

CHAPTER 2

LITERATURE REVIEW

2.0 Introduction

In an effort to examine the effects of government export assistance on Small and Medium Enterprises (SMEs) in Malaysia, a thorough examination of relevant literature is required. This chapter provides an overview encompassing key constructs used in this study. For the current study, literature on SMEs and government support assistance programmes will be discussed. Hence, the purpose of this chapter is to provide extensive literature for all the constructs in this study.

It begins with an overview of the SMEs and the topics that were widely covered in research on SMEs. This is followed by an explanation of government support assistance programmes and their effect on the organizations. This chapter also examines the relationships between these constructs based on previous research. Finally, the propositions are forwarded. Generally, this chapter aims to develop the theoretical basis for the current research.

2.1 What are SMEs?

According to the European Commission, SMEs can be identified based on the number of employees, annual turnover, annual balance sheet total and level of autonomy. The UK Government's Small Business Service defines a small business as a business with fewer than 50 employees and medium size businesses as those

with 50 to 249 employees. While in the US, the United States Small Business Administration takes into account industry type and recognises that a firm of a given size could be small in relation to one sector, but large in another. For example, a small manufacturing business is one with less than 500 employees and a small wholesale trade business is one with less than 100 employees (New Straits Times, 2008).

In Indonesia, there are several definitions of SMEs depending on which agency provides the definition. The State Ministry of Cooperative and Small and Medium Enterprises (Menekop), the Department of Industry (MoI) and the Central Statistical Agency (BPS) define a small enterprise (SE) as a business unit with total initial assets of up to Rp200 million, not including land and buildings, or with an annual value of sales of a maximum of Rp1 billion, and a medium enterprise (ME) as a business unit with an annual value of sales of more than Rp1 billion but less than Rp50 billion (Tambunan, 2007).

In Malaysia, the definition of SME according to the National SME Development Council is normally based on two criteria, i.e., the number of people the business is employing, or the revenue it makes (New Straits Times, 2008). In short, a business can be called an SME if it meets either one of the two criteria. Within the SME itself, there are also terms that are used to describe whether an SME is a Micro Enterprise, Small Enterprise or Medium Enterprise, and again this depends on the criteria. The unclear definition poses confusion, especially when an entrepreneur is looking to get assistance from the SME related bodies and financial institutions.

However, in 2005, the National SME Development Council announced the official and standardised definition of SME. Particularly, the details of SME definition based on sector are presented in Table 2.1.

Table 2.1
Definition of SMEs in Malaysia by Sector

Sector	Number of Employees	Annual Sales Turnover
Primary Agriculture	Full-time employees not exceeding 50	Not exceeding RM5 million
Manufacturing (including agro-based) and MRS	Full-time employees not exceeding 150	Not exceeding RM25 million.
Services (including ICT)	Full-time employees not exceeding 50	Not exceeding RM5 million

Source: National SME Development Council – available at http://www.smeinfo.com.my/pdf/sme_definitions_ENGLISH.pdf.

The definition is used across various sectors, and adopted by the government ministries, agencies and financial institutions that are involved in the development programme of the SMEs. The National SME Development Council, in 2005, approved the common definitions of SMEs across economic sectors for adoption by all Government Ministries and Agencies involved in SME development, as well as financial institutions. For wider coverage and applicability, the definition of SMEs is based on two criteria, i.e., number of employees and annual sales turnover. This definition applies for the sectors of primary agriculture; manufacturing, including agro-based, manufacturing related services (MRS); and services including information and communication technology. Therefore, an enterprise is classified as an SME if it meets either the specified number of employees or annual sales turnover definition.

2.2 International Expansion of SMEs: Issues and Challenges

In today's environment, SMEs that start with a global strategy can move quickly to take advantage of cross-border activities. This provides opportunities for revenue growth as well as for the exchange of knowledge and the enhancement of capabilities, thereby strengthening the long-term competitiveness of the firm. By expanding their business in new geographic markets, a firm may broaden its consumer base and can potentially achieve a higher sales volume. This provides the possibility of a higher production volume and expansion in production capacities to meet the market demands (Lu and Beamish, 2002). Exporting is a relatively fast, easy and flexible way to enter foreign markets. Further, it has lower commitment and risk compared to other foreign entry strategies, such as opening branches or plant in foreign countries. It enables SMEs to respond quickly to changes in various markets, either reducing or expanding activities.

