

## **Business Networks in Halal Food Industries in Malaysia**

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### **ABSTRACT**

Malaysian processed halal food industry has been identified as a potential industry but the production of final product is still at the infant stage compared to developed countries. Business networks is one of the aspects need to be focused by the firms to make sure their product can be marketed. Based on 220 samples of halal firms, the study aimed to analyse the role of net working in expanding product at the global market. The study found that halal food firms in Malaysia are still weak in forming their business networks especially marketing networks in order to penetrate the global market. This is due to problems faced by entrepreneurs including lack of trustworthiness and commitment, lack of information technology, socialization problem, identification or selection of business networks and the role of agencies such as institution and government sector. In order to fulfill the government's aim to emerge as the regional halal hub, research hereby suggested a few policies to increase firm's competitiveness through establishing effective business networking.

Keywords: Business networks, Global market, Halal food industries, Competitiveness

### **INTRODUCTION**

Malaysian processed halal food industry has been identified as a potential industry but the production of final product is still at the infant stage compared to developed countries. Based on 220 samples of halal firms, the study aimed to analyse the role of net working in expanding product at the global market. The study found that halal food firms in Malaysia are still weak in forming their business networks especially marketing networks in order to penetrate the global market. This is due to problems faced by entrepreneurs including lack of trustworthiness and commitment, lack of information technology, socialization problem, identification or selection of business networks and the role of agencies such as institution and government sector. In order to fulfill the government's aim to emerge as the regional halal hub, research hereby suggested a few policies to increase firm's competitiveness through establishing effective business networking.

### **HALAL HUB AND COMPETITIVENESS**

Entrepreneurship is a series of activities which creates economic value being its ultimate goal. Further, this goal depends on the combination of the firms' resources and capabilities which refer to capital, infrastructure, information technology and entrepreneurship personality. It also included intangible resources such as business networks with customers, suppliers, workers, competitors and other related business partners. Therefore, competitiveness and the performance of the firms will not only depend on the firms' resources and capabilities, it also relates to the relationship between other organization, i.e. business networking either in domestic or global level.

The rapid expansion of globalization has transformed the nature of firms' operation. In global economy, competitiveness highly depends on the firms' capabilities in building business networks with other entity whether in formal or informal manner. In business environment, business networks played an important role in firms' development as well as its performance in several aspects such as opportunity and resources, customer feedback, reputation, image as well as its market share.

## THE IMPORTANCE AND PROSPECTS OF MALAYSIA PROCESSED HALAL FOOD INDUSTRIES

Malaysian processed halal food industry has been identified as a potential industry. Its wide market demand consist not only world muslim population but also non muslim population. With the rapid growth of world population to nearly 6 billion nowadays, the demand volume for halal food was very high, i.e. US\$346 billion per annum. It was predicted that the demand of halal food will increase to US\$456 billion by 2005. If the existing local firms are able to penetrate 5% of this potential market, then it will increase the national income for US\$17 billion (Kamaruddin 2003). Even though the demand for halal food in global market was high, but a majority of local firm only market their product in domestic market. This was due to the failure of these firms to build their global business networks. Moreover, the majority of these firm operate in small and medium scale which tends to have low capital and limited resources. The failure of these firms to expand the business networks were limited by the nature and the reputation of these firms (Kogut & Zander 1992 & Gulati 1998).

With 220 sample from Peninsular Malaysia, the discussion of this paper is focused on the capability of firms' competitiveness especially in business networks aspects which was based on the strategic alliances concept and social network concept.

### CONCEPT AND RESEARCH FRAMEWORK

Networking can be defined as a process in building relationship as well as expanding entrepreneur relational networks through a set of long term contacts between people or organization. This was done in order to get information and building resources in terms of financial or non financial benefits (Dollinger 1996, Johns 1986, Aldrich & Zimmer 1986).

There are three types of actors in the entrepreneurial networks: social, supporting and inter firm (Premaratne 2001). Social networks refer to informal networks that consist of actors such as relatives, friends, and acquaintances. Social networks are important tools for entrepreneurs in setting up and developing the business. It has been viewed as critical to entrepreneurship in helping to generate trust and social capital with the network (Gerard et al 2001, Christian & Michael 2003, Zahra et al. 1999). By generating trust, entrepreneurs and members within a network have lower transaction costs and they can obtain products or services at below market prices in subsequent interactions (Birley 1985, Starr & Macmillam 1990, Hansen 1995, Gulati 1998). Supporting networks consist of supporting agencies such as banks, government agencies, and non-government organization, while inter firm networks include other enterprise both large and small.

