals a positive correlation to the imperfect mobility characteristic, in both groups. Centrality has a positive correlation to the imperfect substitutability characteristic in the high group.

As it is argued in this study, social network cannot be perfectly moved from one place to another especially when that social network belongs to the owner of the firm. Closeness, which is captured by expressiveness1 in this study, is the most personal dimension of social network. When compared to centrality (number of persons in contact), proximity (frequency of contact), and expressiveness2 (method of contact), closeness of contact has the most complicated path of development. In the explanation of Mark Granovetter (1973, p. 1360-1363) in one of his most cited work, the '*Strength and Ties*', strength of the relationship is a combination of the amount of time, the emotional intensity, the intimacy (mutual confiding), and the reciprocal of services.

Closeness of the relationship between two persons also arises from matching of personal traits and attitudes (Keijser and Schut, 1990). In addition, historical development of the two persons produces a very complex structure of reciprocal feeling (Sonderen, Ormel, Brilman, and Heuvell, 1990). While one can make contact to exactly the same group of persons, with the same frequency and method, as does another, it does not mean that they have the same level of closeness. These explanations seem to support that closeness is heterogeneous, imperfectly imitable, imperfectly substitutable, and imperfectly mobile, at the individual level. However, at the firm level this may not be true. As social network is attached to a person, when the person moves his/her social network moves along.

The result of the test also reveals that the correlation between expressiveness1 and the characteristic of imperfect mobility of the high group is lower than that of the low group. It means that social network of the low expressiveness1 group is more likely to be imperfectly mobile than that of the high group.

In this study high expressiveness1 (perceived closeness) means that the person is very close to the central individuals and/or organizations of the network. To establish such

close relationship with those central entities, one has to be very important, in term of size and/or finance. Therefore, high expressiveness¹ probably are relatively large SMEs. These firms are in a close competition with large corporations and tend to be bought by them. On the contrary, the small firms of the SMEs are even very small. These very small firms tend to be family businesses and are not likely to directly confront with large corporations. Therefore, they are not in the interest of the large firms to buy-out. These very small firms, therefore, can maintain their independence and are content to be suppliers of their niche market and/or to the large firms. As a result, their network, in the expressiveness¹ dimension, is more likely to be imperfectly mobile.

As mentioned earlier, centrality and proximity is easier to be imitated, moved, and, therefore, not heterogeneous. Number of persons in the network and frequency of contact can be identical, but the network of one person cannot work perfectly the same as that of another (Bovasso 1996, p 1420). Substitutability in this study, however, deals with the concept that a network works exactly the same everywhere. In other words, one person's network can substitute another's, and vice versa. In this study, centrality is the number of person in contact and proximity is simply the frequency of contact. Although they can be imitated, moved, they cannot work exactly the same everywhere as the environment of the place changes (Turk, 1970). Some persons may like to be frequently contacted while the others detest. Furthermore, two persons may happen to know the same group of people, but the feeling of that group towards these two persons may not be completely the same. The way that the network works and how well it works depends on personal traits and attitudes of both contacting and contacted persons. Therefore, centrality and proximity are imperfectly substituted. In addition, this makes different the useful resource and information transferred from the group to these two persons.

In conclusion, this study fails to claim that social network is a strategic resource, according to the resource-based theory. Social network does possess the characteristics of imperfect substitutability, and imperfect mobility. However, social network is not imperfectly imitable, and heterogeneous.

Social Network and Export Performance

Centrality

The support of hypothesis 5 in this study implies that centrality alone can positively influence export performance. Although the result of the test is not consistent with a study conducted by by McPherson and Smith-Lovin (1987) which states that centrality alone should not be studied as having an impact on any issues. Centrality (number of persons in contact) should be viewed as the existence of the channel through which resources and useful information are conveyed. Whether these resources and useful information are conveyed is the matter of quality of the channel.

However, this finding is consistent with the idea of network diversity of Burt (1996, p.16), '[b]enefits increase linearly with size and diversity'. Benefits of a large, diverse network are more than the benefit of a small, homogeneous network.

Greater centrality may also imply more diversity of the network. The diversity can possibly be in the aspect of organization, and/or levels in the same organization. It is most likely that greater number of person accompanies the greater variety of persons and the greater variety of resources they bring.

In the study of organizational network diversification, by Markides and Williamson (1996), it is found that the number and diversification of the entities in the network enhance the performance of the firm, especially when they allow the firm to obtain preferential access to valuable resources and information. In addition, Johannisson, and Monstead (1997) study the entrepreneurial networking and the level of technology diffusion. The study found a greater level of technology diffusion in a larger network size, resulting in a greater level of innovation.