SMEs that intend to expand into the international market can take many different forms of entry strategy, including exporting, the creation of alliances across national borders and the establishment of operations or offices in other countries. Despite the trends facilitating expanding internationally, many barriers still exist from parties either inside or outside the organizations. External factors impeding SMEs to go abroad include national and international administrative rules, regulations, as well as formal and informal trade barriers. Internal barriers for SMEs trying to go international include cultural differences, lack of information or skills, insufficient networks, language barriers and lack of access to necessary finance (Lu and Beamish, 2002). However, international expansion is a significant decision for

SMEs that traditionally have a small financial base, a domestic focus and limited geographic scope (Lu and Beamish, 2002). If the organizations succeed in their attempt to expand internationally, the benefits they receive from the huge international market are very significant.

While some SMEs are "born global", most lack the resources necessary to go international and, traditionally, they have appeared reluctant to engage in global business activities (Kirby and Kaiser, 2003). SMEs need to know how and where to access basic information about exporting and international trade. Providing easily accessible information concerning specific information on tax, regulations and finance in foreign countries is, therefore, important in creating a broader pool of SMEs who decide to go international. Areas in which SMEs wanting to go international often seek outside support include: technology, product standards and quality; access to, and use of, information related technologies; export directed training programmes; legal and accountancy services with a specialist export orientation; finance and marketing. However, there is concern that SMEs have resorted to using such services in a haphazard and ad hoc manner, reflecting the particular needs perceived at any given point in time by the key decision makers themselves, rather than using such support services as part of a strategic approach to conduct business abroad (Lloyd-Reason et al., 2004).

From the above discussion, we can say that the process of SMEs expanding internationally is not an easy task. They face challenges and must be prepared for failure. Perhaps, with a little help from the government agencies, the SMEs might ease the burden of expanding their business.

2.3 The Importance and Contribution of SMEs to National Economy

The importance of SMEs to world economies is well documented (Storey 1994). SMEs make up the largest business sector in every world economy (Culkin and Smith 2000), and governments around the globe are increasingly promoting and supporting SME growth as part of their overall national development strategy (Abdullah and Bakar 2000).

The development of SMEs, and changes over time in their employment and output share, output composition, market orientation and location, are usually thought to be related to various factors, including the level of economic development, changes in real income per capita, population growth and progress in technology (Tambunan, 2007). However, several researchers believe that the role of SMEs will become less important in the course of economic development (for example, Staley and Morse, 1965; and Anderson, 1982). The researchers argue that with the maturity of certain economies, such as in the US and Japan, large organizations might become major contributors of economic development. Therefore, the role of SMEs will become less important.

However, other researchers believe that SMEs are an important part of economic development. For example, Wang, Walker and Redmond (2007) argue that while they dominate in terms of absolute numbers, SMEs are also important because they are key drivers of employment and economic growth. Moreover, at a macro level, SMEs have created the majority of new jobs in OECD countries since the 1970s (Peacock 2004) and their collective contributions to respective GDPs (e.g.,

approximately 30% in Australia and New Zealand, 51% in the UK and USA, 57% in Canada and Japan, 76% in Luxembourg).

At the micro level, SMEs are popularly looked upon by governments as a keystone to regional economic and community regeneration. Since the early 1980s, considerable restructuring, particularly in large firms (e.g., rationalising, downsizing, outsourcing and job exporting), has seen a general shedding of jobs (Storey 1994). Fortunately, the SMEs become a major engine that generates job opportunities for the employees. It is primarily through the growth of SMEs that employees made redundant by large firms have been absorbed back into the work force (Storey 1994; Frank and Landstrom 1998). Through a multiplier effect, this employment provides income to regions that stimulates local economic activity, which, in turn, drives wealth and further creation of employment (Walker and Webster 2004).

A report provided by The World Bank in 2004, gives three core arguments supporting the view that SMEs can function as the engine of growth in developing countries. First, SMEs enhance competition and entrepreneurship and, therefore, have external benefits on economy-wide efficiency, innovation and aggregate productivity growth. Second, SMEs are generally more productive than Large Enterprises (LEs), but the financial market and other institutional failures and nonconductive macroeconomic environmental aspects impede SME development. Third, the expansion of SMEs boosts employment more than the growth of large enterprises because SMEs are more labour-intensive. The World Bank believes that SMEs can boost economic growth and development in these countries (Tambunan, 2007).

