



THE BENEFITS AND CHALLENGES OF KOREAN FIRMS IN ESTABLISHING INTER-FIRM NETWORK WITH SUPPLIERS IN MALAYSIA



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ABSTRACT

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This study aims to explore the benefits and challenges of the inter-firm network relationships between Korean firms as buyers and their suppliers. Since the influence and strategies of the inter-firm network of overseas Korean firms have not been satisfactorily explored yet, this study attempts to contribute to the body of knowledge by exploring the benefits and challenges of inter-firm network for Korean firms in Malaysia. The results of this study highlights seven benefits of Korean firms having inter-firm networks: improved lead time and availability, ease of communication, long-term relationship, lower stock holdings at Korean multinational corporations or other MNCs (end-user), routine material information, trust relationship, and information sharing. In contrast, Korean firms also face challenges which include difficulty in terminating partnership, high dependence on one company, buyers' superiority over the suppliers, a network of different strengths of suppliers, and connecting with the business through an informal network. The study suggests practical implications to be anticipated by potential suppliers of Korean firms in developing successful supplier-buyer relationships.

Contribution/ Originality: This study expands the body of knowledge about the process of inter-firm network, specifically regarding its benefits and challenges. The application of the study onto the context of Korean firms in their foreign operations reveals new findings about how Korean firms manage their network with suppliers when they are overseas.

1. INTRODUCTION

The importance of networks has emerged as one of the domain frameworks to explain the global phenomenon of internationalisation across most industrial sectors (Johanson & Kao, 2010). Companies seeking to enter foreign markets make important strategic decisions about how to use networks in a specific market (Lu, 2002). Although the inter-firm network may differ for every industrial sector due to differences in their reaction to transaction cost based variables and risks, when firms conduct business in foreign markets, they use a variety of networks, such as finance, supply, transportation, content, service, and social (Walker & Hampson, 2003). These different types of

networks are important in the early stage of international expansion for strategic decision concerning control, risk, and supply chain.

Dicken (1998) has defined inter-firm networks as something taking place *'between firms belonging to separate but overlapping business networks as part of customer-supplier relationships'*. Besides, inter-firm network is also defined as voluntary agreements between companies relating to the exchange, sharing or joint development of products, technologies or services (Gulati, 1998; Zheng, Liu, & George, 2010). Thus, inter-firm network is composed of sets of independent parties, which cooperate for mutual benefits with shared information and frequent interactions.

The process of forming a network relationship in business and the resulting structure of inter-firm network has likely played an important role in shaping the Korean firms' business structure in Malaysia. After making a great effort to establish inter-firm network, it was found that 29.5% of the Korean firms increased their sales (Yozi, 1997). Generalising the results of a certain industry to every industry may be difficult, however, relatively speaking, inter-firm network did help Korean firms to increase communication and sales (Lee, 2004).

However, many existing research on inter-firm network of Korean firms is focused on the business network within Korea only (Kwon, 2010). Network practices that can be reproduced outside of Korea have not been explicitly studied (Lopez-Aymes & Salas-Porras, 2012). As Korean firms become more internationalised and have struggled to invest overseas, they established production networks and acquired local companies in certain countries to expand their business. Nevertheless, little research is done on the business network of Korean firms' subsidiaries and locally founded Korean firms as well as the relationship between both business parties (Gress & Poon, 2007).

Hence, this study focused on the inter-firm networks of Korean firms in the Malaysian market. The study examined how network theory contributed to the international expansion of Korean firms in the Malaysian market. Specifically, the study is interested to explore the benefits and challenges that Korean firms face in establishing inter-firm networks (i.e. suppliers), in Malaysia. This is translated in these research questions:

1. What are the benefits of Korean firms having inter-firm network with suppliers in Malaysia?
2. What are the challenges of Korean firms having inter-firm network with suppliers in Malaysia?

2. LITERATURE REVIEW

2.1. Benefits of Inter-Firm Network

A set of benefits underlying the inter-firm network is one that considers flexibility and efficiencies. Networks offer flexibility not in contrast to markets but to hierarchies. Networked firms establish overheads and production capacities, and in doing so forsake the flexibility of immediate resource reallocation that networks provide. Hence, large firm-small firm interaction might be facilitated such that the resource advantages of the former are linked with the behavioural or creative benefits of the latter. The efficiency-enhancing effect of networks is related to the specific nature of technological knowledge, information sharing, cooperation in production, etc. If a firm does not have any network with suppliers or form any partnership, either officially or unofficially, it will be difficult to transfer easily and quickly through market mechanism and production capacity. Inter-firm network provides a mechanism to perform transfers, whereby this kind of transfer is based on trust between the partners (Eisingerich & Bell, 2008). Inter-firm network exists in the manufacturing, as well as in other sectors, but has expanded rapidly in the last decades.