Social and informal exchanges among participants are expected to be particularly important to small firm networks. Thus, the theoretical framework of this paper is drawn from social network as well as from strategic alliance theory. In this context, Susan (2003) has identified several factors that are important to the success of building entrepreneur networks. As shown in Figure 1, these primary factors included trust and commitment, which are central to the entrepreneurial process. Partner characteristics such as partner reputation and similarity also affect trust, which will reflect the importance of selection choice. Besides, the role of information systems and the importance of an intermediary and the external environment also contribute to the successful SME networks.

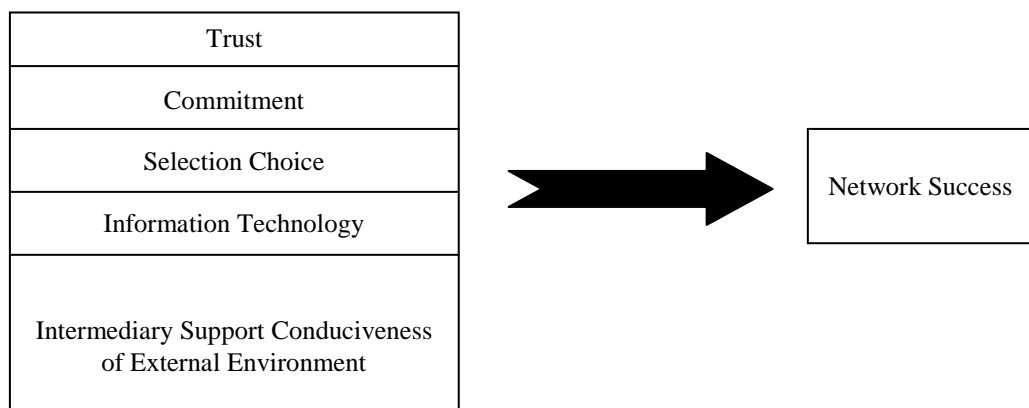


Figure 1: Factors Leading to Perceived Success of Business Networking

Source: Susan (2003)

**RESEARCH BACKGROUND**

The data utilized in this study comes from a survey of food processing firms, which are engaged in halal food production. In this study, 220 firms, which are distributed through out Peninsular Malaysia were interviewed. The interview, with questions related to the firm background, personal background of the owners or entrepreneurs, and the content and form of the firms' relational networks, was designed and tested prior to data collection. Based on this sample, as shown in Table 1, 43.2% of the firms were located in the state of Selangor, Wilayah Persekutuan Kuala Lumpur (15.9%), Pulau Pinang (11.4%), Kelantan (9.1%), Melaka (4.5%), Perak, Johor and Terengganu (3.2%) respectively, Pahang (2.7%). Finally, Negeri Sembilan and Kedah shared the same percentage, i.e. 1.8%.

TABLE 1: Distribution of Firms by State

State	Frequency	Percentage
Kedah	4	1.8
Pulau Pinang	25	11.4
Perak	7	3.2
Selangor	95	43.2
W. P. Kuala Lumpur	35	15.9
Negeri Sembilan	4	1.8
Melaka	10	4.5
Johor	7	3.2
Pahang	6	2.7
Terengganu	7	3.2
Kelantan	20	9.1
Jumlah	220	100.0

Source: Survey 2009

All the firms interviewed are involved in halal food processing which could be categorized into six categories. Based on the production materials, Figure 2 presents six categories of firms which comprised of cereal products (39.1%), plant extracted products (27.3%), cordial, juices & beverage products (14.5%), meat products (7.7%), seafood products (6.8%) and dairy products (4.6%).