In Indonesia, SMEs have historically been the main player in domestic economic activities, especially as a large provider of employment opportunities, and, hence, a generator of primary or secondary source of income for many households (Tambunan, 2007). These enterprises have also been important for the development of local economies and communities. However, compared to many other APEC more developed economies, Indonesian SMEs have not proven the significant value they contribute to the country's economy. Instead, they have been more important as the locus of most employment than of gross domestic product (GDP) growth in Indonesia.

Additionally, Tambunan (2007) also argues that SMEs have also been recognized as having another important role, namely, as an important engine for development and growth of exports, particularly in manufacturing. This stems from evidence showing that the most successful cases of SME development in East and Southeast Asian countries including South Korea, Taiwan, Hong Kong and Singapore, have been directly related to trade and the adoption of export-oriented strategies. The experiences of these countries indicate that SMEs can compete effectively in both domestic and international markets.

Saleh and Ndubisi (2006) in their research indicate that Malaysian SMEs account for approximately 90 per cent of total manufacturing establishments in the country. This shows that SMEs in Malaysia play an important role in the country's economic development. According to statistics provided by SMIDEC (2004), reported in Saleh and Ndubisi (2006), SMEs contributed 29.1 percent of total manufacturing output,

26.1 percent to value added, and 32.5 percent of employment in 2003. In addition, value added production from SMEs is expected to be worth RM120 billion or 50 percent of total production in the manufacturing sector by 2020. Their findings and evidence suggest that SMEs play a vital role in the nation's economy and wellbeing. The largest concentration of SMEs, in terms of numbers, can be found in the textile and apparel sector, followed by food and beverages, metals and metal products, and wood and wood products. This scenario has led to the development of many programmes by the government to help SMEs expand their business activities.

In a study conducted by Ali et al. (2006), their study found that the Malaysian government has implemented many programmes designed to strengthen the performance of SMEs. For example, the government initiated around 11 programmes to enhance the contribution of SMEs to the economy and there are more than 10 ministries and 40 government agencies dealing with SME development. Among the programmes initiated by the government are the following: the ILP, GSP, market development and financial assistance programmes; the establishment of an SME bank (Ali et al., 2006); and the establishment of a special SME unit at Bank Negara Malaysia to enhance their access to financing. Despite these governmental programmes Malaysian SMEs still face many challenges, domestic and external, which could hinder their resilience and competitiveness. These include:

- i. Ongoing difficulties in obtaining funds from financial institutions and the government. Usually the interest charges by financial institutions on loans

borrowed by SMEs are high, and this is compounded by a lack of financial transparency by SMEs.

- ii. A lack of human capital is the most significant challenge facing Malaysian SMEs. It is often too expensive for SMEs to employ a professional and competent workforce.
- iii. SMEs face a high level of international competition; this includes from AFTA member countries and competition from MNCs or new competitors (for example from China and India).
- iv. A lack of access to better technology and ICT, which hinders more efficient and productive business operations.
- v. A high level of bureaucracy in government agencies hinders efficient SME business development operations.
- vi. A low level of research and development expenditure.
- vii. A substantial orientation towards the domestic rather than international market place.

Ting (2004) highlighted many challenges still facing Malaysian SMEs. He identified five key challenges, in particular: lack of access to finance; human resource constraints; limited or inability to adopt technology; lack of information on potential markets and customers; and global competition. He also argued that there is a high risk of SMEs being wiped out if they do not increase their competitiveness in the new rapidly developing world of globalization.

2.4 Government Export Assistance

Like their larger MNC rivals, the ability of smaller manufacturing firms to become successful international competitors is dependent upon the resources they bring to bear on potential export opportunities (Andersen and Kheam, 1998). From a resource based perspective, the US SMEs frequently lack necessary internal resources, know how, and information about foreign markets (Alvarez, 2004; and Wolff and Pett, 2000). As a result, US based SMEs commonly view exporting as a high-risk venture (Burpitt and Rondinelli, 2000). For this reason, they are often tempted to be 'homebodies', thereby avoiding the uncertainties of overseas markets (Acs, Morck, Shaver and Yeung, 1997).

