NETWORK RESOURCES AS A KEY DETERMINANT OF SMALL MEDIUM ENTERPRISES/SMES EXPORT PERFORMANCE (CASE: CREATIVE INDUSTRY IN INDONESIA)

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Abstract: *Low export performance is one of the specific problems faced by Indonesian's small medium creative industries involving in international market. SMEs poses significant challenges because they still a low competitiveness due to some problems such as reluctant to innovate the product design, less proactive to seek market opportunity and face the business risks. Strategy to utilize network resources with optimum facilities from stakeholder becomes an important agenda to build competitive advantage. Network resources as a capital resulted through inter-firm network emphasizes on logic, calculative and rational principles. This study aims to investigate the influences of utilizing network resources toward the degree of internationalization and its impact to SMIs performance. Verification used as a method of analysis. Hyphotesis were tested by multivariate statistics-SEM Lisrel. The samples are 140 SMIs in the creative industries (West Java Province). The result indicates that network resources significantly affects degree of internationalization and performance. So the higher utilizing network resource, the bigger impact to the increasing degree of internationalization and performance. However, due to the smallness of SME's, this research has found that degree of internationalization not significantly influence to the SME's performance. The result of the study emphasize the importance of access to knowledge and access to market opportunity if SMIs success in utilizing network resources.*

Keywords: *Creative industries, SME's, Network Resources, Internationalization, Performance*

1. INTRODUCTION

The growth of creative sector plays an important role to the national economy, especially in absorbing the grass root level employment. Creative industries that are part of the creative economy pillar is emphasized on harnessing the creativity, skills and talents of individuals to create wealth and jobs through the creation and utilization of creativity and individual creativity (Ministry of Tourism and Creative

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Economy 2010). The players of creative industries sector is largely derived from the Small and Medium Industries (SMEs)which is mainly engaged in handicraft, fashion and furniture sectors. The development of the creative Industries after 2000 in Indonesia was rising sharply due to the support technology. Between 2002 and 2006, the average value -added GDP of Indonesia's creative industry reached Rp 79,079 billion, or 4.75 percent of total national GDP. The average number of workers absorbed during 2002-2006 were 3,702,447 people with total employment growth rate of 8.1 % per year (Ahmad, 2008). In 2013 creative industry growth rate reached 5.76 % and is able to absorb 11.9 % of the total national workforce (Indopos, 22 November 2013).

The issue of market globalization and trade liberalization, within the last decade has opened up business opportunities for entrepreneurs to conduct international activities (Daft 2010:125). For small and medium scale enterprises, export is the common method to enter the international markets with lower risk, less capital and easier than other methods such as licensing, joint ventures and contract manufactur. Doing business in international markets for small and medium enterprises in the craft industry, is a formidable challenge. They have to prepare themselves in facing tight competition with other business entrepreneurs in the international market. Small and medium industries are reported to face several major constraints, such as: the lack of working capital to finance the exports, limited resources, and limited access to key infrastructure (OECD 2009). The amount of non-oil exports of SMIs from year 2009 to 2011 was 17-18.9 % under government export standard about 40% (Ministry of Industry : " Strategic Plan : 2010-2014 " 2010:57).

Market globalization and trade liberalization encourage the growth of global knowledge economy which is marked with the intensive need of business actors towards capital and intellectual of international market. This condition has opened opportunity of business actors to conduct a variety of international activities. In terms of SMEs, Chelliah et.al. (2010:29) argues that, "internationalization is the extent to which firm is involved in international business, it includes exporting, the presence of foreign subsidiaries, and shares ownership by foreigner." The number of SMEs which have international activities is estimated to increase (Wismiarsi, 2009). For SMEs, export is a penetration method to international market which is commonly used due to its lower risk, lower capital, and easier method compared to other methods such as licensing, joint venture, and contract manufacture. Export as one of internationalization forms provides opportunity for SMEs in expanding their business. Verdin and Heck (2010) state three main benefits for company which conducting internationalization, namely: cost advantage, network benefit, and learning opportunities. Doing international business, in particularly through exports, not only provides "earning return" due to the foreign currency which values more, but also the SME actors could expand the market with psychographic,

demographic, and sociocultural closeness which is the easiest first step to be recognized by international market (Wengel and Rodriguez, 2006).