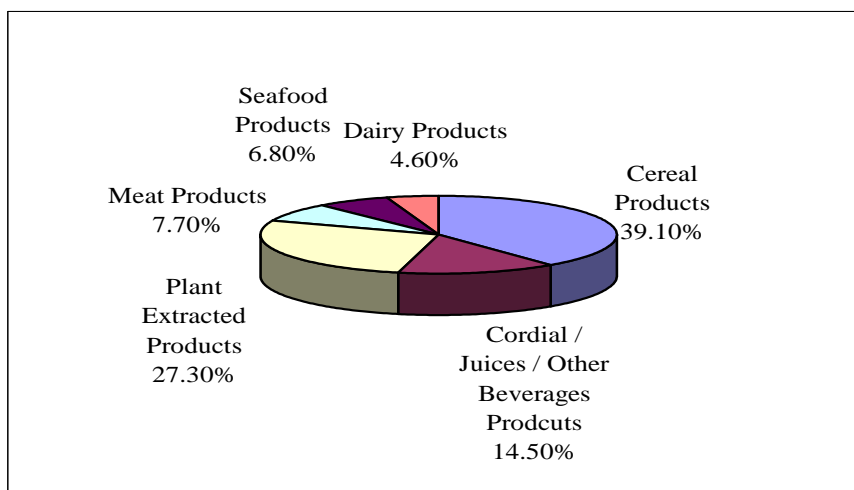


Figure 2: Distributions of Firms by Product Category

Source: Survey 2009

TABLE 2: Firms Characteristics

Item	Frequency	Percentage
<i>Race :</i>		
Malay	99	45.0
Chinese	109	49.5
Indian	9	4.1
Others	3	1.4
Total	220	100.0
<i>Labour :</i>		
< 50	180	81.8
51 – 100	24	10.9
101 – 150	16	7.3
Total	220	100.0
<i>Annual Sales (RM, 2002)</i>		
0.1 – 0.5 million	99	45.0
0.6 – 1.0 million	30	13.6
1.1 – 1.5 million	9	4.1
1.6 – 2.0 million	20	9.1
2.1 – 2.5 million	3	1.4
2.6 – 3.0 million	13	5.9
> 3.0 million	46	20.9
Total	220	100.0

Source: Survey 2009

As shown in Table 2, the 220 firms that made up the sample for this study owned by four different ethnic group, i.e. Malay (45.0%), Chinese (49.5%), Indian (4.1%) and other ethnic (1.4%) such as Sikh.

According to SMIDEC (2004), SMEs being defined as a firm that consists not more than 150 full time employees. This definition is in accordance with our surveyed firms which comprised <50 employees (81.8%), 51-100 employees (10.9%) and 101-150 employee (7.3%). Besides that, majority of the firms (45.0%) generated lower annual sales between 0.1 million to 0.5 million Ringgit Malaysia.

## BUSINESS NETWORKS AND ITS IMPORTANCE TO SMEs HALAL FOOD INDUSTRIES IN MALAYSIA

In our study, we emphasized several main issues to analyze the networks of halal food firms in Malaysia. It included firm's relational networks, which consisted firms marketing network, entrepreneurs' perception of networking towards globalization, entrepreneurs' method of building and expanding the business network, types of business networking operated by the entrepreneur in this industry, as well as the problems faced by the entrepreneur. The analysis also focuses on the perception and the characteristics of the entrepreneur in line with the success of forming business networks to increase the business performance.

There are few categories of business networking that influenced firms' performance. This included marketing and distributional network, capital network, production network, internetworking and etc. Based on the survey, our study found that 83.20% of the entrepreneurs agreed that the most important business network was the ability to form marketing or distributional network.

TABLE 3: Importance of Business Networking in Globalization Era

Item	Frequency	Percentage
Marketing & Distribution	183	83.20
Capital	24	10.90
Production	9	4.10
Information Technology / Internet	1	0.50
Others Networking	3	1.30
Total	220	100.00

Source: Survey 2009

## APPROACH TO FORM BUSINESS NETWORKING

There are few types of approached applied by the entrepreneurs to form their business networking which included: informal socialization with friends, family members, business partners, agencies, participation of business trip and business association and also the internet. New entrepreneurs are particularly dependent on their personal networks through the social linkages among friends, business partners and family members to form their business networking. Research found that 75.4% of the interviewed entrepreneur were engaged in social networks, which ensure higher and more stable form of resources (as shown in Table 4). Despite relying on social network as their main tools to expand the business network, it has limited their marketing scope in domestic level consequently. In order to penetrate to global market, 21.4% of the entrepreneur tried other ways to expand their business networking through the agents, which was costly to most of them. Research found only 1.4% of the entrepreneur used internet as a tool to expand their business networking. Meanwhile, tools such as participation of business trip, trade expo and business association found less popular among the entrepreneurs as a tool to form the business networking.

Although the participation rate of business associations was high, i.e. 77.7%, but 44.5% of the entrepreneurs tends to use this as an information channel rather than forming business networking as shown in Figure 3.