Similarly, in Malaysia, even though the SMEs are primarily (90 percent) made up of manufacturing firms, they only managed to export 20.8 percent of their total production, which counted for only 10.8 percent of total Malaysian exports of manufactured products (Abdul Jumaat and Jasmani, 2006). The results indicate that most SMEs in Malaysia only focus on the local market. Therefore, there is plenty of room for improvement by the SMEs, not only in Malaysia, but across the globe in order for them to utilize the opportunities and their potential. Therefore, Abdul Jumaat and Jasmani (2006) added that in an effort to assist the SMEs, the Malaysian Government has introduced a range of exporting assistance programmes to support and encourage more SMEs to export as well as enable them to increase their share of the country's total exports.

Smaller manufacturing firms can overcome the limitations of inadequate information about foreign markets by choosing partners who possess such knowledge, either in their home countries or in targeted host country markets, (Inkpen and Beamish, 1997). These partners include international not-for-profit trade/export associations, distributors, and various types of export intermediaries. In addition, they may access the services of governments, an often aggressive player in the field of export promotion (Wilkinson and Brouters, 2006). However, the current study will only focus on programmes provided by the Malaysian government to help SMEs improve their export activities.

Reid (1981) argues that the decision-makers attitude, experience, motivation and expectations are primary determinants in firms engaging in foreign market activity. He suggests that the innovation adoption behaviour model of export behaviour and foreign entry decision is consistent with exporting behaviour as a process described by Bilkey and Tesar (1977). Bilkey (1978) has suggested that for maximum success, export stimulation programmes should be tailored to the export development position of the firms to be stimulated. He argues that if export assistance programmes are formulated in terms of export internationalization process, then: (i) experienced exporters will be stimulated to increase exports by devaluing the currency and by removing perceived obstacles to exporting; (ii) non-exporters will be stimulated to begin exporting by being provided with export orders (perhaps by developing Japanese-type trading companies) and with managerial assistance (such as export extension programmes and export consulting services); (iii) firms that have not attempted to export will be stimulated to explore the feasibility of exporting by programmes promoting the attractiveness of exporting (trade association meetings,

advertising, public meetings) and through international education within schools (such as foreign language training, student exchange abroad, international business education etc).

In the field of export support, numerous studies have referred to governments' reduced capacities to assist exporters (Milner 1990; Seringhaus and Rosson 1990). Crick and Czinkota (1995, p. 61) argued that *“since trade policy is regulated by international institutions such as the WTO, unless governments are ‘flexible’ in interpreting agreements, there is only so much they can do to assist exporters”*.

In developing countries, governments' export services are not only viewed as one of the necessary structures of economic and trade development, but also as the export support channel with arguably the most comprehensive base for trade creation (Williams 2005), generally considered vital for developing countries' economic survival (Seringhaus & Rosson 1991). On the other hand, for industrialised countries, the main goal of export support is one of only strengthening the competitive competence of individual companies through contributing to their export performance (Seringhaus and Rosson 1991).

The mutually inter-related nature of export support policies and trade performance is pointed out by Crick (1992), who proved a correlation between decreasing government export support and the country's deteriorating trade deficit. Drawing on this correlation, if, for instance, trade liberalisation negatively impacts on a country's trade performance, this may lead to the government's increasing export support to offset these negative impacts. National trade performance and related

political pressure on the government will be investigated as intermediary factors between trade liberalization and government export support policy.

Specifically, in Malaysia, after independence (August 1957), Malaysia was a resource based economy, depending on natural resources and exploitation of the land. The industrialization drive laid the foundation for the transformation of the Malaysian economy from resource and agriculture based to industrial based (Ching, 2004). The country's industrial strategy was a form of state capitalism aimed at achieving international competitiveness. Malaysia pursued two distinct industrialization strategies. First, the import substitution industrialization (ISI) during the 1960s, and, second, the export oriented strategy during the 1970s and 1980s, aimed, especially at sectors like textiles and electronics (Ching, 2004).

Greater emphasis on the development of SMEs, however, only became evident during the early 1970s with the introduction of the New Economic Policy (NEP), 1971-90, aimed at reducing poverty and correcting economic imbalance (Ching, 2004). Real effort towards encouraging and recognizing the importance of SMEs in the country's economy occurred during the 1980s, when the government initiated greater efforts towards encouraging closer linkages between SMEs and larger enterprises.

