



## The Determinants of Network Capability and Born Global Performance, Insight from SMEs In Emerging Country

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### Abstract

In recent year, the new digital era provides a wider opportunity to tap the worldwide market, facilitate trade, and ease the transaction process without borders. However, companies need to acknowledge and be able to seize these opportunities in entering the global market. This work examines the influence of entrepreneur orientation, Cultural intelligence, and social capability on network capability. Besides, this work further extends to investigate the impact of network capability on born global performance. The Dynamic Capability Theory was used as a foundation of the present conceptual framework. This study surveyed 75 born global firms, the sample of this study consist of 300 employees and founders. The Structural equation Modelling found that entrepreneur orientation, cultural intelligence, and social capital are important factors that have a positive influence on network capability. Besides, the findings found that network capability foster born global performance. The findings can be used as a guide for startups and entrepreneurs to explore global opportunities and give a competitive advantage in exploring foreign markets. Furthermore, this work provides a significant contribution to the literature and the limitation of the study set a venue for future research agenda.

**Keywords** *dynamic capability, born global, cultural intelligence, performance*

### INTRODUCTION

In today's era of digitalization and global competition, economic actors can easily communicate across countries (Zhou, Wu, and Luo, 2007) and transact without borders. The internationalization process that integrates the economy, market, and culture (Goncalves and Smith: 2019) can strengthen the country's economic growth (Trudgen and Freeman 2014; Gerschewski et.al., 2018) through export performance. Empirical research (Kalinic, 2014) proves that increased exports help explain economic growth by relying on social capital and network capability (Evald: 2011 and Cancino: 2020). However, data shows that Indonesia's export performance lags behind countries in the Southeast Asia (ASEAN) region. Based on data from the ASEAN Secretariat (2019), Indonesia's export value in 2018 was only 17.28% of the Gross Domestic Product (GDP). This figure is below the ASEAN average of 55.22% of GDP and is in the lowest position out of 10 countries. The country with the largest export performance is Singapore, which is 113.16% of GDP. In second place is Vietnam with an export ratio of 100.8% of GDP.

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The existing research on "Born Global" Boundaries in the topics of management, economics, and business has grown in the past few years. Previous studies argued that companies have narrow product market scope and a network that is widely used by both personal and business partners. Besides, existing literature, argued that companies appear to be more strategically flexible than other firms regarding the need to adapt more quickly to a changing and dynamic international environment (Rialp et. all, 2005). Similarly, Park, and Rhee (2010) and Cheraghi and Schøtt (2016) state that the entrepreneur's previous international business experience affects the competence of market knowledge and networks in the market.

Empirical research discussing BG and the variables that influence and show the existing knowledge has been conducted in more than 30 countries and most were taken in industrialized countries. This topic is considered an emerging topic in developed countries. However, in the Asian region research on BG is still lacking. This existing literature shows that BG empirical research in Asia is still underdeveloped, especially in the context of Indonesia. Therefore, based on this background, this study will discuss the factors that influence the performance of BG companies from an organizational standpoint through company and individual performance from the founder's perspective. This work discusses the individual character of a founder, namely social capital, entrepreneurial orientation, and cultural intelligence, it is also seen the influence of network capability at the organizational level on born global performance.

## **LITERATURE REVIEW**

### **Entrepreneur Orientation**

Covin (1991) asserts that entrepreneur orientation (EO) is a collection of several activities that can be considered as an entrepreneur, developing within the company, influencing decisions, features, processes, and actions of a person that affect organizational performance. Lechner and Gudmundsoon (2014) discussed entrepreneurial orientation in SMEs at the individual level. Moreover, Wiklund and Shepherd (2003) also confirmed the positive impact of entrepreneurial orientation on organizational quality and firm performance (Lumpkin and Dess, 1996; Wiklund and Shepherd, 2003). In line with this, Acosta et al. (2018) suggest that entrepreneur orientation at the international level can have an indirect impact on company performance through NC. Based on the literature review, the proposed research hypothesis is:

Hypothesis 1: Entrepreneur Orientation has a positive and significant effect on networking capabilities.

