



Chapter 1

Introduction

In the fields of strategic management and international business, the ‘Resource-based Theory’ is regarded as having momentous potential and gaining popularity as a paradigm for firm’s competitiveness (Peteraf, 1993). The gist of the theory lies in the comprehensive focus on firm’s resources as sources of competitiveness. The theory explains that firms are able to sustain their competitiveness only if their strategic resources are valuable, rare, imperfectly imitable and imperfectly substitutable.

While the crux of the resource-based theory is undeniable, the theory overly emphasizes on only internal elements and completely ignores the external environment. Organizations are not running in the vacuum. They are constantly influenced by both internal and external components. In this regard, the resource-based theory simply falls into the same mistake as long-time-established Industrial Organization, which overly focuses on external environment firms (Russo and Fouts, 1997: 536). The primary attempt of this study is, therefore, to bridge that gap by including owner’s social network into the inventory of the firm’s strategic resources. In other words, social network is expected to be an internal resource functioning as an interacting mechanism between firms and outside actors.

Thai exporting SMEs in the food industry are used as the context of this study by the reason provided in the methodology part. Social networks of SMEs’ owner bridge the mentioned gap in that it is an integral part of the firm (and owner) and it bring into firm, from external actors, relevant information and resources necessary for firm’s operations and success. Owner’s social networks guarantee sustainable competitiveness, as they are valuable, rare, imperfectly imitable and imperfectly substitutable. The key argument raised in this study is that social network of SMEs’ owner functions as an internal strategic resource and generate a positive impact on export performance to the firms.

Examining social network in an empirical study demands an inclusion of social network analysis in the study. Social network analysis has a long history of development since 1920s. The application of the analysis, however, centers within sociology field. Only upon rare occasions that the concept is borrowed by business scholars. As for the international business study, this is probably the first time. Accordingly, this study is necessarily of interdisciplinary nature.

1.1 Statement of the Problems

In recent years after the latest economic crisis of 1998, Thailand survival strategy has shifted its focus from large companies to exporting SMEs. Thereafter, SMEs has swept through page after page in business papers, becoming one of the most popular topics of discussions. Attentions of economic scholars as well as of businessperson swiftly shift out of the unfinished and stumbling daydream of multinational companies back to the long-time neglected SMEs. The government is increasingly active in reviving this sector of the economy, as many large companies are now labeled ‘non-performing loans’ (NPLs).

The importance of SMEs to the economy also holds true for countries in other regions. In the United States, SMEs are viewed as the cornerstone of the free enterprise system (U.S. Small Business Administration, 1983). In Japan, SMEs play a more indirect role as subcontractors and suppliers of low-cost, high-quality, and innovative products to large firms. In Europe, SMEs operate primarily in the private sector (Promotion of Small Business in the EEC 1982). SMEs in Greece represent 99 percent of business establishments, 63 percent of employment, 38 percent of the gross national product, and 20 percent of the exports in the Greek manufacturing sector (Maggina, 1992). In the Netherlands more than 95 percent of the firms can be classified into the category of small and medium-sized enterprises (SMEs) (Bijmolt and Zwart, 1994). As Dutch SMEs have the potential for increasing exports (VanElk, Hendriksen, and Overweel 1991), public policy aimed at increasing the export success of Dutch firms may very well focus on smaller-sized enterprises. In Jamaica, SMEs dominate five sectors of the Jamaican economy, employing more than 41 percent of the national work force and generating income accounting for 26 percent of the country's gross domestic product, becoming the fastest growing sector (206 percent) of the economy (Huck and McEwen, 1991)

At present, there are more than 117,000 registered SMEs scattering throughout Thailand, accounted for 96% of all registered business in the economy. These SMEs employ more than 50% of the labor markets. It was reported that most of the 3 million unemployed were from large businesses, not from small- and medium-sized firm, as a result of the economic crisis (Payomyont, 1998). Thai economy is expecting a significant expansion of SMEs. IBM (Thailand) has developed IBM Small Suite containing software application for small- and medium-sized business, and announced the SMEs-bound in the two years (*Khookang Weekly*, 18-24 January, 1999).

Supporting the operations and success of exporting SMEs requires an effective policy based upon effective tools. In the roles played by academia, scholars develop and propose useful models for practitioners upon which they can base their policy. In the fields of strategic management and international business, the 'Resource-based Theory' is increasingly employed as a paradigm for firm's competitiveness (Peteraf, 1993). Focus of the theory is placed upon the firm's resources that guarantee a sustainable competitiveness of the firm.

The purpose of this study is to empirically investigate the role of social network on export performance. In this study, social network is hypothesized to have the characteristics of strategic resource as suggested in the resource-based theory. The export performance conceptual model is derived and adapted from Aaby and Slater (1989). The result that will be obtained at the end of the study is expected to be a framework for exporting SMEs in Thailand that helps improving their export performance.

1.2 Research Problems

1. To what extent social network characteristics coincide with the strategic resource characteristics, prescribed by the resource-based theory.
2. How social networks of exporting SMEs' owner influence export performance of the firms?

1.3 Objective of the Study

1. To test the four strategic conditions, according to the resource-based theory, of social networks.
2. To empirically examine the role of social network on export performance of Thai exporting SMEs.
3. To draw a practical implication concerning social network development for Thai exporting SMEs.

1.4 Scope of the Study

1. The study will be conducted in the context of Thai exporting SMEs in the food industry.
2. Perceptual data will be drawn only from owner manager of SMEs.
3. Secondary data will be collected during 1990-1999 and perceptual primary data will pertain to the same period.
4. The conceptual model in this study is adapted from Aaby and Slater's (1989) model. The model consists of firm's characteristics, firm's competencies, firm's strategies and export performance. Social network will be added as an additional explanatory factor.

1.5 Contribution of the Study

1. Social Network is introduced, for the first time, into the resource-based theory as an additional type of resource that has never been mentioned before in the literature.
2. By the presence of social network in the resource-based theory, social network broadens the theory from solely focusing on factors internal to the firm to include impacts from external environment. In other words, social network functions as a channel conveying information and support from outside actors into the firm.
3. Social network concept traditionally belongs to sociology field. Applying the concept into this study makes the study interdisciplinary by nature.
4. The results of the study can be used as a guideline for social network formalizing and deployment for Thai exporting SMEs.