2.5 Export Barriers

Understanding how barriers or inhibitors impede the exporting process is of vital importance in the attempt to understand why and how firms become involved in

overseas markets (Wilkinson and Brouthers, 2006). Studies that examine the role of export barriers either attempt to understand the structure and nature of export barriers or they address the influence that barriers have on the export process of firms (Ramaswami and Yang, 1990). A related body of literature suggests that the attitudes exhibited by managers towards exporting play a significant role in whether or not firms become involved in exporting and, if they do, their subsequent progress. According to this stream, the major reason that most firms do not export is because their managers are not motivated or determined to export (for example, Cavusgil and Nevin, 1981; Czinkota and Johnson, 1983).

In a study by Bilkey and Tesar (1977), they found that firms starting export activity face difficulties in identifying opportunities in export markets. Suarez-Ortega (2003) identified the following as knowledge barriers: lack of awareness of export assistance available to would be exporters, lack of awareness of economic and non-economic benefits of export markets, lack of knowledge of potential markets, lack of qualified staff for export markets, and overall lack of knowledge of how to enter the export market. Also, a study by Crick, Al Obadidi, and Chaudhry (1998) indicated that lack of information and lack of export experience are barriers that hinder export development.

Furthermore, a study conducted by Leonidou (2004) classifies 39 export barriers of 32 studies of export behaviour into internal (incorporating informational, functional, and marketing) and external (comprising procedural, governmental, task, and environmental) categories. Additionally, the author suggests that policy makers provide educational, operational, and promotional assistance for SMEs to help firms

overcome these barriers. Similarly, a study by Seringhaus and Rosson (1989), classified export barriers into four broad categories, i.e., motivational, informational, operational/resource-based, and knowledge.

Traditionally, small businesses wishing to export face a number of internal and external obstacles (for example, Hamill, 1998; Hamill and Gregory, 1997; Julien, Joyal, Deshaies, Ramangalahy, 1997; Bennett, 1998). Leonidou (1995) suggested that fear of intense competition in foreign markets was the biggest barrier to export activity, with attitudes towards risk and innovation also being important. The research confirmed previous research by Dicht et al. (1990) that psychic distance from the foreign markets greatly affects firms export activities. Hamill and Gregory (1997) study identified four main categories of barriers to export activities. Table 2.2 shows the four categories of barriers to export activities suggested by Hamill and Gregory (1997).

Table 2.2
Barriers to SMEs Export Engagement

Barrier type	Examples
Psychological Problems	Concern with problems of high cost and excessive risk, short- term perspectives, ethnocentric orientation and similar variables.
Operational difficulties	Difficulties such as mundane paperwork, delays in payment etc.
Organisational difficulties	Resource constraints, lack of knowledge of foreign markets, lack of experience in international activities.
Product/market difficulties	Country selection decisions, needs to modify outputs, tariff and non-tariff barriers.

Source: Hamill and Gregory (1997)

Researchers also argue that managers' experience and involvement in exporting have a direct influence on their perceptions towards different barriers (Katsikeas and Morgan, 1994; Ramaseshan and Souter 1996). Moreover, managerial factors (such as incompetent, risk-averse and inward-oriented managers), organisational factors (such as relatively new firm and small firm) and environmental factors (such as economic, political and social environment at home and overseas market) have great influence on managers' perceived barriers to export (Dichtl, Koeglmayr, and Muller, 1990; Katsikeas and Morgan, 1994; and Leonidou, 2004).

However, a study conducted by Julien (2000) argues that governments will no longer be able to help domestic firms as directly as they have in the past, given new competition rules put in place by supra-national bodies. This statement suggests that the rules provided by supranational bodies such as the World Trade Organization (WTO) and North American Free Trade Agreement (NAFTA) will lessen the ability of local governments to protect local industries. Therefore, instead of protecting the firms in the local market, the governments are now focusing on improving the local firms to compete in the international market.