Doing business in international market for SMEs is quite a challenge. It is not an easy challenge because they have to prepare themselves in facing a strong competition with business doers in international market. Speaking of Indonesia, there are two main issues faced by SMIs, namely: 1. whether they are able to be a major player in international or global market and not only serve domestic or local market, 2. Whether they could compete with higher industry (Tambunan, 2007:75). The difficulties faced by SMEs in developing countries to play in international market cannot be separated from structural economic gap as a consequence of economy globalization and trade liberalization which in the end will create a high competition (Tambunan, 2011:3). The success of the government to support international business in several countries such as China, India, and South Korea is proved to increase the growth of economy and can contribute to approximately 60% towards the total of national export (Ashlun and Johnson, 2004:9).

The phenomenon of the low involvement of SMEs in conducting international activities is still surfacing particularly among developing countries. The intensity in performing international activities could be seen from the degree of internationalization stated by Kuivalainen et.al. (2010:141) "by studying a firms's degree of internationalization at certain time sequences and events which occur at specific points in time, we can study the internationalization behavior of the firm, or in other words, its internationalization strategy". One of the dominant aspects suspected to be the cause of the low of internationalization of SMEs is the limited usage of network resources resulting in difficulties in: accessing knowledge, resource, and penetrating the international market (Cerrato and Piva,2008:5). However, for SMEs it's not easy to build network. Abdulah and Zain (2011) in his study shows the reasons why SMEs do not do international business, among others is caused by the difficulty in using network resources. Besides all the obstacles faced, the practices applied in building network are still suspected to be relied on social network. This networking practice emphasizes more on social aspects, namely carried out on the basis of friendship, personally, informally and trust without specific agreement or contract (Johanson and Vahlne, 2003:83). Therefore, SMEs are still not be able to build network optimally which can be utilized as capital or strength (network capital) by calculating the investment aspect of "economic, rationality, calculative, investment and logic" (Huggins 2009: 522). The network formation in SMEs is a new business practice in order to utilize network resources that have been relying on the social capital (Huggins, 2009). Shaw (2006:6) in an empirical study shows that small enterprises tend to use informal source than formal source to gain information and input in developing network. The gap of study discussed in this research is that the

formation practices of social network-based to enter foreign market are not "the most interesting scholarly issues", it means today it is assumed that there is a need of network resources usage which emphasize the capital network-based. Other argumentation is proposed by Tang (in Jones et.al., 2009:119) who did a study on SMEs in China that social and personal network maybe important in underlying the business expansion on firms in China, but it is no longer important. Firms in China need to use wider network resources to overcome every obstacle related to internationalization. From all of these statements, it can be concluded that there is research phenomenon and gap that could extent the research construction that analyzes network resources in terms of SMEs.

The research question proposed is how important utilizing the network resources in determining internationalization intensity of SMEs?, Does the intensity in doing international business affect performance?, How far does network resources affect the international performance of SMEs?. In order to answer all of these research questions, the approach of SEM-LISREL is used to investigate the relationship among network resources, internationalization and performance. This paper describes the theoretical model and hypothesis that mainly discus about the modeling development. This paper is ended with several practical implications and future research development.

2. LITERATURE REVIEW

The concept of network resources is proposed by Huggins (2010) who classified 2 types of network, social capital and network capital. Network resources are concepts used to describe and comprehend resources and capital resulted through inter-firm network (Gulati in Huggins 2009). Furthermore, Huggins (2010:522) differentiate between network capital and social capital. Generally, the main difference between both concepts is that "social capital consisting of the social relations and networks held by individuals", while "network capital consisting of the strategic and calcultive relations and network held by firms". Then, Huggins (2010) emphasizes that the concept of network capital could be used to access the resources owned among firms which is based on logic, professional, strategic and calculative principle, whereas the social capital is based more on social network. Huggins (2009:335) defines that network capital consists of investment in calculative relation of firms which then provides access to knowledge in order to increase the return of the expected economy. On the other hand, social capital emphasizes more on how network is built on the basis of informal and social principals. The bottom line is that network resources show the network built by business doers with their partners based on the social and economic principles. Next, Sik (2010:78) states that network resources come from social capital, rather than the "social" concept, in the definition of social capital is a misleading metaphor. Network resources

is a form of capital which depends on three aspects which effect one another, namely network humidity, culture which means the appropriate use of network capital, and how this network capital can be implemented in the local and global institutional context.