### **Cultural Intelligent**

Cultural Intelligent (CI) refers to the ability of individuals who function to manage work effectively and to deal with cultural diversity. Likewise, Schmidt and Hunter (2004) define CI as the ability to understand conceptual thoughts and solve problems. Although early research tended to view intelligence narrowly as the ability to solve problems, it is now thought that this intelligence is being used outside the classroom (Sternberg and Detterman, 1999). In a cross-cultural context, Laros and Steenkamp (2005) argue that researchers cannot assume that companies will have the same results in different countries. Therefore, it is crucial to analyze the characteristics and culture of each country to understand the differences that exist. In this study, researchers believe that CI at the founder level has a significant influence on NC (Coviello, 2006). Therefore, based on the literature review above, the proposed research hypothesis is:

Hypothesis 2: Cultural intelligence has a positive effect on networking capabilities.

### **Social Capital**

Akdere (2008) suggests that Social Capital (SC) categorize into three levels, namely: macro level in companies, meso level in teams, and micro level in individuals. Following the conceptualization of

SC and Ghoshal (1998) supported by Inkpen and Tsang (2005), define SC as the sum of actual and potential resources embedded in, available, and derived from a network of relationships owned by an individual. Adapted and adopted from Nahapiet and Ghosal (1998) clarify that the SC at the individual level has three dimensions namely structural, cognitive, and relational.

Generally, companies generate value from a network of relationships (Nahapiet and Ghoshal 1998). Yli-Renko et al. (2002) show that SC externally has a positive impact on foreign market knowledge. Besides, Presutti (2007) argues that SC is a source of knowledge through the cognitive dimension. When the global bomb begins to develop in its business relationships, it is more likely to acquire new knowledge and use it as a basis for strengthening Born Global Performance through networking capabilities (Yli-Renko et al., 2001; Presutti et al., 2007). As a result, SC proves to be a source of knowledge born global. Further, this knowledge then serves for foreign network growth and market acquisition abroad (Kogut & Zander, 1992; Nahapiet & Ghoshal, 1998). Therefore, this work believes that SC at the founder level has an influence on NC. From the explanation above, the research hypothesis is obtained:

Hypothesis 3: Social capital has a positive effect on network capabilities.

### **Network Capability and Born Global Performance**

Internationalization theories such as the Uppsala Model Developed by Johanson and Vahlen (1977) and innovation models by Cavusgil (1980s), emphasize the importance of experiential learning to develop globally through the internationalization process. In the historical development of these theories, the traditional Uppsala Internationalization Model phase, outlines that companies will export or penetrate sales to the global market if the domestic market is strong enough (Johanson and Wiedersheim Pail, 1975). Accordingly, these theories posit that entrepreneurs strengthened the supply of products for the domestic market at certain targets and then penetrated the global market.

Adapting and adopting Rodriguez's (2015) BGP dimensions in a newly established company to successfully export at a young age include a) Market orientation; b) Absorptive capacity; c) Innovation performance; and d) Company performance. The hope of these four elements is that exporters can compete in the global market and are not easily duplicated with unique resources. Besides, NC is vital for BG companies because it can help identify international opportunities at the start of a company (Kraus et al., 2017). In this regard, Park and Rhee (2010) and Cheraghi and Schøtt (2016) stated that the entrepreneur's previous international business experience affects the competence of market knowledge and networks in the market. Moreover, there are many impacts of the internationalization process on BG companies to be able to open international market networks or NC (Sepulveda, 2013). In this era, companies face challenges in developing BGP, especially in building networks and focusing on the global market (Moen & Servais, 2002). This study believes that at the organizational and individual levels, NC has an influence on BGP. From the explanation above, the research hypothesis is obtained.