There are three major reasons why inter-firm networks are so popular in fast-growing technologies. The reasons are (1) these new technological paradigms are more knowledge-intensive now than in the past, and a successful innovative performance relies on the capability to acquire information on what is going on in the field, (2) it is particularly necessary for industries in their infant stage to acquire information and therefore to also share it, and (3) to pursue value co-creating activities, organisations have started to open up their value creation structures

and processes by collaborating with other firms in networks formed with suppliers or any business partner (Fjeldstad, Snow, Miles, & Lettl, 2012; Snow, 2015).

The increased use of inter-firm networks is creating new opportunities for small firms. There are several factors at work, including greater interest in the supply chain, the growth of 'supply chain management' (i.e., managers taking a broader perspective than one confined to the systems over which they exert direct control), and the increased popularity of outsourcing, which is itself linked to developments such as core competencies and resource-based strategy. These factors help business networks to be used more widely. Greater reliance on networks means more scope for small firm start-ups, especially since large firms cease to undertake certain activities, preferring to buy them in instead. Simultaneously, business networks can make small firms more competitive. When small firms are linked through a network to other firms, they can concentrate on aspects of business with competitive advantage, while others in the network ensure the provision of an effective service. Nonetheless, foreign firms, especially suppliers of materials and components and private customers, play a significant and growing role within the national innovation networks. Empirical data on such developments indicate a growing frequency of international relationships. Firms, especially in small countries, tend to have more networks with foreign firms, which seems to go hand in hand with the strengthening of domestic networks.

2.2. Challenges of Inter-Firm Network

There are several inter-firm level challenges. Cooperation among different network actors to leverage value creation is very crucial for the design, implementation, and survival (Cenamor, Sjödin, & Parida, 2017). There is a challenge of overcoming an outflow of important information, which may exist between the supplier and buyer (Aarikka-Stenroos & Jaakkola, 2012). The effort to capture and share information among network partners may be difficult, as it requires the establishment of trust, common understanding, and appreciation of the value of network approach, rather than a single-firm approach to network (Chirumalla, 2013). In addition, capabilities at the supplier interface are also needed to allow for greater integration (Alghisi & Saccani, 2015).

Supplier and buyer's relationship and involvement in the inter-firm network would have an impact on the information sharing and maintaining a stronger relationship (Zhang & Banerji, 2017). When they are not well informed about the process and the level of trust is low, they will be unwilling to share data (Sjödin, Parida, & Lindström, 2017; Zhang & Banerji, 2017). This shows the need for buyers and suppliers to define the roles and relationship required for the cooperation process to reduce friction and overcome barriers (Alghisi & Saccani, 2015; Baines et al., 2017). Risks arise at different stages of the network due to the huge requirement of financial investment, technology sharing, strict quality rule, etc (Zhang & Banerji, 2017). The prevalence of risks makes buyers unwilling to commit to long-term contracts, which hinders the realisation of the benefits related to a full manufacturing cycle (Rabetino, Kohtamäki, Lehtonen, & Kostama, 2015; Sjödin et al., 2017). This poses a major challenge in deciding the level of ownership and risk management within the network, as sometimes buyers fear the loss of knowledge to suppliers (Lightfoot, Baines, & Smart, 2013; Rabetino et al., 2015). Risks can arise from multiple causes while co-creating value with the customer; therefore, the ambition of designing a successful inter-firm network to overcome inherent risks requires extensive cooperation between suppliers and buyers (Lightfoot et al., 2013; Rabetino et al., 2015). Some of the key challenges and barriers identified as restricting the innovation and growth capabilities of firms, especially SMEs, include their heavy reliance on certain suppliers with an informal relationship within the network (Smallbone, North, & Vickers, 2003).

3. RESEARCH METHODOLOGY

This study was conducted using the qualitative case study method. The qualitative method was used with the case study approach for data collection, which was done through in-depth face-to-face interviews.