2.6 Awareness of Export Assistance Programmes

Several studies have been conducted in the context of awareness of export assistance in many areas. Few are concerned with government assistance to the various levels of business groups. For example, Moini (1998) used the internationalization process model to segment firms into four categories. The results suggest that awareness and effectiveness of export assistance programmes varies by the degree of internalization

of the firm. Furthermore, firm and decision maker characteristics were found to influence the effectiveness of these programmes. He suggests that export assistance programmes should be designed and carried out with a clear target audience in mind. Czinkota and Johnston (1981) used a segmentation approach to investigate the specific export needs and awareness within different groups of firms. They concluded that for smaller firms in the early stages of exporting, export promotion programmes should concentrate on the mechanics of exporting, such as fund transfer, documentation and general market information while for more experienced exporters, assistance should focus on financing, customer service and warehousing.

In a study conducted by Crick (1997), the researcher investigated UK managers' behaviour towards selected export assistance programmes. Specifically, it investigates whether differences exist between managers of UK SMEs in various stages of internationalization in relation to their awareness and frequency of use of the programmes, together with their perceptions about the timeliness, reliability, and availability of the assistance schemes. The rationale for such a study is that if managers of UK SMEs in different stages of the internationalization process differ in both their behaviour towards and perceptions about government assistance programmes, UK policymakers may need to reconsider the way in which services are provided to avoid wasting scarce resources. Therefore, the programmes provided by the government must reach their target group and must be very effective in improving the SMEs exporting activities. If not, it will be a waste of effort and resources.

In a later study conducted by Abdul Jumaat and Jasmani (2006), they examined the effectiveness of government export assistance programmes provided by five government export supporting agencies in Malaysia, i.e., SMIDEC, MATRADE, MIDA, MECIB and EXIM bank. To determine the effectiveness of the export assistance programmes they focused on the level of awareness among the SMEs, the importance of government export programmes to the SMEs, and the benefits received by the SMEs from using the exporting programme. The study found a lack of awareness among the SMEs of the exporting programmes. However, the SMEs perceived that export assistance programmes are important for them to expand their business internationally and the SMEs received various benefits from the programmes provided.

In a report of SMEs performance in Malaysia provided by SMIDEC (Small and Medium Industries Development Corporations) in June 2004, they undertook various activities including five seminars to create greater awareness and improve understanding of Government policies, assistance programmes and financial packages available to SMEs. However, no application was received for one scheme provided by SMIDEC in which they allocated a sum of RM51.4 million. This may be due to the lack of awareness of the newly launched scheme. This shows that there is a lack of awareness among SMEs of newly developed programmes by the government.

A study conducted by Teo, Chan and Tan (2007), aimed to empirically investigate the awareness level of the SMEs in Singapore of the government assistance schemes for exporting activities. They found that the third most important reason for

impeding construction SMEs in exporting their services was the lack of knowledge of exporting opportunities. This finding explains the low level of awareness rate of the government assistance schemes among SMEs in Singapore. The results of their study show that none of the respondents who tried exporting their construction services utilized any of the government assistance schemes.

Based on the above discussion, the current study hypothesized that:

Hypothesis 1: The awareness of export assistance programs will positively relate with the overall SMEs performance.

2.7 Satisfaction of the Scheme Provided

The current study also attempts to examine the satisfaction of SMEs in Malaysia in terms of the schemes provided by the government for them to improve their exporting activities. It is important to understand whether all the export assistance programmes provided by the government agencies fulfil the needs of the SMEs. If they are satisfied with the programmes, most probably, the programmes provided by the agencies fulfilled their needs, and directly or indirectly, it will influence their export performance.

In Lages and Lages (2004), they assessed the satisfaction using the assessment of export performance for British and Portuguese firms. They found that British firms score higher satisfaction on their export performance than Portuguese firms. In terms of their preferences on the exporting activities, Portuguese and British

respondents evaluated the performance of the selected export venture; they chose different types of products and exporting markets. For example, although Portuguese exporters might rely more on traditional (e.g., textiles, shoes) products and less on high technology products, this reliance is much less likely to occur for British exporters. Similarly, although British firms are typically international firms, Portuguese exporting firms typically depend on a neighbouring country (e.g., Spain). The study also found that managers in the organizations focus on annual performance results because it is much easier to establish and quantify results annually than it is in the long run. Furthermore, managers consider short-term performance vital because it relates to their own personal interests. In recent years, there has been increasing mobility of managers across firms, and top managers spend fewer years in the same organization.