H4: Network capability has a positive effect on Born Global Performance

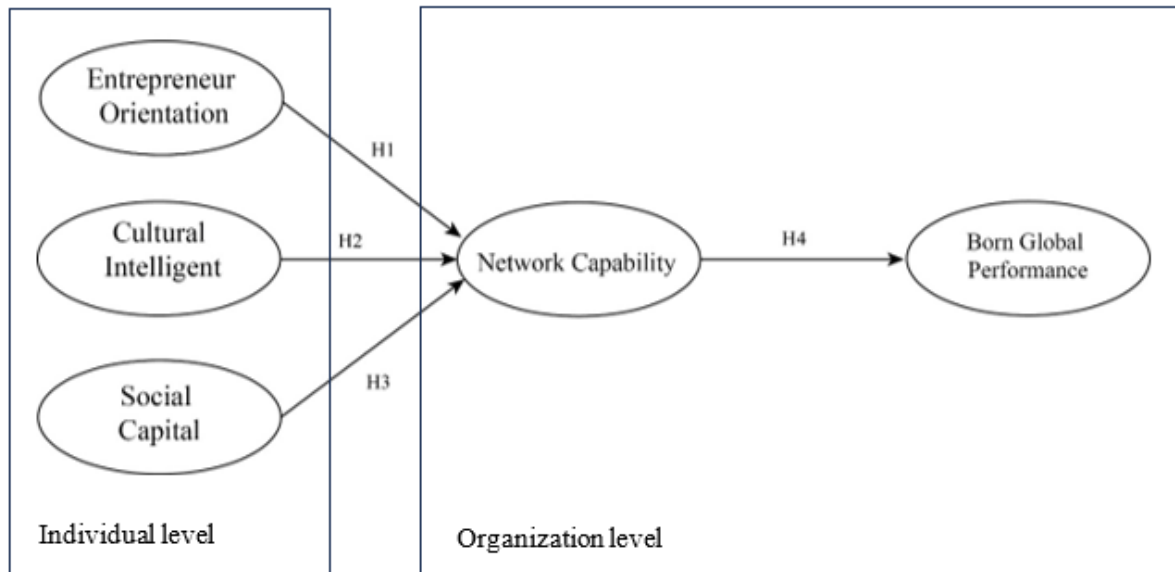


Figure 1. Conceptual framework

## METHODOLOGY

### Research Method

Survey and experimental studies were conducted to identify samples and populations, and to determine investigative strategies, data collection and analysis, and Interpretation (Creswell, 2007). The data were collected using individual-level data as measured by a team of at least three employees assessing the founder and organizational level as measured by a leader or managerial (Huang, 2017). Data were collected through an online survey using Google Forms. Questionnaires were distributed to 75 global-born companies based in East Java, Indonesia. The company must have at least one founder or top management team, with a minimum of five employees and export companies under six years of age (Cavusgil and Knight, 2015). The questionnaire was filled out by a team of at least three employees assessing the founder at the individual level and a leader/manager assessing the company at the organizational level (Huang, 2017). Five-point likert scale was used because it is more appropriate with our measure and respondents. The scale ranges from strongly agree; agree; neutral; don't agree; and strongly disagree (Dawes, 2012).

## FINDING AND DISCUSSION

### Finding

#### *Multilevel Analysis*

Multilevel analysis was carried out for workgroup levels of 75 groups with individuals with a sample of 3 individuals in each group using the MPlus 8.3 software. Based on Table 1, the estimation results of multilevel analysis on the path of influence between EO and NC obtained an estimated value of 0.501; CI to NC 0.295 and SC to NC 0.437 which has a positive direction. Meanwhile, the Est/SE value on the path obtained an EO value of 3.383; CI 2.127 and SC 2.437. Based on these results, it is known that the p-value is 0.001; 0.033; and 0.015 is less than 0.05 so it can be concluded that there is a significant positive effect between EO, CI, and SC on NC.

Table 1. Multilevel modelling

<b>Jalur</b>	<b>Estimate</b>	<b>Est/SE</b>	<b>P</b>
Entrepreneur Orientation $\square$ Network Capability	0.501	3.383	0.001
Cultural Intelligent $\square$ Network Capability	0.295	2.127	0.033
Social Capital $\square$ Network Capability	0.431	2.437	0.015

### Single-level Analysis

Table estimation results of a single-level analysis on the path of influence between NC and BGP obtained an estimated value of 0.233 which has a positive direction. Meanwhile, the Est/SE value on the path obtained a value of 4.133 with a p-value of <0.001. Based on these results, it is known that the p-value of <0.001 is less than 0.05 so it can be concluded that there is a significant positive effect of NC on BGP.

Table 2. Single level analysis

<b>Jalur</b>	<b>Estimate</b>	<b>Est/SE</b>	<b>P-value</b>
<i>Network Capability <math>\square</math> Born Global Performance</i>	0.233	4.133	< 0.001**

### Discussion

EO is the attitude and behavior of an entrepreneur, in this case, the founder, in thinking and executing innovation strategies, risk-taking, and proactive behavior in the business they own. Whereas NC is the ability of an organization or company to build, maintain, and utilize relationships with other parties both outside and within the organization or company. Innovation-oriented founders tend to seek out and create new opportunities. To make this happen, collaboration with many parties is needed, so entrepreneurs really need network strength. In addition to networking strengths, founders must also be able to take into account risk management. Excessive EO also has risks for founders, namely taking big risks that shouldn't have to be borne which can damage reputation and relationships with stakeholders (Rauch et al., 2009). From the results of data processing in the research, the effect of EO on NC is significantly positive, it can be said that EO is very important for the success of BG companies. For the most part, founders had EOs when they were apprentices or worked in companies while living abroad and had dreams of opening their own business in their homeland with the aim of being able to penetrate the international market from the start of the company's existence.