Based on the empirical study, the network resources concept developed by the experts in this study is included in the organization network school of thought, namely the network which is built on the basis of resource dependence perspective (Gulati 2000). The literature study about the concept of network resources proposed by experts can be seen from two different aspects, social and economic. The concept of network resources in social perspective basically states network as social capital. On the other hand, the concept of network seen from economic perspective is based on inter-firm network and it doesn't have to be equal to trust and obligations related to social capital. Network resources as seen by the experts as a form of social capital are the efforts to increase the resource availability through interpersonal relationship in the society for collective interest. The concept of social capital is a concept which among others is proposed by Nahapiet and Ghoshal (in Tsai and Ghoshal 1998:464) that social capital is actual and potential resources which can be owned mutually by individual or organizations through network relationship.

In the present study, this study refers to the conception of network resources in the economic perspective, namely utilize the construct of network capital with an assumption that the network that is built allows inter-firms access to resources and knowledge on the basis of: mutual interaction, cooperation, economic and calculative consideration, relationship as an investment, and acting professionally and dynamically. Some experts (Cerrato and Piva, 2008; Huggins, 2010 and Gulati 2000) describe the construct of network resources related to the interaction of network. In this study, network resources is defined as a network built with partner to access resources and knowledge owns by business partners professionally.

Today, there are more firms, including SMEs that perform international activities although they have to face many obstacles (Chelliah et.al. 2010:33). The increasing of interest of SMEs in performing international activities through variety of methods, namely export, joint venture, partnership, and opening company branch abroad has attracted researchers to study how far the intensity of international activities have been done. Some experts (Sullivan, 1994, Stewart,1997; Melia et al, 2007 and Kuivalainen et al, 2010) conducted empirical studies of SMEs internationalization related to strategy, process and behavior. To be able to perform internationalization activities optimally, business doers of SMEs could utilize network resources as capital in order to access the resources and knowledge owned by business partners in the network. The network built may be able to overcome the SMEs inadequacy to enter international market that it poses a positive impact for business performance.

Based on the theory and variety of empirical study mentioned above, the research model proposed for this study is:

Figure 1: A Model of Network Resources and International Performance
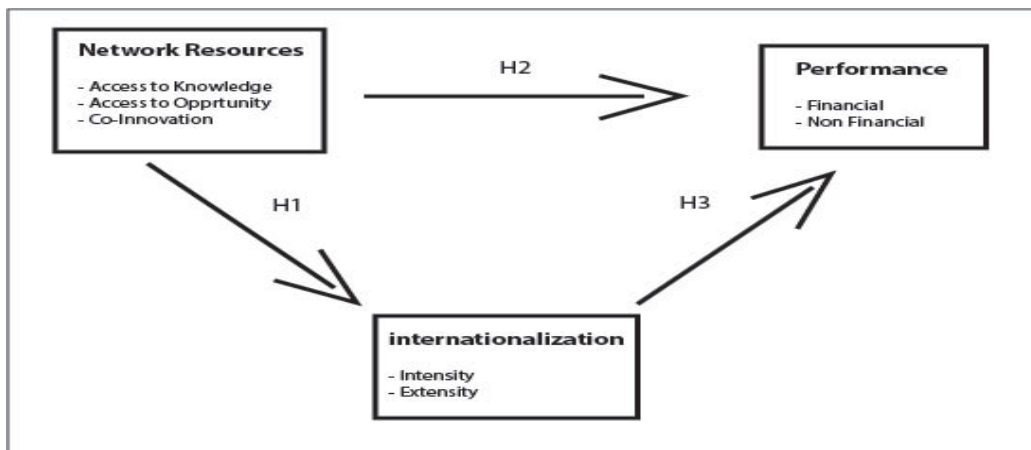
Sources: Author

2.1. Hyphotesis

As described before, the degree of internationalization shows the intensity of business doers in conducting international activity. Internationalization is defined as the level or intensity of SMEs in conducting international activity. The dimensions are intensity and extensity (Gillies 2005). Intensity is defined as the level (proportion) of outcome gained from international activity compared to the total outcome (domestic and foreign). Extensity reflects "geographic scope" that shows the number of countries of which the companies conduct international activity. According to Gillies (2005:5) extensity is "the number of foreign countries in which activities take place". This study proposes that network resources affects the degree of internationalization. This proposition is based on the network theory (Gulati 2000 and Huggins 2009) and internationalization strategy (Sullivan, 1994 and Kuivalainen et al, 2010).

