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THÈSE

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*« "L'Université n'entend ni approuver, ni
désapprouver les opinions particulières du
candidat" »*

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There are so many others who have contributed to the completion of this dissertation; I apologize for not mentioning them individually.

You will never do anything in this world without courage. It is the greatest quality of the mind next to honor
Aristotle

Comportement de L'Exportation des Petites et Moyennes Entreprises dans une Économie en Émergence

Résumé

Cette thèse est présentée comme un recueil de trois articles empiriques. L'objectif général de cette thèse est d'examiner le comportement de l'exportation des entreprises de petites et moyennes entreprises (PME) dans une économie en émergence, la Malaisie. Cette étude se focalise, spécifiquement, sur deux domaines de recherche: déterminants d'exportation et stratégie d'exportation. Le premier et le deuxième article analysent, respectivement, les déterminants internes et externes des décisions d'exportation. Le troisième article examine la stratégie d'exportation dans le contexte de la sélection du marché. Les résultats et les contributions sont discutés dans chaque article.

Le premier article examine l'impact des facteurs financiers sur la décision d'exportation. En particulier, nous incorporons les deux majeures dimensions financières clés, le coût et le capital, pour étudier comment la perception du coût, de la capacité du capitale interne et de la contrainte du capital externe détermine le statut de l'exportation de la firme. Nos résultats montrent que les exportateurs perçoivent un coût d'exportation plus bas et sont moins contraints par le capital externe que les non-exportateurs. Cependant, nous découvrons que les exportateurs montrent une capacité du capital interne plus faible que celle des non-exportateurs. Cet article contribue à la littérature tout en intégrant les facteurs 'push and pull', pour comprendre l'effet combiné des déterminants financiers sur les décisions d'exportation.

Le deuxième article évalue l'efficacité des programmes de promotion des exportations. En particulier, nous examinons le niveau de conscience, la fréquence de l'utilisation et la perception de l'utilité de ces programmes entre non-exportateurs et

exportateurs. Nos résultats suggèrent que les exportateurs ont plus de conscience, sont les utilisateurs plus fréquents, et considèrent ces programmes plus utiles que les non-exportateurs. Cependant, les deux groupes montrent plus un haut niveau de conscience, une utilisation plus fréquente et un plus haut niveau de la perception de l'utilité des programmes liés à l'information d'exportation et aux salons/foires commerciaux internationaux sponsorisés que ceux qui sont liés à l'assistance financière tel que le conseil sur le crédit. De plus, l'analyse a également révélé que la fréquence de l'utilisation et la perception de l'utilité pour la plupart des programmes sont positivement liées à l'expérience de l'exportation, mais pas aux chiffres d'affaire de l'exportation. Cette étude nous aide à mieux comprendre l'impact des programmes d'exportation sur l'initiation et l'expansion de l'exportation à travers les différentes étapes de l'exportation dans une économie en émergence.

Le troisième article examine la relation entre les stratégies compétitives et la sélection du marché de l'exportation. S'appuyant sur la littérature de l'avantage comparatif pour les exportateurs des pays émergents, et les caractéristiques de la demande sur les marchés d'exportation, nous testons des hypothèses sur la façon dont la domination pas les coûts, la différenciation et les stratégies de cible influencent l'exportation envers les pays développés et en voie de développement. Les stratégies de différenciation montrent les effets opposés à ceux de coût, alors que les stratégies de cible sont associées de manière négative aux exportations des deux types de marché. Cette étude contribue à la littérature en montrant que les stratégies compétitives agissent comme un déterminant, au niveau de la firme, de la sélection du marché des exportations.

Mots-clés: déterminants de l'exportation, décisions d'exportation, facteurs financiers, programmes de promotion des exportations, stratégies compétitives, sélection de l'exportation du marché, PME, économie en émergence

Export Behavior of Small and Medium Sized Enterprises in an Emerging Economy

Abstract

This dissertation is presented as a collection of three empirical articles. The general aim of this thesis is to examine the export behavior of small and medium sized enterprises (SMEs) in an emerging economy, Malaysia. Specifically, it focuses on two research domains: export determinant and export strategy. The first and second articles study on internal and external determinant of export decisions, respectively. The third article examines on export strategy in the context of market selection. Findings and contributions are discussed individually in each article.

The first article examines the impact of financial factors on the export decisions. In particular, we incorporate two core financial dimensions, cost and capital, to investigate how perception of cost, internal capital capability, and external capital constraint determine the export status of a firm. Our findings show that exporters perceive export costs to be lower and are less constrained by external capital than non-exporters. However, we discover that exporters exhibit lower internal capital capability than non-exporters. This study contributes to the literature by integrating both push and pull factors to understand the combined effect of financial determinants on export decisions.

The second article evaluates the effectiveness of public export promotion programs. In particular, the level of awareness, the frequency of use, and the perception of the usefulness of these programs between non-exporters and exporters were examined. Our findings suggest that exporters have greater awareness, are more frequent users, and perceive these programs to be more useful than non-exporters. Nonetheless, both groups demonstrate higher level of

awareness, are frequent users, and perceived usefulness of programs related to export information and sponsored international trade fairs/shows than those related to financial assistance such as credit consultancy. Further analysis also revealed that the frequency of use and the perception of the usefulness for most programs are positively related to export experience, but not to export turnover. This study offers insights into the impact of export programs in an emerging economy for encouraging export initiation and expansion across export stages.

The third article examines the relationship between competitive strategies and export market selection. Drawing on the literature of comparative advantage for exporters from emerging economies, and demand characteristics in export markets, we test hypotheses on how cost leadership, differentiation, and focus strategies influence exports to developed- and developing countries. The results suggest that cost strategies positively influence exports to developed countries but not to developing countries. Differentiation strategies show the opposite effects of cost strategies, while focus strategies are negatively associated with exports to both types of markets. This study contributes to the literature by showing that the competitive strategies act as a firm-level determinant of export market selection.

Keywords: Export determinants, Export decisions, Financial factors, Export promotion programs, Competitive strategies, Export market selection, SMEs, Emerging economy.

We can't solve problems by using the same kind of thinking we used when we created them
Albert Einstein

Milestones

The present research was conducted in collaboration with the Malaysia External Trade Development Corporation and SME Corporation Malaysia, and was funded by the National University of Malaysia. It began in December 2010 during the ‘*Protocole de Recherche*’ course with Professor Margaret K. Kyle. The theme, *export behavior*, with a focus on SMEs in an emerging economy, Malaysia, was chosen because the author is responsible for producing research that is significantly beneficial for the internationalization of small and medium sized enterprises (SMEs) in his country. Accordingly, the author has decided to present this dissertation as a compilation of three articles related to this theme, and they were conducted concurrently. Topics for these articles were extensively discussed to ensure that their contributions are worthy of presentation.

During the first year, research frameworks for all three articles were developed from a review of the literature and presented in doctoral colloquiums to receive feedback and insight from experts in the field. In the second year, the frameworks were finalized and translated into a questionnaire design, followed by a series of interviews with representative SMEs to further understand the issues from the perspective of the companies themselves. Accordingly, the data collection process was held over a six-month period between September 2012 and March 2013. In the third year, the data was analyzed, followed by the final writing process. All three articles were sent for conferences and publications, and are still in revision based on comments from the reviewers.

Overall, this dissertation is the result of dedication and the rewarding experience of conducting research and working with others. The author looks forward to using these skills in future endeavors.

We build too many walls and not enough bridges
Isaac Newton

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Introduction

Economic liberalization enables and encourages firms to go international in order to sustain survival, and exporting is the most preferable mode of entry among SMEs. Despite that, export ventures among SMEs, particularly in emerging economies, are still in the early stages because international trade has long been dominated by multinational corporations (MNCs) from developed countries. SMEs are becoming an important research subject because they are the major source of employment and the engine for economic growth in many countries. For example, in Malaysia, SMEs represent more than 90 percent of total businesses and contribute to around 30 percent of the country's annual GDP since 2007 (Department of Statistics Malaysia, 2010). They also show potential to be successful exporters due to their flexibility and efficiency in responding to the specific requirements of foreign buyers.

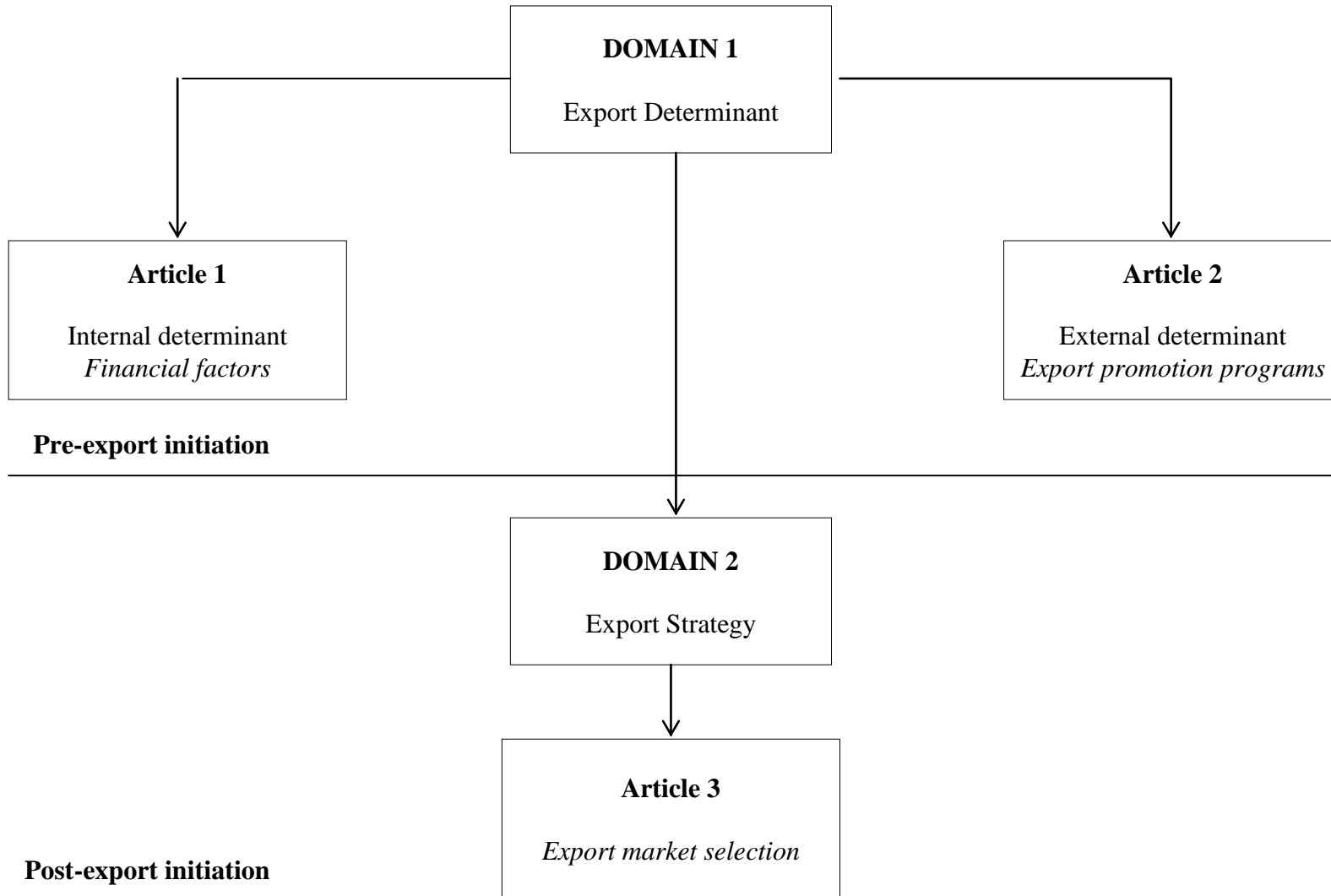
Emerging economies also receive attention for to their significant role in current international trading. Malaysia is one of the world leading emerging economies whose economic growth is highly dependent on export activities. In 2012, according to the WTO, Malaysia's exporting activities ranked 7th among developing countries after China, Russia, Saudi Arabia, Mexico, UAE, and slightly below India; yet ahead of the major developing countries of Brazil and South Africa. However, like many other countries, export participation among SMEs in Malaysia remains low, around ten percent, and contributed only 20 percent of the country's exports in 2010 (SME Corporation of Malaysia, 2011). Therefore, it is imperative for scholars to conduct research that identify opportunities and challenges for encouraging export participation, as well as export strategies for boosting performance among SMEs in emerging economies.

Accordingly, the present research studies the export behavior of SMEs in Malaysia on two issues: export determinants and export strategies. It seeks to address two main research questions: 1) *What are the internal and external determinants that influence the export decisions of SMEs in Malaysia*, and 2) *What are the export strategies employed by SME exporters that contribute to their performance?* The former captures pre-export behavior, while the latter studies on post-export behavior. These questions are answered respectively in three empirical articles. Each article is concise following the journal-article format but sufficiently extended conforming to general thesis requirements.

The research agenda is organized as follows. The first and second articles bring the understanding on internal and external factors that encourage or inhibit SMEs from venturing into exporting. Specifically, the first article examines internal determinant of financial factors; while the second article evaluates external determinant of public promotion programs in determining export decisions. Both articles shed lights on what can be done to increase export participation among SMEs. In the third article, we study the export strategies of SMEs after they initiate the effort. Precisely, we examine the role of competitive strategies in determining export market selection. This article offers insight into how export strategies can improve performance of SME exporters. The following section discusses in brief all the three articles.

Presentation of the thesis:

Export Behavior of Small and Medium Sized Enterprises in an Emerging Economy



The first article examines the effect of financial factors on export decisions. In particular, it investigates how perception of cost, internal capital capability, and external capital constraint determine the export status of SMEs. Previous research holds that these financial factors are prevalent, particularly among SMEs in developing countries, either as stimuli or as a barrier against exporting. The results reveal that exporters perceive export costs to be lower and are less constrained by external capital, but exhibit lower internal capital capability than non-exporters. This article contributes by incorporating two core financial dimensions, cost and capital, into a framework to comprehensively understand the combined effect of both push and pull financial factors on export decisions. It reveals that the export status of SMEs can be profiled according to their financial standing and enhances our understanding of the financial challenges to initiating exporting.

The second article evaluates the effectiveness of public export promotion programs (EPPs) in Malaysia. This is an important topic given the significant influence of external forces on SMEs decisions to export. Despite an increase in governments' budgets, EPPs in developing countries are often criticized as ineffective. High bureaucracy, inadequate funding, lack of client orientation, little government involvement, and poor administration are common complaints. Accordingly, this article examines the level of awareness, the frequency of use, and the perception of the usefulness of EPPs in Malaysia among non-exporters and exporters. Our findings suggest that exporters have greater awareness, are more frequent users, and perceive these programs to be more useful than non-exporters. In addition, both groups demonstrate higher awareness, usage, and perceived usefulness of programs related to export information and sponsored international trade fairs/shows than those related to financial assistance. This article offers insights into the effectiveness of EPPs in an emerging economy for encouraging export participation across export stages. It is particularly beneficial for policy-makers to improve the programs so that they may successfully achieve the objectives.