Centrality, when functions with the quality of relationship, influences export performance even better than does itself. This conclusion is supported by the significant relationship between the interaction of centrality and expressiveness¹ (perceived closeness), and export performance in hypothesis 7a.

Proximity

This study fails to confirm proximity as a moderator of the relationship between centrality and export performance. The interaction effect between centrality and proximity does not show a significant relationship with export performance.

Proximity is introduced into this study as a measure of closeness of the relationship suggested by Scott (1991, p.152). Also, Granovetter (1973, p.1367-1368) supports this idea by giving various dimensions of tie strength, including amount of contacting time. The results of this study, however, signify that proximity is not a good measure of the closeness, nor a measure of the quality of the relationship. Frequency of contact, by itself, and by interacting with centrality, does not contribute to export performance.

Proximity was hypothesized that it interacts with centrality in a positive relationship with export performance. The rationale behind this was derived from the previous studies on proximity and the level of trust and understanding (Erbe 1962) and on proximity and firm's innovation (Stemberg 1999). Proximity was reported to positively relate to level of trust and understanding. Therefore, it is possible that the increase level of trust and understanding would lead to the increase of resources and information transferred from the network to the firm. It is not the place of this study to say that the finding of this study contradicts to Erbe's.

The explanation for the failure to support the hypothesis probably is that proximity is too insensitive a measure of closeness of relationship. In the study by David Gartrell (1987), proximity was used to as a measure of the relationship strength among a group of residents. Proximity was not statistically supported as a measure of the strength of the relationship. The researcher explained that greater frequency of contact could create a wide array of feeling towards the contacted individuals. The relationship between the interaction effect of proximity and centrality, and export performance is not strong enough to make a support to this hypothesis.

Proximity is simply the frequency of contact, which sometimes make closer a relationship. However, this is not always true. Greater proximity may also create annoyance to the contacted person. The ambiguity of the impact of proximity, therefore, make the relationship between itself and export performance not strong enough to support the hypothesis.

Expressiveness

Expressiveness of the network is herein measured by respondent's perception and by the method of contact. Expressiveness is introduced in this study as a moderator of the relationship between centrality and export performance.

This study fails to support expressiveness2 (method of contact) as a relationship moderator, while successfully support expressiveness1 (perceived closeness).

While Expressiveness1 measures the strength or closeness by asking the respondents how close they are to each entity in the network, Expressiveness2 measures through the method of contact. The more expressive method (less formal), the stronger the tie. On the contrary, the more instrumental (less expressive and more formal), the weaker the tie (Ibarra and Andrew, 1993). Expressiveness2 is another effort in this study to represent the closeness of the relationship and the quality of the relationship.

It is the expressiveness1 that directly captures the level of closeness and quality of the relationship. The support of hypothesis 7a implies that closeness enhances the relationship, and it functions with centrality to positively influence export performance. In addition, the correlational analysis confirms that expressiveness1 is a moderator of the relationship between centrality and export performance. Closeness of the relationship can facilitate the transfer of the useful information and necessary resources. Gordon Meyer (1994) studies the process of social information of social network of a group of employees. He found that information is, to a large degree, shared and disseminated among the employees who identify themselves as very close to each other.

Failure to support hypothesis 7b is a failure to introduce method of contact as a moderator of the relationship between centrality and export performance, and a failure to support that method of contact can represent the quality of contact. This finding contrasts to the study of Lincoln and Miller (1979) where expressive method of contact enhances the reciprocity and exchange within the network because of high level of trust is created. It does not seem that exchange of resources and useful information significantly takes place in this study.

Method of contact may make sense in the personal relationship, with no business agenda involved. In the business world, which is described by giving and taking, and quid pro quo, resources and information exchange may depend more on other factors, such as reciprocity. Every business decision-maker has to protect the benefit of one's bottom line. Exchange is therefore based more on economic sense, and less on method of contact.

Implication

The performance-driving behavior of social network makes social network a resource of firms, similar to other resources such as capital, human, plant, equipment, etc. This view of social network leads to a further thought of how to efficiently manage this kind of resource.

Normally, resource management primarily concerns searching, investing, and maintaining the resource. In economic perspective, resources are always scarce (Haug A., and Hoag J., 1996), resource management has to be carefully done. Especially in the presence of market imperfection, resources are not equally distributed. Only capable firms, therefore, can efficiently acquire and best make use of, resources.

Establishing a strategic network, and enhancing the relationship within it are similar to acquiring and maintaining other kinds of resource, in that they add costs, in terms of time and dollar, to the firms. Consequently, firms have to be strategic and focus in social networking, in order to minimize costs and to maximize desired outcomes.

