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Working Paper No. 47

Interfirm Networks in the Indonesian Garment Industry: Trust and Other Factors in their Formation and Duration and their Marketing Consequences

by

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and
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Interfirm Networks in the Indonesian Garment Industry: Trust and Other Factors in their Formation and Duration and their Marketing Consequences

ABSTRACT

Reports on and analyses the results from a survey (conducted by Latif Adam) of 210 small or medium-sized garment enterprises in the Municipality of Bandung and the District of Bandung, Indonesia. This survey was intended to identify factors that led SMEs to engage in cooperative interfirm agreements; to identify the influences affecting the duration of such cooperative agreements and to determine the elements which respondents considered to be important for the long-term success of such agreements. In addition; the survey enabled the potential benefits of such agreements to be ranked. Trust was found to be an important consideration in the formation and duration of such agreements and most SMEs saw as the major benefits of such agreements the greater access this enabled them to have to markets. The implications of such cooperation for expanding the involvement of Indonesia's garment industry in global trade are considered.

Interfirm Networks in the Indonesian Garment Industry: Trust and Other Factors in their Formation and Duration and their Marketing Consequences

1. Introduction

Very few in depth empirical studies have been done on interfirm networks and cooperation. This paper reports on and analyses the results from a survey of 210 small or medium sized garment enterprises in Bandung, Indonesia. This survey was conducted in 2004 by Latif Adam as part of his research for his PhD thesis (Adam, 2007) and this article is based to a considerable extent on a part of his thesis, principally Chapter 8. The procedure adopted to obtain a representative sample of small and medium-sized manufacturers in the Bandung area is outlined in detail in Adam (2007).

The survey was designed to ascertain whether the firms surveyed engaged in cooperative interfirm agreements, the type of cooperative arrangements made, factors (such as trust) influencing business cooperation, reasons for discontinuing interfirm cooperation, factors favouring the success of business cooperation, and the benefits expected by firms from interfirm business cooperation. Each of these matters is considered in this article and then the implications for Indonesia's export of garments of cooperation between garment enterprises are considered as well interfirm networking generally as a means for Indonesian small and medium sized firms to access global markets.

Two previous studies of Indonesia's garment industry came to different conclusions about the importance of business cooperation for the economic performance of Indonesia's garment industry. Van Diermen (1997), after studying garment firms in the Jakarta area, concluded that business cooperation played an insignificant role in their economic performance. In contrast, Cole (1998) found that business cooperation had made a significant contribution to the development of Bali's garment industry. Adam (2007) also found that interfirm cooperation contributed significantly to the

economic performance of Bandung's garment industry. Whether or not Jakarta is an 'odd case' is unclear. Latif Adam also wanted to conduct a similar survey in Jakarta to that in Bandung but because of the unsettled political situation at the time and lack of cooperation from managers of garment firms in Jakarta, was unable to proceed with that. Nevertheless, the Bandung survey provides useful insights into factors influencing business cooperation generally.

2. Types of Business Cooperation Engaged in by the Small and Medium-Sized Enterprises (SMEs) Surveyed

More than half the garment enterprises surveyed (62.9%) said that they had been involved in business cooperation. Cooperation sometimes included firms outside the Bandung area but located in other cities or regions of Indonesia.

Activities involving business cooperation of the enterprises surveyed are summarised in Table 1. This reveals that SMEs were most commonly involved in putting out of garment manufacture (51.5%) followed by subcontracting (30.3%) and clusting accounted for the remainder.

Table 1: Types of Business Cooperation that the SMEs Surveyed Have Been Involved in, (%), Bandung, 2004

Types of Business Cooperation	Discontinued	Continued	Total
Putting out	20.5	29.6	26.5
Putting out and clustering	27.3	23.9	25.0
Subcontracting	18.2	18.2	18.2
Clustering	20.5	17.1	18.2
Subcontracting and clustering	13.6	11.4	12.1
TOTAL	100 (N=44)	100 (N=88)	100 (N=132)

Source**: Survey, Question 34.**

The process of putting out involves one firm (a secondary firm) arranging with another (a primary firm) to produce garments for it which it then resells. The primary firm may also produce garments but in some cases it may merely act as a 'middleman'. Subcontracting is the process by which some components for the manufacturers of a garment are made (on contract) for secondary firms by a primary firm. Whether or not clustering should be classified as a form of business cooperation is unclear but it facilitates interfirm cooperation and has been included as a feature of interfirm cooperation in previous studies. By clustering together, small garment makers find it

easier to make any useful trades with each other. Such interfirm trading may not be continuous but may vary according to needs of the individual garment maker and cooperative arrangements are usually informal. The main advantage of clustering from the point of view small and medium-sized garment makers is that it reduces their market transaction costs.