The influence of CI on NC can be seen in the context of how individuals or founders with high CI can influence organizational effectiveness in building and utilizing networks, especially international networks. Founders understand that culture is not just a collection of practices and traditions, but also a strategic tool that can be used to build strong networks and relationships. Founders tend to be more adaptive and responsive to cultural change and diversity. CI helps founders interact and communicate effectively with people or companies that have different cultures. Also, Riege (2009) in a previous journal, noted that high CI at the individual level can contribute to building and maintaining a strong network at the organizational level. From the results of data processing in the study, the effect of CI on NC was significantly positive. Based on experience, most of the founders had worked abroad while studying and had done internships or collaborated with multinational companies. This makes it easier for the founder to take the company to an international level.

SC refers to resources obtained by individuals in social networks or other social structures. This includes aspects such as trust, norms, and networks. If it is related to NC which is the ability of an organization to develop, maintain, and utilize relationships and connections with other individuals or organizations to achieve business goals, the founder's role in building SC is one of the important factors for building NC of a BG company. SC at the individual level, including the personal relationships, reputation, and trust they build, can help open access to new resources and opportunities that can enhance an organization's NC. According to Coviello (2006) in his journal "The Network Dynamics of International New Ventures" notes that relying too much on SC on founders can limit perspectives and reduce organizational flexibility. From the results of data

processing in the study, the effect of SC on NC was significantly positive. The founder communicated with several people abroad for the potential needs and execution of the export market which was followed by the founder having a commitment to carry out the obligation to realize a BG company, namely exporting at a young company age.

In the context of companies born as BG, NC is often considered the most important aspect that shapes the success and survival of companies in the success of BG companies. NC refers to an organization's ability to build and leverage relationships or networks with other parties, such as suppliers, distributors, and customers. In the study by Knight and Cavusgil (2004). As previous studies have discussed how the international network really helps BG Companies to grow and be strong. The case study of the global-born company at Chez regarding network capability directly influences international performance (Musteen, 2014) and SME research in China using NC as a mediator for BGP (Zhou, 2007). From the results of the data, the effect of NC on BGP directly has a significant positive relationship.

## CONCLUSIONS

The effect of EO, CI, and SC on NC is significantly positive. This states that these three variables are needed by a founder in owning or leading a BG company to be able to adapt and enter the global market. Companies can create NCs so that they can quickly acquire new customers with different cultures or international markets. From the results of data processing, it was found that the effect of NC on BGP was significantly positive. This shows that BG companies that have strong NC will easily achieve BGP. This means that NC is critical to the success of a BG company. How can a company continue to be oriented to customer interests and innovate according to market needs by using existing networks, in that way, BG companies are very easy to grow.

## LIMITATION AND FURTHER RESEARCH

In this research, 75 BG companies in East Java were conducted from the East Java Chamber of Commerce and the Surabaya Export Center. Questionnaires were distributed online using the Google form and several companies apart from filling out the questionnaire online, interviews were also conducted to obtain more detailed information both by telephone and in person. Because the model uses multi-levels, for one company, at the individual level questionnaire, three employees are filled in to assess a founder and the organizational level is filled by managerial or top management. There are a few limitations in this study and this work provides the following suggestions for future research. First, research is carried out on a national or even international scale (cross-country comparative research) with a wider network so that respondents are more diverse. Second, the research was conducted on 75 global-born companies, this could be increased to one hundred or more depending on our basis for determining respondents based on the existing population. Third, respondents as founder assessors at the individual level can be filled by three employees or staff, this number can still be increased to five employees to assess a born global company founder. Fourth, before making a research model, if possible, a group discussion forum (FGD) can be conducted to be able to dig deeper into the phenomena and theories that occur in the field. Fifth, the theory and variables used can be added to be able to find out more about the variables that will affect the success of a BG company.

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