As shown in the data analysis part, high performance firms maintain high degree of every social network dimension, i.e. centrality, proximity, expressiveness¹, and expressiveness². In other words, high performance firms tend to know more entities, contact them with greater frequency, and are closer to them, than do the low performance firms.

However, expanding network size without taking diversity into consideration can deteriorate the efficiency of network. As Burt (1992) put, 'What matters is the number of nonredundant contacts. Contacts are redundant to the extent that they lead to the same people, and so provide the same information benefits'.

Including 'who' into the network, is a crucial and strategic matter. This study empirically shows that firms making connection with central entities tend to have superior performance. Due to limited time and definite scope of the research, exploration of entities that are likely to be central to the network is restricted. It is an important task for firms to explore more carefully and extensively these entities, with which they should make connection. As the method used in this study is personal referring, firms have to spend time in socializing to others in the same industry to search for those potential entities.

Diversity is a key of success networking. As earlier discussed, this study suggests several central entities of the export network. These entities include customer, supplier, commercial bank, industrial association, chamber of commerce, the Department of Export Promotion, the Department of Industry Promotion, and Politicians. It can be seen from the successful social network presented in the data analysis part that high performance firms are rather dispersed in these central entities, especially in the closeness dimensions (expressiveness¹ and expressiveness²).

In addition, the result of the study makes it clear that magnitude of contact (the number of central entities one makes connection with) does explain the relationship between social network and export performance. In addition, quality of the connection also enhances the link between social network and export performance. As a result, enhancing the quality of the connection is important to the usefulness of the network.

However, enhancing and maintaining the quality of connection also incur costs. Improving expressiveness, in particular, can be very prohibitive. Ordinary methods of contact, i.e. formal correspondence, formal telephone calls, functional meeting, etc. cost relatively low but makes comparatively instrumental and distant connection. These methods of contact can hardly develop intimacy within the network.

Although social network cannot find its place in business functions as can marketing, production, finance, accounting, and many others, it works as a conduit that brings useful information, and other resources to the operation of the firms. In this view, social network functions as a facilitator and catalyst of firms' operations. Firms with better quality and more efficient networks can better take advantage of market imperfection, and draw superior information and resources to the firm.

In conclusion, firms have to have several points to keep in mind when constructing social network for the benefit of export activities.

1. Network size is the advantage of the firms on the condition that quality and diversity of the network is efficiently managed.
2. Components that are useful for the network are customer, suppliers, commercial bank, industrial association, chamber of commerce, the Department of Export Promotion, the Department of Industry Promotion, and Politicians.
3. Successful network brings to the firms 5 important items, i.e. marketing information, financial assistance, information and resource necessary for the operation, bargaining power, and privilege.
4. One of the keys that makes the network efficient is the quality of the relationship within the network. Quality of the relationship can be the level of closeness. Closeness breeds trust and facilitate the flow of the relevant information and resources.

The above implications and recommendations are drawn basically in line with the findings that try to answer the research questions: does social network increase export performance?; if so what should we do?

It appears that social network does increase export performance. Therefore the recommendations is that go for the social network, and do it properly, which mainly are the implications drawn above. However, if take it from another angle, social network probably may look differently. Doing social network '**properly**' may imply something completely different.

As previously explained, social networking adds costs to the business. Oliver Williamson calls this a 'Transaction Cost' in his microeconomic analysis (1975). The concept of transaction costs has its root from a famous work, 'The Nature of the Firm' by Coase (1937). Transaction costs arise mainly from the very nature of human, bounded rationality, and opportunism. These two characters are the answers to the imperfection of the markets. Social networking, by its purpose, is a primal evidence of market imperfection. Social network exists because the market is not perfect. What makes it more complicated is that the existence of social network makes the market imperfect more so.

Social network makes firm spend on items that do not add value to the products. Firms are spending on making a closer contact to central agents and agencies. They may make more frequent calls, and/or giving away more expensive gifts, and/or make more unnecessary personal visits. The incremental costs are finally passed to customers, with unchanged value of the products. Customers are paying more than the products or services worth.

At the aggregate level, the transaction costs may serious harm the entire economy. Increasing social networking costs decreases the efficiency of the economy. It shrinks the country's rate of return and cripples the competitive advantage in the international competition. If these unnecessary costs cannot be minimized, export of the country will loose its ground outside the territory. In addition, the country's attractiveness to FDI will also dull.

While social network seems to benefit at the micro level, it incurs serious harms at the macro level. 'Do' or 'Don't' presents a dilemmas to the practitioners. This is a matter of business

ethics, which has long been discussed but doubtfully been seriously taken. Firms will be forced to form their network, unless they are made sure that everyone else does not. The question is how to make everyone else 'not'.

