CHAPTER 1

INTRODUCTION

This study aims to investigate factors that influences Indonesian importer’s commitment to foreign supplier relationship through three dimensions such as importer’s relative advantage of importing, knowledge and experience and trust, this study is based on a previous research that has been conducted by Bianchi & Saleh in 2020 in America as there has not been sufficient study regarding an international buyer-supplier relationship especially in an SME or small to medium-sized enterprise importers (Bianchi & Saleh, 2020). It is crucial to understand what factors increases importer’s relationship commitment as having a healthy, long-term relationship with foreign suppliers is important for both parties as they are able to minimize risks and gain benefits for instance, in terms of price, knowledge and access to the foreign market.

1.0 Background

Indonesia is included as one of the world’s largest economies (Wirjawan, 2020), knowing that there are potential for a tremendous growth in the upcoming years, the Indonesian government’s participation in small and medium enterprises has only grown more important as SMEs has an important role in contributing significantly to Indonesia’s economic growth as it has been gathered by Indonesian Ministry of Cooperatives and SMEs that SME-scale has contributed national GDP by 57% (Kemenkeu, 2021) and it has been predicted by a Multinational company, McKinsey & Company, that Indonesian SME can contribute up to USD $140 Billion by the 2030 (Wibowo, 2020)
When discussing about SMEs in Indonesia, these are businesses that consist of 100 – 300 employees and not only that it has contributed to the national GDP of Indonesia, it has also helped in reducing the unemployment rate. In Indonesian market, the SMEs make up more than 90% of all businesses across all industries. Agriculture as the most concentrated industry, trade, hotel and restaurant services, and manufacturing industry as the third (Tambunnan, 2018). However, the imported products to Indonesia has slightly changed amidst the pandemic Covid-19 and has reported to fell by 17% compared to 2019 and the top 5 most imported goods in 2020 are (1) Mechanical equipment, (2) Machinery and electrical equipment, (3) Plastics and plastic goods, (4) Iron and Steel, and (5) Organic Chemicals (Kickrate, 2020). This study will be focusing on iron and steel importers, that work at SMEs in Indonesia’s manufacturing sector; that play a crucial part in the growth of the manufacturing sector in Indonesia. During a cabinet meeting back in 2020, the higher-ups such as President of Indonesia, Joko Widodo and the industry ministry Agus Gumiwang Kartasasmita had discussed that since local steel and irons manufacturing firms in Indonesia couldn’t produce enough numbers of products to meet the consumers’ demand, it has been recorded that steel and iron have the highest number of imported products in Indonesia. Since Indonesia will keep on importing iron and steel in the future, it is very important to understand what increases these SMEs importer trust and commitment towards the foreign supplier as it could bring added value to both parties (Gorbiano, 2020). The next section will be explaining about the current situation of Steel and iron industry of SMEs importer in Indonesia to provide the readers with more understanding regarding the industry.
1.1 Steel and Iron Industry in Indonesia

When it comes to steel and iron companies in Indonesia, the largest steel-making company or the steel producer is the Krakatau Steel whose largest shareholder is the Government of Indonesia that was started in 1970, followed by PT Gunung Raja Paksi, PT Ispat Indo, and PT Jatim Taman Steel Mfg. Although Krakatau Steel has produced more than half of Indonesia’s total steel-making capacity, its production is still insufficient to meet current domestic demand. As an illustration, in 2016, Indonesia consumed 12.7 million tons of steels while local Indonesian steel producer was only able to produce approximately 6.8 million tons, suggesting that roughly half of steels to fulfill the domestic demand should come from abroad, which sums up reasons to import metals in the coming years is needed, therefore, understanding factors that affects the importers relationship commitment with the suppliers is important as long-term relationship is needed on international agreements (Oxford Business Group, 2020). In addition to that, the Ministry of Industry has noted that there is an increase in both demand and national steel production even amidst the on-going Covid-19 pandemic (Timorria, 2020).

This is also supported by the chairman of the Indonesian Iron and Steel Industry Association (IISIA), Silmy Karim that Steel products are expected to flood the Indonesian market due to declining economic growth and worldwide steel demand as a result of the global corona virus outbreak. According to him, Indonesia is a country that is vulnerable to such influx of materials. He believed that domestic precaution from a sudden increase of steel products have not been maximized yet. However, these products will not be a surplus in Indonesia since domestic demand from the manufacturing sector tend to be stable and predicted to even increase since it is forecasted to grow at an annual rate of 3% (Timorria, 2020). Since Indonesia will keep
on importing steel and iron products from foreign suppliers, it is crucial to choose the right ones to maintain the relationship commitment. When choosing the right suppliers, there are several factors that the importers should consider, for instance, the price they offered, the terms and conditions, time they consumed to carry out a certain task or to settle an agreement, the amount of steel they capable to produce and deliver, their business processes, how often they communicate, their information quality and many others (Jarir et al., 2012). In this study, the author will assess three factors that may influence the importer’s commitment to the foreign suppliers through an increase of knowledge and experience; and trust.