A study conducted by Wilkinson and Brouthers (2006) investigated the impact of US state-sponsored export promotion activities on the international marketing efforts of SMEs. They hypothesized that even after controlling for internal firm resources, the use of trade shows and programmes identifying agents and distributors contribute positively to SME satisfaction with export performance. With respect to internal resources, they found that firms that fully exploited their internal assets, including their technological capabilities, demonstrated greater satisfaction with export performance than did other firms. They also found that greater use of trade shows and programmes that identified agents and distributors was associated with firms reporting higher export performance satisfaction. All these results indicated that the satisfaction of SMEs with the schemes provided by the government agencies

is closely related to the firms' performance. If they are satisfied with the programmes, their export performance will improve.

From the discussion above, the satisfaction on the export assistance programs are related to the performance of the organization. Therefore the current study hypothesizes that:

Hypothesis 2: There is positive relationship between the satisfaction of SMEs on the export assistance programs and the overall performance of the organizations.

2.8 Benefits of Export Assistance Programmes

Many studies have found a positive association between an export-oriented trade policy and the growth of the organizations (Alexander and Warwick, 2007). Much of this work and debate focuses on the potential for exporting to help developing countries grow faster. The evidence strongly suggests that exporting is only one element of a firm's development strategy and has to be properly integrated to achieve maximum impact.

In a study conducted by Mesquita and Lazzarini (2008) in Argentina, they tried to identify how collaboration among SMEs in environments of weak infrastructure and institutions help them achieve greater collective efficiencies and access to global markets. In this case, the role of government agencies that provide export assistance programmes is crucial. They posited that a firm has a better chance to access global

markets if they have the necessary resources and capabilities to scan international clients and meet their expectations. They found that the export assistance programmes assist SMEs in expanding their business and gain the benefit from the larger international market and directly influence the firms' performance.

Policy-makers appreciating the benefits associated with more internationalizing SMEs support initiatives that reduce barriers to SME development (Wright, Westhead and Ucbasaran, 2007). The researchers encourage policy-makers to provide a more balanced and refined policy support if they are seeking to facilitate private SME internationalization. The issues include the scope for early internationalization, internationalization as a dynamic activity, mode of entry options, domestic and international resources, and attention to the SMEs. Furthermore, to counteract the emphasis placed on sunk costs, policy-makers may seek to emphasize the potential learning benefits from internationalization experience, irrespective of whether the experience is perceived as a failure or success. They also suggest that policy-makers should seek to make SMEs aware of the benefits and costs of each mode of entry into foreign markets. Many SME owners are motivated by autonomy and independence. This may manifest itself in a reluctance to relinquish control, which may be necessary to a certain extent in joint ventures, alliances and mergers. SMEs may need to be made aware that they may be unable to internationalize without losing control.

In Teo et al. (2007), they tried to examine the relationship between the diversification through exporting activities by the SMEs. The results of their study found that the benefits cannot be derived from diversification vis-à-vis exporting

services if the construction SMEs' main objectives to export services are to reap healthy profits, to enhance image, and reputation which are short term in nature. The results show that short-term reasons are not significantly important for exporting services, but the long-term reasons to diversify will be beneficial. However, they found that SMEs actually benefit from the export assistance programmes provided by the agencies for them to explore the foreign markets and expand their business internationally.

In another study, it explicitly highlights and empirically supports the notion that companies can pursue different levels of export involvement and that the outcome of this involvement can be assisted by various state export promotion programmes and measured on a variety of dimensions (Gencturk and Kotabe, 2001). These include, at a minimum, efficiency through improved profitability, effectiveness through growth in export sales, and competitive position benefits of exporting behaviour. The results unequivocally support the importance of firms' export involvement behaviour for export success in terms of the firms' export performance. Therefore, it is critical for exporting firms to understand the process of export involvement and the specific variables that can influence this process and what capabilities may be needed to make the necessary transition and realize the expected benefits of greater involvement in exporting.

The above discussion suggested that benefit of export assistance programs will improve organization performance. Therefore, this study hypothesizes that:

Hypothesis 3: There is positive relationship between the benefit of export assistance programs and the overall performance of the SMEs.