The third article examines the relationship between competitive strategies (cost leadership, differentiation, and focus strategies) and export market selection (developed and developing countries). It is argued that proper export market selection is imperative for resource-constrained SMEs who are incapable of penetrating many countries. Therefore, the export market they select must be favorable for their competitive strategies in order to enhance performance. Six hypotheses are constructed drawing on the literature of comparative advantage of exporters from emerging economies and demand characteristics in export markets. The findings show that cost strategies positively influence exports to developed countries but not to developing countries. Differentiation strategies show the opposite effect of cost strategies, while focus strategies are negatively associated with exports to both types of markets. This article contributes to the literature by introducing competitive strategies as a firm-level determinant of export market selection. Accordingly, it enhances our understanding of various competitive environments that exist in international markets and provides a context for observing export strategies and performance.

Paper 1:

**Financial Factors and Export Decisions of Small and Medium Sized
Enterprises in an Emerging Economy**

Presentations associated with this paper:

- 1) European Council for Small Business and Entrepreneurship (ECSB) Doctoral Seminar on Entrepreneurship and Small Business, EMLYON Business School, Lyon, France, 21th November 2012.
- 2) Research in Entrepreneurship and Small Business (RENT) XXVII Conference, ISM University of Management and Economics, Vilnius, Lithuania, 20-22th November 2013 (forthcoming).

This paper is submitted to *Journal of Small Business Management* (paper under review).

Introduction

Global economic liberation encourages firms to go international and exporting is the most feasible way for small and medium-sized enterprises (SMEs) to start (Leonidou, Katsikeas, Palihawadana, and Spyropoulou 2007). However, like other internationalization modes, entering and competing in the export market requires additional expenses beyond those needed for the domestic market (Minetti and Zhu 2011). Apart from the costs incorporated into the products, exporting incurs larger administrative, transportation, distribution, and marketing costs. Because export participation requires substantial investment and takes longer to break even (Tannous 1997), SMEs with short-term perspectives are not interested in attempting such an expansion (Kotabe and Czinkota 1992). Therefore, the availability of financing is important in the early stages of export development (Kotabe and Czinkota 1992).

In addition, as costs often increase with firm age (Loderer and Waelchli 2010), they often experience credit rationing (Cressy and Olofsson 1997) and are forced to seek external capital to sustain growth (Gregory, Rutherford, Oswald, and Gardiner 2005; Tannous 1997; Vos, Yeh, Carter, and Tagg 2007). Borrowing from external resources, particularly bank loans, is costly for SMEs (Brau 2002; Carpenter and Petersen 2002; Greenaway, Guariglia, and Kneller 2007), thus potentially impeding their expansion strategies. Incorporating these financial considerations brings to light the following question: *how do costs and capital affect SMEs' decision to export?*

Economic and financial research has examined capital accessibility as a determinant of a firm's establishment (Colombo and Grilli 2005; Egelin, Licht, and Steil 1997; Nofsinger and Wang 2011), growth (Becchetti and Trovato 2002; Cressy and Olofsson 1997; Hutchinson and Xavier 2006; Oliviera and Fortunato 2006), innovation (North, Smallbone, and Vickers

2001), investment (Chow and Fung 2000; Hutchinson 1995), and profitability (Rizov 2004). Accordingly, research on capital accessibility has covered extensively the concepts of capital capability and capital constraints (Beck, Demirguc-Kunt, Laeven, and Maksimovic 2006; Zia 2008). Regardless, there has not been sufficient research on the effects of integrated financial factors (cost and capital) on export decisions. Existing studies have embedded these factors in other determinants (e.g., Hoang 1998; Leonidou et al. 2007), or in isolation as either an export obstacle (e.g., Khan and Kalirajan 2011; Shepherd 2010) or as export stimuli (e.g., Kaleka 2002; Minetti and Zhu 2011).

The purpose of this study is to examine financial factors of export decisions among SMEs¹ in Malaysia. In particular, we incorporate two core financial dimensions, cost and capital, to investigate how perceptions of cost, internal capital capability, and external capital constraints determine the export status of a firm. Our results suggest that exporters perceive export costs to be lower and are less constrained by external capital than non-exporters. However, we discover that exporters exhibit lower internal capital capability than non-exporters. The findings highlight that export participation of SMEs in developing countries is limited by their perception of costs and insufficient external financing.

Our research contributes by advancing the understanding both the conceptual and the methodological aspects of SMEs internationalization. First, we integrate export stimuli (capital) and barrier (cost) into our framework to examine how financial factors influence export decisions. Second, we use a survey as our data source, because secondary data such as financial statements (e.g., Greenaway et al. 2007) do not reflect the managements' thought processes and can be misleading when interpreting a firms' behavior (Reid 1981). We also depart from the majority of studies on export determinants, which focus on large firms in

¹ SMEs represent 90 percent of total companies in Malaysia and they have been contributing about 30 percent of national GDP yearly since 2007 (Department of Statistics Malaysia 2010). However, only 6.3 percent of SMEs were exporting in 2010 and contributed around 20 percent of total exports (SME Corporation of Malaysia 2011). One explanation is that many of them are constrained by limited capital (National SME Development Council of Malaysia 2010).

developed countries (e.g., Greenaway et al. 2007; Minetti and Zhu 2011), by concentrating on SMEs in an emerging economy.

Theoretical Background

Export Costs

International trade cost is defined as the difference between the marginal production cost in the home country and the price paid by end customers in the host country (Khan and Kalirajan 2011). Due to geographical distance and cultural differences between domestic and foreign markets, export operations require extra investment related to border formalities, customs and duties, paperwork, and logistics (Shepherd 2010). These costs can be categorized into natural transport costs, behind-the-border costs, explicit beyond-the-border costs, and implicit beyond-the-border costs (Khan and Kalirajan 2011). More commonly, export costs are identified as being either internally or externally incurred. The former refers to investment made within the firm's operations such as cost of product modification, production adjustment, and employee training (Verwaal and Donkers 2002), while the latter is related to sunk costs associated with imperfect information and barriers that separate domestic and foreign markets (Blanes-Cristobal, DAVIS, Milgram-Baleix, and Moro-Egido 2008) such as import taxes charged by foreign governments, and shipping and distribution expenses.

In comparison to large firms, SMEs are more burdened by export costs because they often lack the information needed to navigate the export marketplace. They are also restricted by small output volumes and limited manpower to sell internationally (Minetti and Zhu 2011). Accordingly, cost acts as a pull factor that reduces the likelihood of export participation of these firms.

Internal Capital Capability

Cost barriers can be conquered by adequate financial capital, a push factor that encourages firms to venture into exporting. Many SMEs start up their business using limited internal capital (Gadenne 1998); according to SCORE² almost 85 percent of SMEs start-up capital originated from the owner's personal savings, family sources, or friends. Similarly, SMEs in Malaysia rely heavily on internal resources to finance their business activities (Rosli 2012). Because most export entry costs must be paid up front, only productive firms with sufficient liquidity can cover these costs and remain profitable (Minetti and Zhu 2011; Zia 2008). Therefore, strong capital capability is vital for SMEs to overcome the high export entry cost.

Greenaway et al. (2007) define capital capability as the financial characteristics of firms that enable them to sufficiently finance their business operations. Accordingly, considerable efforts have been made to define the financial characteristics of firms. First, capital capability emphasizes outstanding financial performance (Griffith 2011), where firms must show good financial performance in terms of profitability and cash flow improvement (Batten and Hettihewa 1999). Second, capital capability is measured by the presence of financial resources (Griffith 2011) as financial support is crucial for firms to sustain growth. Third, capital capability is also evaluated by the availability of liquid assets (Batten and Hettihewa 1999) that are needed as collateral when applying for loans from financial institutions. Overall, there is a consensus that capital capability encourages firms to venture into exporting (Kaleka 2002; Minetti and Zhu 2011).

² SCORE is a nonprofit association for small businesses in the U.S. and supported by the U.S. Small Business Administration (SBA).

External Capital Constraint

Capital constraint is defined as a decrease in the supply of funds that results in a lower level of investment (Beck et al. 2006). Accordingly, external capital constraint has commonly hampered SMEs, especially in the early years of establishment due to several factors (Beck et al. 2006; Bernard and Jensen 2004; Chow and Fung 2000; Cressy and Olofsson 1997; Hutchinson and Xavier 2006; Tannous 1997; Zia 2008). First, many SMEs demonstrate poor financial performance such as low capitalization, low profitability, insufficient assets, and high mortality (Batten and Hettihewa 1999; Cziraky, Tisma, and Pisarovic 2005; Griffith 2011), which creditors consider risky for repayment prospect. Second, SMEs often lack the skills necessary to prepare feasibility reports for their loan applications, thus supplying inadequate information with unaudited financial records (Batten and Hettihewa 1999; Brewer 2007; Cressy and Olofsson 1997; Cziraky et al. 2005). Consequently, creditors find it difficult to assess an SME's investment planning, particularly in foreign markets (Cziraky et al. 2005). The theory of information asymmetry (Stigler 1961) posits that an information gap exists when applicants have more knowledge about the investment than creditors, but are unable to convey the information. In order to overcome that financial obstacle, SMEs should adopt strategies to bridge the informational asymmetry (Tannous 1997). Third, a theory of transaction costs (Williamson 1981) in economics suggests that fixed administrative costs for processing financial transactions are the same regardless of the number of units involved. Therefore, for any given fixed costs, the increasing number of units will proportionally decrease the average cost per unit. This principle exhibits the disadvantage of SMEs when compared to large corporations (Tannous 1997) as creditors hesitate to approve small scale unit loans (Thampy 2010). Fourth, in the context of export financing, because SMEs depend

on cash from export transactions to repay their loans, there is high repayment risk (Tannous 1997) which jeopardizes access to capital from external resources.

Moreover, capital constraint is more prevalent among SMEs in developing countries (Cziraky et al. 2005; Thampy 2010) because financial institutions often are virtual monopolies. This causes higher borrowing costs and limits the ability of SMEs to acquire financing (Chow and Fung 2000). In contrast, firms in developed countries have better opportunities to access external funding (Hutchinson and Xavier 2006) because most advanced economies have established publicly funded schemes to assist SMEs financially (Zecchini and Ventura 2009), while such programs are rare in developing countries.

Export Decisions

Literature on the export decision has been concentrated on factors that affect whether or not a firm decides to venture into exporting. These determinants can be divided into external and internal change-agents (Bilkey 1978). The former refers to external forces such as government promotion programs and pressure for competition, while the latter is the more dominant factor that emerges from inside the firm, such as possession of sufficient resources and capabilities. Accordingly, these factors are found to significantly influence several dimensions of export behaviors such as the export decision (Yang, Leone, and Alden 1992) and also export performance (Hoang 1998; Kaynak and Kothari 1984).

Export decisions comprise both the intention to start (Morgan and Katsikeas 1997) and to continue (Pauwels and Matthyssens 1999; Shepherd 2010) and can be measured based on action, target, context, and time (Yang et al. 1992). To conclude, there is agreement that the stronger the export stimuli, the more likely non-exporters are to start exporting and for current exporters to continue (Morgan and Katsikeas 1997).

Model and Hypotheses

Perception of Cost

Export costs can hold firms back from entering foreign markets because they perceive these costs to be excessive. Economic research has shown that firms consider exporting only if the expected profits are positive (Blanes-Cristobal et al. 2008; Das, Roberts and Tybout 2007; Roberts and Tybout 1997). Therefore, firms are less likely to export if they perceive the costs to be higher than estimated revenue gains. Prior research also shows that export entry cost is a significant factor in explaining both the tendency to initiate exporting (Bernard and Jensen 2004) and the level of export response by firms (Das et al. 2007). Accordingly, the propensity to export will increase if governments implement strategies to reduce export costs (Khan and Kalirajan 2011).

Here, we argue that perception of cost among exporters is lower because they have successfully overcome the high initial costs of exporting by implementing effective export processes and strategies. For example, it is imperative for exporters to choose the right export destinations (Blanes-Cristobal et al. 2008; Shepherd 2010). At the early stages, many exporters prefer to export to countries which are economically stable, geographically close, and share similar customer demand with the home country. This strategy will reduce the cost of marketing, transportation, and risks related to inflation (Rahman 2003). In addition, perception of cost will go down over time as exporters are better able to absorb common expenses, especially when they penetrate new markets that are similar to the current ones (Minetti and Zhu 2011). They begin by exporting to countries that incur lower costs before entering into additional markets once the fixed cost are reduced (Kotabe and Czinkota, 1992). This strategy can be implemented through marketing and operations standardization, or export

learning mechanism (Schmeiser 2012), leading to cost reduction on the back of accumulated experience in foreign markets.

In light of the discussion so far, we argue that a negative perception of costs associated with exports is greater among non-exporters than exporters. Firms will continue to stay in the domestic market as long as they regard costs as a constraint (Kotabe and Czinkota 1992), while exporters who have successfully overcome the hurdle of entry costs and are able to reduce export costs over time.

H1: Exporters perceive lower cost of exporting than non-exporters.

Internal Capital Capability

In order to ease the cost barrier, exporters must have strong capital capability. Exporting is possible if firms are able to compensate for all costs with adequate financial resources (Das et al. 2007). In fact, financial assets are deemed to be one of a firm's competitive resources in export operations (Kaleka 2002), where only those with sufficient financial resources are able to become exporters or continue to export (Minetti and Zhu 2011). Accordingly, Greenaway et al. (2007) found that the capital health of a firm (measured by high liquidity and leverage) is significant for predicting the propensity for exporting.

Since many SMEs finance their operations using internal resources (Oliviera and Fortunato 2006; Vos et al. 2007), their growth is often hindered by insufficient capital (Leonidou 1995a), and therefore they do not initiate exporting even if they are interested in doing so (Requena-Silvente 2005). This can be seen through the effect of capital incapability (shortage) of a firm. For example, Kaynak and Kothari (1984) posit that insufficient capital

impedes export initiation because firms are unable to finance additional required expenses such as the cost of expanding manufacturing capacity.

For these reasons, internal capital capability has emerged as a crucial determinant for growth, including the decision to export (Greenaway et al. 2007). In comparison to exporters, non-exporters remain not exporting because they do not have sufficient capital resources.

H2: Exporters have better internal capital capability than non-exporters.

External Capital Constraint

SMEs are expected to grow over time but limited internal capital resources force them to actively seek external funds (Vos et al. 2007). However, external financing in developing countries can be costly if lenders take advantage of SMEs' dependency (Chow and Fung 2000) by charging high interest or limiting credit (Beck et al. 2008). As a consequence, growth strategies of SMEs that include export ventures remain unfulfilled as long as they are constrained by insufficient external capital (Hutchinson and Xavier 2006). In financial studies, external capital constraint is explained by comparing the actual growth rate of firms with external financing and the maximum growth rate they can attain without such assistance (Beck et al. 2006). Capital constraint is justified if the former is far greater than the latter.