Network resources is assumed to be the key determinant of the degree of internationalization, the stronger network resources is utilized, the higher the degree of internationalization will be. For SMEs, building network is important in order to access resources, knowledge and market opportunity in supporting international activities. With the limitation of resources and knowledge as well as the low ability to access international market, the participation of SMEs in

international business strongly depends on the relationship with variety of parties in network (market intermediaries) (Zain and Ng 2006:183). SMEs need network resources that can be accessed in supporting the activities of international business. Prior studies (Zimmerman et.al. 2010 and Tang 2011) show that the strong bond between SMEs and international network affect the achievement of internationalization speed. The strong bond here means the relationship which is built on the basis of trust, cooperation and legitimation in order to build a strong relationship that can access resources and knowledge between business partners in the network. Based on several literary studies, it is known that network resources can be utilized by SMEs to support internationalization activities. Therefore, the hypothesis proposed are:

Hipotesis 1: Network resources is positively related to internationalization

The modeling shows that network resources is contributed to the rise of business performance. Business performance is an achievement (success) resulted from a strategic activity done by SMEs through a multidimensional approach (financial and non-financial). The definition used in this research is based on several considerations: a. referring to the definition proposed by Venkatraman and Ramanujam (1986:5) and also based on statement of Wiklund and Shepherd (2005:80), as well as Zeng et.al. (2009:314) who state business performance as the impact of the strategic decision of SMEs in performing international activities; b. reflecting the need of SMEs to use multidimensional approach (financial and non-financial/operational) to identify business performance comprehensively particularly related to international activity since both elements support each other.

For the firms that conduct internationalization activities, utilizing network plays an important role in enhancing business performance. To get positive effect, building network can be used as the capital for company to conduct international activity supported by the ability to take advantage from relationship through interaction in network (relationship capability) with many parties in the network. Therefore, the utilization of network resources is hoped to provide positive effect in enhancing the performance of SMEs. This proposition is based on prior empirical studies (Human and Naude 2009:9; Kenny and Fahy 2011; Babakus et.al. 2006) that mainly shows network resources (network relationship which is built on the basis of network, synergy, and capability) produces a better performance. Based on this literary review, the hypothesis proposed is:

Hipotesis 2: Network resources is positively related performance

Business performance is defined as achievement (success) resulted from a strategic activity done by SMEs through multidimensional approach (financial and non-

financial). The financial aspect represents achievements of strategic activity of SMEs related to profitability and sales growth. The selection of these two components of financial performance dimensions are based on several reasons: 1) the selection of sales growth used to identify the continuation of SMEs; 2) profitability is an important factor as the basis of SMEs in doing international activities (Chelliah et.al. 2010:32). The non-financial aspect shows the achievement of the strategic activities of SMEs related to owner/manager's satisfaction and effective marketing (Tuan et.al. 2011). The selection of the non-financial dimensions is based on: 1) the decision to do international activity for SMEs is something hard and needs an appropriate strategy. Therefore, the success in doing this activity can give satisfaction to owners to keep motivated and developing their business, 2) the effective marketing shows the result gained by SMEs in implementing marketing strategy (Tuan et.al. 2011:130) through: innovation, quality product, competitive price, precise distribution, and effective promotion.

Business performance is often called as "black box" when it becomes a reference for objective or motivation for many companies who conduct internationalization (Sullivan 1994). Generally, the objective used by companies to expand to international market, namely to increase profit (Qian and Li 2003:881) and growth (Lu and Beamish 2006:44). Several empirical studies regarding SMEs (Chelliah et.al. 2010; Camison and Lopez, 2010) can prove that the level of internationalization affects the rise of business performance. These studies can be used as empirical evidence that indicates the relationship between internationalization to business performance. Based on this study, the hypothesis proposed is

H3: business performance increases as degree of internationalization increases

3. METHODOLOGY

This study is aimed to analyze network resources in realizing business in international level as well as the impact on business performance in SMEs. Based on the objective, this study use verification study, the evidence of causal relationship between variables can be and to predict the impact caused (Malhotra: 2010:113; Cooper and Schindler, 2011). The method used will provide information of how big the impact of network resources to the degree of internationalization as well as its impact to business performance of SMEs. To gain research data, survey method is implemented. The unit analyses are SMIs who conduct international business (export oriented) in creative industry sector. Next, this research utilizes cross sectional study with one shot range using cross-section data type, namely data are collected by the time a sample is selected.

