



Insights into public export promotion programs in an emerging economy: The case of Malaysian SMEs



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ABSTRACT

This study evaluates the impact of public export promotion programs (EPPs) among small and medium-sized enterprises (SMEs) in Malaysia. Three indicators, level of awareness, frequency of use, and perception of usefulness, were examined according to a firm's export status. The global evaluation suggests that exporters are more frequent users of EPPs and perceive them to be more useful than non-exporters. Nonetheless, both groups demonstrate higher levels of awareness, are frequent users, and perceive the programs relating to export info/knowledge are more usefulness than programs relating to financial assistance. Further analysis also reveals that the frequency of use and the perception of usefulness for most programs are positively related to export experience, but not to export turnover. This study offers insights into the effectiveness of export programs for encouraging export initiation and expansion in an emerging economy.

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1. Introduction

Exporting is a growth strategy that firms use as they move toward internationalization that increases their competencies, expertise, and knowledge (Kotabe & Czinkota, 1992; Seringhaus & Botschen, 1991), and contributes to economic performance on a national scale (Morgan & Katsikeas, 1997). Export participation by firms is stimulated through internal and external change agents (Bilkey, 1978; Seringhaus & Rosson, 1994). The former emerges from inside the organization (such as possession of resources and capabilities), while the latter refers to external forces such as export promotion programs (EPPs) organized by governments (Wilkinson & Brouthers, 2006). Prior studies indicate that export engagement among small and medium-sized enterprises (SMEs) is influenced more by external forces than internal stimuli (Leonidou, Katsikeas, Paliawanada, & Spyropoulou, 2007). Unfortunately, EPPs in developing countries are often criticized for being ineffective, poorly administered, bureaucratic, inadequately funded, and lacking in client orientation and government

involvement (Lederman, Olarreaga, & Payton, 2010; Zia, 2008), thus impeding export ventures among SMEs.

Over the past few decades, export assistance has increased its portion of governments' budgets, highlighting the need to further examine if such an investment is proportionally beneficial for companies. However, literature is still scarce in this area, especially regarding the evaluation of EPPs at the firm-level (Shin & Kim, 2010). The majority of research is focused on the impact of EPPs at the country-level using national data (e.g., Chen, Mai, & Yu, 2006; Lederman et al., 2010; Wilkinson & 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. Because EPPs are specifically designed to encourage and facilitate export involvement of firms, 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 survey data collected among SMEs and complementary information reported by the SME Corporation Malaysia. 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 on limited programs (e.g., Ahmed,

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Table 1

List of agencies under the Ministry of International Trade and Industry of Malaysia.

Agencies	Founded	Main Function
Credit Guarantee Corporation Malaysia (CGC)	1972	To provide SMEs with financing through its guarantee schemes
Industrial Technical Assistance Fund of Malaysia (ITAF)	1990	To provide SMEs with funds through its four schemes
Malaysia External Trade Development Corporation (MATRADE)	1993	To promote Malaysia's export in global markets
Malaysian Investment Development Authority (MIDA)	1967	To drive investment into Malaysia
Malaysian Industrial Development Finance (MIDF)	1960	To provide manufacturing SMEs with financing
Small and Medium Enterprise Bank of Malaysia (SME Bank)	2005	To nurture the financial needs of SMEs
Small and Medium Enterprise Corporation of Malaysia (SME Corp.)	1996	To provide SMEs with infrastructure facilities, financial assistance, advisory services and support programs

Source: Ministry of International Trade and Industry of Malaysia, 2012.

Mohamed, Johnson, & Meng, 2002; Naidu, Cavusgil, Murthy, & Sarkar, 1997; Naidu & Rao, 1993) or evaluated globally without individual assessment for each program (e.g., Francis & Collins-Dodd, 2004; Gençtürk & 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 the complementary segmentation variables of years in operation, export experience, and export turnover. The rationale for comparing between groups is that EPPs are intended to facilitate both non-exporters (motivate them to start exporting), and exporters (help them continue exporting and/or increase their export performance) (Ahmed, Julian, & Mahajar, 2006; Cansino, Lopez-Melendo, Pablo-Romero, & Sánchez-Braza, 2013). (4) This is one of the few studies that includes a broad representation of companies from a variety of industries.

2. Literature review

2.1. Overview of EPPs worldwide

Export promotion agencies are established in many countries by the government (Ahmed et al., 2002) with the underlying belief that export activities contribute substantially to the economic and social development of the country (Kotabe & Czinkota, 1992; Lederman et al., 2010; Seringhaus & 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. The majority of programs are supported by the government in most countries like Canada, Japan, Spain, the Netherlands, the UK and the US, while the private sector provides the bulk of assistance in other countries such as Austria and Germany (Naidu et al., 1997; Seringhaus & Botschen, 1991). In fact, there is a disagreement about who should handle the programs, with certain scholars supporting the role of government (e.g., Naidu & Rao, 1993; Tannous, 1997; Wilkinson & Brouthers, 2006) and others criticizing it as inadequate and inefficient (e.g., Christensen, Rocha, & Gertner, 1987). Another study suggests that EPPs are more effective when organized by the private sector with financial support from the government (Lederman et al., 2010), or through a strong commitment and collaboration between government, the private sector, and educational institutions (Naidu et al., 1997; Seringhaus & Botschen, 1991).

The types of export assistance offered also vary across countries depending on the critical needs of their industries. In many developing countries, the focus is on fostering technological advancement and improving credit access (Alvarez, 2004; Naidu et al., 1997), while in developed countries such as the US, the more

pertinent programs include establishing foreign trade offices, creating business contacts, and providing a continual flow of information for firms (Wilkinson & Brouthers, 2000).

EPPs in Malaysia were 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.

2.2. Export assistance needs of SMEs

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

In addition, EPPs are needed more when export barriers are high (Lederman et al., 2010). Dichtl, Koeglmayr, and Mueller (1990) ranked export challenges according to the severity of their influence on export activities: 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 help companies, especially SMEs, to reduce or eliminate the abovementioned obstacles (Naidu et al., 1997; Wilkinson & Brouthers, 2000). Ultimately, they should be structured with clear objectives, low bureaucracy, and strong public-private partnerships (Naidu et al., 1997).

2.3. Export assistance for initiation and consolidation

An important consideration in designing export programs is to ensure that they provide specific assistance according to the needs across the export stages of a firm. Appropriate information and training are crucial for triggering interest during the pre-export phase (Bilkey, 1978; Morgan & Katsikeas, 1997; Wiedersheim-Paul, Olson, and Welch, 1978). When SMEs decide to venture into exporting, their focus is to deploy representatives or establish contact with local distributors (Leonidou, 1995). This effort is

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