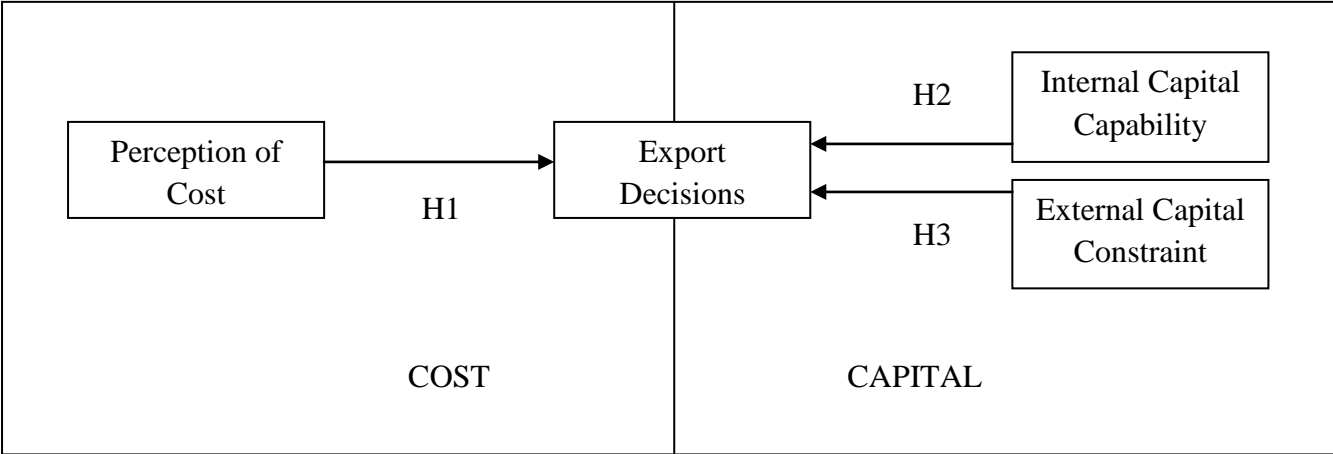
In contrast, firms who manage to acquire external funding show higher growth than what would be expected with internal financing (Batten and Hettihewa 1999). In fact, prior research ascertained that acquisition of external capital is a more dominant factor than perception of cost when predicting the export decision (Zia 2008). In other words, although exporting incurs high costs, firms are able to pursue it if they manage to obtain external capital. In summary, and in accord with previous findings, we propose that external capital

constraint has a negative impact on the export decision by SMEs (Bilkey 1978; Leonidou 1995b; Zia 2008).

H3: Exporters have lower external capital constraint than non-exporters.

Figure 1 shows our framework on financial factors of export decisions.

Figure 1: Conceptual framework



Methodology

Sample and Data Collection

Our sample of manufacturing SMEs is drawn from the SME Corporation Malaysia database. The SMEs operate across different industries, thus strengthening the generalizability of our findings for manufacturing firms (Morgan, Kaleka, and Katsikeas 2004). We choose manufacturing firms because they contribute significantly to economic activities and hold a dominant position in world trade. Also, using a sample of homogenous firms helps to avoid content-bias and improves the validity of our measurements. Since information on the export status of SMEs was not available in the database, the firms to whom we sent the email could be either non-exporter or exporter.

The survey data was collected over a six-month period between September 2012 and March 2013³. The questionnaire was pretested on a small sample of representative SMEs to evaluate questions, clarity of instructions, response format, and procedure. It was then translated into an online survey, and we sent a link via email to the owner's or top management's personal e-mail address. The use of e-mail surveys is more convenient for respondents as it saves both time and effort, and researchers can generally expect a higher response rate than for traditional postal surveys (Wright 2006).

During the first release, emails were sent to 2955 companies. Within 60 days, 213 responses were received, which is seven percent net returns. After a reminder, another 101 questionnaires were received bringing the total to 314 responses, or a 10.6 percent overall response rate. However, 28 responses were rejected, which brought the net response rate to 286 or 9.7 percent, consisting of 172 exporters (60.1 percent) and 114 non-exporters (39.9

³ The questionnaire was written in English, allowing comparison to prior studies. English proficiency in Malaysia is the highest in Asia and ranked 9th in the world among non-native countries (EF English Proficiency Index score in 2011: 55.54, high proficiency).

percent). The sample characteristics are presented in Table 1 as a break-up between non-exporters and exporters. On average, exporting firms are older, have more employees, and generate higher sales turnover than non-exporters. Also, the mean of export experience and export contribution to total sales in our sample are 13.30 years and 56 percent, respectively.

Table 1: Sample characteristics

Characteristics	Unit	Mean	S.D.
<i>Non-exporter (n=114)</i>			
1. Years of Operation	Years	14.386	11.542
2. Sales Turnover (Million) ^a	Quantity	4.977	2.768
3. Number of Employees	Persons	37.719	25.205
<i>Exporter (n=172)</i>			
1. Years of Operation	Years	21.000	11.828
2. Sales Turnover (Million) ^a	Quantity	10.865	6.677
3. Number of Employees	Persons	78.326	52.791

^a Currency: Malaysian Ringgit.

Constructs and Measures

All explanatory variables were measured through a five-point Likert scale. *Perception of cost* quantifies the respondent's perception on five types of cost: product/production modification, export courses/trainings, logistics and marketing, administrative (licensing and paperwork), and related taxes (Khan and Kalirajan 2011). We included three items for capital variables, which are adapted from an extensive literature review (Carpenter and Petersen 2002; Cziraky et al. 2005; Griffith 2011). *Internal capital capability* assesses financial resources, improvement in financial performance, and the availability of assets that can be pledged as collateral. *External capital constraint* consists of three statements to evaluate if: (1) respondents need more capital from external resources than they currently obtained, (2)

the credit offered to them by external lenders is limited, and (3) the firm's size has restrained them from acquiring external loans exceeding a certain amount.

The variable for the *export decision* is coded in the binary form: 0 for non-exporter and 1 for exporter. Finally, we included three firm characteristics as control variables: *years of operation* (natural logarithm of years of operation), *sales turnover*, and *size* (measured by number of employees). All measures of our constructs are shown in Table 2.

Statistical Analysis

We tested our result against: (1) response bias, (2) non-response bias, and (3) common method bias (CMB). We validated the key informant criteria by ensuring that the surveys were answered only by those in senior management posts. We included questions to make sure that responding companies fit the criteria for SMEs⁴, were in the manufacturing industry, and were locally owned. We also confirmed that the reported industry in the questionnaire was the same as listed in the SME Corporation Malaysia database. To assess non-response bias, we compared the first 213 responses with the last 101 responses, and found no significant differences between the two groups.

Despite the argument that CMB is minor in magnitude, it is still necessary to take steps to reduce its effects (Conway and Lance 2010). We performed Harman's one-factor test to check CMB, and found no single factor accounting for most of the covariance in the independent and dependent variables (Podsakoff, MacKenzie, Lee, and Podsakoff 2003). Finally, we carried out factor analysis to test internal consistency of our explanatory variables,

⁴ Definition of SME in Malaysia for the manufacturing sector is based on sales turnover and number of full time employees. Small-enterprise: sales turnover between RM250,000 and less than RM10 million or full time employees between 5 and 50; medium-enterprise: sales turnover between RM10 million and RM25 million or full time employees between 51 and 150.

and found a good internal consistency of the three constructs used in the research as shown in Table 2. Also, the result of bivariate correlations between variables is presented in Table 3.

Table 2: Factor analysis results for explanatory variables

Scale and Item	Loadings
<i>Export Costs</i> <i>alpha = 0.741</i>	
1. Product/Production Modification	0.681
2. Export Courses/Trainings	0.672
3. Logistics and Marketing	0.723
4. Administrative Costs	0.620
5. Related Taxes	0.682
<i>Internal Capital Capability</i> <i>alpha = 0.652</i>	
1. Strong Financial Resources	0.792
2. Improvement in Financial Performance	0.789
3. Availability of Assets	0.737
<i>External Capital Constraint</i> <i>alpha = 0.816</i>	
1. Need for More Capital	0.797
2. Limited Credit Offered	0.843
3. Restrained by Size	0.824

n=286

Table 3: Means, standard deviations (S.D.), and correlations

Variables	Mean	S.D.	1	2	3	4	5
<i>Explanatory Variables</i>							
1. Perception of Cost	15.650	3.810					
2. Internal Capital Capability	10.210	1.906	0.141*				
3. External Capital Constraint	9.993	3.131	0.189**	-0.440**			
<i>Control Variables</i>							
4. Years of Operation	18.364	12.136	0.065	0.414**	-0.246**		
5. Sales Turnover ^a	8.518	6.405	0.155**	0.399**	-0.281	0.438**	
6. Size ^b	62.140	43.656	0.121*	0.421**	-0.184**	0.525**	0.519**

^a (Million). Currency: Malaysian Ringgit.

^b Number of Employees.

* $p < 0.05$

** $p < 0.01$

Results

All hypotheses were tested using multiple logistic regression analysis. We included the following explanatory variables: perception of costs, internal capital capability, and external capital constraint, as well as control variables in our model. The results of the model and the significance level are presented in Table 4. Accordingly, our model can be written as follows:

$$\text{Export Status} = \alpha + \beta_1 \text{ Perception of Cost} + \beta_2 \text{ Internal Capital Capability} + \beta_3 \text{ External Capital Constraint} + (\beta_4 \text{ Sales Turnover} + \beta_5 \text{ Size})$$

The model is statistically significant at the 0.001 level and the overall predictive accuracy is 75.5 percent. This indicates that the export status of SMEs is well-explained with the introduction of financial determinants.

All explanatory variables are statistically significant in the model. However, the results support hypothesis 1 and 3, but not hypothesis 2. Hypothesis 1, which posits that exporters perceive lower export costs than non-exporters, is confirmed. This implies that exporters successfully overcame the entry costs, thus they do not perceive the cost to be as strong an obstacle as before. Hypothesis 3, which states that exporters are less constrained by external capital than non-exporters, is also supported. This indicates that exporters are more likely to fit the ideal criteria preferred by lenders, thus increasing their access to external financing. Still, non-exporters preparing export activities face a serious challenge in developing a trustworthy financial reputation to convince creditors.

Although the internal capital capability variable is statistically significant, its effect is the opposite of what is expected in hypothesis 2. Surprisingly, exporters exhibit lower

internal capital capability than non-exporters. This result could be due to the presence of both new and incumbent exporters in our sample. Prior research ascertains that new exporters usually experience a cash flow drain at the beginning of their exporting venture because they have incurred high sunk costs when entering foreign markets (Greenaway et al. 2007). To clarify the results, we ran a post-hoc analysis through bivariate correlation between internal capital capability and export experience (measured by the number of years spent exporting) among exporters, and found significant correlation of 0.37 ($p < 0.01$). To a certain extent, it validates our argument that exporters face poor liquidity and high leverage at the beginning but will improve their capital capability over time. On the other hand, non-exporters possess better internal capital capability because they have not invested in foreign market entry. In fact, some firms may refrain from exporting if selling in the home market is considered more profitable than foreign markets (Broll and Wahl 1997).

Both control variables, a firm's size and sales turnover, were significant in our model. This is not surprising because in order to become exporters, firms need extra resources by hiring more workers to expand production (Verwaal and Donkers 2002). Accordingly, export operations significantly contribute to total income (Das et al. 2007). However, firm age is not a significant predictor of the propensity to export. Despite being established, some firms may remain disinterested in export activities. There are many reasons for this, such as products being customized for the domestic market or by a low international orientation of the owners (Bilkey 1978). Nevertheless, some firms start exporting early in their life-cycle, especially firms with innovative products.

Table 4: Logistic regression

Factors	β	<i>p</i>
Perception of Cost	-0.378	0.036
Internal Capital Capability	-1.273	<0.001
External Capital Constraint	-0.677	0.002
Years of Operation	0.071	0.757
Sales Turnover	0.387	<0.001
Size	0.468	0.007
Constant	24.353	<0.001
Model χ^2	101.298	<0.001
-2 Log Likelihood	283.338	
Overall Predictive Accuracy (%)	75.500	
Nagelkerke R^2	0.403	

n=286

Discussion

Financial standing is a key consideration when contemplating exports (Greenaway et al. 2007; Minetti and Zhu 2011). Consequently, substantial research exists into financial factors behind export decisions, either cost as a barrier or capital as a stimulus. Despite both factors emerging simultaneously in a firm, the combined effect on export decisions is relatively unstudied. This research examines the impact of two core financial factors, cost and capital, in determining the export decision of SMEs in an emerging economy. In particular, we develop financial profiles of non-exporters and exporters in terms of perception of cost, internal capital capability, and external capital constraint. A review of the literature reveals that these three concepts are significant predictors of the export behavior of firms.

The findings exhibit that: 1) non-exporters perceive greater export costs than exporters and 2) are more constrained by external financing than exporters, but 3) show better

capital capability than exporters. First, we show that the perception of cost is still a significant obstacle for firms when contemplating export activities among SMEs. Because such businesses start on a small scale, any growth decision must be made wisely, particularly if large investment is involved. Therefore, export initiation is not feasible for firms if the move is costly and risky in terms of resources. On the other hand, exporters constitute a set of firms that have shouldered the risk and overcome the barrier, and they have thought out strategies to reduce export costs (Blanes-Cristobal et al. 2008; Shepherd 2010). Second, we show that limited financing from external resources also inhibits firms from exporting, which is consistent with prior research (Batten and Hettihewa 1999; Hutchinson and Xavier 2006). Export activities demand substantial capital which is rarely available from internal resources. Therefore, there is an essential need to seek external funding, particularly from financial institutions (Vos et al. 2007). However, poor financial performance often restricts access to external capital, thus impeding export capability. Therefore, SMEs need to build reputation and relations with banks to facilitate capital access (Brau 2002; Cziraky et al. 2005; Hernández-Cánovas and Martínez-Solano 2006; Peltoniemi and Vieru 2012). Third, prior research shows that lower capital capability among exporters can be caused by a strain on financial resources because of exporting (Greenaway et al. 2007). What is more, exporting is not always profitable so non-exporters and exporters cannot be differentiated in terms of performance characteristics (Greenaway, Gullstrand, and Kneller 2005). In other words, exporting does not necessarily have a positive influence on performance. Also, because some non-exporters have a sustainable advantage in the domestic market, there is a little need for them to export.

Overall, the present research contributes to the literature on export determinants. More importantly, we merge concepts across the fields of accounting, economics, finance, and management. We show that export status of firms can be profiled according to financial

standing. Also, our use of survey data among Malaysian SMEs provides a novel perspective on export challenges and opportunities of firms from developing countries. What is more, our research departs from the large body of literature covering export activities of MNCs in developed countries.

On the practical side, this research enhances our understanding of financial challenges that firms may face when initiating exporting. Although exporting can be economically beneficial, financial considerations can remain a strong deterrent in starting export activities. Our results suggest that acquiring external financing is imperative but difficult for SMEs. Therefore, SMEs need to build a sufficient internal capital buffer, at least in the early stages of export activities. Also, a realistic consideration of costs and revenues is necessary. On behalf of policy-maker, financial institutions can provide SMEs with products to reduce financial barriers, thus boosting export participation. However, credit should be strategically allocated because the financial needs of non-exporters, new exporters, and incumbent exporters are different (Roberts and Tybout 1997).

Limitations and Future Research Directions

There are several limitations to this study. First, financial characteristics on their own are not adequate for distinguishing between exporting and non-exporting firms (Cziraky et al. 2005). Second, our sample is restricted to a single country, Malaysia. Applying the findings to other developing countries should be done with care because the structure of financial and legal institutions and their affect the financial situation of firms will vary between countries (Beck et al. 2006; Minetti and Zhu 2011; Thampy 2010).