In addition to that, globally, Indonesia is the tenth largest steel importer in year 2017, importing up to 11.6 million metric tons of steel in 2018, an increase 1% from 11.4 million metric tons the previous year. These steels is imported into Indonesia from more or less 85 countries and territories. The ten nations marked blue in the map below are Indonesia's major steel import sources, each sending more than 300 thousand metric tons and accounting for 86 percent of the country's steel imports in 2018 (Steel Imports Report, 2019). The largest importer of steel and iron to Indonesia are from China, followed by Japan at US$ 2.1 Billion during 2020 based on the United Nation database on International Trade (Trading Economics, 2020). South Korea, Russia and Vietnam are also included as Indonesia’s major steel import sources.
1.2 Scope

This study focuses on the steel and iron industry as since the pandemic Covid-19 strikes, steel and iron is included as the top 5 imported products in 2020 and it is predicted that Indonesian infrastructure will keep increasing in the future, steel and iron played a crucial role in the development of manufacturing sector, which is why it is important to investigate what drives their commitment towards the foreign supplier.

This study examines how three factors, such as the importer’s perceived "cultural similarity," "communication," and the "relative advantage of importing" from supplier from different countries (Bianchi & Saleh, 2020), may or may not increase the importer's trust, knowledge, and experience, and whether or not it will affect their relationship commitment to foreign suppliers (Bianchi & Saleh, 2020).

It is crucial to find out what factors influences the degree of commitment between the importer and foreign suppliers as it may bring added value or advantage on both parties in terms of a good deal of price, higher knowledge of conducting business overseas and see business opportunities to bring a higher profits. Especially
as it has been explained in the beginning of this chapter that in the manufacturing of steel and iron industry in Indonesia couldn’t meet the consumer’s demand, therefore, since demand is projected to increase in the next few years due to constructions and infrastructure projects, understanding what increases SMEs importer relationship commitment with foreign suppliers is essential.

To gain further insights on what drives Indonesian importers commitment with foreign suppliers, an online survey will be distributed to these individuals working in an SME steel and iron company, regardless of genders, age and social classes, they could be CEO, director, managers or individuals in any division of the company as long as they have had experience dealing or still having a business relationship with foreign suppliers in the metal products. Surveys will be conducted to gain insight for instance to figure out which countries they maintain relationship with the suppliers and to gather data on how SME importers perceived culture similarities, communication and relative advantages of importing from the foreign suppliers influences their relationship commitment

1.3 Problem statement & Research Gap

According to Worldbank (2021), Indonesia’s economy is one of the largest in Southeast Asia and is considered as one of the emerging market economies in the world. SMEs are the backbone of economic development of Indonesian economy, contributing approximately 60% of GDP and 97% of the workforce (SMEs Safeguard Economy, 2020). Since the year 2017, President Joko Widodo has been trying to reduced production cost of Indonesians SMEs by importing materials to manufacture their products (Xinhua, 2017), but there are not enough studies on identifying factors that drive the SME importer’s commitment to the foreign supplier as most studies paid more attention on the exporter point of view rather than to the importers (Liang &
Parkhe, 1997; Novicevic & Harvey, 2004) which is why this study main focus is based on the importer’s perspective on several factors such as cultural similarities, communication and their relative advantage of importing influences the relationship commitment with foreign suppliers through a higher trust, knowledge and experience. It is very crucial to understand what factors influences the SME importers relationship commitment to foreign suppliers as the success rate of these suppliers are on the hands of the importers as they are the buyers or consumers (Bianchi & Saleh, 2010).

Understanding the meaning of trust in SMEs remains limited until today and it is mentioned in a research conducted by Hardwick et al. (2013) that only a few studies actually explained the effect of trust which is why several scholars suggested that future studies should focus on international commitment which is why this study addresses the roles of trust, & knowledge and experience in the process of forming relationships with suppliers from different countries.