TABLE 4: Methods to Expand Business Networking

Item	Frequency	Percentage
Business Partner, Friends, Family Members	103	75.40
Agency	47	21.40
Trip Exposure / Trade Expo	2	0.90

Participation of Association	2	0.90
Internet	3	1.40
Total	220	100.00

Source: Survey 2009

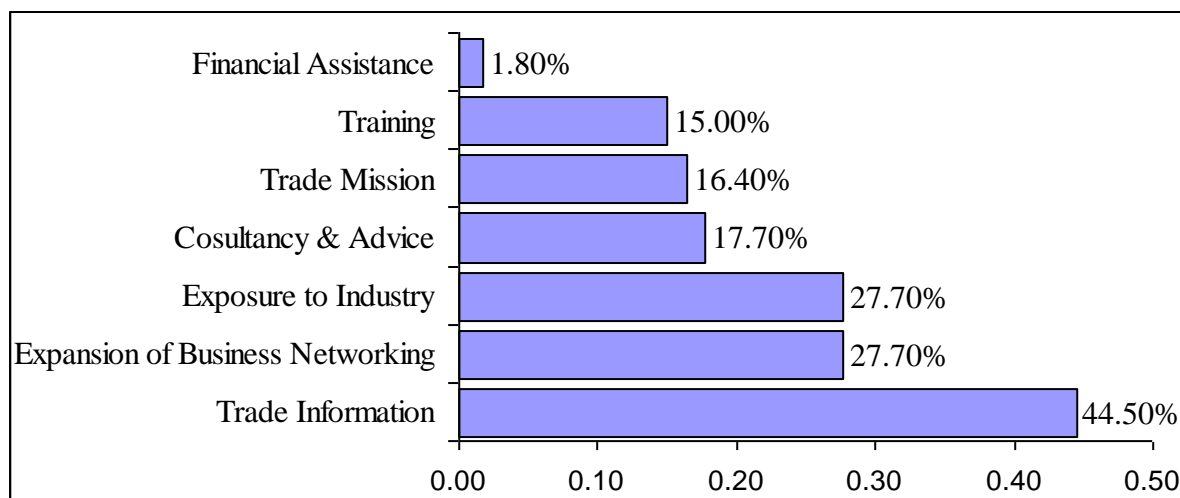


Figure 3: Benefits Gained from Participation of Association

Source: Survey 2009

### Marketing Networks

Table 5 showed the marketing activities of halal food processing firms. Research found that 47.3% of the firms were excluded from export activities where they concentrated in domestic market only. Although 52.7% of the interviewed entrepreneurs involved in export, but most of them only export a small proportion of their product to the global market. For example, firms that exported more than 51.0% of the product only contributed 14.5% among the interviewed sample.

TABLE 5: Firms Export

Item	Frequency	Percentage
Non Export	104	47.3
< 10%	16	7.3
11 – 20 %	25	11.4
21 – 30 %	19	8.6
31 – 40 %	12	5.5
41 – 50 %	12	5.5
> 51 %	32	14.5
Total	220	100.0

Source: Survey 2009

The majority of the firms that are involved in export tends to concentrate their export in ASEAN market only. Table 6 showed that 20.9% of the firms exported to ASEAN markets. The entrepreneurs who exported to non-ASEAN country only made up 5.9%. On the other hand, research

found that 25.9% of the entrepreneurs exported to ASEAN and non-ASEAN market. Implication of this we can conclude that the global market has not been exploited by the local entrepreneurs where the potential of global market for halal food tends to be high due to the increase of world population as well as world Muslim population.