When anything that affect the macro level come to the concern, government, its agents, and agencies should play the key role. Business culture has to be reviewed if the long run efficiency of the economy is at stake. Government should visualize a revolution of business culture in this regard. Businesspersons, in their parts, should properly respond and cooperate.

In the age of information technology (IT), the above attempt is even easier and more possible. Contacts can be made electronically, and make the transaction more objective: in the way it should be. Electronic contacts nowadays are being made more accessible, more efficiency, and less costly.

Conclusion

This study aims to answer 2 focal questions, (1) is social network a strategic resource according to resource-based theory, and (2) does social network contribute to firms' export performance?

The study unsuccessfully demonstrates social network as a strategic resource. However, social network positively contributes to export performance of the firms.

Three surrogate variables are used to represent social network, i.e. centrality, proximity, and expressiveness. While centrality is proposed as the main effect directly influencing export performance, the other two act as moderators of the relationship between centrality and export performance. Centrality, herein, is firm's connections to central entities of the network. Proximity (frequency) and expressiveness represent quality of the connection.

This study found that magnitude of connection (centrality) contributes to export performance as suggested by social network theory. When centrality interacts with quality of the relationship, the interaction effect does increase export performance. However, the result of the study fails to confirm proximity and method of contact as the moderators of the relationship between centrality and export performance.

Although the positive effect of social network has been missing from the export performance and business management literature, the existence of its contribution on export performance is now empirically proved. Social network management demands certain efforts as do firms' other resources. The management of social network has to be based upon cost-benefit concept as it adds costs to the operation of firms. The entity to be included in the network of the firm has to be carefully selected, in order to be focused and cost-efficient. Cost of social network management further multiplies when firms try to enhance the quality of connections within the network.

Social network should be taken into the holistic concern of business management, in a more strategic and systematic manner. Failing to establish a strategic and efficient social network, despite strength in other business functions, can lead firms to be left behind. Even in the presence of strategic and efficient social network, lack of proper maintenance and enhancement of connection quality can deteriorate the sustainability of the competitiveness of the firm.

Putting social network into practice, however, is two-edge sword. On one hand, it can positively contribute to the firm if properly managed. On the other hand, the proliferation of networking can seriously damage the efficiency of the economy, regarding export competitiveness, and FDI attractiveness.

Limitation and Future Research

Despite a number of interesting findings and implications, this study is subject to several limitations. First, the sample of the study includes only small- and medium-sized firms in food and agriculture industries. In fact, the size of social network and the magnitude of its effect should increase as size of the firm and size of its operation increase (Burt 1992, p.17). For the research design reason, however, the study restricts to the firm-category, where the firm's network and the owner's network are identical, in order to eliminate the possibility of network intertwining which would finally create an over complication. In addition, the analysis of the data collected from the individual level (social network data) and that from the firm level (export performance) would be impossible.

Second, SMEs in Thailand have been recently promoted after the collapsed of large corporations during the 1997 crisis. This, therefore, adversely affects the size of the sample. A great number of SMEs have been reportedly engaged in export business, but for not longer than 7 years. These firms, as a result, are excluded from the study.

Third, SMEs, especially in food and agriculture industries, operate in rather traditional and family-oriented fashion. Only 2-3 individuals, including the owner, handle all administrative tasks. As for them, the day-to-day operations are more than handful and leave them limited time to answer the questionnaire. Although this difficulty is also experienced in the studies conducted with all sizes of firms, it is much worse in the case of SMEs.

Fourth, the analysis of this study is subject to the non-normal distribution of data. The non-normality is probably caused by the process of weight assignment to each level of individual entity. The data transformation, suggested by statistical literature, was conducted as the remedial measure. The approach unavoidably transformed the qualitative into quantitative data. The original data should therefore be tried with other types of analysis, such as non-parametric analysis. The produced model maybe more accurate and better explain the relationships among the variables.

In respect of social network and its implication in business area, the researcher of this study sees that there are many other aspects of social network theory that are worth explored in the business context. In this study, the researcher focuses only on the uni-direction of the relation. In fact, relationship is a reciprocal matter. It is always about give-and-take. The study of the dual-direction (reciprocity) may deepen and expand the comprehension of the effect of social network on export performance and other aspect of business operations.

At the macro level (referred to as 'universe') of the network, density of the network (the completeness or the extent to which all possible relations are actually present) of each industry may give an alternative explanation to the difference in the performance of different industries.

Expanding the study into other industries, and into larger corporation size, to observe the similarity and difference of social network's effect are also interesting study points. While the former can simply use the methodology similar to this study, the latter may require a more complicated analysis technique to deal with the increasing complications of the data.