The target population of this research is the businessmen of the creative industry based-SMIs with export orientation in several industrial sectors, namely handicraft, furniture and garment-fashion, located within the area of West Java. The reason why this sector of industry is chosen based on the thought that SMEs entrepreneurs in these industries make a lot of international business and are the best in national exports. The criteria of SMIs in this research used are based on the provision of Small Medium Industry Ministry (General Directorate of SMEs, 2009:2), namely:

1. For Small Industry: annual turnover ≤ IDR 2,5 billion. 5-20 labors;

2. For Medium Industry: annual turnover ≥ IDR 2,5 - 50 billion. 21-99 labors.

For identification result, several regions in the province of West Java are selected, namely: Bandung, Tasikmalaya, Garut, and Sumedang. Population targets are 245 export oriented SMEs (Table 1). Sample were taken using probability method with 140 respondents participate.

Table 1
Profile of Population Target

Number	*Industry Type*	*Population of SME*
1.	Garment- Fashion	65
2.	Handcraft	115
5.	Furniture	65
Total		**245**

Source: Statistics Center Bureau "Exporter Directory 2010" (2011). General Directorate of SME – Industry Dep. (2009), Industry Department and Department Office of West Java region (2011) The selection of SME is based on the criteria of the number of labors.

Network resources, degree of internationalization and performance are measured with ordinal number. Likert scale is utilized as scaling method with respond format of 1 to 5 presented in the questionnaire. Network resources is measured in three dimensions, access to resources and knowledge, access to market opportunity and co-innovation, where 8 items of questions are used. Degree of internationalization is measured using the dimension of Intensity (Foreign Sales to Total Sales/FSTS and Foreign Profit to Total Profit/FPTP) and extensity (scope of internationalization). In the variable of business performance, the measurement of financial (sales and profit growth) and non-financial (marketing effectiveness) are used.

Validity result for the three items provided a bigger validity coefficient value than the critical value of R 0.306, whereas it can be concluded that the instruments used to measure the variables of network capital, degree of internationalization and business performance are said to be valid. Next, the reliability analysis result provided a bigger value of cronbach's alpha than the critical of R 0.700 whereas it can be concluded that all instruments are not only valid but also reliable. Research hypothesis are tested using SEM-LISREL, a co-variants based SEM statistics designed to resolve double regression based on data normality.

4. DATA ANALYSIS AND RESULT

4.1. SMIs Profile

The number of sample participated in this research was 140 SMIs Owner/manager from 245 population target. Respondents involved in this research came from three kinds of industry (fashion, handycraft and furniture). The data was collected from May-June 2014 using questionnaire. Companies in the industry group of garment and fashion have the biggest number (65%), which produce a variety of products, among other moslem clothes, mukenah (white cloak covering a woman's head and body worn at prayer), Batik clothes, embroidered clothes, and shirts. Followed by companies in the category of handicraft and jewelry with raw materials, among others: rattan, leather, bamboo, batik, pandanus, natural stones, silver and ceramic. Seen from the number of labor, most of companies have between 21-99 men power (64%), and the rest have 5-20 men power. Based on the number of labor, General Directorate of SMI-Indonesia Industry Ministry (2009:1-3) determined that the criteria of small industry is the company which has 5-20 labors and for medium industry 21-99 labors. Based on the criteria, majority of the sample of this research were included as medium industry and the rest are small industries. The lack of human resources for SMEs, particularly for the small enterprises, still becomes a constraint in supporting international business.

In terms of the company's activities in the conduct of international business, most of the entrepreneurs of SMEs do not export directly because it is still constrained in taking care of export procedures, promotion, difficulties in identifying potential buyers abroad, and limited information on the international market. SME entrepreneurs who export directly in this study reached 35%, which are generally companies on the middle class because they have the resources and knowledge to perform the export. SME entrepreneurs are mostly still in the early stages of international activity (no regular export activities), exports target are countries that have a psychological and socio-cultural proximity. This condition is more

common in the fashion industry and agro industry (food and beverages) where Malaysia and Singapore become the export targets. The buyers from European countries have already known the advantages of the products from Indonesia. Results of the interviews revealed that the SMEs products of Indonesia receive positive appreciation from the buyer for the excellence of design and quality when compared to products from China and Vietnam that emphasizes low price with low quality.