We found evidence that capital capability among exporters improves over time, but further investigation could use panel data to give a more fine-grained picture. Future

empirical research could address two issues: 1) to compare exporters who suffer poor performance with those that increase performance over time; and 2) to see if various measures of performance are influenced by export activities.

Conclusions

SMEs contribute significantly to economic growth in many countries. Therefore, persistent efforts have been made to facilitate their operation, including internationalization. Accordingly, research on export determinants, the most popular, quickest, and easiest way for them to go international (Leonidou et al. 2007) is a worthwhile endeavor for scholars both at the firm and country level. Drawing on the existing literature, this study examines financial factors of the export decision of firms. We found that the export venture is restrained by the perception of high cost and insufficient external financing, but not necessarily by internal capital capability. Because our focus is on SMEs in an emerging economy, we challenge prior research on developed countries that found export firms possess a financial advantage, thus their export participation is barely hindered by limited capital (Vos et al. 2007; Leonidou 1995a; 1995b).

Our findings suggest that firms should develop internal capital capability to cope with high entry costs into export markets, and then gradually build a reputation among creditors to acquire external financial support. There is a need for financial institutions to improve credit supply schemes and policy makers should consider assistance programs to reduce perceived barriers. We recommend future research on the effects of financial determinants on the broader dimensions of export behavior, including export withdrawal, in a more sophisticated framework than presented here. Overall, this study offers a new insight on financial challenges associated with export intentions.

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Paper 2:
Insights into Public Export Promotion Programs in an Emerging
Economy:
The Case of Small and Medium Sized Enterprises in Malaysia

Presentation associated with this paper:

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Introduction

Exporting is one of the modes of internationalization that increases competencies, expertise, and knowledge of firms (Kotabe and Czinkota, 1992; Seringhaus and Botschen, 1991), thus contributes to economic performance on a national scale (Morgan and Katsikeas, 1997). Export participation of firms is stimulated through internal and external change agents (Bilkey, 1978; Seringhaus and Rosson, 1994). The former emerges from the possession of resources and capabilities by the firm itself, while the latter refers to external forces such as export promotion programs (EPPs) by governments (Wilkinson and Brouthers, 2006). Prior study holds that export engagement among small and medium-sized enterprises (SMEs) is influenced more by external forces than by internal stimuli (Leonidou, Katsikeas, Paliawanada and Spyropoulou, 2007). Unfortunately, EPPs in developing countries are often criticized for being ineffective and are affected by high bureaucracy, inadequate funding, lack of client orientation, little government involvement, and poor administration (Lederman, Olarreaga and Payton, 2010; Zia, 2008), which impede export ventures among SMEs.

Over the past few decades, export assistance has increased its weight in governments' budgets, pointing out the need to further examine if it makes EPPs more useful for companies. However, literatures are still scarce in this area, especially regarding the evaluation of EPPs at the firm-level (Shin and Kim, 2010). Majority of research focused on the impact of EPPs at the country-level using national data (e.g., Chen, Mai and Yu, 2006; Lederman et al., 2010; Wilkinson and Brouthers, 2000). This type of macroeconomic, aggregate, and quantitative evaluation is criticized because it only measures the global impact of export promotion on the country's exports. On the other hand, EPPs are intended

specifically to encourage and facilitate export involvement among firms. Therefore, it is important to study the effects of EPPs on export decisions at the firm-level.

The objective of this study is to narrow the gap in the literature by evaluating the impacts of EPPs in Malaysia, and taking the firm as the unit of analysis. Specifically, it focuses on three indicators: level of awareness, frequency of use, and perception of usefulness, using surveyed data collected among SMEs. A more complete analysis is carried out through four key methodological aspects: 1) The collective evaluation of all public EPPs while differentiating each individual program, in contrast with previous research that has either focused only on specific programs (e.g., Ahmed, Mohamed, Johnson and Meng, 2002; Naidu, Cavusgil, Murthy and Sarkar, 1997; Naidu and Rao, 1993) or evaluated them globally without individual assessment for each program (e.g., Francis and Collins-Dodd, 2004; Gençtürk and Kotabe, 2001). It is argued that a global evaluation has prevented the detection of important differences in the content and objectives of each program. 2) In the analysis, a distinction between financial and non-financial export assistance is put forward. 3) The abovementioned indicators are examined according to the export status of firms and complementary segmentation variables of years in operation, export experience, and export turnover. 4) Finally, this is one of the few studies in this area that includes a broad representation of companies from a variety of industries.

Literature Review

Overview of EPPs Worldwide

Export promotion agencies are established in many countries by governments (Ahmed et al., 2002) with the underlying belief that export activities contribute substantially to the economic and social development of the country (Kotabe and Czinkota, 1992; Lederman et al., 2010; Seringhaus and Botschen, 1991). Examples of agencies can be found at the state or national level, such as the Australian Trade Commission (AUSTRADE), the York Region Export Development Program in Canada, and the Malaysia External Trade Development Corporation (MATRADE).

Nonetheless, EPPs are organized using different approaches. In most countries like Canada, Japan, Spain, the Netherlands, the UK and the US the majority of programs are supported by the government, while the private sector provides the bulk of assistance in some other countries, such as Austria and Germany (Naidu et al., 1997; Seringhaus and Botschen, 1991). In fact, there is a disagreement about who should handle the programs, with certain scholars looking favorable on the role of government (e.g.; Naidu and Rao, 1993; Tannous, 1997; Wilkinson and Brouthers, 2006) and others criticizing it as inadequate and inefficient (e.g., Christensen, Rocha and Gertner, 1987). Another study has suggested that EPPs are better off organized by the private sector, but with financial support from the government (Lederman et al., 2010), or through a strong commitment and collaboration between government, private sectors, and educational institutions (Naidu et al., 1997; Seringhaus and Botschen, 1991).

The types of export assistance offered also vary across countries depending on the critical needs of industries. In many developing countries, the focus is on fostering

technological improvement and credit access (Alvarez, 2004; Naidu et al., 1997), while in advanced economies such as the US, the more pertinent programs include establishing foreign trade offices, creating business contacts, and providing a continual information flow for firms (Wilkinson and Brouthers, 2000).

EPPs in Malaysia started in the early 1970s by the Ministry of International Trade and Industry (MITI). MATRADE is the national export promotion agency that provides firms with the knowledge and assistance to enter international markets. Other government agencies, such as the Credit Guarantee Corporation (CGC), the Industrial Technical and Assistance Fund (ITAF), and Malaysia Industrial Development Finance (MIDF), were also established to supply firms with both technical and financial assistance. Table 1 shows all the governmental agencies under the auspices of MITI that are responsible of organizing EPPs in Malaysia.

Table 1: List of agencies under the Ministry of International Trade and Industry of Malaysia

CGC	Credit Guarantee Corporation of Malaysia
ITAF	Industrial Technical Assistance Fund of Malaysia
MATRADE	Malaysia External Trade Development Corporation
MIDA	Malaysian Investment Development Authority
MIDF	Malaysian Industrial Development Finance
SME Bank	Small and Medium Enterprise Bank of Malaysia
SME Corp.	Small and Medium Enterprise Corporation of Malaysia

Accordingly, a complete inventory of all types of EPPs offered by these agencies was conducted and nine types of programs that are classified between financial and non-financial assistance were found. Table 2 displays the full list of public EPPs in Malaysia and their respective agencies.

Table 2: List of public EPPs in Malaysia

Programs	Type of Assistance	Agencies
Export information and online resource center (EIR)	Non-financial	MITI, MATRADE, MIDA
Export courses/trainings (ECT)	Non-financial	MITI, MATRADE
Export infrastructure facilities (EIF) ⁵	Non-financial	SME Corp.
Export advisory services (EAS)	Non-financial	MITI, MATRADE, SME Corp.
Sponsored international trade fairs/shows (TFS)	Non-financial	MATRADE
Credit consultation and financial advisory (CFA)	Financial	CGC, MATRADE
Fund and soft loans (FSL)	Financial	ITAF, MATRADE, MIDF, SME Bank, SME Corp.
International trade information/publications (TIP)	Non-financial	MATRADE
Tax incentives (TIN)	Financial	MITI, MATRADE

⁵ EIF program provides SMEs with access to industrial infrastructure facilities related to export activities. For example, SMEs can conduct R&D activities in government's incubation centers. These centers benefit SMEs not only because they are subsidized, but also through collaborations with experts from research centers and universities, with an aim to produce cutting edge technologies products. Additionally, several industrial areas have been developed by the government that allow SMEs to operate in a business-friendly environment. Privileges are granted within these areas, such as special tariffs for energy supply and access to high speed internet.

Export Assistance Needs of SMEs

In comparison to large firms, SMEs are more constrained by limited resources and capabilities for acquiring information, which make them less likely to venture in exporting without government support (Durmusoglu, Apfelthaler, Nayir, Alvarez and Mughan 2011; Freixanet, 2011; Reid, 1981; Seringhaus and Botschen, 1991; Tannous, 1997; Wilkinson and Brouthers, 2006). Therefore, EPPs are mainly intended for SMEs and their impact is also typically higher among SMEs than larger firms (Zia, 2008).

In addition, EPPs are more needed when export barriers are high (Lederman et al., 2010). Dichtl, Koeglmayr and Mueller (1990) ranked export challenges according to their severity influence on the export activities as pricing, fierce competition, complex distribution systems, personal barriers, high market development costs, and import regulations. Moreover, a review of 35 studies by Leonidou (1995) identified five common export obstacles: limited information, complicated procedures, difficulties in locating or obtaining representation abroad, restrictive rules imposed by foreign governments, and fierce competition in export markets. Therefore, the main purpose of EPPs is to facilitate companies, and above all SMEs, to reduce or eliminate the abovementioned obstacles (Naidu et al., 1997; Wilkinson and Brouthers, 2000). Ultimately, they should be structured with clear objectives, low bureaucracy, and strong public-private partnerships (Naidu et al., 1997).

Export Assistance for Initiation and Consolidation

An important consideration in designing export programs is to ensure that they provide specific assistance according to the export stages of firms. Appropriate information and training is crucial for triggering interest among non-exporters (Bilkey, 1978; Morgan and

Katsikeas, 1997; Wiedersheim-Paul, Olson and Welch, 1978). As and when SMEs decide to venture for the first time into foreign markets, they will focus on deploying representatives or establishing contact with local distributors (Leonidou, 1995). This effort is challenging due to information asymmetry and geographical distance with foreign partners (Verwaal and Donkers, 2002). New exporters also face challenges related to the differences between their home and export markets in terms of product specifications, product usage, and cultural diversity (Reid, 1981). Therefore, managerial and technical trainings are beneficial for them to adapt their products and familiarize themselves with the new international markets (Rosli, 2012), which ordinarily should be included in EPPs. Additionally, the government is also responsible to facilitate export processes, such as customs procedures and document preparation (Shepherd, 2010).

Governments can play a role in promoting the firms' business profile through various programs such as trade fairs, trade missions, and business matching. Trade missions focus on encouraging export participation among potential or new exporters that lack foreign experience (Wilkinson and Brouthers, 2000), while sponsored trade shows act to persuade current exporters to expand into additional markets (Durmusoglu et al., 2011; Seringhaus and Rosson, 1994; Spence, 2003). Both activities provide firms with opportunities to investigate foreign markets, meet interested buyers or distributors, and potentially receive orders (Wilkinson and Brouthers, 2000; 2006). Firms who receive unsolicited orders during participation in these programs are more likely to explore the possibility of exporting (Leonidou et al., 2007).

Over time, the new exporters will be more regular and consistent exporters. Their need for public assistance may decrease nevertheless, but they would still require some support to overcome obstacles in daily export activities. Therefore, continuous assistance

from the government, especially on the marketing aspect, will ensure exporters to reach new stage in the internationalization process and prevent export withdrawal.

Financial Assistance

Apart from the non-financial assistance discussed above, export programs should also include financial incentives (Wiedersheim-Paul et al., 1978). The availability of export financing is crucial for SMEs in the early stage of their involvement (Kotabe and Czinkota, 1992). Unfortunately, many of them are unable to acquire capital from commercial banks (Beck, Demirguc-Kunt, and Maksimovic, 2008; Tannous, 1997). Therefore, they have shifted their financial dependency towards government aid (Zia, 2008). In fact, studies have shown that SMEs are more aware of financial assistance than non-financial assistance (Ahmed et al., 2002). Financial support programs for exporters have been established in many countries. In the case of Malaysia, US\$17 billion were offered to 140,000 SMEs or 78 percent of the total applications in 2009 (National SME Development Council, 2010).

Apart from capital loans, financial assistance is also provided through direct and indirect subsidies such as exchange rate and fiscal incentives (Baumann and Braga, 1988). For instance, the value added tax exemption for export products is a common export incentive exercised in many countries (Chen et al., 2006). In Malaysia, financial assistance includes credit consultancy, financial advice, and tax incentives provided by CGC, MITI, and MATRADE.

Theoretical Framework and Hypotheses

The main functions of EPPs are to motivate firms internationalize, reduce or eliminate export barriers, assist in planning and preparation for exporting, and provide financial and non-financial support (Ahmed et al., 2002; Seringhaus and Botschen, 1991; Wilkinson and Brouthers, 2006). The programs organized should capture both non-exporters and exporters (Ahmed, Julian and Mahajar, 2006; Naidu and Rao, 1993; Seringhaus and Botschen, 1991).

Considerable efforts have been made to examine the effect of EPPs on export performance (Freixanet 2011; Gençtürk and Kotabe, 2001; Wilkinson and Brouthers, 2000; Zia, 2008), export expansion (Shepherd, 2010), export satisfaction (Wilkinson and Brouthers, 2006), and organizational behavior (Durmusoglu et al., 2011). At the country level, a rise in funding for export programs has significantly increased the national exports in 103 countries worldwide (Lederman et al., 2010). Moreover, financial assistance in the form of export tax rebates and credit subsidies have successfully boosted exports from emerging economies (Chen et al., 2006; Zia, 2008). However, a study by Wilkinson and Brouthers (2000) discovered that various types of assistance have different effects on export success at the state level. For example, trade shows have increased the export value in high-tech industries, but the establishment of foreign trade offices has not contributed to exports. Surprisingly, it is observed that trade missions and market information programs have negatively associated with the export value of the state.

The impact of EPPs is also apparent at the firm level. These programs have significantly encouraged participation and increased export performance by reducing costs, minimizing or removing barriers, and providing information on export opportunities (Bilkey, 1978; Seringhaus and Rosson, 1994; Shepherd, 2010). Wilkinson and Brouthers (2006) found that the use of state-sponsored programs is positively associated with firm's satisfaction with

its export performance. Other studies also show that government support has encouraged export involvement through indirect forms. For instance, infrastructure facilities from the government help firms to minimize the time and cost involved in manufacturing quality products. The assistance is useful for domestic firms to improve their product quality before expanding production for export purposes (Shin and Kim, 2010).

In contrast, EPPs are considered a failure if the firms were not aware of the existence or have limited knowledge about the programs (Naidu and Rao, 1993). For example, lack of awareness among SMEs have limited their participation and therefore impeded the efficiency of EPPs in Malaysia (Ahmed et al., 2002). In contrast, it is found that permanent exporters have used export programs more frequently than non-exporters (Alvarez, 2004).