Qualitative case research results are more useful, and the findings would provide a better understanding of the behaviour of firms (Charmaz, 2006). From this perspective, networks contribute to the micro-level inter-company network analysis. This study has argued that a practical and inquisitive approach is needed to better understand the inter-firm network phenomenon in Malaysia.

The selection of case studies was done according to non-probability sampling, specifically, purposive sampling. Korean firms were selected based on the criteria of location, sector, and availability. The selected companies were in a region of Malaysia comprising mainly of Korean companies in the industrial and commercial sectors. The target interviewees were key decision-makers within each firm as Table 1.

Table-1. List of interview participants.

Company	Position	Code name
Samsung Electronics (M) Sdn Bhd	Managing Director	SE1
	Procurement Manager	SE2
	Quality Manager	SE3
	Production Manager	SE4
DYP Sdn Bhd	Managing Director	DY1
	Production Manager	DY2
MSSC Sdn Bhd	Managing Director	MS1
	Sales Manager	MS2
POSCO Malaysia Sdn Bhd	Managing Director	PM1
	Sales Manager	PM2
	Production Manager	PM3
JoonHee Micron Sdn Bhd	Managing Director	JM1
	Sales Manager	JM2
YHP Sdn Bhd	Managing Director	YH1
	Sales Manager	YH2

Furthermore, the researcher used the advantage of working in one of the Korean companies to network and gain access to other Korean companies and its suppliers around the same area and same industry.

4. FINDINGS

4.1. Research Question 1

The findings below summarize the seven main findings in answering the first research question: What are the benefits of Korean firms having inter-firm network with suppliers in Malaysia?

4.1.1. Improved Lead Time and Availability

To improve supply chain and strengthen lead time availability or to resolve a potential failure before it happens is one of the benefits of having inter-firm network. Korean electronics MNCs were doing business with same nationality business partners, which accounted for over 60% of their suppliers. Supplier's unavailability of stock is when a supplier has no material usage forecast caused by lack of information and no agreement regarding supplier performance of local suppliers. On the other hand, late order information and information inaccuracy concern lack of human resource skill between both business parties. Requested short and tight lead time (for example, 24-hours delivery for Just-In-Time or JIT items) by suppliers means unfavourable supply from local suppliers due to location and high logistic cost. The lead time impacts the order frequency and inventory level. The faster the lead time, the lesser the inventory value needed to cover the requirement and vice versa.

'With the change from a Malaysian local supplier to a Korean supplier, a system has been set up to receive 24-hour supply. We are operating a production line 24 hours a day, so we often have to receive it urgently at night-time, but it is stable compared to the past.' (SE4, 2015).

Additionally, there was the power of passing good information to the customer. When there was a shortage, the expeditors produced good quality Estimated Time of Arrival (ETA) that was not only used in planning but also communicated directly to customers. Even if this did not prevent a service failure, it could sometimes alter the customers' perceptions of that failure.

4.1.2. Ease of Communications

Effective communication between Korean MNCs and their Korean suppliers has been strongly established by routine and updated material usage information, periodical meeting and frequent visit, and maintaining a good relationship between those at high-level positions (managing director, president, CEO, general manager, etc.). The frequency of communication was also important to successful communication.

From the point of view of manpower structure in Korean firms, there was not much of a need to listen to local subordinates. This system, however, provided very little flexibility; without the discretion of the Korean expatriates or managers, sometimes, the subsidiaries cannot function, since Korean managers or those at a higher position make most of the decisions among themselves. Communication under these conditions was not easy and required a very special amount of concentration in every way.

'The more they communicate, the more they can understand business. The more they understand, the more they know partner's business situation. Once they communicate, there's no stopping them. Communication between parties helps to share information quickly.' (PM1, 2014).

When setting up production in Malaysia, POSCO-Malaysia quickly realised it had to change its supplier development approach to abide by Southeast Asia's supply conditions in terms of procurement, quality, on-time delivery, and so on. In the case of Samsung, the company adopted the 'Global Supply Chain Management' (GSCM) approach to supplier development in Korea, which involved analysing suppliers' processes and supplier development. This approach works well in situations where suppliers have mature supply relationships. Suppliers need to work together for years, so, they understand what suppliers want.

