

DRIVERS TO GO GLOBAL: EVIDENCE FROM MALAYSIAN SMALL AND MEDIUM ENTERPRISES

AU YONG HUI NEE

Assistant Professor, Faculty of Business and Finance, Universiti Tunku Abdul Rahman,
Kampar Campus, Perak, Malaysia.

KRISHNA MOORTHY

Assistant Professor, (Corresponding Author), Faculty of Business and Finance,
Universiti Tunku Abdul Rahman, Kampar Campus, Perak, Malaysia.

LIEW KE XIN

Post-Graduate Scholar, Faculty of Business and Finance, Universiti Tunku Abdul Rahman,
Kampar Campus, Perak, Malaysia.

The purpose of this study is to examine how Export Commitment and E-commerce break the export barriers and improve Malaysian SMEs' export performance. 97 sets of questionnaires from present and potential SME exporters of Malaysia have been collected and analysed using Smart-PLS. The study revealed that Export commitment and E-commerce are significant in breaking export barrier and breaking Export barrier is significant in improving Firm performance. The findings of this study contribute to the owners and managers of the Malaysian SMEs to improve their firm performance by having more export commitment by using E-commerce.

Keywords: *Export commitment, E-commerce, Export barrier, Firm performance, SMEs*

Keywords: *D3, F4 and F6*

INTRODUCTION

Small and Medium Sized Enterprises (SMEs) have taken the critical role of driving the economy of developing countries. In Malaysia, SMEs contributed 36.6% of GDP in the year 2017 and job creation of 65% in the year 2016 (Lee, 2017). Malaysian Government enters into many free trade agreements such as APEC, ASEAN FTA and so on, which contributes to 30% of world GDP. Malaysian Government has also allocated RM150 million to assist Malaysian SMEs to expand their business abroad. However, only 5%

of Malaysian SMEs are willing to step out from the local market to export market (Yong & Ahmad, 2017). This indicates that most of the owners or managers in Malaysian SMEs are risk averse and avoid taking risk to expand their business to global. The purpose of this study is to examine how Export Commitment and E-commerce break the export barriers and improve Malaysian SMEs' export performance.

LITERATURE REVIEW

Export is seen as a cross-border activity that is useful for SMEs to expand their business and generate revenues from diversified markets. Export commitment has been defined as the owner's or managers' willingness to involve into the export related activities (Navarro, Acedo, Robson, Ruzo, & Losada, 2010; Sinkovics, Kurt & Sinkovics, 2018; Donthu & Kim, 1993). According to the study conducted by Navarro et al., (2010), export commitment is capable of alleviating owners' and managers' perceived export barrier and thus can improve export performance both directly and indirectly. This is consistent with the study of Sinkovics et al., (2018) which concluded that export commitment would positively affect export performance. E-commerce refers to the business model that allows an individual or a firm to conduct business over an electronic network. E-commerce enables the SMEs to provide products or services worldwide and helps SMEs to come out from bottlenecks like lack of resource and experience (Salah & Brown, 2017; Savrul, Incekara, & Sener, 2014; Sinkovics et al., 2018). Chetty and Wilson, (2003) also argued that accessing external resource through E-commerce can assist SMEs in their overall firm performance.

Export barriers for SMEs not only threaten the process of exporting but also bringing negative effect on the financial performance and provoke negative attitudes for firm survival (Sinkovics et al., 2018). Thus, an understanding of export barriers and networking strategies become

particularly crucial for SME owners/managers and researchers. SMEs can be discouraged or impeded by the export barriers that are classified into internal or external barriers. (Arteaga-Ortiz & Fernández-Ortiz, 2010). Both internal and external barriers have a significant impact on firms' exporting performance and proved in the studies of Sinkovics et al., (2018) and Boermans and Roelfsema (2013). Firm performance relates to the functioning of the firm and outcome of its operations. Exporting is a critical mechanism for firms to expand internationally (Chen, Sousa, & He, 2016). Marketing capability has a positive effect on performance (Kyengo, Muathe & Kinyua, 2019).

The above discussions lead to the following hypotheses:

H1: There is a negative relationship between export commitment and perceived export barriers.

H2: There is a negative relationship between e-commerce and perceived export barriers.

H3: There is a negative relationship between perceived export barriers and firm performance.