3. Factors Associated with the Development of Business Cooperation in the Bandung Garment Industry

The Bandung survey revealed that the two most important factors in fostering initial business cooperation between garment manufacturers were principally repeated business contact in the market and family connections. The results are summarised in Table 2.

Table 2 Factors Fostering Initial Business Cooperation, %, Bandung, 2004

Factors	Discontinue	Continue	Total
Repeated business contact in the market	9.1	54.6	39.4
Family connection	25.0	12.5	16.7
Family connection and repeated business contact in the market	4.6	22.7	16.7
Family connection and industry and trade associations	11.4	2.3	5.3
Family connection and government program	11.4	1.1	4.5
Industry and trade association	13.6	3.4	6.8
Government program	15.9	2.3	6.8
Ethnic group connection	9.1	1.1	3.8
Religious connection	0.0	0.0	0.0
TOTAL	100 (N=44)	100 (N=88)	100 (N=132)

Source**: Survey, Question 35.**

Both repeated business contacts and family connections provide knowledge to entrepreneurs about potential factors. It assists them in judging the trustworthiness of potential business partners as well as how well they are likely to perform.

Not much weight was placed by the respondents on ethnic group connection as a factor making for initial business cooperation. Religious connection was given no weight at all. However, the reason why this could be so is that Bandung's entrepreneurs in the garment industry are relatively homogenous – they are all Sudanese and followers of Islam.

Contacts through industry and trade associations and through Indonesia government schemes to sponsor business cooperation were influences in fostering business cooperation in some instances but paled in importance compared to repeated business contacts and family connection as factors leading to initial interfirm cooperation.

Interestingly, Table 2 also shows that the initial route that the firms chose to establish business cooperation correlates with whether or not their business cooperation can be maintained continuously. On the one hand, most SMEs that developed business cooperation through repeated business contact and family connection were able to maintain and continue their cooperation. On the other hand, the majority of SMEs that used ethnic group connections, industry and trade associations, and government programs, to facilitate their initial business cooperation tended to discontinue their cooperation.

Theoretically, trustworthy and competent partners are considered to be fundamental determinants for cementing long-term business cooperation. It was found that most SMEs surveyed which succeeded in maintaining their long-term business cooperation pointed to trustworthy and competent partners as the keys to their success (Table 3). The presence of trustworthy and competent partners is an incentive for firms to keep engaging in business cooperation. This is because trustworthy and competent partners enable them to lower monitoring costs and reduce uncertainty due to less fear of opportunism. Accordingly, such partners ensure that the SMEs interviewed obtain optimum benefits from their involvement in business cooperation.

It seems from Table 2 that repeated business contact and family connections are the most reliable sources for assessing how trustworthy and competent potential partners are. Similarly, it becomes apparent that repeated business contacts and family connections are more favourable than the three other sources in developing trust. Thus, SMEs that use repeated business contact and family connection to facilitate initial development of their business cooperation are more likely to succeed in maintaining long-term business cooperation than those that do not.

Cooperation developed through repeated business contact, as Haugland and Gronhaug (1996), Cole (1998), and Huemer (2004) emphasized, is mainly motivated by a long-

term profit motivation. In contrast, cooperation formed through ethnic group connections, industry and trade associations, and government program is, according to van Diermen (1997) and Sato (2001), frequently driven by a socio-political motives. Because cooperation developed through the former is more likely to survive over a long period of time than that established through the latter, this suggests that economic gains provide a more secure basis than socio-political factors in building trust- and competent-based long-term cooperation. Indeed, as Tisdell (1996) pointed out, long-term business cooperation may survive over a longer period of time if it is motivated by economic considerations.

However, this study also found that economic consideration is not the only factor that supports the survival of business cooperation. The fact that cooperation formed through family connection can also be often maintained continuously suggests that family imperatives can also play an important role in the development of long-term business cooperation. This may be because family members are usually close to one another (Ouchi, 1980). This close relationship means family connections can function not only as a foundation to build trust, but also as a reliable source to search and assess the competency of prospective family partners.