Drawing on the above discussion, three hypotheses are formulated related to the level of awareness, the frequency of use, and the perception of the usefulness of EPPs with regard to exporters and non-exporters:

Hypothesis 1: Exporters are more aware of the EPPs than non-exporters.

Hypothesis 2: Exporters use EPPs more frequently than non-exporters.

Hypothesis 3: Exporters perceive EPPs to be more useful than non-exporters.

Research Methodology

This study employed cross-sectional survey data collected among SMEs. The list of SMEs was retrieved from the SME Corporation Malaysia's database. It is argued that the use of survey data is more relevant than the use of national data for understanding the export behavior of firms (Reid, 1981; Seringhaus and Botschen, 1991). The survey focuses on manufacturing SMEs across industries and disregard service companies to improve the validity of our findings.

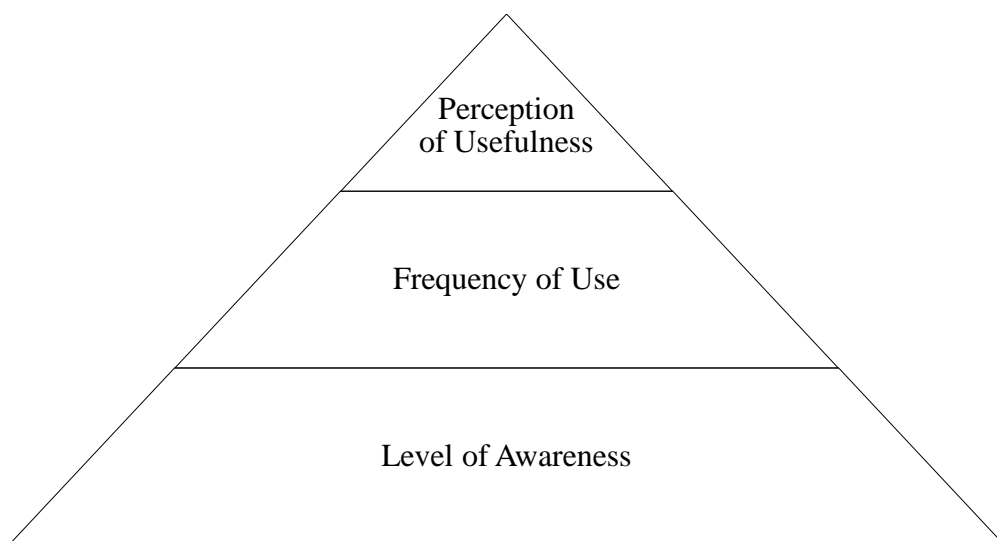
The questionnaire was constructed through an extensive review of export promotion literatures, in-depth interviews and pre-testing with representative of SMEs. It was then formatted into an online survey and sent via email to the owners' or top managements' personal email (the mean of the respondents' years of employment in the company is 7.64, with a standard deviation of 6.30). The company's general emails were avoided because the survey could be answered by non-key informants. Because information on the export status of SMEs was not available in the database for verification, the companies to whom we sent the email could be either non-exporters or exporters.

The data was collected in two stages during six months period between September 2012 and March 2013. During the first release, emails were sent to 2372 SMEs and 152 of them responded within two months (6.4 percent response rate). In the third month, a second email was sent to remind the same SMEs about the survey and another 132 responses were received, which brought the total usable responses up to 284 (12 percent response rate), consisting of 116 non-exporters (40.8 percent) and 168 exporters (59.2 percent).

Constructs and Measures

Three variables were measured for each program: the level of awareness, the frequency of use, and the perception of the usefulness. The conceptual model treats these variables in a hierarchical order, as presented in Figure 1.

Figure 1: Conceptual model of the evaluation of public EPPs



The respondents were first asked if they were aware of the existence of a particular program (0 for 'No' or 1 for 'Yes'). If they answered 'No', further questions about the frequency of use and the perception of the usefulness were not asked. Accordingly, those who answered 'Yes' were asked to indicate on a Likert-scale the frequency of use (0 for 'Never Use', 1 for 'Very Rarely Use' to 5 for 'Always Use') and the perception of the usefulness (1 for 'Not Useful' to 5 for 'Extremely Useful') for each program. We also gathered additional information about the firms' characteristics, including their export status (non-exporter or exporter), years in operation (number of years since establishment), export experience

(number of years since exporting), and export turnover (percentage of export sales over total sales).

Analysis and Results

Collated samples belonged to three groups of industries: agriculture products, manufactured durable products, and manufactured non-durable products (see Table 3). We observed that, on average, exporters are seven years older than non-exporters. Similarly, through a bivariate correlation analysis, we found that the number of years in operation is significant and positively correlated with export experience. It shows that, in spite of the recent emergence of born global companies, established firms with longer years in operation tend to venture further into international markets than the newer companies.

Table 3: Sample characteristics

Characteristics	Percentage	Mean	S.D.
<i>Industry</i>			
1. Agricultural/ food products	15.8		
2. Manufactured durable	23.8		
3. Manufacturer non-durable	43.9		
4. Non-specified	16.5		
<i>Non-exporters (n=116)</i>			
1. Years in operation		14.22	11.51
<i>Exporters (n=168)</i>			
1. Years in operation		21.07	12.00
2. Export experience		13.44	9.97
3. Export turnover (export sales / total sales)		57.31	30.52

Level of Awareness

The level of awareness (measured in percentage) is satisfactory for SMEs in both groups where only three EPPs received less than 80 percent awareness (see Table 4). Specifically, on average, exporters have a significantly higher awareness than non-exporters (83.08 percent, and 81.40 percent respectively), thus supporting hypothesis 1.

In line with the previous studies (Freixanet, 2011), firms are generally aware of “classical programs” of sponsored international trade shows, export advisory services, and international trade publications where more than 87 percent of non-exporters and 91 percent of exporters are well aware of these programs. On the other hand, both exporters and non-exporters are less aware of export infrastructure facilities and credit consultancy services, where non-exporters are also lacking of knowledge on tax incentives. Perhaps, tax incentives are more relevant for firms that have already started to export. The results further highlight that only 60 percent of exporters are aware of export infrastructure facilities although the facilities are beneficial for them to reduce costs or through potential collaborate with experts. Therefore, respective promotion agencies should increase their efforts for better publicizing the existence of the programs and make more proactive communication works.

Table 4: Level of awareness

Programs^a	Non-exporters (%) <i>n = 116</i>	Exporters (%) <i>n = 168</i>	t-value
EIR	98 (84.5)	152 (90.5)	1.47
ECT	102 (87.9)	148 (88.1)	0.04
EIF	84 (72.4)	102 (60.7)	2.08*
EAS	102 (87.9)	158 (94.0)	1.73 ^t
TFS	102 (87.9)	154 (91.7)	1.01
CFA	78 (67.2)	114 (67.9)	0.11
FSL	98 (84.5)	134 (79.8)	1.03
TIP	102 (87.9)	158 (94.0)	1.73 ^t
TIN	84 (72.4)	136 (81.0)	1.66 ^t
<i>Average</i>	<i>94 (81.40)</i>	<i>140 (83.08)</i>	<i>0.59^t</i>

^a Programs with the highest level of awareness for each export group are highlighted.

^tp<0.10 *p<0.05 ** p<0.01 *** p<0.001

Frequency of Use

Table 5 shows that the frequency of use among SMEs who know the programs is rather low, as they either ‘rarely use’ or ‘sometimes use’ the programs. However, the findings support hypothesis 2, where exporters significantly use EPPs more frequently than non-exporters (average 2.64 and 3.02, respectively). Specifically, we found that the frequency of use for six out of nine programs were significantly higher for exporters than for non-exporters.

Similar to the level of awareness, SMEs use export information center, sponsored international trade shows, and international trade publications more frequently as compared to other programs. This proves that SMEs are in need for informational resources to overcome foreign market knowledge obstacles. In contrast, financial assistance of a credit

consultancy and soft loans from the government are barely used by SMEs. The findings confirm the results of Beck et al. (2008) that SMEs in 48 countries do not finance their investment significantly from governmental sources or public development banks. This surprisingly low use of financial assistance among SMEs could be caused by complex procedures or high bureaucracy in acquiring such aids.

Table 5: Frequency of use

Programs ^a	Non-exporters <i>n = 116</i>		Exporters <i>n = 168</i>		t-value
	Mean	S.D.	Mean	S.D.	
EIR	2.92	1.72	3.43	1.51	3.25***
ECT	2.71	1.74	3.14	1.52	1.92**
EIF	2.55	1.62	2.61	1.65	1.32
EAS	2.75	1.62	2.84	1.47	1.34
TFS	2.90	1.73	3.42	1.64	2.86***
CFA	1.97	1.44	2.53	1.66	2.01**
FSL	2.45	1.55	2.60	1.61	0.01
TIP	2.86	1.66	3.41	1.40	3.64***
TIN	2.62	1.76	3.23	1.81	3.29***
<i>Average</i>	<i>2.64</i>	<i>1.65</i>	<i>3.02</i>	<i>1.58</i>	<i>3.22***</i>

^a Programs with the highest frequency of use in each export group are highlighted.

^t p<0.10 * p<0.05 ** p<0.01 *** p<0.001

Perception of Usefulness

Although the frequency of use among SMEs is low, we found that the perception of the usefulness among those who use them in the programs was considerably high (average 3.28 and 3.31 for non-exporters and exporters, respectively). With regards to the analysis in terms of programs, the respondents perceive sponsored international trade shows and trade information/publications to be the most useful programs. As SMEs are more aware and adopt informational-based programs more frequently, they also perceive the programs as most beneficial. The findings support the argument in prior research (Francis and Collins-Dodd, 2004; Gençtürk and Kotabe, 2001; Gray, 1997; Johanson and Vahlne, 1977) that information is the key input required by companies to advance in their internationalization process and compete successfully in the foreign markets.

As for the analysis by export groups, the perception of the usefulness is only different for two EPPs: export infrastructure facilities and tax incentives, thus partially supporting hypothesis 3. While non-exporters are highly appreciative of export information services, exporters benefitted the most from tax incentives. The results are consistent with each group's needs to overcome the export barriers. On one hand, non-exporters require information and knowledge to make their first steps in the internationalization process. On the other hand, because exporters are already competing in the foreign markets, they consider extra support that enables them to improve their offer as the most valuable. Therefore, they perceive tax incentives as the most useful assistance for relaxing financial constraint, consequently increasing their profitability.

Table 6: Perception of usefulness

Programs ^a	Non-exporters <i>n = 116</i>		Exporters <i>n = 168</i>		t-value
	Mean	S.D.	Mean	S.D.	
EIR	3.47	1.74	3.42	1.53	0.82
ECT	3.22	1.71	3.27	1.60	0.27
EIF	3.31	1.90	3.06	1.82	2.41*
EAS	3.31	1.71	3.23	1.44	0.63
TFS	3.65	1.67	3.71	1.62	1.00
CFA	2.79	1.81	3.02	1.82	0.77
FSL	3.14	1.79	3.09	1.85	0.86
TIP	3.41	1.78	3.46	1.42	1.26
TIN	3.21	1.94	3.57	1.90	2.45*
<i>Average</i>	3.28	1.78	3.31	1.67	0.43

^a Programs with the highest frequency of use in each export group are highlighted.

^t p<0.10 * p<0.05 ** p<0.01 *** p<0.001

Post-hoc Analysis

To gain a better insight and generate novel conclusions, complementary segmentation variables are introduced: years in operation, export experience, and export turnover. Then, a correlation analysis between these variables with the frequency of use and the perception of the usefulness for both export groups is performed. The results are discussed as below:

Non-exporters

We do not find any significant relationship between the years in operation of the firm, and its frequency of use and perception of usefulness for any program (see Table 7), except for tax incentives.

Table 7: Correlations between the years in operation and the frequency of use, and the years in operation and the perception of the usefulness

Programs	Years in operation (<i>n</i> = 116)	
	Frequency of use	Perception of usefulness
EIR	0.03	0.10
ECT	-0.10	-0.03
EIF	-0.06	-0.05
EAS	0.14	0.13
TFS	0.12	0.14
CFA	-0.08	-0.12
FSL	0.05	-0.01
TIP	0.09	0.13
TIN	.019*	0.17
<i>Average</i>	<i>0.04</i>	<i>0.05</i>

* $p < 0.05$ ** $p < 0.01$

Exporters

On the other hand, the frequency of use and the perception of the usefulness for most programs are significant and positively related to the export experience. Table 8 demonstrates that exporters use most EPPs (except sponsored international trade shows and international trade publications) more frequently over their years of exporting. Similarly, we found that their perception of usefulness is improving, as they progressively become incumbent exporters.

Table 8: Correlations between export experience and the frequency of use, and export experience and the perception of the usefulness

Programs	Export experience (<i>n</i> = 168)	
	Frequency of use	Perception of usefulness
EIR	0.27**	0.15*
ECT	0.34**	0.24**
EIF	0.25**	0.22**
EAS	0.29**	0.19*
TFS	0.17	-0.06
CFA	0.27**	0.16*
FSL	0.30**	0.19*
TIP	0.06	0.07
TIN	0.30**	0.21**
<i>Average</i>	<i>0.27**</i>	<i>0.15*</i>

* $p < 0.05$ ** $p < 0.01$

We also analyze the relationship between export turnover, and the frequency of use and the perception of the usefulness. This analysis is another approach to measure the effectiveness of EPPs through the impact on financial performance of firms. The results in Table 9 indicate no significant effects of both variables on export turnover for all EPPs (except for export information). However, we do not deduce from the findings that EPPs are not effective, or that they should be redesigned or removed. Prior research argued that there are other reasons that prevent us from directly relating EPPs to export performance of firms (Francis and Collins-Dodd, 2004; Spence, 2003). Firstly, the effect requires a reasonable lag from the time of use of the program, presumably after several years, before it can take place. Secondly, there are other dominance variables at national level such as macroeconomic and political factors that may counteract the EPPs' effects, subsequently affecting export performance of firms.

Table 9: Correlations between export turnover and the frequency of use, and export turnover and the perception of the usefulness

Programs	Export turnover (<i>n</i> = 168)	
	Frequency of use	Perception of usefulness
EIR	0.25**	0.24**
ECT	0.08	0.03
EIF	0.04	0.08
EAS	-0.03	0.03
TFS	-0.07	0.09
CFA	-0.03	-0.04
FSL	0.13	0.14
TIP	0.17*	0.17
TIN	-0.02	0.07
<i>Average</i>	<i>0.12</i>	<i>0.16</i>

* p<0.05 ** p<0.01

Conclusions and Implications

The increasing importance of EPPs in boosting exports from emerging economies calls for more research-oriented study in this area, especially at the firm level analysis. This study contributes to the literature by evaluating EPPs in Malaysia both collectively and individually, while distinguishing between financial and non-financial assistance. We examined the level of awareness, the frequency of use, and the perception of the usefulness of EPPs among SMEs from various industries, and segmented according to their export status.