In addition to that, this research is mainly focusing on SMEs in Indonesia or firms that have 100-300 employees since studies of a business internationalization process has only been taken into consideration in the end of 1950s as an attempt to understand multinational corporations' foreign activity (Buckley, 2011). There are some theories that has been identified during the period of time but it is insufficient to explain the international activities of smaller enterprises or the SMEs (Revindo, Indrawati, & Hambali, 2019).

Since this research is a replication from a previous research conducted by Bianchi & Saleh (2020), there are several differences between this research and the previous research. The study conducted by Bianchi and Saleh back in 2020 was in a America focusing on the importer’s relationship commitment to North and South American as well as Western European export manufacturers. In contrast, this research
will be conducted focusing on the SMEs Importer in Indonesia and this study will be focusing on the metal industry, enterprises who import steel and iron as it is considered as the top 5 imported products in 2020 and it played an important part in the growth of the manufacturing sector. Moreover, the Indonesian Iron & Steel Industry Association (IISIA) predicted that demand for steel and iron will increase in the next years as a result of construction and infrastructure projects, hence, understanding factors that can increase their relationship commitment with suppliers is essential.

1.4 Objectives and benefits

There are several factors that are going to be assessed in this research such as cultural similarities, communication measuring knowledge and experience; and trust as well as the importer’s relative advantage of importing from the foreign suppliers (Bianchi & Saleh, 2020). This research focuses on Indonesia’s SMEs importer of metals as it has been explained in the beginning of the chapter.

Objectives of the research:

1. “Identify whether cultural similarity with foreign supplier influences SMEs knowledge and experience

2. Identify whether cultural similarity between importer and foreign supplier influences importers trust

3. Identify whether a higher communication with foreign supplier influences SME importer’s relationship trust

4. Identify whether SME importer’s perceived relative advantage of importing from a particular foreign supplier will influences the relationship commitment with the foreign supplier
5. Identify whether the higher SME importer’s knowledge and experience gained from a foreign supplier will influence the relationship commitment with the foreign supplier.

6. Identify whether the higher the SME importer’s trust with the foreign supplier will influence the relationship commitment with the foreign supplier.”

The results of the study can benefit the import-export sector in ways:

1. Exporters will understand that they are able to control the importer’s trust and commitment drivers to have partnerships with them.

2. To provide insight on the importance of understanding the culture and find out culture similarities and differences of the importer and supplier from different countries when doing business.

3. To provide insight on the importance to maintain a good communication between importers and the foreign suppliers.

4. To provide insight to exporters on the importance of supplying the best quality products as it may increase the importers trust and commitment with them.

5. To provide insight on what drive the level of commitment in an international transaction relationships.

1.5 Research Questions

There are questions that have to be answered once the study has been conducted which includes:

1. “Does higher SME importer’s perceived cultural similarities with the foreign supplier increases the SME knowledge and experience?”
2. “Does higher SME importer’s perceived cultural similarities and perceived communication with the foreign supplier increases the SME importer trust?”

3. “Does higher SME importer’s perceived relative advantage of importing, knowledge and experience and a higher importer’s trust with the foreign supplier increases the SME importer’s relationship commitment?”

1.6 Structures

Chapter 1: Introduction

In the first chapter, the author discusses the SMEs in Indonesia and the current situation of SMEs importers in Indonesia. In this chapter also the author will discuss several issues that develop in the SME sector to acquire better understanding of why this research is currently being undertaken. Several information like the scope, objectives and benefits of this study all will be discussed in the first chapter of this study.

Chapter 2: Literature Review

The author will explain how cultural similarities, communication and relative advantage of importing will lead to a higher relationship commitment and trust with the foreign supplier, which includes a theoretical framework that will be used and tested throughout the research. The author will compile data and information from similar researches that has been conducted to provide better understanding to the readers about each terms that is used in this study.

Chapter 3: Research Methodology
This section provide detailed information on how the author will collect the data, both primary and secondary data will be explained. Sampling method that helped the author to select certain respondents that were appropriate for the study will be discuss in the third chapter as well as the operationalization of variables so that it will be easier for the reader to know the items of measurement used in this study

Chapter 4: Findings

All the findings based on the data collected will be shown and explained in this chapter after the hypotheses testing is conducted utilizing IBM SPSS Statistic software

Chapter 5: Conclusion and Recommendation

Chapter 5 will be the last chapter of this study in which it will summarizes the entire study and discuss findings as well as suggesting ways on how to imply the findings into real life practices in the managerial implication section. Research limitation, recommendations and suggestions for future similar research will be discussed further.