A research framework has been developed and presented in Figure 1.0 below:

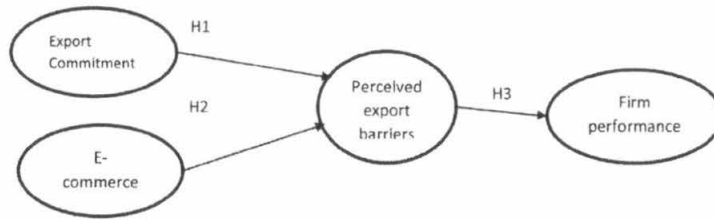


Figure 1: Research framework

METHODOLOGY

This research uses quantitative approach to examine the relationship between the firm performance and export commitment, E-commerce and perceived export barriers. The target population in this study is present and prospective SME exporters. The respondents are owners, managers and top management executives of SMEs. A total of 110 sets of questionnaire have been distributed by following the purposive sampling technique and 97 sets of useful questionnaire have been collected. The questionnaire was developed with reflective measurement scales and each item was adapted from established and validated scales. The first part of the questionnaire includes the demographic profile of the respondents. The second part of the questionnaire focuses on the export commitment, E-commerce, export barrier and perceived firm performance of the respondents. Collected data were analyzed using SmartPLS.

RESULTS AND DISCUSSION

The descriptive statistics of the samples show that the service sector SMEs widely represent with 86% and 51% of the respondents are currently members of the Digital Free Trade Zone (DFTZ), Malaysia. This study examined internal reliability using

composite reliability (CR). The CR score of E-commerce, export commitment and firm performance are all above 0.7, ranging from 0.886 to 0.919; the CR score of export barrier is 0.600, which is considered as acceptable in the small sample size (Hair, Black, Babin, Anderson, & Tatham, 2006). The absolute standardized first-order outer loadings range from 0.539 to 0.975, with most items exceeding the value of 0.70. All constructs showed average value extracted (AVE) values of greater than the 0.5 threshold, ranging from 0.569 to 0.701, confirming convergent validity. However, the AVE of export barrier is 0.435. According to Fornell and Larcker (1981), if AVE is less than 0.5, but composite reliability is higher than 0.6, the convergent validity of the construct is still adequate. The Heterotrait-Monotrait Ratio of Correlations (HTMT) results are all below the threshold value of 0.90. The coefficient of determination (R²) value of export performance is 0.299, indicating the model has a moderate level of predictive power. The effect sizes of export commitment, e-commerce and firm performance are 0.105, 0.229, and 0.096 respectively. 5000 times re-sampling method has been applied by using bootstrapping technique to assess the path coefficients' significance. The path coefficients from export commitment to export barrier is -0.305 ($p < 0.05$),

which supports H1; E-commerce to export barrier is -0.319 ($p < 0.05$), which supports H2; and lastly, the export barrier to firm performance is -0.432 ($p < 0.05$), which also supports H3. The result presented in figure 2 indicates that there is significant contribution

made by export commitment and ecommerce in terms of alleviating export barrier. The findings also reveal that alleviating export barriers would improve the export performance of SMEs.

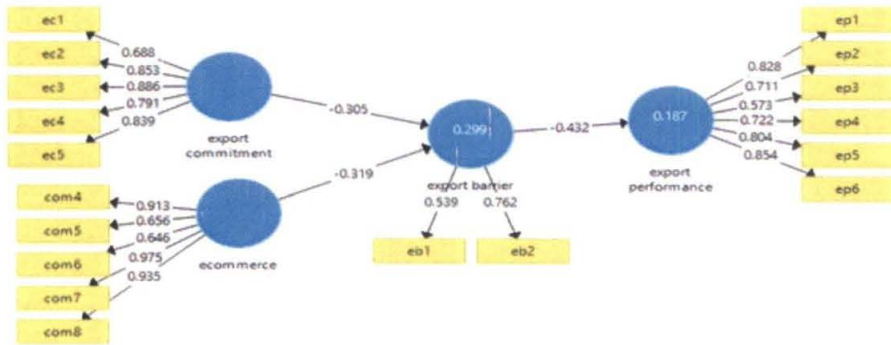


Figure 2: Research framework with results

CONCLUSION

Globalization is driving the SMEs to another business level. When the SMEs go global, Malaysia also gets the benefit of more foreign exchange. However, most of the SMEs in Malaysia tend to do business in local market only instead of going to global markets. According to SME Corporation Malaysia (2016), sales of 21.6% of SMEs go down and they become bankrupt after three years. Thus, Malaysian SMEs should go aboard in order to expand their businesses and spread their risk in different markets. Malaysia is able to gain the advantage from technological advances compared to other Southeast Asian countries. Hence, most of the SMEs in Malaysia should be able to access internet more conveniently and able to sell their products by using different online E-commerce platforms. In order to create more opportunity and improve the

awareness of risk taking, owners and managers of SMEs need to address the importance of export commitment and usage of E-commerce. The influence of improvement in export commitment would help to reduce the export barriers. The owners and managers should allocate more resources for the export activities. This is based on the finding that export barrier significantly impact the firm performance. The more perceived export barrier also represents the owners and managers are risk averse and avoid taking risk to go global. This result is in line with the study of Sinkovics et al., (2018). Secondly, the results confirm that export commitment can provide strategic guidelines in allocating the resources adequately and efficiently for export business. The findings of this study offer important managerial implications for SME owners and managers. This study provides

the importance to overcome the uncertainties and limited market in Malaysia and to go global. A smaller sample size is also considered as one of the limitations in this study. Other potential determinants such as risk appetite and export experience should be considered in future studies.