First, we found that the level of awareness for both export groups is satisfactory. Six out of nine programs are known by at least 80 percent of firms. The results contradict with prior studies by Kedia and Chhokar (1986) and Reid (1984), which posit that lack of awareness among firms is the most pressing problem of EPPs in certain countries⁶. Therefore, Malaysian-associated agencies should be praised for their proactive efforts in communicating the availability of the programs. With regards to analysis in terms of program, it is expected that SMEs have extensive knowledge of programs related to export information and advisory services. However, the low awareness of the credit consultancy is surprising considering the fact that SMEs often need financial aid from the government (Zia, 2008). This result suggests that respective agencies should make a greater effort to promote the program.

Second, in contrast to strong awareness, the frequency of use of EPPs is considerably low. We found that, on average, SMEs either '*rarely use*' or '*sometimes use*' the programs. The analysis for each program reveals that both export groups use most frequently on export information resource centers, sponsored international trade shows, and trade information/publications. It is confirmed that information and knowledge related to export

⁶ Kedia and Chhokar (1986) found that companies have little awareness of EPPs and therefore did not use them. Also, Reid (1984) observed that only 44 percent of Canadian companies were aware of EPPs.

operations and foreign markets is imperative for potential and current exporters (Bilkey, 1978; Morgan and Katsikeas, 1997; Wiedersheim-Paul et al., 1978). However, the fact that SMEs have barely used the financial assistance of consultancy and capital loans raises a question of inefficiency in terms of implementation. For example, Cziraky, Tisma, and Pisarovic (2005) discovered that the failure can be caused by several factors such as lack of consistency in loan approval criteria and loan assessment skills among officers. The findings spark the attention of the Malaysian government and its agencies to improve the efficiency of organizing EPPs, particularly in providing the financial assistance.

Third, we discovered that SMEs perceive EPPs to be rather useful. Both export groups are mostly satisfied with sponsored international trade shows and publications, but are greatly disappointed with financial advisory services. Non-exporters seem to appreciate export information that is crucial for them in making the export decision, while exporters have benefitted a lot from tax incentives. There is strong justification for the government to continue providing relevant knowledge and allocating more resources for direct and indirect subsidies (such as tax rebates) to dedicated export groups.

The post-hoc analysis found that the frequency of use and the perception of usefulness of most EPPs are significant and positively related to the export experience. The fact that older and more internationally experienced companies have the ability to make the most of the programs seems to be in line with Uppsala theory (Johanson and Vahlne, 1977), that the internationalization process involves the progressive acquisition and integration of knowledge and skills. However, we do not find significant impact of EPPs on export turnover. The findings are realistic because the purpose of EPPs is to facilitate export ventures and operations of firms, but not so much on export performance. This argument is supported by similar findings in previous research. For example, Freixanet (2011) and Francis and Collins-Dodd (2004) discovered a positive relationship between EPPs use and

companies' competitiveness, but not with their turnover. Instead, export performance is closely related to international strategies adopted by the firm.

In conclusion, SMEs have satisfactory knowledge about the existence of public EPPs in Malaysia, and overall they find these programs as useful. However, the implementation and accessibility to the programs remain ineffective⁷. Accordingly, the government should take adequate measures to improve it, particularly through collaborations with the private sector. In this way, the impact of export assistance could be strengthened so as to facilitate firms in becoming more competitive and successful in the international markets.

Limitations and Suggestions for Future Research

The study has several limitations. First, our variables for evaluation of the programs are limited to the level of awareness, the frequency of use, and the perception of the usefulness. Although these variables are measured in a hierarchy, our analysis treated them in isolation. We also do not develop a framework for explaining how these variables interact to affect the export behavior of firms. Future research may utilize or improve our measurements and construct a model on the effect of these variables on the export initiation or export continuation of firms.

Second, although the literature has stressed the different needs of firms for specific export programs, we did not solicit this information from our samples. We assumed that all firms have equal needs for all programs. As a consequence, our findings could be less precise in terms of interpretation. For example, some firms do not acquire loans from the government because they already have sufficient financial support from other resources. Therefore, low

⁷ EPPs in Malaysia were criticized for being insufficient, lacking in focus on the specific needs of firms and industries, and being difficult to access due to a high level of bureaucracy (Rosli, 2012).

frequency of use should not be interpreted as failure of the program. We suggest future efforts to capture the construct of what firms need and what government offers, thus better evaluate the effect of export programs.

Finally, the study focuses on the evaluation of export programs at the firm-level. Therefore, our findings do not precisely justify criticism of export programs in developing countries at the country-level (Lederman et al., 2010; Zia, 2008). Future efforts for evaluating the effects of export programs at both levels should be made through improvements in methodology, such as to increase in the sample size, comparison of data with other developing countries, or through a longitudinal study.

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Paper 3:

Competitive Strategies and Export Market Selection of Small and Medium Sized Exporters in an Emerging Economy

Presentations associated with this paper:

- 1) European International Business Academy (EIBA) Doctoral Symposium, University of Sussex, Brighton, United Kingdom, 7th December 2012.
- 2) Strategic Management Society (SMS) Special Conference, Indian School of Business, Mohali, India, 18th December 2013 (forthcoming).

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Introduction

Global economic integration offers exporters a wide selection of markets to penetrate. As exporters' international business profiles increase, the boundaries between domestic and foreign markets become less relevant (Knight 2000). The strategies selected by firms in emerging economies⁸ may influence which markets they pursue for their products and explain export performance. The export strategy formulation process requires prior information and knowledge to ensure that it aligns with the firms' specific resources and capabilities (He and Wei 2011; Papadopoulos and Martin Martin 2011; Rahman 2003). But many small and medium sized (SME) exporters in developing countries lack adequate resources for successful exporting to all types of markets (Knight 2000; Singh 2009).

Research shows that the competitive environment between developed and developing countries differs in terms of corporate climate and customer preferences (Brouthers et al. 2000; Papadopoulos et al. 2002; Papadopoulos and Martin Martin, 2011). These differences create an uncertain environment characterized by both opportunities and risks, thus influencing exporters' international strategies (Lado et al. 2004). Therefore, we ask *if the generic competitive strategy of an exporter influences the choice of developed versus developing economies as a predominant export destination?*

Research has highlighted a number of comparative advantages held by SMEs from developing countries over their counterparts in advanced economies (e.g., Coxhead 2007; Makino et al. 2004; Reinhardt 2000), but few have extended the discussion into the context of internationalization of SMEs, particularly on export market selection. Accordingly, previous studies have examined the relationship between export strategies, market target and

⁸ Emerging economies is a broader term that has replaced the term "newly industrializing countries" due to the widespread liberalization and adoption of market-based policies by developing countries (Hoskisson et al. 2000). Accordingly, in this article, we will use the terms emerging economies and developing countries interchangeably.

performance (e.g., Aulakh et al. 2000; Brouthers and Xu, 2002), where some have argued that the effect of a firm's strategy on export performance depends on specific situational variables in the chosen foreign market (Lado et al., 2004). However, those studies, despite their profound contribution to the literature, do not address sufficiently the role of competitive strategies in determining export market selection⁹.

The purpose of our research is to examine the relationship between competitive strategies and export market selection of SME exporters in an emerging economy. To address the research question, we examine cost leadership, differentiation and focus strategies among manufacturing SMEs in Malaysia¹⁰, and test hypotheses on how these strategies affect their exports to developing and developed countries. Our results suggest that cost leadership strategies are positively associated with exports to developed countries, but negatively related with exports to developing countries. In contrast, differentiation strategies show the opposite effects of cost strategies, while focus strategies are negatively associated with exports to both types of markets. Our findings support earlier research in that the comparative advantage of exporters from developing countries is attainable if the firm strategy is compatible with the competitive environment and demand in export markets (e.g., Ara 2004, Coxhead 2007, Erramilli et al. 1997).

This research contributes to the literature by covering export market selection and performance by integrating firm-level strategies into country-level analysis, thus highlighting competitive strategies as a determinant of export market selection. Moreover, we provide a

⁹ Classification of developed and developing countries varies between the United Nation Development Program (UNDP), the World Bank and the International Monetary Fund (IMF). More recently, Neilsen (2011) offers an alternative trichotomous taxonomy of higher, middle and lower development countries based on the country's income, life expectancy at birth and lifetime income.

¹⁰ The export markets for Malaysian products are spread across developed and developing countries. The five major export destinations in 2012 were China, Singapore, Japan, the United States and Thailand (Malaysia External Trade Development Corporation (MATRADE), 2013). The Association of Southeast Asian Nations (ASEAN) was a major regional export destination constituting around 25 percent of total exports. However, advanced economies remained as dominant export destinations, with almost half of Malaysian exports shipped to Singapore, Japan, the US, Australia and the Netherlands.

new perspective on the internationalization of SMEs, particularly among exporters from emerging economies.

In the following section, we review the literature on export market selection and the implementation of cost leadership, differentiation and focus strategies among SMEs in developing countries. In the model and hypotheses section, we argue on the comparative advantage and demand dissimilarities in developed and developing markets and develop a set of hypotheses on the relationships through two models. Next, we discuss the methodological aspects including our sample, constructs and measures, and statistical analysis carried out in this study. In the results and discussion section, we expand on our findings and emphasize the implications for research and management, as well as the limitations and future research directions of this study. We present our final remarks in the conclusions section.

Theoretical Background

Export Market Selection

International market selection (IMS) is a process that involves the search for comparative information about countries, industries, products and customers (Papadopoulos and Martin Martin 2011). It is related to the competitive global positioning of firms, and it appears prior to the development of local strategies in foreign markets (Cavusgil et al. 2004; Papadopoulos and Martin Martin, 2011). Thus far, IMS in the context of export operations has not been researched extensively. The majority of existing studies focus on location-specific characteristics in the host country for other modes of internationalization, especially with regard to foreign direct investment and the establishment of foreign subsidiaries by multinational corporations (MNC) (e.g., Cavusgil et al. 2004; Erramilli et al. 1997; Gaston-

Breton and Martin Martin 2011; Makino et al. 2004). Research on exports, which are the most popular, quickest and easiest way for SMEs to go international (Hitt et al. 2007; Leonidou et al. 2007; Westhead et al. 2001), is however, less prominent. The dearth of studies on exports by SMEs in emerging economies is perhaps not surprising because traditionally, internationalization is dominated by large firms from developed economies.

Substantial efforts have been made to define what characteristics make a country attractive for international expansion (e.g., Cavusgil et al. 2004; Gaston-Breton and Martin Martin 2011; Rahman 2003; Sakarya et al. 2007). From this research, the emerging consensus is that IMS is strategically crucial for firms because foreign markets are highly diversified, in term of features, attractiveness, risks, and profits (Papadopoulos et al. 2002; Papadopoulos and Martin Martin, 2011; Sethi 1971). Therefore, prior studies have used various forms of country segmentation by using different grouping criteria. As such each group shares similar characteristics of economic status, level of education, customer preference, or cultural values. For example, Cavusgil et al. (2004) classified countries into ten clusters based on country-level data from the World Bank, such as country risk and economic freedom. They suggest that each cluster calls for different international strategies.

Research on the determinants of IMS have focused on country-level factors in the foreign market such as the level of infrastructure (Cavusgil et al. 2004), standard of living, economic well-being, market size (Gaston-Breton and Martin Martin 2011), geographical distance (Schmeiser 2012), and cultural differences (He and Wei 2011; Hitt et al. 2007; Lado et al. 2004). However, country-level determinants are criticized for neglecting specific-product market indicators in the IMS process that can only be captured at the firm-level (Cavusgil et al. 2004; Gaston-Breton and Martin Martin 2011; Rahman 2003; Sakarya et al. 2007).

Research on the relationship between competitive advantage and export performance by Lall et al. (1987) shows that products based on raw materials (such as agriculture products) from the least developed countries were more likely to be exported to developed countries. In contrast, products that rely on skills, quality, capabilities, production know-how and research were more likely to be exported to developing countries.

Competitive Strategies

Generic competitive strategies in their simplest form involve decisions on market scope (focused or broad) and source of competitive advantage (costs or differentiation) (Porter 1980; Campbell-Hunt 2000). Accordingly, exporting firms pursue cost leadership, differentiation, and focus strategies to various degrees. Porter (1985) argued that firms that failed to adopt a single strategy of cost leadership or differentiation were unlikely to achieve competitive advantage and high performance. His argument is supported by Nayyar (1993) and Lechner and Gudmundsson (2012) who found that both strategies are mutually exclusive and had a significant positive impact on performance. However, research has also shown that in certain industries and situations, cost leadership and differentiation can be implemented simultaneously and the combination might be necessary to achieve sustainable competitive advantage (e.g., Hill 1988; Kim et al. 2004; Murray 1988; Spanos et al. 2004). For example, Kim et al. (2004) found that a combined strategy outperforms pure cost leadership or differentiation strategies among e-business firms, while Hill (1988) holds that hybrid strategies are efficient in fast growing emerging industries and in mature industries having significant technological change.

Numerous studies show that firms from developing countries enhance external cost competitiveness over counterparts from developed countries through scale, access to scarce

resources, low cost raw materials and inexpensive labor (e.g., Ara 2004; Coxhead 2007; Erramilli et al. 1997; Kumar and Kim 1984; Lall 1999; Lecraw 1993; Reinhardt 2000; Rosli 2012). At the international level, exporters from developing countries seek to achieve cost advantage by selling undifferentiated products at lower prices (Kumar and Kim 1984; Lecraw 1993; Makino et al. 2004). A relative abundance of natural resources and low-skilled labor is positively related to a revealed comparative advantage for the labor-intensive and diversified resource-based products such as simple furniture, electrical appliances and electronic components (Coxhead 2007). Even so, intense competition in foreign markets stimulates exporters from emerging countries to improve product quality over time while attempting to sustain cost advantage through volume (Coxhead 2007; Lecraw 1993).

In order to cope with high global demand for unique products, many exporters from emerging economies have shifted their strategic focus from lower-quality generic goods to high value-added products by emphasizing design, innovative product features and quality (Reinhardt 2000). In contrast to cost strategies, firms that choose to compete on differentiation strategies seek to provide unique and superior products at a premium price (Rosenbusch et al. 2011). Differentiation strategies in export operations are related to quality and technology improvements within existing activities while moving from technologically simple to more complex activities (Uchida and Cook 2005). Accordingly, SME exporters from developing countries are able to enter the global market using differentiation strategies if they are capable of developing innovative high-quality products through cutting edge technologies (Hagen et al. 2012; Hipkin 2004).

Cost leadership and differentiation strategies commonly lie in opposite planes, but both can be adopted within a narrow target of competitive scope through focus strategies. A focus strategy is defined by the elements of a niche segment that is excluded by mass marketers, no substitutions, strong customer orientation and exclusive offerings (Zucchella

and Palamara 2006). Firms that pursue this strategy compete in a specialized market segment to serve the needs of a narrow customer segment (Porter 1980; 1985). When going international, SME exporters adopt focus strategies in order to achieve a faster and less resource-intensive competitive position (Hagen et al. 2012; Zucchella and Palamara 2006). They narrow the competitive scope to the specific needs of target customers in the foreign market, in hope of commanding a premium price (Hagen et al. 2012; Knight 2000; Park and Bae 2004). In fact, export participation for SMEs that implement focus strategies is very important because the smaller the market, the stronger the need for them to go global because that particular segment at the domestic level is not large enough to generate adequate sales volumes (Zucchella and Palamara 2006).