Most SME entrepreneurs tend to assess the importance of international business (93%) due to the huge market potential and the possibility of greater benefit than only doing business in the domestic market. The results of empirical studies conducted by the European Commission "Internationalization of European SMEs" (2010:8) conducted on more than 50% of small and medium companies in Europe resulted in findings of "being international operations strongly relate to higher growth". SMEs entrepreneurs realize the importance of building a network. Almost all SME entrepreneurs state that they that have networks that were built up between 1 to 6 years. The network built with various parties such as buyer (individual), agents, suppliers, trade associations, banks and governments can support international business conducted. By building a network, SME entrepreneurs can overcome the obstacles in conducting international activities, namely the ability to gain access to resources and knowledge and access to market opportunities. The importance of networks in the internationalization can be explained theoretically using the network model (Flanders 2008: 38): "small and medium companies in general are plagued by the lack of knowledge and resources in conducting international activities, that in conducting international business partner is needed to support on the network". In order to build a successful business network, the collaborative relationship which is based on trust and commitment become important aspects in order to maintain the relationship.

4.2. Structural Model

To perform the analysis of structural model, suitability test or Goodness of Fit (GOF), which can be seen in the following table (Table 2) was performed. GOF measurement showed that the model was planned well and fit, because after being tested, the suitability lied in the good and the marginal value compared to the cut-off value. Thus, the theoretical and conceptual models expressed or models developed within the framework of the research were supported by empirical conditions.

Table 2
Goodness of Fit

Index GOF	Cut Off Value	Estimation Result	Model Evaluation
GFI	> 0.90	0.94	*Good*
RMSEA	< 0.08	0.02	Good
NNFI	> 0.90	0.84	*Marginal fit*
NFI	> 0.90	0.79	*Marginal fit*
AGFI	> 0.90	0.95	Good
RFI	> 0.90	0.88	*Marginal fit*
IFI	> 0.90	0.84	*Marginal fit*
CFI	> 0.90	0.84	*Marginal fit*

SEM-lisrel evaluated structural models using the R Square for the dependent variable and the value of the path coefficients for independent variables and tested the significance by using the t-values for each path. The following is the result of the structural model (Figure 2).

Figure 2: Output of Structural Model
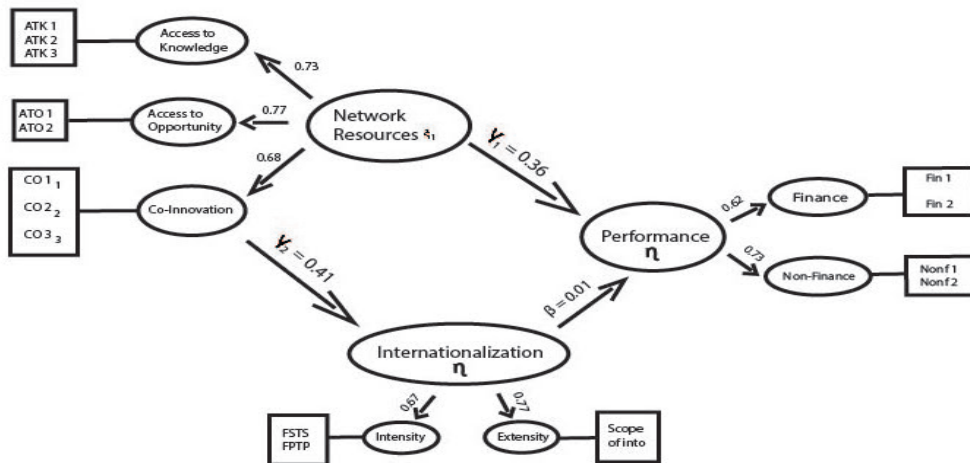
*p < 0.05

The influence of each variable is shown on the estimated value as follows:

Table 3
The Influence of Network Resources and Internationalization to Performance

Hypothesis	Path	Estimation	t value> 1.96	R Square	Conclusion
1.	Network Resources → Degree of Internationalization	0.36	2.68	0,13	Significant
2.	Network Resources → Performance	0.41	3.23	0.17	Significant
3.	*Internationalization → Performance*	*0.01*	*0.09*	*0.0001*	*Not significant*

Hypothesis 1

From the calculation results, the R^2 value of network resources model in supporting the degree of internationalization of SMEs was gained by 0.13, which means that 13% changes of the degree of internationalization of the SME network were affected by the capital variables. The result tests concluded that the null hypothesis was rejected and the alternative hypothesis was accepted, which means that with the significant level of 5%, there is a network effect in encouraging degree of internationalization of SMEs. The statistical result tests provided evidence that the proposed hypothesis were supported. It means that utilizing network resources gained significant positive effect to degrees of internationalization. This means the better ability to build network of SME entrepreneurs, the higher is the degree of internationalization.