2.9 Export Assistance and Firms' Performance

To begin with the theoretical issue, firms' performance has been approached from a number of perspectives in the literature. Some theories, e.g. Ecological Organization Theory (Thorelli 1967) and Export Marketing Mix Theory (Bilkey 1987), seem to break through the deadlock in the literature; however, their attempts are, at best, towards building a comprehensive export performance model. Furthermore, in examining the relationship between export performance and its determinants, the literature has been preoccupied with the regression oriented analysis method in which inter-relationship between determinants of export performance are ignored when these constructs have been assumed to have a direct relationship with export performance (Zou and Stan 1998).

The following literature provides theoretical grounds for performance conceptualization. Venkatraman and Ramanujam (1986) conceptualize business performance as comprising operational or non-financial factors and accounting based economic factors. They suggest that adding such value-based measures on accounting based measures improves the validity of the business performance measure so it prevails in strategy research today. These operational factors are long-term strategic in nature, e.g. market share position, new product introduction, and marketing effectiveness; while financial factors are traditional short term economic measures such as sales and profit. Therefore, Venkatraman and Ramanujam (1986)

conceptualization of business performance is consistent with the strategic and economic taxonomy of export performance prevailing in export performance literature, e.g. Madsen (1998); and Zou, Taylor, and Osland (1998).

Matthews, Buzzell, Levitt, and Frank (1964) conceptualize marketing performance, a business performance induced by pursuing marketing activities, as achievement of marketing goals or as improved competitive position that is reflected by economic marketing standards such as sales and profit. They further argue that the valid way to measure marketing-led business performance is to, and only to, evaluate achievement of pre-specified marketing goals, not gauging the economic performance consequence of these goals.

Julian and O'Cass (2004) found that support through distribution channels and promotion adaptation have no effect on export performance; while product and price adaptation strategies influence the export performance of Thai export manufacturing firms. Wortzel and Wortzel (1981) found that exporting firms, from less-developed countries with limited experience, inadequate market information, or restricted relationships with export channels, fundamentally pursue a strategy of contract manufacturing through which they perform very limited marketing activities. These exporters have to adapt their product offerings to match importers' orders and compete on price.

Based on export barrier literature, exporting firms from less developed countries experience various domestic export barriers, which vary considerably in complexity and seriously hinder their export performance. These simple export barriers include

poor government export promotion services (Karafakioglu 1986) and poor supply of updated international market information (Bodur 1986; De Souza, Schmidt, and Colaiacovo 1983); while more complex export barriers include poor trade and public infrastructure, possibly caused by corruption of government officials, and domestic political and economic constraints (Da Silva and Da Rocha 2001).

A study conducted by Ratanasithi and Hemphill (2005) discovered a better understanding of export performance and its drivers; thus, helping to lead towards conclusive findings in export performance literature. Their findings also show that the ability to adapt products is a key to long run export success. They also suggest that if something can be done about export barriers internal and external to the firm, long run export performance will be improved. However, more academic work is needed before further prescription, especially relevant to policy, can be made.

Reidø (1981) study revealed that beyond export trial, evaluation of the firm's current export performance is a factor influencing subsequent export acceptance. This shows that export performance is a source of feedback to a firm about the results of its export adoption. Several studies have found exporters with different levels of involvement to differ by this variable (Cavusgil, 1984; Cavusgil et al., 1979). High involvement exporters are, thus, hypothesized to have better export performance than low involvement exporters because positive export performance is an indication of a firm's ability to handle export activity. A strong performance indicates high ability and is a source of motivation for further export involvement.

Another important aspect that needs to be considered in evaluating firms' performance based on the government export assistance studies is the short term versus long term performance (Madsen, 1998). Short-term versus long-term aspects of export performance has long been controversial in this literature. Madsen (1998) for instance, points out the conflicting nature of short-term practical measures, e.g. current profit, and long-term strategic measures, e.g. future sales growth, of export performance.

2.10 Conclusion

This chapter provides the background of this research. That is, brief reviews on the SMEs and the export assistance programmes provided by the government for the SMEs to expand their business internationally. Next, the discussion on the constructs used in the current study, i.e., awareness among SMEs of the export assistance programmes, satisfaction among the SMEs on the programmes developed, benefit of the export assistance programmes on SMEs and, finally, the performance of the SMEs are presented.