As part of this study, a binomial logit model based on the personal attributes of entrepreneurs was also considered. The three factors considered were length of business experience of the entrepreneur, level of educational achievement and type of work experience. It was found that among the independent variables, the estimated coefficient and marginal effect of educational level are the largest, suggesting that this is the dominant variable in influencing the decision of SMEs to develop business cooperation. The higher the educational level of entrepreneurs, the more likely they are to develop business cooperation. This may be because educational level correlates positively with the ability to have contact and communicate with others. It means that the higher the educational levels of entrepreneurs, the more probable they are to have contact and communicate with others. As Weaver's study (1998) found, the more entrepreneurs communicate with each other, the more capable they are of developing business cooperation (strategic alliances).

Surprisingly, the estimated coefficient and marginal effect of length of business experience are not only statistically insignificant, but also are the lowest. This suggests that length of business experience has little bearing on the decision of SMEs to develop and maintain business cooperation.

4. Reasons for Discontinuing Business Cooperation

Of these businesses interviewed, 52 had discontinued cooperating with other firms after commencing it. In the case of those involved in putting out, the most common reason given for discontinuing cooperation was that the down payment by buyers was too small and partners were always late with their payment. Also profit margins became too small as partners asked for a lower price than the general market price, and partners were unwilling to make a price adjustment when there was a considerable increase in the price of new materials. The most frequent reason given for discontinuing subcontracting was that partners frequently rejected the products supplied even though these accorded with the design and quality stated in the agreement. Also many respondents complained that they were 'squeezed' by partners so that their profit margins became too small compared to that which they could obtain without the agreement. Fewer, but still some, complained that partners were unwilling to make price adjustments when the price of new materials rose substantially. Similar complaints were also recorded by firms involved in cooperation in business clusters but some also said that because the demand for their products declined they were able to meet this demand from their own production and therefore, discontinued cooperation.

5. Factors Making for the Long-Term Success and Viability of Business Cooperation.

Trustworthiness of partners and their competency were the factors most frequently mentioned by the entrepreneurs interviewed (who had continuing business contracts) as important for the success of long-term business cooperation. Similarity in objections of partners was also considered to be important by several entrepreneurs interviewed. The distribution of responses by garment entrepreneurs who continued to be involved in business cooperation at the time of their interview is shown on Table 3.

Note that those interviewed could submit more than one factor as being important for the success of long-term business cooperation. Therefore, the distribution of responses does not add to 100 per cent.

Table 3: Factors for the Success of Long-Term Business Cooperation, %, Bandung, 2004

Factors	Municipality	District	Municipality and District
Partners have required competency and are trustworthy	41.7	40.0	40.9
Partners are trustworthy	20.8	20.0	20.5
Partners have required competency	16.7	12.5	14.8
Similar objectives	8.3	12.5	10.2
Similar objectives and partners are trustworthy	4.2	7.5	5.7
Autonomy of participants	4.2	5	4.6
Similar objectives and partners have competency	4.2	2.5	3.4
TOTAL	100 (N=48)	100 (N=40)	100 (N=88)

Source**: Survey, Question 37.**

From Table 3, it is apparent that in an attempt to develop successful business cooperation, a firm needs to find trustworthy partners. Choosing untrustworthy partners, as Granovetter (1985; 1992), McAllister (1995), Gulati (1995), Gulati and Gargulio (1999), and Nooteboom (1999; 2003; 2004) mention, will result in attempted business cooperation bring detrimental rather than beneficial to the firm and will not improve its efficiency, competency, and competitive advantage. Similarly, cooperating and interacting with untrustworthy partners will make it likely that business cooperation will not survive over a long period of time. Accordingly, the firm should have sufficient information to decide whether or not its potential partners are trustworthy.

The managers of garment firms involved in business cooperation at the time of the survey were asked what important actions they took to maintain their long-term business cooperation. The distribution of their responses is shown in Table 4. Overall, taking action to show that they are trustworthy was most important. Being competent, however, was also important and in many cases, was interlinked with being trustworthy.