TABLE 6: Marketing Destination Year 2002

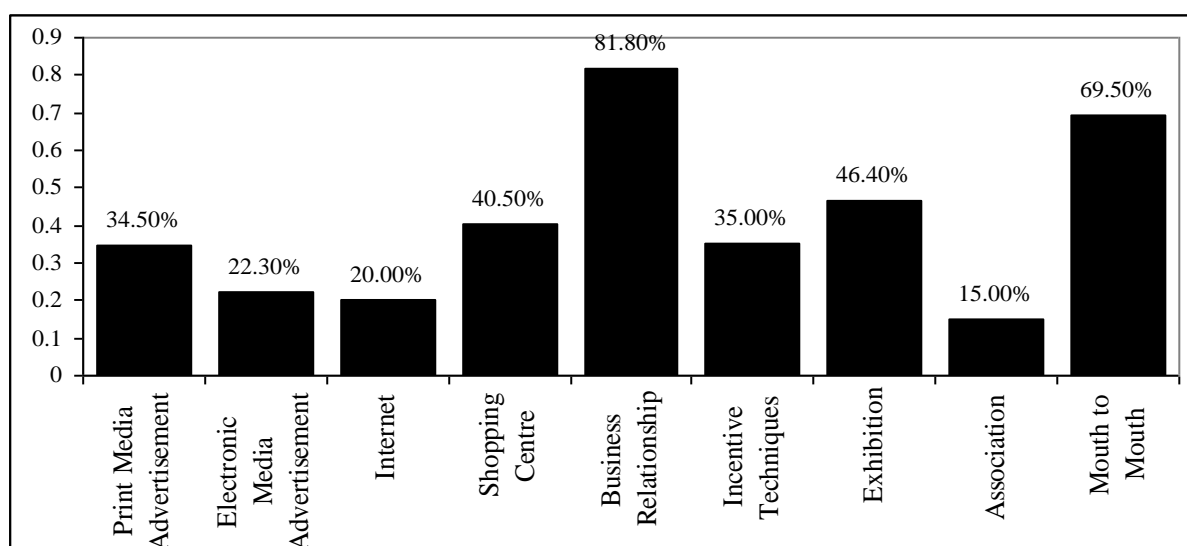
Item	Frequency	Percentage
Domestic Market	104	47.30
ASEAN Market	46	20.90
Non ASEAN Market	13	5.90
ASEAN & Non ASEAN Market	57	25.90
Total	220	100.00

Source: Survey 2009

### Product Promotion Techniques

The success of marketing products depend highly on the promotion techniques. As shown in Figure 4, local entrepreneurs applied several promotion techniques to promote their products. The most popular technique was through business relationship (81.8%). Therefore, it showed that business networking played an important role in penetrating the products either in domestic or global market. Besides that, entrepreneurs also applied other promotional techniques such as mouth to mouth (69.5%), exhibition (46.4%), shopping centre (40.50%), incentive (35.0%), media advertisement (34.5%), electronic media (22.3%), internet (20.0%) and through business association (15.0%).

Based on the findings, we can conclude that these promotion techniques tends limited the marketing scope especially in global market. For instance, local entrepreneurs preferred mouth to mouth techniques (69.5%) which is definitely limited to a certain consumer group only. In fact, information technology and internet play an important role as the best promotion medium to expand their marketing scope. It was the most economically and fastest method for entrepreneurs to market their product through the establishment of e-commerce. Firms also suggested to have their own web site as a preparation in globalization eras where all the relevant information can be channeled to potential markets effectively.



Source: Survey 2009

Figure 4: Promotion Techniques

### INFORMATION TECHNOLOGY AND BUSINESS NETWORKING

Table 7 showed the level of technology application among the interviewed firms. Research found 59.5% of the firms applied computer and internet in their organization. Meanwhile, 34.5% of the firms

applied internal networking in their organization. Most of the firms used computer for management purposes, i.e. accounting (79.1%).

Based on the discussion on technology aspect, promotion techniques and methods to expand business networking, we found that entrepreneurs tend to ignore the importance of ICT as a useful tool in expanding the business networking.

TABLE 7: Application of Information Technology

Item	Percentage
Internet	59.50
Internal Networking	34.50
Management	35.50
Accounting	79.10

Source: Survey 2009

### Selection and Forming of Business Networking

Entrepreneurs' selection of business networking is highly based on the reputation and the importance of such organization to the firms (Kogut & Zander 1992, Gulati 1998). This research which involved various ethnic groups, made up of Malay (99), Chinese (109), Indian (9) and other ethnicity (3). Table 8 showed the analysis of integration among these different ethnic groups of entrepreneurs. Research found that there exist phenomena of lack of integration among these ethnics. It happened in various categories of networking i.e. ownership, production, marketing and capital. Cross tab in Table 8 showed that there was only 46.46% of Malay entrepreneurs establishing marketing networks with other ethnic entrepreneurs.