REFERENCES

- Arteaga-Ortiz, J., & Fernández-Ortiz, R. (2010). Why don't we use the same export barrier measurement scale? An empirical analysis in small and medium-sized enterprises. *Journal of Small Business Management*, 48(3), 395–420.
- Boermans, M. A., & Roelfsema, H. (2013). The effects of managerial capabilities on export, FDI and innovation: Evidence from Indian firms. *Asian Business & Management*, 12(4), 387–408.
- Chen, J., Sousa, C. M. P., & He, X. (2016). The determinants of export performance: A review of the literature 2006–2014. *International Marketing Review*, 33(5), 626–670.
- Chetty, S. K., & Wilson, H. I. M. (2003). Collaborating with competitors to acquire resources. *International Business Review*, 12(1), 61–81.
- Diana M., Norlida, M. A., & Shahrul, A. N. (2014). Insurance as a Risk Transfer Mechanism in Small and Medium Enterprises (SMEs). *Advances in Environmental Biology*, 9(5), 24–27.
- Donthu, N., & Kim, S. H. (1993). Implications of firm controllable factors on export growth. *Journal of Global Marketing*, 7(1), 47–64.
- Fornell, C., & Larcker, D. F. (1981). Evaluating Structural Equation Models with Unobservable Variables and Measurement Error. *Journal of Marketing Research* 18(1), 39–50.
- Hair, J., Black, W., Babin, B., Anderson, R., & Tatham, R. (2006). *Multivariate Data Analysis* (6th ed.). New Jersey: Pearson Educational, Inc.
- Kyengo, J. M., Muathe, S. M. A., & Kinyua, G. M. (2019). Marketing capability and firm performance: an empirical analysis of food processing firms in Nairobi city county, Kenya. *The Strategic Journal of Business & Change Management*, 6(1), 544 – 555.
- Lee, J. (2017). Enabling exports for SMEs. Retrieved from Star online: <https://www.thestar.com.my/business/business-news/2017/12/11/enabling-exports-for-smes/>
- Navarro, A., Acedo, F. J., Robson, M. J., Ruzo, E., & Losada, F. (2010). Antecedents and consequences of firms' export commitment: An empirical study. *Journal of International Marketing*, 18(3), 41–61.
- Salah, K., & Brown, I. (2017). A structuration analysis of Small and Medium Enterprise (SME) adoption of E-Commerce: The case of Tanzania. *Telematics and Informatics* 34(4), 118–132.

- Savrul, M., Incekara, A., & Sener, S. (2014). The Potential of E-commerce for SMEs in a Globalizing Business Environment. *Procedia - Social and Behavioral Sciences*, 150 , 35-45.
- Sinkovics, R. R., Kurt, Y., & Sinkovics, N. (2018). The effect of matching on perceived export barriers and performance in an era of globalization discontents: Empirical evidence from UK SMEs. *International Business Review*, 27(5), 1065-1079.
- SME Corporation Malaysia. (2016). SME Annual Report 2016/17. Retrieved from SME Corp. Malaysia: <http://www.smecorp.gov.my/index.php/en/>
- Yong, Y., & Ahmad, R. (2017). DFTZ to benefit small businesses across Asia. Retrieved April 14, 2018, from <https://www.thestar.com.my/news/nation/2017/11/03/jack-ma-dftz-to-benefit-small-businesses-across-asia/>

AU YONG HUI NEE, Assistant Professor, Faculty of Business and Finance, Universiti Tunku Abdul Rahman, Kampar Campus, Perak, Malaysia.

Email id: auyonghn@utar.edu.my.



KRISHNA MOORTHY, Assistant Professor, (Corresponding Author), Faculty of Business and Finance, Universiti Tunku Abdul Rahman, Kampar Campus, Perak, Malaysia. Email id: krishnam@utar.edu.my

LIEW KE XIN, Post-Graduate Scholar, Faculty of Business and Finance, Universiti Tunku Abdul Rahman, Kampar Campus, Perak, Malaysia.

Email id: nikiliew0814@gmail.com