Model and Hypotheses

We examine the comparative advantage of exporters from emerging economies and the characteristics of demand in export markets. These are two broad factors that determine the attractiveness of a particular country for foreign firms (Porter 1986, p. 39-42). Firms in developed countries have greater capabilities than firms in developing countries to produce high quality innovative goods (Porter 1990). This is because they have a strong source of firm-specific advantages in technologically-intense activities (Erramilli et al. 1997) and a good supply of white-collar labor with technical, managerial and entrepreneurial skills (Huo and McKinley 1992). What is more, customers in developed countries stay at the top of economic development (Erramilli et al. 1997) thus consistently look for innovative high quality products that enhance their status and lifestyle. Therefore, the prevalence of differentiated products is necessitated by customer demand that pushes local firms to produce

better quality products with distinctive features, and consequently improves national competitiveness (Porter 1990).

Developing countries are struggling to close the gap between themselves and developed nations by improving their international reputation for quality and innovation. As high income customers in developed countries seek sophisticated products, developing nations often lack trend-setting innovative brands to be accepted in the developed countries (Cordell 1992; 1993; Elliot and Cameron 1994; Hulland et al. 1996; Insch 2003; Pappu et al. 2007). In other words, the challenge for differentiated products from developing countries is not only to build firm-level brands but also to raise the national brand. We argue that differentiation is less likely to be a comparative advantage when exporting from developing to developed countries because of competition with local producers and unfavorable perception among local customers.

Hypothesis 1: Differentiation strategies among firms in developing countries are negatively associated with exports to developed countries.

Manufacturing costs across countries differ depending on the availability or relative abundance of production factors (Makino et al. 2004). Accordingly, countries will export products that use these factors extensively (Lall 1999; Lall et al. 1987; Singh 2009). Exporters in emerging economies often have access to low cost raw materials and labor (Lall 1999; Lecraw 1993) and leverage that advantage through export activities, particularly in labor and resource intensive industries (Coxhead 2007; Makino et al. 2004; Reinhardt 2000). However, comparative cost advantage is more prevalent in exports to developed countries due to low product development costs (including R&D and marketing) in the home country (Aulakh et

al. 2000). In comparison, local producers in developed countries are hampered with higher labor and raw material costs, thus making their exports more expensive.

Furthermore, as local firms focus on selling differentiated products at a premium price, many exporters from developing countries opt to compete in the low cost segment with lower quality requirements and fewer product features in order to avoid direct competition with local firms (Ahmed et al. 2006; Lecraw 1993). They can sustain external cost competitiveness successfully through low-cost production and productivity improvements (Ara 2004). Consequently, customers in developed countries benefit from having greater choices and lower prices for products imported from developing countries.

Hypothesis 2: Low cost strategies among firms in developing countries are positively associated with exports to developed countries.

The competitive environment in developing countries differs from that of developed countries: less attractive location, lower market potential, more state restrictions, greater political risks, and comparatively greater market closure (Erramilli et al. 1997; Singh 2009). Therefore, the attractiveness of developing countries is often assessed based on future market potential, competitive strength of the industries and customer receptiveness to foreign products (Sakarya et al. 2007). In contrast to developed countries, many local producers in developing countries are more likely to manufacture low cost homogenous products (Aulakh et al. 2000; Sakarya et al. 2007) and concentrate less on product innovation. What is more, government protection creates an import barrier for foreign goods, and consequently limits the choice of differentiated products in the local market (Li et al. 2009).

The argument for country-of-origin effects holds that customers in developing countries tend to think of foreign products, regardless of country of origin, as superior in

quality compared to local products (Li et al. 2009). This perception is shaped by the belief that high quality local products are exported and not sold in the local market (Hulland et al. 1996). In addition, customers in local markets are willing to pay a higher price based on the perception that imported products are scarce (Hulland et al. 1996; Li et al. 2009). Therefore, limited competition and customer preferences in developing countries offer opportunities for exporters with differentiated products to capture demand in the market.

Hypothesis 3: Differentiation strategies among firms in developing countries are positively associated with exports to developing countries.

We can argue that cost advantages among exporters from developing countries are not prevalent in other developing markets because of similar factor costs, similar competitive strategies and intense competition from local producers. Exports incur additional costs of transportation, customs, and import tariffs (Shepherd 2010), making it difficult for exporters to sell their goods at lower prices than local producers. In addition, tariff barriers in some developing countries have reduced interest among emerging market firms to export their products to those countries because of eroded cost advantage and lower profit margins (Lecraw 1993). What is more, local customers will not buy imported goods if they can get the same value locally at a lower price (Li et al. 2009). Hence, we argue that exporters from emerging economies with low cost products are less interested in exporting to developing countries.

Hypothesis 4: Low cost strategies among firms in developing countries are negatively associated with exports to developing countries.

International strategy is an issue of geographical scope and the strategy selected by the firm (Buckley and Ghauri 2004). Porter (1986) has extended the generic competitive strategies framework to global industries, naming the generic focus strategy for global industries (narrow segment but global geographic scope) as “global segmentation”. This strategy is commonly adopted by smaller multinational firms as they start to move from domestic to international markets. Many opt to compete in a specific segment worldwide where the advantages of focus are particularly great (Porter 1986). Therefore, export market selection is not feasible in focus strategies because firms try to capture a niche segment that may exist in both developed and developing countries. Instead, their choice of export market is based on the prevalence of a homogeneous customer with specific needs, which makes their export operation wider across countries, but not deeper in any particular market (Zucchella and Palamara 2006). Since there is no preference for developed or developing countries, we suggest that firms selecting focus strategies are more likely to export to both markets.

Hypothesis 5: Focus strategies among firms in developing countries are positively associated with exports to both developed and developing countries.

A focus strategy is significantly related to both cost leadership and differentiation, suggesting a possible existence of cost-focus and differentiation-focus as distinct strategies (Appiah-Adu and Singh 1998; Knight and Cavusgil 2004; Porter 1980, 1985). Because focus strategies are positively associated with exports to both developed and developing countries, as stated in hypothesis 5, we argue that negative relationships between pure strategies (cost leadership or differentiation) and export market are weakened if they are implemented as a narrow target market. For example, differentiated products from developing countries are less likely to be exported to developed countries (Aulakh et al. 2000; Brouthers and Xu 2002).

Due to limited resources and unfavorable perception among local customers, exporters from developing countries are in a disadvantaged position to compete in a mass market. However, if they could find a niche segment to serve, their exports to developed countries would increase and thus weaken the negative relationship. The existence of the specific need for their products in the countries will increase export sales, particularly in the segment that excluded them from other competitors.

Hypothesis 6a: Focus strategies weaken the negative relationship between differentiation strategies and exports to developed countries.

Hypothesis 6b: Focus strategies weaken the negative relationship between low cost strategies and exports to developing countries.

Methodology

Sample and Data Collection

Our data is retrieved from a survey distributed to a sample of manufacturing SMEs drawn from the MATRADE database of Malaysian firms. The SMEs operate across different industries, thus strengthening the generalizability of our findings for manufacturing firms (Morgan et al. 2004). We choose manufacturing firms because they contribute significantly to economic activities and hold a dominant position in world trade (Leonidou 1998). Also, using a sample of homogenous firms helps to avoid content-bias and improve the validity of measurements.

The survey data was collected over a six-month period between September 2012 and March 2013¹¹. The questionnaire was first pretested to a small sample of representative SMEs to evaluate the questions, clarity of instructions, response format, and procedure. It was then translated into an online survey, and we sent a link via email to the personal e-mail of the company's top management. The use of e-mail surveys is more convenient for respondents as it saves both time and effort, and researchers can generally expect a higher response rate than for traditional postal surveys (Wright 2006).

During the first release, emails were sent to 1798 companies. Within 60 days, 90 responses were received, which is five percent net returns. After a reminder, another 121 questionnaires were received bringing the total to 211 responses, or 11.7 percent overall response rate. However, seven responses were rejected, which brought the net response rate to 11.3 percent. The sample characteristics are presented in Table 1.

Table 1: Sample characteristics

Characteristics	%	Mean	S.D.
Age of establishment		21.08	12.56
Years of export experience		13.40	8.99
Percent exports out of total sales		59.30	32.21
<i>No. of employees</i>			
1. Less than 50	43.1		
2. 51 or more	56.9		
<i>Sales turnover (million)^a</i>			
1. Less than 1	14.7		
2. 2 to 10	46.1		
3. 11 or more	39.2		
<i>Industry</i>			
1. Agricultural/food products	34.3		
2. Manufactured durables	21.6		
3. Manufactured nondurables	10.8		
4. Unspecified	33.3		

^a Currency: Malaysian Ringgit

¹¹ The questionnaire was written in English, allowing comparison to prior studies. English proficiency in Malaysia is the highest in Asia and ranked 9th in the world among non-native speaking countries (EF English Proficiency Index score in 2011: 55.54, high proficiency).

Constructs and Measures

Explanatory Variable: Competitive Strategy

Our construct items were adapted from previous studies. The cost leadership and differentiation constructs were measured using four items on the Likert scale, while the focus constructs contained two items (see Table 2). Cost leadership, in the context of exporters from emerging economies, refers to the presence of low cost labor, raw materials, and production (Ara 2004; Coxhead 2007; Erramilli et al. 1997; Kumar and Kim 1984; Lall 1999; Reinhardt 2000; Rosli 2012). Differentiation emphasizes unique product features, high quality, unique product image, and advanced technology (Aulakh et al. 2000; Hipkin 2004; Huo and McKinley 1992; Kim and Lim 1988; Miller 1988; Murray 1988; Porter 1985; Wright 1987). Focus was measured as the company's ability to serve the specific needs of customers and to have specialized products for specific customer segments (Hagen et al. 2012; Huo and McKinley 1992; Park and Bae 2004; Porter 1980; 1985; 1990; Zucchella and Palamara 2006). The integrated strategies cost-focus and differentiated-focus were specified by standardizing the variables and then multiplying by the corresponding standardized variables (Agresti and Finlay 2009).

Dependent Variable: Export Market

To specify the export markets selected by the firms, we asked the respondents to indicate, on a six-point Likert scale (0 for no involvement, 1 for very low to 5 for very high), a breakdown of their exports based on the percentage of total sales to a series of markets among the developing and developed countries. The former included ASEAN countries

except Singapore, Asian countries except Northeast Asia (Japan and South Korea), Eastern Europe, Latin America and Africa/Middle East; while the latter included Singapore, Northeast Asia, Western Europe, Oceania, and the US/Canada.

Control Variables

Since the literature on the firm-level determinants of export market selection is still limited, we only include export experience and industries as control variables. Export experience was measured as the number of years since the company began exporting. We created three dummy variables for the industries (Aulakh et al. 2000); agriculture/food products, manufactured durables, and manufactured non-durables.

Statistical Analysis

We tested our results against: (1) response bias, (2) non-response bias, and (3) common method bias (CMB). We validated the key informant criteria by ensuring that the surveys were answered only by those in senior management posts. We included questions to make sure that responding companies fit the criteria for SMEs¹², were in the manufacturing industry, and locally-owned. We also confirmed that the reported industry in the questionnaire was the same as listed in the MATRADE database. To assess non-response bias, we compared the first 90 responses with the last 121 responses, and found no significant differences between the two groups.

¹² Definition of SME in Malaysia for the manufacturing sector is based on sales turnover and number of full time employees. Small-enterprise: sales turnover between RM250,000 and less than RM10 million or full time employees between 5 and 50; medium-enterprise: sales turnover between RM10 million and RM25 million or full time employees between 51 and 150.

Despite the argument that CMB is minor in magnitude, it is still necessary to take steps to reduce its effects (Conway and Lance 2010). We performed Harman’s one-factor test to check CMB, and found no single factor accounting for most of the covariance in the independent and dependent variables (Podsakoff et al. 2003). Finally, we carried out factor analysis to test internal consistency of the strategy construct, and found a good internal consistency of the three strategy constructs used in the research (see Table 2). The result of collinearity diagnostics is presented in the bivariate correlations (see Table 3).

Table 2: Factor analysis results for competitive strategies

Factors	Loadings	Eigenvalue	% Variance Explained
<i>Differentiation ($\alpha = 0.92$)</i>		3.27	32.71
Unique product features	0.90		
High quality standards	0.88		
Unique product images	0.93		
Advanced technology	0.90		
<i>Cost leadership ($\alpha = 0.91$)</i>		3.22	32.16
Low labor costs	0.81		
Low raw material costs	0.88		
Low production costs	0.95		
Low overall costs	0.94		
<i>Focus ($\alpha = 0.83$)</i>		1.89	18.92
Serve specific needs of customers	0.74		
Specialized products for specific segment	0.75		

Extraction Method: Principle Component Analysis. Rotation Method: Varimax with Kaiser Normalization. Rotation converged in 4 iterations. α = Cronbach’s Alpha

Table 3: Descriptive statistics and correlation matrix

Variable	Mean	S.D.	1	2	3	4	5	6	7
1. Export experience	13.70	8.99							
2. Cost leadership	12.48	3.79	0.10						
3. Differentiation	13.77	3.95	0.29	-0.02					
4. Focus	6.92	1.84	0.05	0.04	0.09				
5. Focus x cost	0.24	7.05	0.31	-0.07	0.24	0.08			
6. Focus x differentiation	0.65	6.84	0.09	0.25	0.04	0.06	0.02		
7. Developing countries	8.54	4.82	0.07	-0.26	0.21	-0.40	0.08	-0.13	
8. Developed countries	7.86	5.23	-0.13	0.08	-0.32	-0.48	-0.14	0.03	0.51

$N = 204$. The correlation coefficients greater than 0.14 are significant at the 0.05 level (two-tailed)

Results

All hypotheses were tested using ordinary least squares (OLS) regression. Table 4 presents the results of our regression analysis for export market selection. In modeling our relationships between competitive strategies and export market selection, we used the export experience and three dummy variables for industries in two separate models; one for developing countries (model 1), and another for developed countries (model 2).

The overall regression in model 1 (developing countries) is statistically significant ($F=65.98$, $p<0.001$), and the independent and control variables explain 75 percent of the variance. We argue in hypothesis 3 that differentiation is positively related to export sales to developing countries, while in hypothesis 4 cost leadership is negatively related to export sales to developing countries. Both hypotheses are supported ($\beta=0.24$, $p<0.001$; $\beta=-0.21$, $p<0.001$, respectively).

The overall regression in model 2 (developed countries) is also statistically significant ($F=77.99$, $p<0.001$), where the R^2 of the model is 0.78. We find that the negative relationship

between differentiation and export market selection (hypothesis 1) and the positive relationship between cost leadership and export market selection (hypothesis 2) to developed countries significant ($\beta=-0.24$, $p<0.001$; $\beta=0.10$, $p<0.001$, respectively), thus supporting both hypotheses.

The effect of a focus strategy on export market selection is significant. However, we find that it is negatively related to export sales to both developing and developed countries, which is contrary to hypothesis 5 ($\beta=-0.81$, $p<0.001$; $\beta=-0.81$, $p<0.001$, respectively). It suggests that export sales are lower when SME exporters target niche segments with limited scope. The results conflict with Moen (2000) who posits that SME exporters develop focus strategies as an instrument to overcome scarce resources and reduce size disadvantages, and that it has a significant positive impact on their export performance. One plausible explanation is that, despite the advantages, a competitive system of focus strategies is based on intangible and competence-based barriers (Zucchella and Palamara 2006). Therefore, it makes it challenging for SME exporters to survive and sustain competitive advantage in export markets.