At the initiatory stage, when Samsung or other Korean electronics firms started production in Malaysia, the local suppliers faced difficulty in understanding what local suppliers were asking for in terms of quality and continuous improvement. This misunderstanding created a tense relationship. As a result, Samsung Electronics spent a great deal of time communicating its expectations with the suppliers. Eventually, Samsung Electronics published a supplier partnership manual that delineated supplier responsibilities and expectations and mapped out a programme for mutual prosperity with their partners. This programme has been adopted in overseas subsidiaries as 'Win-win Cooperative Relations'.

4.1.3. Long-Term Relationship

Long-term strategies can affect the negotiating power of manufacturers and suppliers and their motivation to form long-term relationships. For example, a buyer can negotiate the price of a component, but it is less desirable to collaborate with this type of customer because the supplier absorbs all the benefits and costs less. When a customer relinquishes the bargaining power, a long-term relationship with a supplier can replace the vertical integration of activities related to a particular transaction, as costs are outsourced and a better partnership is established.

Samsung Electronics and other Korean electronics firms approached suppliers as long-term relationships and tried to be a better customer. Their purchasing strategy focused on optimising supplier selection through careful, multi-faceted research within a set time frame in terms of quality, capability, etc. For instance, Samsung Electronics frequently communicated with suppliers or developers during development, depending on their technical competence, duration, production capacity, and procurement availability. Unlike American firms, Korean companies

usually begin to work with suppliers and if there are no specific problems, they enter into supply contracts with the suppliers until a particular model is discontinued and continue to cooperate with them long-term.

'We are seeking long-term contracts with our suppliers to ensure reliable supply and delivery quality and timeliness in the electrical and electronics industries.' (SE3, 2015)

Overseas, Korean suppliers want to enjoy a long-term relationship with their electronics customers and the relationship is characterised by higher levels of trust. Nonetheless, things are different in Korea. One of the reasons for this is that the Korean government has failed to set up laws and regulations for the protection of SMEs in the promotion of SMEs and strong partnership between SMEs and conglomerates. As a result, many subcontractors, such as smaller companies, are at a relative disadvantage doing business with large companies. This has led to higher levels of inter-firm trust in Korea.

4.1.4. Lower Stock holdings at Korean MNCs (End-User)

Most of the local suppliers had the burden of holding the stock sold to Korean MNCs. Based on this research, most of the Korean firms tended to hold more stock compared to local firms. One of the obvious reasons was the rate of business dependence on Korean MNCs. Relatively, local firms supplied their products to various channels, but Korean firms had a high level of dependence on only Korean MNCs.

Unreliable supply from local companies to Korean MNCs was one of the reasons for safe stock retention. Generally, when delivery is guaranteed on the due date, safe inventory can be reduced to the level needed to meet common demand volatility. Samsung Electronics is a good example for observing how and why the stock management system works when the core company introduces a new inventory system to take advantage of the inventory management competitiveness.

This inventory system allows suppliers to pinpoint accurate production schedules and predict delivery schedules in real-time, thus, reducing management costs and maximising business efficiency (Boden, 2005). Samsung Electronics' JIT philosophy should integrate as many layers as possible into the supply chain and be delivered to customers. The electronics industry is an ideal structure for such an environment because of the dependence of each company on the evolving core components.

As Samsung's managing director explained, with this system, the production and sales departments can get real-time insight into accurate production planning and delivery schedules.

'Our plant receives processed parts from suppliers and final assembles them. As we operate a production line for 24 hours, we cannot always have enough inventory of parts. We usually have one day's stock, but we can't keep more than that because of space problems. However, the suppliers are able to deliver parts for 24 hours a day, allowing the supplier to hold our stock for about 3 days. In addition, inventory of parts is managed as a system and can be reliably supplied.' (SE2, 2015).

An example of the use of the JIT inventory control system is between Samsung Electronics and its Samsung business group. MSSC has the Licensed Manufacturing Warehouse (LMW) qualification since MSSC started doing business with Samsung Electronics. LMW is a type of bonded warehouse that can perform manufacturing processes to produce finished goods for export. Raw materials are used directly in the production of finished goods (microwave and oven) for export or the Malaysian market and are given full import tax exemption. Importation of machinery, spare parts, equipment, and accessories used directly in the production process is given a full import duties exemption (Ooi, 2009).