TABLE 8: Business Networks Selection

Type of Networks	Race			
	Malay	Chinese	Indian	Others
<i>Ownership Network :</i>				
Bumiputera	57.56%	11.00%	11.11	33.33
Non Bumiputera	22.22%	77.06%	88.88	-
Foreigner	7.07%	18.35%	11.11	66.67
<i>Production Networks:</i>				
Bumiputera	55.55%	22.94%	11.11	-
Non Bumiputera	29.29%	76.15%	88.88	33.33
Foreigner	9.09%	16.51%	-	33.33
<i>Capital Networks:</i>				
Bumiputera	52.53%	10.09%	22.22	33.33
Non Bumiputera	24.24%	76.15%	88.88	-
Foreigner	5.05%	15.60%	11.11	33.33
<i>Marketing Networks:</i>				
Bumiputera	78.79%	65.14%	66.67	100.0
Non Bumiputera	46.46%	87.16%	88.88	66.67
Foreigner	24.24%	55.05%	22.22	100.0

Source: Survey 2009

### Perception and Personality

Empirical research showed personality and perception of an individual played an important role in generating firms' profit as well as performance (Miller 1983, Covin & Slevin 1988). It refers to individual characteristics such as proactive, innovative, ability, communication skills and capability to take risk. Table 9 showed the analysis of the interviewed entrepreneurs' perception and personality. Based on the Likert Scale analysis, majority of the entrepreneurs possessed positive characteristics that will contribute to the success of their business.

TABLE 9: Entrepreneurs' Perception and Personality

Item	Average Score
Business associations contribute to my firm's expansion	3.1
Usage of ICT increase firm's operation cost	2.29



Usage of ICT will not help to the efficiency of firm	2.2
Command of English language very important in global economy	4.34
Command of others language play an important role to the success of business personal	4.21
E-commerce not important for marketing a product	2.35
Foreign business partners are required to expand my firm	4.02
Communication skills very important in business world	4.35

Source: Survey 2009

**Relationship between Sales Performance and Marketing Networks**

In order to analyze the importance of marketing networks to sales performance, Table 10 showed a cross tab between firms’ sales performance and various marketing networks. Research showed that firms unable to expand their marketing networks tend to generate low sales. Based on the research, entrepreneurs only prefer to build their business networks among the same ethnic group and generate low sales consequently. Example, Malay (51.5%) and Chinese (60.9%) entrepreneurs who only limit their business networks in certain ethnic group only generate annual sales between RM0.1 – RM0.5 million. However, firms that able to expand their marketing networks among different ethnic group stand a better chance to gain higher sales. Based on Table 10, 32.8% of these firms able to generate annual sales up to RM3 million. It showed that marketing networks relates to firms’ sales performance.

TABLE 10: Sales and Various Marketing Networks

Sales (RM, juta)	Marketing Networks					
	(1) Bumiputera only	(2) Non Bumiputera only	(3) Bumiputera and Non Bumiputera only	(4) Bumiputera and Foreigner	(5) Non Bumiputera and Foreigner	(6) All
0.1 – 0.5	60.9%	51.5%	46.2%	75%	18.7%	32.8%
0.6 – 1.0	13.0%	18.2%	19.2%	-	18.7%	7.5%
1.1 – 1.5	8.7%	3.0%	1.9%	-	6.3%	3.0%
1.6 – 2.0	6.5%	6.1%	5.8%	-	6.3%	16.4%
2.1 – 2.5	2.2%	3.0%	1.9%	-	-	-
2.6 – 3.0	2.2%	3.0%	5.8%	-	18.7%	7.5%
> 3	6.5%	15.2%	19.2%	25%	31.3%	32.8%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Survey 2009

**FIRMS PROBLEM**

Research showed that majority of the entrepreneurs faced various problems in forming their business networks. Only 8.6% of the interviewed entrepreneurs succeeded in forming their business network smoothly. As shown in Table 11, 91.4% of the entrepreneurs failed to form their business networks due to various obstacles. Research found 54.1% of the entrepreneurs faced problem in cultivating trustworthiness, lacks of commitment and a difficulty to achieve mutual understanding among their business group. Furthermore, research also found other problems such as communication problems (9.1%), conflict (7.3%), high agency cost and personality weaknesses (6.8%) respectively, difference in culture, language, politics background and standards (5.9%) and lacks of information (1.4%).