Hypothesis 2:

From the results calculations, the R^2 value of network resources model in improving business performance was gained by 0.17, which means that 17 % of changes in business performance in SMEs were affected by network resources variables. The test results concluded that the null hypothesis was rejected, which means that with significant rate of 5%, there were network resources effects in improving business performance of SMEs. Statistical test results provide evidence that the hypothesis proposed were supported. This means that network resources has significant positive effects on business performance. This means the better ability to utilize a network resources, the higher is the degree of internationalization.

Hypothesis 3:

From the calculation results, the R^2 value of degree of internationalization in improving business performance is gained by 0.0001, which means that 0.00% of

the changes of business performance in SMEs were affected by network capital variables. The test results concluded that the null hypothesis was accepted, which means that with the error rate of 5% there was no significant effect of the degree of internationalization in improving business performance of SMEs. Statistical test results provided evidence that the hypothesis proposed was not supported. This means that the degree of internationalization did not significantly influence the business performance. This also means that although the degree of internationalization increases, it cannot improve business performance significantly.

This research provides empirical supports through modeling that was developed to answer the phenomenon of internationalization of SMEs. Theoretically, this study may provide support to develop network-based models. The concept proposed by Huggins (2009 ,2010) that emphasizes the creation of a network that are based on the, rational, economic and calculative aspects in the context of SMEs can be proven empirically to give a significant effect on the increase in international activities and business performance. Utilizing network resources can form a capital which becomes something urgent for SMEs because they have to face a competitive rivalry with business people in foreign countries.

This research proved that utilizing network resources poses a significant positive effect on the degree of internationalization. It means, by building network, SMEs have access the knowledge and resources, access to market opportunities and do co-innovation, which in the overall involve the role of business partners. According to Flanders (2008:38), SMEs are often constrained by limited knowledge and resources to overcome the barriers to international activities, so many of them rely on a network that is built with a partner to be able to help each other to overcome the limitations of resources and knowledge. The same opinion is expressed by O'Toole and McGrath (2008: 5) that building networks with customers, suppliers and buyers is a method to be able to access the market opportunities that can offer products in a flexible way, responding to the price and quality acquired by the market. The result of this research confirmed the previous study conducted by Zimmerman (2010:153) who proved the stronger connection ties of SME entrepreneurs with partners in the network affects the degree of internationalization. Other finding reinforcing this hypothesis was a study conducted by Tang (2011:385) who states that the optimal commitment and openness of the network affects positively to the speed of internationalization. The results of this study is also supported by the findings of empirical studies conducted by Javalgy et al (2012:62) who states that the relational capital (creating a close relationship with customers, suppliers, distributors) built through a network has positive effect on the degree of internationalization.

Empirically, this study can prove that network resources has a significant effect on business performance. The network built with partners becomes capital for SME entrepreneurs in realizing international business, namely supporting access to resources and knowledge. Among the networks built with a partner, the support of buyers, agents, suppliers, banks and trade associations plays an important role in overcoming the constraints of resources, namely in meeting the supply of quality raw material, technology, the utilization of exhibition facility and capital assistance. The support provided by partner is very important in developing the business into the international market. According to O'Toole and McGrath (2008:5), the ability to build a network connection is useful to access to the knowledge, namely the ability to integrate and use knowledge through interaction with partner. The network built with partners such as buyers, agents, and trade associations is thought by SME entrepreneurs to be useful in providing information about international marketing opportunities, especially in promoting and marketing their products and offer competitive prices. As we know that obtaining information about international marketing opportunities is still a barrier for SME entrepreneurs to take part in international business. As stated by Wismiarsi et al (2008:40), small and medium enterprises with low export support tend to be not actively looking for information about export market opportunities so that the existence in the international market is still low. The network built with partner can also be used to perform co-innovation to proactively develop innovative products are in the development of product design and product quality. In developing the design, support from partners is useful in terms of creativity, uniqueness and environmental friendly. Therefore, the ability to design products can be continued to be improved and become a competitive advantage in the international market. The support from partners in terms of technology is useful to increase productivity in order to fulfill orders in bulk.