4.1.5. Routine Material Information

If suppliers can believe that buyers will not act opportunistically, sharing confidential information such as production costs or product design and process innovation is more efficient in long-term transactions. A lack of trust can prevent exchange partners from providing relevant information that may be useful for troubleshooting. Suppliers may not share information about production, design, and quality issues unless they trust the buyer to work together to solve the problem. Furthermore, suppliers may be reluctant to share information that reveals operational or cost structure weaknesses, although sharing such information can lead to valuable suggestions from buyers that can lead to effective solutions.

Companies often dispatched employees to help suppliers. This effort is characterised by business practices in which purchasing company representatives are directly involved in fixing supplier problems and improving competencies.

'Unlike other industries, the electronic industries must rely heavily on information sharing because of sudden change of model by countries and each season, and material cost and production quantity.' (SE1, 2015).

'From the supplier's perspective, routine and regular information sharing with end customers helps to plan production plans, inventory management and raw material purchases.' (JM2, 2015).

4.1.6. Trust Relationship

Trust can be seen as a social relationship between individuals. Personal trust is related to the situation in which each know that someone else might have put to difficulties. The meaning of the interpersonal relationship to economic activity is that the parties can cooperate without complicated and detailed contracts and reduce control efforts. Therefore, interpersonal trust can reduce transaction costs (Pikka, 2007).

Trust emphasises the social dimension of networking in Korean society. Networking is usually based on mutual trust, especially in local networking. Working together effectively requires mutual trust between the parties involved. To be successful, the Koreans developed a trusting personal relationship with their business partners. To develop this relationship and maintain long-term relationships, Koreans have spent a lot of time in business socialisation. Trust between Koreans refers to the extent of trust placed in the organisation by the partners of a focal organisation. It describes the extent to which partners in terms of business have a collectively held trust orientation between firms (Zaheer, McEvily, & Perrone, 1998). When institutional patterns of business between firms are carried out, inter-firm trust had a direct effect on performance, such as accelerating rapid responses to the market. Therefore, inter-organisational trust plays a more prominent role than inter-personal trust.

Trust is crucial in the Korean network because it can be a conducive to constructive or integrative behaviour. Integrative behaviour can result from cooperative problem-solving, information exchange, goal clarification between partners, and commitment to execute agreements, while low levels of trust lead to destructive behaviour.

When a Korean supplier develops trust with a manufacturer, that manufacturer usually tends to offer more sales support to the supplier (Anderson & Narus, 1990). Once there is a cooperation between partners, trust is established and firms jointly coordinate their efforts with network partners for a long time.

'We may have faith in the owners of Korean-flagged companies, but we cannot ignore the trust in the long-standing transactions.' (SE3, 2015)

Another respondent provided a similar opinion.

'Personal trust between the two companies' chief executives alone cannot develop the relationship between them. However, there is also a contradiction that it is more believable that the same Korean supplier is without a reason. Only, there are advantages for Korean suppliers to maintain their transactions in the relatively

long-term compared to other local or overseas suppliers. I think it helped build trust between the two companies easily. (YH1, 2015).

4.1.7. Information Sharing

This study has found empirical evidence that active inter-company information sharing not only reduced transaction costs and improved mutual information sharing but also created economic value in the exchange relationships among Korean firms. There was a lot of information sharing between suppliers and customers. Korean suppliers tended to be smaller and more sophisticated than others. As a result, support for suppliers is an indispensable element in the survival of the Korean electronics industry.

'There is no doubt about the importance of information sharing, because of the complicated assemble procedure, specification, and long-term period involved electronics industry.' (YH1, 2015)

'Information sharing was routine and standardised in daily operations, so it was very important antecedent to successful networks among Korean firm.' (SE2, 2015).

An intimate relationship creates a social network in which the company is integrated and is a source of valuable information about the credibility and capabilities of current and potential participants in the network, improving the information on new opportunities and trust among current and potential actors involved in it [Dyer and Chu \(2003\)](#). Companies can achieve exceptional efficiencies through interaction with a small number of suppliers, close relationships with suppliers, and the spread of philosophy throughout the entire chain. These efficiencies enable new ways of organising workforce utilisation, processes, and technology in the right place, dramatically improving the productivity of the company.

4.2. Research Question 2

The findings below summarize the five main findings in answering the second research question: What are the challenges of Korean firms having inter-firm network with suppliers in Malaysia?

4.2.1. Not Easy to Terminate the Partnership

Partnerships based on inter-firm networks have specific cultural and contextual settings where business interactions occur. For example, business relations in Korea can be maintained through business culture and regional linkages based on the Confucian culture. Relationships are not activated for a long time. However, when needed, there is immediate trust and commitment when appropriate cultural norms are found.