TABLE 11: Major Problems in Forming Business Networks

Item	Frequency	Percentage
No problems in expanding business networks	19	8.6
Trustworthy / Honesty / Mutual Understanding / Commitment	119	54.1
Conflict	16	7.3
Communication problems	20	9.1
High agency cost	15	6.8
Difference in Culture / Language / Politic / Standards	13	5.9

Lacks of networking information	3	1.4
Personality weaknesses	15	6.8
Total	220	100.0

Source: Survey 2009

## POLICY IMPLICATION

Research found that halal food processing firms in Malaysia are still weak in forming their business networks especially marketing networks in order for them to penetrate the global market. Research also found that, marketing networks relates to firms' sales performance. Firms which are able to expand their marketing networks tend to increase their annual sales. However, among the serious problems included lack of trustworthiness and commitment, lack of information technology, socialization problem, identification or selection of business networks and the role of supporting agencies such as financial institution and government sector. The problems indicated above had limited the expansion of local halal products to the global market whereas there exist a bright prospects for our halal product. Therefore, in order to fulfill the government's aim to emerge as the regional halal hub, research hereby suggested a few policies to increase firms' competitiveness through establishing effective business networks.

### Accumulation of Information

One of the resources for firms to expand in globalization environment was through accumulation of information. In order to exploit potential opportunity, entrepreneurs were advised to increase their experience as well as upgrading or equipping themselves with relevant information (Klau & Ane 2002). It is very important for those who are interested in capturing global market. Lack of information may obstruct firms to penetrate to this market due to the difference of culture, language, trade regulation, consumer taste, product trend, product standardization and etc. In this context, business association and supporting agencies played an important role in forming knowledge networks to facilitate local firms particularly in gaining global market share. For instance, experienced entrepreneurs are encouraged to share their experiences among their business group.

### Exploitation of Information Technology

One of the channel to obtain information was through website or internet. The flow of information occurs at high speed due to the expansion of ICT worldwide. Therefore, gathering information becomes an important task to facilitate firms in forming their business networks. Internet acts as a medium to provide firms to implement e-commerce that will benefit the firms in various aspects included expansion of business networks in global level, deduction of transaction cost as well as marketing cost.

### The Role of Supporting Agencies

In lieu with the formation of business networking especially in global level, Mattsson & Eastson (2000) found that government agencies played an important role in few aspects, i.e. promotion of international trade, conducting of international entrepreneurship programme, preparation of consumer networking as a foundation for local firms to export, conducting trade mission which will not only benefits to participated firms. Moreover, these supporting agencies has to take the opportunity to promote local industry by providing all information and promote firms capability in produce good quality product.

Supporting agencies such as MATRADE, MITI, SMIDEC and FAMA plays an important role in expanding local industries' marketing networking to global market. For example, such agencies may find opportunity to deal with oversea business partner in the context of franchise to promote local halal products in their shopping arcade. It will expand local industries' marketing networking as well as its potential market.

### Entrepreneurs' Role

Empiric research showed that personality and characteristic of entrepreneurs play an important role in increasing firms' performance. In the context of business networking, they should posses proactive and initiative characteristics in order to be able to exploit all potential opportunity in their business environment (Klaus & Ane 2002). For example, entrepreneurs who are sensitive in market trend will be

more successful compared to those who lacks of this characteristics. Therefore, social networking created by the entrepreneurs can act as a stepping stone for them to expand their business. In lieu, entrepreneurs should exploit their social networking to increase the reputation to market their products (Christian & Michael 2003). Therefore, entrepreneurs should realize the importance of product brand name along with the expansion of business networking activities.

## CONCLUSION

Based on the research of 220 sample of halal food processing firm in Peninsular Malaysia, research found that a majority of the firms faced problems in forming marketing networks especially in global level. Consequently, it will limit the marketing opportunity in global level even though its prospects was high. The determinant factor in forming business networks in halal food industry in Malaysia found parallel with the factors that was proposed by Susan (2003), i.e. trustworthy commitment, selection, information technology, the role of supporting agencies and few external factors.

Moreover, a majority of the firms in this industry tend to expand their business network through social networks, i.e. associates among friends, business partner and family members. Besides, research has identified several obstacles in forming business networks, i.e. the difficulty of cultivating mutual understanding and trustworthiness among business partners, incurred high agency cost, personality weaknesses, lack of information and communication problems.

Finally, in order to expand the marketing prospects of local halal product, firms should equipped themselves with collecting information, upgrading with latest knowledge, exploitation of information technology, upgrading supporting firms as an information channel as well as marketing channel to local entrepreneurs in penetrating to global market.

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