In this research, the ability to build and utilize relationships with partners in the network has proven to become the capital in supporting international business that affects the both financial and non-financial performance. The findings of this study corroborate the findings of previous studies conducted by Babakus, Yavas and Haahti (2006:10) towards 257 SMEs in several European countries who state that foreign networking affects positively on performance (export). A similar study conducted by Ural (2008:157) suggests that quality relationship (communication quality, long-term orientation of the relationship and satisfaction with the relationship) positive affects the financial performance. Later, a research by Kenny and Fahy (2011:542) towards 154 SMEs in Ireland showed similar findings, namely network resources (relationships, synergies and capabilities) affects positively on performance.

However, the results of the model analysis show the effect of the degree of internationalization does not significantly affect the business performance of SMEs, so that it can be stated that the high degree of internationalization does not provide a strong effect on business performance of SMEs. The degree of internationalization which shows the intensity of the company in conducting international activities can be identified from the scope of the company's operations. The wider range of international business destination, the greater is the opportunity to get a potential buyer that may affect the business performance of SMEs. But, for SME entrepreneurs who do international business, generally the scope of business operations is still based on the psychological and sociocultural proximity of Indonesia, such as Malaysia and Singapore so that business value is still not great. In general, it can be stated that the degree of internationalization that can be achieved by SME entrepreneurs in this study is known to not have been optimal in affecting performance. The results of this study may reinforce the opinion of Burpitt and Rondinelli (2005: 12) that although financially the performance of export is very important, the financial aspect does not fully explain the possibilities of SMEs to keep doing international business (exports). The study's findings indicate that the "strongly value learning from international experience" gives more benefits, which means the lessons learnt in the process of doing international business is more important than the financial return. The results of this research cannot prove that the higher the degree of internationalization will be a strong effect on business performance. The findings of this study contradict the results of research conducted by some experts (Rieck et al 2005; Cheliah et al 2010a; Loncan and Nique (2010: 49), who states that the company's performance will increase with the increase in the degree of internationalization. However, the findings in this study corroborate the results of research conducted by Camison and Lopez (2010: 38) to 394 SMEs in Spain that stated the high level of intensity of internationalization does not greatly affect the performance of the company.

5. CONCLUSION

Our analysis concerning the role of network resources in influencing international intensity and performance of SMEs showed a significant effect of network capital on the degree of internationalization and business performance, where the effect of the degree of internationalization is more dominant than business performance. It can be said that SMEs performance in conducting international activities is shaped by network resources. The ability to build network capital is important to be able to access the resources, knowledge, and international market opportunities, causing changes in the performance of SMEs. Building network with partners such as buyers, suppliers, government, trade association can improve the comprehension of international business. Internationalization is a "closed loop" where previous

experience is a guarantee for the next step. SME entrepreneurs need to be able to work on international markets quickly and prioritize export markets rather than the domestic market because of the big market potential.

This study still has limitations, namely network resources built by entrepreneurs involve in international activities has not significantly affect the performance of the SMEs. Further research is needed to determine obstacles of SMEs in doing international business (exports) and what strategies needed to address these obstacles that impact on the performance improvement of SMEs. This study found that network capital through the use of relationships and building collaborative relationship with partner are dominant factors affecting the degree of internationalization and performance of SMEs. The results of this study can be used as an initial step to examine further the internationalization of SMEs based on network resources by including other exogenous variables that are closely related to the concept of the degree of internationalization, namely international knowledge.

This research can be developed in the unit of analysis (export oriented SME) in a wider area coverage by considering the following matters: (a) expressly grouping criteria among a group of companies in the small industry and group of companies in the medium industry because based on the findings in the field there is a considerable difference in terms of the ability to manage the business. Thus, for future research, the target respondents for companies in the group of small industries and medium industries need to be analyzed differently to get the right profile, (b) differentiating SMEs who conduct international activities on the basis of the stages of the process of internationalization, which is between the new SMEs in the early stages with SMI who have had experience in doing international activities (regular export activities). This is important due to the different business strategies implemented. Based on the research findings, SMEs which are still in the early stages of internationalization need more supports related to production capacity, quality, and product design. SMEs which are experienced in doing international business activity face more constrained with regard to networking and government support in facilitating procedures and export licensing.

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