Table 4: Important Actions to Maintain Long-Term Business Cooperation, %, Bandung, 2004

Actions	%
1. Ensuring partners always trust the firm by producing the same products as previously stated in the agreement in terms of design, quality, and punctuality, and improving competency in order to adjust quickly to the change in design, quality, and punctuality ordered by partners	43.2
2. Ensuring partners always trust the firm by producing the same products as previously stated in the agreement in terms of design, quality, and punctuality	29.6
3. Improving competency in order to adjust quickly to the change in design, quality, and punctuality ordered by partners	18.2
4. Appreciating autonomy of partners by refraining from interfering in the internal issues of partners' enterprises	4.6
5. Opening and providing honest information about their enterprises	4.6
TOTAL	100 (N=88)

***Source**: Survey, Question 43.*

Besides requiring trustworthy and competent partners, the SMEs surveyed agreed that long-term business cooperation can only be maintained successfully if they themselves are also trustworthy and are competent. Hence, as can be seen in Table 4, the majority of SMEs surveyed claimed that their efforts to create an image of being trustworthy and competent is important for maintaining their long-term business cooperation.

It is important to note that although the SMEs surveyed apparently distinguished the development of trust and competency as two different important actions to maintain long-term cooperation (Table 4), interviews with some SMEs indicated that these two important actions are actually inter-related. The SMEs interviewed argued that their (potential) partners usually assess whether or not they are trustworthy from their competency. The firms that are highly competent will ensure their partners that they have an ability to act and perform in predictable manners. In contrast, the firms that are lacking in competency may send bad signals to their partners, namely that they will not be able to meet their partners' expectation. Hence, in an attempt to portray that they are trustworthy, some SMEs interviewed mentioned that they consistently improved their competency. Likewise, other SMEs pointed out that their motivation to improve their competency is to present a good image to their partners that they are sufficiently reliable and competent to be trusted.

A binomial logit model was used to identify factors that are likely to be associated with continuing business cooperation. It was found that business associations formed as a result of any of the following three factors were statistically significant at the one per cent level:

(1) Repeated business contacts;

(2) family connections; and

(3) family connections and repeated business contacts.

These business alliances tended to last whereas those found through connections with industry and trade associations or sponsored by government did not display statistically significant sustainability. In relation to competency, only quality of products was statically significant for the sustainability of cooperation. This was at the 5 per cent level. The economic results are summarized in Table 5.

Table 5: Results of Binomial Logit Model for Continuing Business Cooperation

Variables	Continuing Cooperation (Y_2)	
	Coefficient	Marginal Effect
Constant	-12.365***	-1.955***
	(-4.388)	(-3.995)
Initial Mechanism		
Repeated business contact	3.764***	0.495***
	(3.066)	(3.799)
Family connection	2.809**	0.258***
	(2.173)	(3.192)
Family connection & Repeated business contact	4.144***	0.321***
	(2.902)	(3.937)
Family connection & Industry and trade association	1.081	0.125
	(0.764)	(1.116)
Family connection & Government program	0.543	0.073
	(0.337)	(0.406)
Industry and trade associations	-0.824	-0.158
	(-0.604)	(-0.521)
Government program	-0.446	-0.079
	(-0.340)	(-0.308)
Competency		
Range of products	0.462	0.073
	(0.851)	(0.826)
Design of products	0.122	0.019
	(0.176)	(0.175)
Quality of products	1.312**	0.207**
	(2.090)	(2.066)
Finishing products	1.158	0.183
	(1.373)	(1.372)
Machinery sophistication	0.821	0.130
	(1.001)	(1.039)
Log-Likehold		-41.348
Pseudo R^2		0.508
χ^2		85.344
N		132

***Note**: 1. t-ratio is given in parentheses.*
*2. * Statistically significance at the 0.10 level; ** at the 0.05 level; *** at the 0.01 level.*

As specified in Table 5, when business cooperation is established as a result of repeated business contact, its marginal effect on continuing business cooperation is the highest, and the relationship is statistically significant. Thus, repeated business contact is the most significant variable in determining the survival of business cooperation. In other words, it tells that cooperation developed through repeated business contact has the highest probability of surviving over a long period of time.

Besides repeated business contact, family connections alone or jointly with repeated business contact are other variables that have significant impact on developing

continuous business cooperation. The firms that developed their cooperation through either family connection or family connection combined with repeated business contact have a high probability of maintaining long-term cooperation. As noted previously, this may be because family members are close to one another. This close family relationship may deter network members from behaving opportunistically towards one another. One who behaves opportunistically with family members will have a bad reputation because others may think if he/she can be disloyal to family, he/she can be more easily disloyal to non-family members. In addition, such close family relationships enable the firm to have sufficient required information about the trustworthiness and competency of its family-partners. As discussed above, the better the firms know how trustworthy and competent their potential partners are, the higher is the probability that they will succeed in maintaining business cooperation.

