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Factors Affecting Non-exporting Small and Medium Enterprises' Intention to Export: Resource Based Approach

Maris Stella Michael[a,*], Gluma Saban[b], Abang Zainoren Abang Abdurahman[c]

[a, b, c] *Universiti Teknologi MARA, Kota Samarahan 94300, Malaysia*

Abstract

Due to globalization, Small and Medium Enterprises (SMEs) are increasingly taking into consideration the international market as SMEs have a strong role in enhancing the countries' employment and socio economic development. Most studies focused on factors stimulating current exporters' initiation, development or sustainment of exports, largely neglecting the effect of stimulating factors on non-exporters behaviour that do not export at all and remain inactive. Empirical results indicate that the influential factors to determine the intention of non-exporting SMEs to export are the firms' specific intangible resources. The paper analyzes four factors that play role on export intention of non-exporting SMEs in developing countries namely human capital, organizational capital, technological capital, and social capital. By adopting the RBV framework, it extends the current export marketing literature and simultaneously it also offers useful guidelines to encourage the non-exporters especially among the small and medium firms to internationalize.

Keywords: export intention; small and medium enterprises (SMEs); non-exporters; resource based approach

1. Background of the study

Going global provides new business opportunities for technology and new markets for the exporting firms especially for small and medium sized enterprises. One of the pioneered models of internationalization, the Uppsala

* Corresponding author. Tel.: +6-013-845-2164.
E-mail address: maris_adel88@yahoo.com

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Model posited that internationalization is an event when a firm moves outward in international activities (Johanson & Wiedersheim, 1975). In recent years, due to globalization, firms have increasingly been taking into consideration the international market. The increasing number of firms involved in exporting proves that there is an involvement in internationalization activities. As firms internationalize, they help to develop the private sector and they also integrate into the global economy to alleviate poverty in developing countries (Raynard & Forstater, 2002). Relative to other mode of entry, exporting does not involve a sizeable investment capital and resource commitment (Lages & Montgomery, 2004; Agndal & Chetty, 2007). Firms, in particular SMEs will be able to gain new experiences while operating their businesess in overseas markets and thus improve their competitiveness over their competitors from the outside markets (Lages & Montgomery, 2004). However, there are still a lot of firms notably SMEs which do not intend to export even though exporting gives a lot of benefits to the firms and to the national economy as well. The majority of firms choose to remain operating in the local markets. As some domestic markets are shrinking for certain industries, this limits the firms' growth and as the competition increases, export is seen as a mean to market expansion.

The direction of a firm's internationalization is believed to be due to the nature of its available resources and the market opportunities in the environment (Mahoney & Pandian, 1992; Peteraf, 1993) where firms tend to develop new products and enter new markets where the resource requirements match their resource capabilities. Resources play an important role to stimulate the export intention and without the resources at hand, the SMEs are not able to compete with other larger firms or among themselves.

2. Small and medium enterprises (SMEs)

Malaysia has so far adopted a common definition of SMEs to facilitate identification of SMEs in the four main sectors, which are primary agriculture, manufacturing (including agro-based), Manufacturing-Related Services (MRS) and services (including information and communication technology). This has facilitated the Government to formulate effective development policies, support programs as well as provision of technical and financial assistance to them. According to SME Corp Malaysia, an enterprise is considered an SME in each of the respective sectors based on the Annual Sales Turnover or Number of Full-Time Employees as shown in Table 1.

Table 1. Standard SMEs definitions in Malaysia (as of January 2011).

Type	Micro Enterprise	Small Enterprise	Medium Enterprise
Manufacturing, Manufacturing-Related Services and Agro-based industries	Annual sales turnover of less than RM250,000 or full time employees less than 5	Annual sales turnover from RM250,000 to less than RM10 mil or full time employees from 5 to less than 50	Annual sales turnover from RM10 mil to less than RM25 mil or full time employees between 51 to less than 150
Services, Primary Agriculture and Information & Communication Technology (ICT)	Salas turnover of less than RM200,000 or full time employees less than 5	Sales turnover from RM200,000 to less than RM1 mil or full time employees between 5 and 19	Sales turnover from RM1 mil to less than RM5 mil or full time employees between 20 and 50

As of 1 January 2014, more firms will have access to SME support programs as the newly revised SME definition comes into effect:

- Manufacturing sector, sales turnover not exceeding RM50 million OR full-time employees not exceeding 200 workers.
- Services and other sectors, sales turnover not exceeding RM20 million OR full-time employees not exceeding 75 workers.

Situated in Southeast Asia, Malaysia is one developing country that is greatly assisting SMEs to become international players as they are the main contributors to her growth. Malaysia has many advantages such as political stability, a first-class physical infrastructure, and a skilled, multicultural and multilingual workforce (The NST, 2006). The World Economic Forum (WEF) has ranked Malaysia as the 24th most competitive nation among 148 countries in its Global Competitiveness Report (GSR) 2013-2014.

As the largest state in Malaysia, Sarawak aims to be a fully developed state along with the rest of the country by