A partnership ends when the event described in the agreement occurs, or after one of the partners has been disbanded and most of the partners decided to terminate the partnership. Written contracts can be very useful at the end of a partnership as they can open follow-up procedures. For instance, if a partner remaining on a partnership agrees, the business is valid until the specified time.

It can be difficult to build partnerships through the development of relationships among multiple partners after a long-term business. Termination of a partnership usually involves more than a single moment because the partnership will be gradually lost.

'The biggest reason why it is difficult to terminate business with Korean companies abroad is that we cannot ignore all information we shared for long-term period and the know-how we have from suppliers. So, this business relationship is forced to continue. This situation is not only happening in Malaysia, but in other countries, and so is the auto industry.' (SE2, 2015).

4.2.2. High Dependence on One Company

Most Korean suppliers had a high level of dependence of one buyer. This is the same case for Korean firms in Malaysia as portrayed in Table 2. Despite this, Korean firms managed to operate stable businesses in the short term, but their negotiating power, in the long run, would be weak and it would be difficult to achieve the target sales goal. Thus, in the long run, it is necessary to reduce dependence on specific buyers.

Table-2. Business Dependence of Korean firms.

	Name	Dependence on business in Malaysia				
		Korean firm		Local firm	Foreign firm	Export
		1 buyer	others			
1	Joonhee	89%	–	–	5%	6%
2	MSSC	32%	63%	2%	–	3%
3	DPC	72%	–	–	28%	–
4	YHP	62%	–	–	38%	–
5	POSCO Malaysia	26%	11%	14%	25%	24%
6	Samsung Electronics	3%	7%	–	5%	85%

A company may rely on certain other companies for its investment in certain assets of those companies. Another reason for high reliance is the lack of alternative suppliers that can supply similar levels of products. Then, there is an additional large switching cost to replace a supplier with another to supply goods and services, making it difficult or impossible to replace one supplier with another. If this dependency is determined by the holder, the scope and characteristics are involuntary. Power-based dependence can exist without any credibility and trust.

In the beginning, Korean suppliers were very dependent on Korean MNCs in Malaysia. Consequently, there were tight relationships, because the company was in the same area and there was a very close relationship between orders and delivery. Initially, nearly 100% of the orders were made to Korean suppliers. The mutual dependence between Korean firms was very high; however, the situation has changed throughout the years. For example, the order to Korean suppliers now accounted for 80% of Samsung Electronics' turnover. Both parties have expressed satisfaction that Samsung's dependence has increased due to the security of supply.

'In some cases, since we receive certain parts only from one supplier over a long period of time, it is not easy to find new or replacement businesses, and even if quality problems and price increases, there are difficulties in our position when changing the company. Even if found, new suppliers are not familiar with processes and quality specifications, resulting in continuous trial and error in the early stages.' (SE2, 2015).

'We have had a win-win situation with Samsung Electronics so far. And they have invested in machines and equipment in a way that enhances the quality of their products. However, at this point, many Korean suppliers, including us, have sought to diversify their business partners to reduce reliance on specific buyers.' (JM1, 2015).

4.2.3. Buyer's Superiority over the Supplier

The final manufacturers in Korea, including in the electronics and automotive industries, generally gain more advantages than the suppliers, and the suppliers tend to rely heavily on final assemblers. There are two main reasons for the superiority of the final manufacturer.

Firstly, most suppliers only supply products to a small number of buyers. Secondly, most suppliers produce and supply standard products that are compatible with products from other suppliers. This characteristic is caused by the industrialisation strategy of Korea in general and is a phenomenon that can be seen across all the industries

(Choi et al., 2001). In the early stage of setting up new production facilities or conducting factory transfer from the home country, the most critical parts were directly purchased from existing suppliers in Korea (Choi et al., 2001).

The relationship between business partners influences the continuation of the relationships and results in rapid ending processes. In some Korean business relationships, when a small supplier has a business relationship with a large firm, the power of the large firm can affect the unilateral dependence on the small supplier.

In some cases, there is a more balanced power relationship, while in another case, a larger buyer can be a stronger part of the inter-firm network. This power relationship can change rapidly in a global and changing business environment (Törnroos, 2004). The imbalance in the bargaining power between buyer and supplier has been reflected in the pricing mechanism of the Korean manufacturing industry and this phenomenon still exists.