As for the competency variables, the quality of products is the only variable for which the estimated coefficient and its marginal effects are statistically significant. This finding is surprising because previously, based on theoretical argument and initial finding, it was expected that all of the estimated coefficients and marginal effects of the competency variables would have a significant impact on increasing the probability of business cooperation surviving continuously. Two explanations are possible for this surprising finding. First, it may arise from collection and measurement errors in data used in this study. Secondly, it may be because the econometric model used in this study omits relevant variables or includes irrelevant variables.

When asked to name important actions to maintain continuing cooperation, most SMEs surveyed mentioned punctuality to be one of the most important actions. Indeed, as Prabatmojo (1999) emphasized, the ability of enterprises to deliver ordered products to their partners on time will strengthen cooperation. This suggests that punctuality is significantly important to be included in the econometric testing. Unfortunately, the punctuality variable was omitted in the econometric model, as it could not be measured and collected adequately.

Apart from the type of business cooperation, the length of an enterprises' involvement in business cooperation influences the extent of the gain to firm from business

cooperation and its probability of continuing. At the beginning of cooperation a firm is naturally not completely sure how trustworthy and competent its partners are. Hence, in the beginning the firm usually starts to cooperate with its partners on a small scale and with low-level mutual dependence, suggesting that during this period the firm may not obtain optimum benefits (Nooteboom, 1999: 2004). When the firms continue their involvement in business cooperation for a longer period of time, they may enjoy increased benefits. This is because as firms continue their involvement in business cooperation, there will be simultaneous growth in trust of and commitment to their partners (Shapiro, 1987). This increases the likelihood of the cooperation continuing.

6. Motivations for Developing Business Cooperation as Rated by Garment Producers Involved in Business Cooperation and their Benefits.

Table 6 provides a measure of the relative importance of the benefits those respondents involved in continuing business cooperation (88 garment producers) expected to obtain from business cooperation. In most cases, securing and expanding markets was the major benefit sought. This was so for situations involving putting out and subcontracting but not for clustering. Reducing transaction costs and uncertainty was important for all categories of cooperation as was obtaining capital. Improving technological capabilities was also rated as important for all categories of cooperation, except clustering. A similar situation is apparent for the possibility of exporting products. Increased access to new materials was only rated as important to cooperative situations involving clustering.

Table 6 Stated Motivations of SMEs surveyed (that were continuing interfirm cooperation) to Develop Inter-Firm Networks, (Average Score), Bandung, 2004

Motivations	PO	S	C	PO & C	S & C	Total
Securing and expanding markets	3.00	2.94	2.00	3.00	3.00	2.82
Reducing transaction costs and uncertainty	2.62	2.81	2.07	2.71	2.80	2.60
Obtaining capital	2.62	2.69	2.00	2.57	2.70	2.52
Improving technological capabilities	2.00	2.44	1.47	2.00	2.60	2.06
Obtaining raw materials	1.85	1.88	2.00	1.86	2.00	1.90
Exporting products	2.00	2.06	1.00	2.00	2.40	1.89
TOTAL ENTERPRISES	26	16	15	21	10	88

Source*: Survey, Question 41.*

Note: *1. PO is putting out, S is subcontracting, and C is cluster.*

2. In question 41, entrepreneurs are asked about the motivation in developing business cooperation. The entrepreneurs' are then scored. The scores are: 1 for not important, 2 for important, and 3 for very important. The average score is calculated from the total score in each motivation divided by total sample in each type of business cooperation.

Ratings of the stated benefits which garment manufacturers said they obtained from business cooperation are given in Table 7. Except in the case of reliance solely on clustering (which seems to bring fewer benefits than other forms of business cooperation), the main technological benefits were said to be improved quality control and the provision of technological information; the main financial benefits were advance payments and capital participation; the principal marketing benefits were information about and guidance on the market and assistance in securing and expanding the market ; and in some cases, the provision of raw materials was important. In a few categories, the provision of managerial training proved to be important, as is apparent from Table 7.