The results show that integrated cost-focus and differentiation-focus strategies are not significantly related to exports to both developing and developed countries, thus do not support hypothesis 6a and hypothesis 6b. However, we observe that differentiation-focus strategies is positively related to exports to developed countries ($\beta=0.07$, $p<0.05$). The relationship suggests that differentiated products from developing countries are more likely to penetrate developed markets only if exporters meet two conditions: 1) their products offer solid scarcities to meet expectations of local customers (Bastos and Silva 2010), and 2) they focus on a narrow market segment that protects them from the competition of large MNCs (Zucchella and Palamara 2006).

Overall, the findings empirically confirm the expected relationships between competitive strategies (cost leadership and differentiation) and export market selection. Cost advantage of SME exporters in developing countries is more prevalent in developed countries but not in other developing countries. On the other hand, differentiated products from developing countries are more likely to be exported to developing countries but not developed countries. However, when pursuing focus strategies, SME exporters in developing countries appear constrained in their export ability to enter both types of markets. The results will be discussed in more detail in the next section.

Table 4: OLS regression results for export market selection

Variable	1		2	
	Developing countries		Developed countries	
	β	S.E.	β	S.E.
Export experience	0.05	0.02	-0.03	0.02
Agricultural/food products	0.03	0.44	0.02	0.45
Manufactured durables	0.01	0.62	-0.09	0.63*
Manufactured nondurables	0.03	0.48	0.01	0.49
Cost leadership	-0.21	0.05***	0.10	0.05**
Differentiation	0.24	0.05***	-0.24	0.05***
Focus	-0.81	0.09***	-0.81	0.10***
Focus x cost leadership	0.06	0.03	0.00	0.03
Focus x differentiation	-0.04	0.03	0.07	0.03*
Constant	21.91	1.07***	26.62	1.09***
R ²	0.75		0.78	
F-value	65.98***		77.99***	
N	204		204	

* $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$

Discussion

The present research examines the role of competitive strategies in determining export market selection among SME exporters from an emerging economy. We expand on the discussions from prior research on how cost, differentiation and focus strategies are pursued to achieve competitive advantage through export activities (e.g., Aulakh et al. 2000; Coxhead 2007; Lall 1999; Reinhardt 2000; Rosenbusch et al. 2011; Spanos et al. 2004; Uchida and Cook 2005; Zucchella and Palamara 2006), with emphasis on the competitive strategies of firms in developing countries. We also review the literature on the competitive environment and local demand in developed and developing countries, thus conceptualize them as characteristics of export markets. We argue that the evaluation of export markets is imperative to understanding how SME exporters from developing countries can acquire and sustain a comparative advantage at the international level given their dominant competitive strategy. Accordingly, we develop six hypotheses that describe the expected relationships between competitive strategies and export market selection. Finally, when testing our hypotheses on export market selection, we control for the effects of export experience and industry specificities.

The results reveal that competitive strategies of SMEs in developing countries significantly influence exports to both developing and developed countries. As predicted, differentiation is positively associated with exports to developing countries. Products with high quality and unique features have greater potential to be successful in developing countries (Li et al. 2009). In the same vein, we show empirically that differentiated but attractively priced products from developing countries are desired by consumers in other developing countries. This is because many developing countries have less open economies with more import barriers that cause a limited choice of affordable foreign products.

Furthermore, a favorable perception of imported products creates a certain element of exclusivity when consuming them (Hulland et al. 1996). In contrast, cost-based products from developing countries are less competitive in other developing countries due to cost factors (Aulakh et al 2000). Exporters that employ cost leadership strategies are burdened with additional export costs (Shepherd 2010) which erode the cost advantage in comparison with local products. As a consequence, they may not be able to offer their products at an attractive price.

The findings show that cost leadership and differentiation strategies have an inverse influence on exports to developed countries. This is because of concentrated innovation in local products (Aulakh et al. 2000; Porter 1980; 1990) and high threshold quality standards for products from developing countries among local customers (Bastos and Silva 2010). While cost leadership strategies are positively associated with exports to developed countries, differentiation strategies have a significant negative influence on exports to developed countries. Despite the emergence of innovative products with unique features, household brands by firms from developing countries remain less prominent because they lack a reputation and acceptance among sophisticated customers in developed countries (Cordell 1992; Elliott and Cameron 1994; Hulland et al. 1996; Insch 2003; Pappu et al. 2007). In addition, the ability of exporters in developing countries to compete directly with resource-rich local producers in developed countries is impeded as they are often constrained by limited resources and capabilities (Erramilli et al. 1997). The combination of fierce competition and strong obstacles against selling innovative products makes exporters from developing countries avoid exporting to advanced economies.

With regard to focus strategies, the results show that they are negatively associated with exports to both developed and developing countries. The findings, however, do not support our hypothesis. Prior studies (e.g., Zucchella and Palamara 2006) found that niche

strategy firms have a broader export scope, following their customers wherever they are located. In other words, exporters that adopt focus strategies have no concentration in any particular market (developing or developed countries). Instead, they seek to fill the demands of a narrow segment that may exist anywhere. Similarly, we found no significant relationship when cost leadership or differentiation strategies are pursued within a narrow target of competitive scope. Some have argued that the dynamism of international markets has benefited incumbent MNCs with flexible strategies capable of fast response, including the serving of niche markets dominated by SMEs (e.g., Aulakh et al. 2000). We argue that competing by using focus strategies in international operations is a resource-intensive strategy. The existence of niche segments in all types of markets requires SMEs to have more resources to meet technical standards and local bureaucracies that are relatively heterogeneous across countries. Since sales volume is presumably lower than in a broad target market, focus firms have lower economies of scale in their export activities and may have less ability to protect their market niches and grow in both developed and developing countries over time.

Implications for Research and Management

The present research advances the literatures on the internationalization of SMEs. In particular, it contributes by showing that competitive strategies act as a firm-level determinant of export market selection among SME exporters in developing countries. Our research also helps to answer how competitive strategies can be pursued to achieve comparative advantages in export markets. Accordingly, it explains why exporters prefer particular markets and resist venturing into others. Moreover, we provide a new perspective on the export performance of exporters from emerging economies given their significant impact on the global economy. Our research departs from the vast discussions on export activities of MNCs in developed

countries, thus offering novel insights into the fierce competition that emerges with the presence of SME exporters in international markets.

On the practical side, this research enhances our understanding of various competitive environments that exist in international markets and provides a framework for understanding export strategies. Although global economic liberalization allows firms to venture anywhere in the world, adequate knowledge and comprehensive evaluation of export markets are vital to facilitate a sustainable competitive position at the international level (Cavusgil 1984; Knight 2000; Papadopoulos and Martin Martin 2011; Rahman 2003). Accordingly, our results are beneficial for those involved in the strategic decision-making process, and policy makers for supporting SME exporters with more effective assistance programs.

Limitations and Future Research Directions

There are several limitations to this research which allow for potential improvements in future work. First, our sample is restricted to a single developing country, Malaysia. Although Malaysia is classified by many as a developing country, its status is more commonly grouped among the most advanced of this group. Thus, generalization of the findings for less advanced developing countries should be done with care. Second, this research does not include country-level factors such as geographical and cultural distances in our empirical model, despite their possible influence on foreign market selection (Schmeiser 2012). Progress is being made in this study as we present both the firm- (competitive advantages) and country-level analysis (competitive environment and demand in export markets) in the context of export operations. Therefore, there is a need to further examine how firm and country-level determinants moderate, integrate, or interact with the effects on export behavior of firms. Third, because the measurement of export market selection in this research

is not dichotomous nor does it use a percentage of export sales to developing and developed countries, we believe there is a need to understand how exporters compete in an export market which is not favorable for their strategies according to our results. For example, in this study we found that cost strategies are positively related to exports to developed countries but not to developing countries. This raises an important question of how cost-based products from developing countries could survive in other developing countries and under what circumstances. Fourth, we believe there is a potential to examine the effects of competitive strategies on export performance and future export market selection, which will help to explain the learning-by-exporting process (Salomon and Jin 2008).

Conclusions

SMEs play a significant role in providing a substantial share of current employment and future growth prospects in many countries (Organization for Economic Co-operation and Development (OECD) 1997; United Nations (UN) 1993), particularly the advancement of developing countries (Department of Statistics Malaysia 2010). Accordingly, international trade has always been important for emerging economies (Ahmed et al. 2006). Therefore, an investigation into how competitive strategies influence export market selection among SMEs in developing countries is a worthwhile endeavor for scholars.

Previous studies focused on the competitive strategies of firms in developing countries using country-level factors, primarily those related to natural resources and labor costs (Ara 2004; Lecraw 1993; Reinhardt 2000; Singh 2009; Uchida and Cook 2005). Advancements have also been made in understanding SMEs strategies at firm-level, especially those pertaining to the influence of innovation and technologies under resource constraints

(Rosenbusch et al. 2011). However, there is less research available examining the effects of firm-level strategies on exports behavior among SMEs in developing countries.

In our research we find that, overall, firm-level strategy does influence export market selection. The results show that cost strategies are positively influencing exports to developed countries but not to developing countries and that differentiation strategies have the opposite effect. Additionally, we find that focus strategies are negatively associated with exports to both types of markets. A more complete understanding of the strategy-export market selection relationship arises from the framework developed in this article. However, more research needs to be conducted on the influence of geographical and cultural distance, and the progression of firms over time in terms of export market selection. Overall, we show that competitive strategies do act as a firm-level determinant of export market selection.

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Comportement de L'Exportation des Petites et Moyennes Entreprises dans une Économie en Émergence

Résumé

Cette thèse est présentée comme un recueil de trois articles empiriques. L'objectif général de cette thèse est d'examiner le comportement de l'exportation des entreprises de petites et moyennes entreprises (PME) dans une économie en émergence, la Malaisie. Cette étude se focalise, spécifiquement, sur deux domaines de recherche: déterminants d'exportation et stratégie d'exportation. Le premier et le deuxième article analysent, respectivement, les déterminants internes et externes des décisions d'exportation. Le troisième article examine la stratégie d'exportation dans le contexte de la sélection du marché. Les résultats et les contributions sont discutés dans chaque article.

Le premier article examine l'impact des facteurs financiers sur la décision d'exportation. En particulier, nous incorporons les deux majeures dimensions financières clés, le coût et le capital, pour étudier comment la perception du coût, de la capacité du capitale interne et de la contrainte du capital externe détermine le statut de l'exportation de la firme. Nos résultats montrent que les exportateurs perçoivent un coût d'exportation plus bas et sont moins contraints par le capital externe que les non-exportateurs. Cependant, nous découvrons que les exportateurs montrent une capacité du capital interne plus faible que celle des non-exportateurs. Cet article contribue à la littérature tout en intégrant les facteurs 'push and pull', pour comprendre l'effet combiné des déterminants financiers sur les décisions d'exportation.

Le deuxième article évalue l'efficacité des programmes de promotion des exportations. En particulier, nous examinons le niveau de conscience, la fréquence de l'utilisation et la perception de l'utilité de ces programmes entre non-exportateurs et exportateurs. Nos résultats suggèrent que les exportateurs ont plus de conscience, sont les utilisateurs plus fréquents, et considèrent ces programmes plus utiles que les non-exportateurs. Cependant, les deux groupes montrent plus un haut niveau de conscience, une utilisation plus fréquente et un plus haut niveau de la perception de l'utilité des programmes liés à l'information d'exportation et aux salons/foires commerciaux internationaux sponsorisés que ceux qui sont liés à l'assistance financière tel que le conseil sur le crédit. De plus, l'analyse a également révélé que la fréquence de l'utilisation et la perception de l'utilité pour la plupart des programmes sont positivement liées à l'expérience de l'exportation, mais pas aux chiffres d'affaire de l'exportation. Cette étude nous aide à mieux comprendre l'impact des programmes d'exportation sur l'initiation et l'expansion de l'exportation à travers les différentes étapes de l'exportation dans une économie en émergence.

Le troisième article examine la relation entre les stratégies compétitives et la sélection du marché de l'exportation. S'appuyant sur la littérature de l'avantage comparatif pour les exportateurs des pays émergents, et les caractéristiques de la demande sur les marchés d'exportation, nous testons des hypothèses sur la façon dont la domination pas les coûts, la différenciation et les stratégies de cible influencent l'exportation envers les pays développés et en voie de développement. Les stratégies de différenciation montrent les effets opposées à ceux de coût, alors que les stratégies de cible sont associées de manière négative aux exportations des deux types de marché. Cette étude contribue à la littérature en montrant que les stratégies compétitives agissent comme un déterminant, au niveau de la firme, de la sélection du marché des exportations.

Mots-clés: déterminants de l'exportation, décisions d'exportation, facteurs financiers, programmes de promotion des exportations, stratégies compétitives, sélection de l'exportation du marché, PME, économie en émergence

Export Behavior of Small and Medium Sized Enterprises in an Emerging Economy

Abstract

This dissertation is presented as a collection of three empirical articles. The general aim of this thesis is to examine the export behavior of small and medium sized enterprises (SMEs) in an emerging economy, Malaysia. Specifically, it focuses on two research domains: export determinant and export strategy. The first and second articles study on internal and external determinant of export decisions, respectively. The third article examines on export strategy in the context of market selection. Findings and contributions are discussed individually in each article.

The first article examines the impact of financial factors on the export decisions. In particular, we incorporate two core financial dimensions, cost and capital, to investigate how perception of cost, internal capital capability, and external capital constraint determine the export status of a firm. Our findings show that exporters perceive export costs to be lower and are less constrained by external capital than non-exporters. However, we discover that exporters exhibit lower internal capital capability than non-exporters. This study contributes to the literature by integrating both push and pull factors to understand the combined effect of financial determinants on export decisions.

The second article evaluates the effectiveness of public export promotion programs. In particular, the level of awareness, the frequency of use, and the perception of the usefulness of these programs between non-exporters and exporters were examined. Our findings suggest that exporters have greater awareness, are more frequent users, and perceive these programs to be more useful than non-exporters. Nonetheless, both groups demonstrate higher level of awareness, are frequent users, and perceived usefulness of programs related to export information and sponsored international trade fairs/shows than those related to financial assistance such as credit consultancy. Further analysis also revealed that the frequency of use and the perception of the usefulness for most programs are positively related to export experience, but not to export turnover. This study offers insights into the impact of export programs in an emerging economy for encouraging export initiation and expansion across export stages.

The third article examines the relationship between competitive strategies and export market selection. Drawing on the literature of comparative advantage for exporters from emerging economies, and demand characteristics in export markets, we test hypotheses on how cost leadership, differentiation, and focus strategies influence exports to developed- and developing countries. The results suggest that cost strategies positively influence exports to developed countries but not to developing countries. Differentiation strategies show the opposite effects of cost strategies, while focus strategies are negatively associated with exports to both types of markets. This study contributes to the literature by showing that the competitive strategies act as a firm-level determinant of export market selection.

Keywords: Export determinants, Export decisions, Financial factors, Export promotion programs, Competitive strategies, Export market selection, SMEs, Emerging economy.