'It will be the same for both large electronics and auto assembly plants. In a contract relationship, supplier wants to maintain a horizontal relationship, but the reality is not. But merely using new terms in the contracts will neither automatically change the stark reality, nor guarantee better relations between the top-dog and the underdog.' (YH1, 2015).

4.2.4. A Network of Different Strengths of Suppliers

The greater a buyer's dependence on a supplier, the more likely the buyer will be in a long-term relationship with the supplier (Lusch & Brown, 1996). According to Granovetter (1985) in the analysis of social network, based on the 'new economic sociology', the concept of strength deals with a combination of transaction size, relationship strength, closeness, and reciprocity, which characterise the bond between a firm and an individual. A stronger relationship involves a longer time commitment, a stronger relationship emotion, a stronger similarity in the relationship, and therefore a better sense of community.

The network concept of a strong and weak relationship is very similar to the concept of intimate and accidental contact found in the social network literature. This similarity calls to mind the possibility that strong ties between groups may minimise a controversial issue in organisations. Strong strategic networking is required because transactional assets can protect network relationships. Ongoing relationships enable effective business transactions. Furthermore, managing a small number of suppliers can help stabilise network relationships.

Jarillo (1988) has argued that establishing an efficient network implies the ability to lower transaction costs. The high intensity of collaborative relationships may reduce the transaction cost. In the following subsection, the transaction costs of strategic networking will be discussed.

This study found a weaker linkage between Korean MNCs and local or indigenous firms in Malaysia. In contrast, the Korean MNCs showed a tendency to maintain a stronger relationship with Korean firms.

'To be honest, there is a distinction between Korean suppliers and local suppliers. The biggest reason is that because of language problems and weak ties, they tend to prefer the same Korean suppliers rather than local. It is true that such relationships are stronger than local companies. For this reason, Korean suppliers are more and more committed to maintaining stronger and stronger ties with us. I think this is something that we should think about again someday.' (SE1, 2015).

4.2.5. Connecting with the Business through an Informal Network

The overseas Koreans are famous for their collective character. Collectivist societies are characterised by extended primary groups, such as family members, those from their homeland or graduated from the same school, who members have established relationships within a particular organisation, depending on their status and the influence of the Confucian tradition. In short, whenever Koreans migrate overseas, they have a strong tendency to

establish a community to network based on friendships, school alumni, or same hometown (Cheong, 2003). This kind of network has extended great influence over informal social gatherings and the business society and communities. They organise a wide range of networks to consolidate their influence for survival or better settlement overseas. This phenomenon has been noted in the United States, Japan, European countries, and some emerging nations like Vietnam, India, China, and Brazil, which have made brisk foreign investments. Since they generally do not have a solid root in foreign societies, individuals or small companies rarely invest in manufacturing abroad on a large scale and the payback period is also longer. Not only that, Koreans tend to build trustable personal relationships with business partners. As part of developing this relationship, Koreans devote a lot of time on business socialisation. This trend was especially strong overseas, and the people who were interviewed did not deny it.

'It's hard to deny that it's easier to start a business with someone who has something in common, such as graduating from the same school or same hometown.' (SE2, 2014).

'It seems often in the past that transactions have been linked by informal relationships, or personal relationships. But in my personal opinion, this is a trend that is disappearing a lot now.' (YH1, 2015).

5. CONCLUSION

This study has found that Korean firms have benefited from having close cooperation between manufacturers and their suppliers in terms of technology-related cooperation, sharing information, maintaining good quality, stable material supply, etc. In addition, non-financial type (e.g., material supply and sales support) of assistance was more frequent than the financial type of assistance (e.g., provide financial credit) because most of their suppliers were small- and medium-sized companies. The high levels of asset specificity and dependency facilitated cooperation between the final manufacturers and suppliers of the Korean manufacturing industry.

In addition, Korean firms also face challenges which include difficulty in terminating partnership, high dependence on one company, buyers' superiority over the suppliers, a network of different strengths by suppliers, and connecting with the business through an informal network. This study sheds light on the behaviour of Korean firms in host countries. On one hand, the benefits and challenges highlighted in the findings would be useful for local and international suppliers to understand what are expected from Korean firms in their future business dealings. On the other hand, Korean firms which are planning to expand globally would also be able to learn from these experiences and use them as guideline for their own operations.

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