Table 7: The Various Stated Benefits of Business Cooperation, Cooperating Firms (Average Score), Bandung, 2004

Benefits	PO	S	C	PO & C	S & C	Total
I. Technological Benefits						
Quality control	2.62	2.69	1.27	2.71	2.80	2.44
Technological information	2.08	2.56	2.13	2.29	2.80	2.31
Production technique	1.85	2.25	1.67	1.95	2.60	2.00
Providing machinery	1.38	2.00	1.73	1.62	2.20	1.70
Instruction in machinery use	1.19	2.19	1.00	1.10	2.70	1.49
Worker training	1.12	1.94	1.00	1.00	2.20	1.34
TOTAL ENTERPRISES	26	16	15	21	10	88
II. Financial Benefits						
Advance payment	2.73	2.69	1.13	2.81	2.80	2.48
Capital participation	2.38	2.44	1.07	2.48	2.50	2.20
Machinery leasing	1.38	2.00	1.73	1.62	2.20	1.70
Borrowing & lending capital	0.00	0.00	2.67	2.76	2.70	1.42
Investment loan	1.08	1.13	1.40	1.57	1.50	1.31
TOTAL ENTERPRISES	26	16	15	21	10	88
III. Marketing Benefits						
Informational/guidance on market	2.65	2.63	1.73	2.71	2.50	2.42
Securing & expanding market	2.65	2.69	1.07	2.67	2.60	2.35
Exchange of market information	0.00	0.00	2.53	2.76	2.70	1.40
TOTAL ENTERPRISES	26	16	15	21	10	88
IV. Other Benefits						
Providing raw materials	2.19	2.25	1.00	2.33	2.30	2.05
Managerial training	1.08	2.56	1.00	1.00	2.70	1.50
Sharing in the provision of raw materials	0.00	0.00	2.53	2.67	2.70	1.38
TOTAL ENTERPRISES	26	16	15	21	10	88

***Source**: Survey, Question 38.*

***Note**:* 1. *PO is putting out, S is subcontracting, and C is cluster.*

2 *In question 38, entrepreneurs were asked about their perception of the importance of business cooperation in providing various benefits. The entrepreneurs' perceptions were then scored. The scores are: 1 for not important, 2 for important, and 3 for very important. The average score is calculated from the total score in each motivation divided by total sample in each type of business cooperation.*

Table 8 probably provides a clearer picture of the relative importance of business cooperation in improving the performance attributes of the 88 cooperating firms. According to the perceptions of the 88 entrepreneurs of firms involved in business cooperation, inproving marketing capabilities was the most important performance factor. Improved production capabilities and quality control were also of high importance. Performance factors are listed in Table 8 in declining levels of overall importance.

Table 8: Cooperating Entrepreneurs' Perception of the Importance of Business Cooperation in Improving the Performance of their Enterprises, (Average Score), Bandung, 2004

Motivations	PO	S	C	PO & C	S & C	Total
Marketing capabilities	4.54	4.56	3.47	4.62	4.70	4.40
Production capabilities	4.27	4.25	3.47	4.38	4.30	4.16
Quality control	4.35	4.44	3.00	4.38	4.50	4.16
Competitiveness	4.19	4.25	3.33	4.29	4.30	4.09
Financial capabilities	3.92	4.00	3.13	4.33	4.20	3.93
Productivity	3.73	4.13	2.87	3.86	4.40	3.76
Profitability	3.58	3.88	3.27	3.71	4.00	3.66
Efficiency	3.65	3.88	3.07	3.71	4.10	3.66
Technological capabilities	3.31	4.38	2.67	3.76	4.50	3.64
TOTAL ENTERPRISES	26	16	15	21	10	88

Source: *Survey, Question 46.*

Note*:* 1. *PO is putting out, S is subcontracting, and C is cluster.*

2. *In question 46, entrepreneurs were asked about the importance of business cooperation in improving the performance of their enterprises. The entrepreneurs' perceptions were then scored. The scores are: 1 for not important, 2 for little important, and 3 for moderate, 4 for important, and 5 for very important. The average score is calculated from the total score in each motivation divided by total sample in each type of business cooperation.*

7. The Role of Business Cooperation in Expanding Indonesia's International Trade in Garments

From Table 6, it can be seen that in cases including either putting out of garment production or the subcontracting of parts of it, gaining access to export markets was an important motivation for small and medium Indonesian garment manufacturers to cooperate, even though overall this factor did not have the highest rating. This is, understandable because many of cooperating garment suppliers in Bandung would be satisfied with having a larger market in Indonesia as a result of their cooperation.

In Adam's study (Adam 2007) no data was collected directly on the mechanisms used by small and medium-sized manufacturers of garments to gain access to overseas markets. However, Cole (1998) found from his study of Bali's garment export industry that cooperation between buyers cum consultants from developed countries with small manufacturers of garments played a pivotal role in their export to developed countries. In this regard, Cole (1998, pp. 275-276) observes:

> "Information transfer and assistance provided by foreign buyers achieved a level of efficiency and accuracy unimaginable through any other mechanism. The specific assistance in the production process that was

> offered at each stage of a producer firm's development was *precisely* and *only* what was appropriate for improving production quality and quantity at that level. Translated into the language of business support programs: the assistance was provided on a for-profit basis; it was tied specifically to tangible product output results; the provider of the assistance received no compensation unless the assistance was successful; and the firms targeted for assistance were those with the best potential and a demonstrated willingness to absorb assistance inputs. There is surely no other source of assistance that would be more accurate and timely, and certainly no mechanism for delivering it that would involve more performance-based incentives for the provider."

Similarly, Sandee and Van Diermen (2004, p.108) bring attention to:

> "the importance of foreign buyers and investors in promoting SME exports [from Indonesia]. Small firms that have a relatively large share of exports in total sales tend to have better developed links with foreign counterparts than do other firms. [They] show the importance of strategic alliances between foreign buyers and Indonesian small firms in promoting exports. Buyers are involved in a much wider range of supporting activities than is generally assumed. [They] show that strategic alliances are an essential part of upgrading technological and marketing capabilities of small firms and provide examples based mainly on [their] fieldwork in Indonesia"

Despite the valuable studies by the above mentioned authors, there is not as yet a comprehensive study of the different types of cooperative mechanisms which Indonesian businesses use to gain access to global markets and increase their exports. For instance, the role of internal Indonesian business networks and alliances have been little explored. The emphasis has been on direct cooperation between overseas buyers and small and medium-sized enterprises in Indonesia. Extending mutually profitable forms of business cooperation is, however, seen by many researchers to be a promising way of improving the international competitiveness of many of Indonesia's industries,

including its textile industry (Cole, 1998; Van der Kamp et al., 1998; Sandee and van Diermen, 2004)

8. Concluding Observations

The empirical study reported here highlights the fact that the trustworthiness and competence of potential business partners have a major influence on whether interfirm business cooperation occurs and lasts. The findings are based on a survey of 210 garment producers in Bandung, Indonesia, nearly two-thirds of which had been involved in interfirm business cooperation and 42 per cent of which continued to be involved in such cooperation at the time of the survey.

Repeated business dealings in the market and family connections were found to be the major factors leading to the establishment of interfirm cooperation in the garment industry in the region. Furthermore, business cooperation established via these routes was more likely to last than that established through trade association contacts or those sponsored by the Indonesian Government.

In most cases where interfirm business cooperation had been discontinued, it seems that either breach of trust or lack of competence on the part of one of the partners was involved. In any case, problems leading to breakdown of cooperation included

(1) the slowness of payment by the partner (causing liquidity problems);

(2) the low price paid by the partner compared to the market price;

(3) the unwillingness of the partner to adjust the price paid to allow adequately for steep rises in the price of raw materials; and for some firms

(4) the failure of suppliers to supply goods of the quality specified on time.

While several benefits from business cooperation were mentioned, the most important expected benefit was that it would expand the market of the cooperating business and reduce their marketing uncertainty and transaction costs. Business continuing to be involved in cooperation claimed that interfirm cooperation had increased their marketing and production capabilities, that is had increased their market access and their business competency. These however, are the views of those who have as a

whole, been able to sustain business cooperation. It does not follow that all other firms in the sample would have had similar success as a result of cooperating. Suitable preconditions must be satisfied if business cooperation is to benefit all the parties involved in it and is to provide wider economic benefits. There must be the prospect of economic synergies from the cooperation, the partners should be trustworthy and should display at least a reasonable degree of business competence.

In some circumstances, interfirm cooperation can lead to the extension of markets (including global markets) result in greater economic activity and growth and can add to economic welfare. This Indonesia case study underlines the global importance of such issues.

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