

The challenges faced by Malaysian Small Medium Entrepreneurs (SMEs) in export initiatives.

Melissa Wee¹, Khaulah Mohd Zaki², Mohd Zaki Sadik³, Najihah Hanisah Marmaya⁴ and Noraznira Abdul Razak⁵

¹Universiti Teknologi MARA, Melaka. nurmelissa@bdrmelaka.uitm.edu.my

Abstract

The increasing number of SMEs in Malaysia indicate that there is a large potential for export opportunities. Realizing the 37% contribution to GDP by SMEs, it is essential to understand the challenges and hurdles faced by these entities when exporting products to other countries. The significance of this study is that, it looks into the three main challenges faced by Malaysian SMEs, which are distribution access, human capital and market attractiveness as the exogenous variables of this study. A total of 70 questionnaires responded to by SME owners and managers, were utilised for this study and a two-stage analysis of PLS-SEM consisting of measurement and structural analysis were applied to this study. Results shown that only human capital is found to be a challenge for SMEs in Malaysia in matters pertaining to export.

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INTRODUCTION

The latest statistics indicate that 97% of business establishments in Malaysia consists of Small Medium Enterprises (SMEs), which contribute 37% of the country's GDP, 65% of employment opportunities, and nearly 18% of contribution (TheStar, 2017). According to Hussin and Ching (2013), there are three major economic sectors in Malaysia which are agriculture, manufacturing, and services. According to the Former Minister in the Prime Minister's Department, Datuk Seri Abdul Rahman Dahlan, the contribution of SMEs toward the national gross domestic product (GDP) was more than RM1.2 trillion and he also mentioned that SMEs' export contribution is still considerably low at 4.4 percent from Malaysia's total exports (Nokman, 2017). Malaysia currently trades with 234 nations around the world which places her the 24th in exports among all countries that are actively involved in export sector (WTO, 2016). According to OECD (2012), barriers and challenges are known as the attitudinal, structural, operation, and other constraints hindering a firm's ability to initiate, develop, or sustain international operation.

In the context of this study, challenges in exporting are described as the barriers faced by the management of a company when exporting their products

abroad. Problems in exporting might differ from one exporter to another, whether they are active or passive in carrying out such initiatives (Sharkey, Lim & Kim, 1989). Based on the previous study by Alexandrides (1971), among the major challenges in exporting are difficulties in identifying foreign market opportunities, high competition, inadequate understanding of export payment procedures and little knowledge of exporting activities. Based on a study by O'cass and Julian (2003), distribution is the key to oversee success with respect to the lack of access to foreign channels of distribution. It is very important to find a suitable agent for distribution because some firms spend unexpected amounts of money and time with their partners only to later realize that they are incompatible in terms of interest and need (Klatt, 1994). Export market attractiveness impose a barrier in export where there are difficulties in providing after sale services, problems in quoting prices with fluctuating exchange rates, difficulties in collecting payments from foreign customers and high transportation costs to send products to foreign markets (Chung, 2003; Da Silva and Da Rocha, 2000). These problems somehow affect the export performance as there is a risk of not receiving any payment or receiving insufficient payment that is not able to cover the expenses as the exchange rates fluctuates rapidly. Lack of skilled

and talented human resource also imposes constraints to the exporter (Chauduri, 2007). As a matter of fact, their ignorance in human management issues is also one of the challenges in exporting. So, by deeply understanding the importance of human capital resources could bring success in exporting business for SMEs.

2.0 LITERATURE REVIEW

Distribution Access

Distribution access or channel is also known as marketing channels or marketing access. This channel involves dependent groups or units of an organization, which are also part of the movement of products or services from a producer to a buyer. This distribution channel functions in ways that connect and ease agencies in ordering from various streams (Szopa and Pękała, 2012) and this serves as a convenience to exporters. Dekker and Uslaner (2001) stated that the value of social network and bonding with others, and being reciprocal, connect people from different cultures and lifestyle. Many SMEs fail to establish their marketing network, due to the lack of information about marketing channels suitable for their business, hence facing incompatibility (Christensen et. al., 1987). Maintaining a good relationship with the distribution channel partners provides a business with a wide coverage market and an additional source of revenue.

Rahman, Radzi and Yaacob (2016) in their studies, stated that many SMEs cannot establish their market well due to the lack of information about marketing channels hence, failing to establish marketing networks. This shows that a distribution channel is important to expand a company in foreign markets. Also being cited in studies by Khalique et. al. (2011) and Hashim and Wafa (2002), Malaysian SMEs are lacking in knowledge regarding marketing techniques, customer loyalty and branding, and in good relationship or contacts with local and international enterprises. Furthermore, Agyei-Mensah (2010) pointed out that such lack of knowledge will make it harder for SMEs to locate foreign opportunities and promising markets which is seen as a major barrier to SMEs in exporting their products. Other studies also showed that not having proper or efficient networks in foreign markets can contribute to the lack of information, know-how and experience of domestic and international markets (Farhad and Naoyuki, 2016). Based on the above literature, it has been postulated that : -

H1 Distribution Access has a positive relationship with challenges of export among SMEs

Human Capital

Skills measurement, education, and labor productive capacity and earning potential are influenced by capacity and attributes of labor as defined by Pettinger (2017) for human capital. According to OECD, human capital is about an individual or a group of individuals that use their knowledge, skills, competencies and other attributes in life to produce products, services and ideas. Saiyed and Rajni (2016) also stated that human capital is one of the principle intangible assets of every developing and developed economy, where countries across the world vary due to the potentials and endowments of the quality of human resources. According to Snell and Lau (1994), small organizations require more management competencies for growth compared to larger organizations. The study also revealed that small organizations fail to develop skills, knowledge and competencies among their employees which have become a barrier to them in achieving better company performance. This statement can be supported by the study by Rahman, Radzi and Yaacob (2016) which stated that management skills are very important in preparing SMEs for growth. So, Gupta and Cawthon (1996) strongly recommended more training as it is the tool for developing employees and the organization. The insufficient knowledge of the SME entrepreneurs has become one of the factors that contribute to the complex financing problems as they cannot draw up a business plan and the inability to determine the SMEs credit risk attributed to their lack of enterprise information and general communication (Berry et. al., 2002) thus lacking in managerial knowledge and skills to internationalize their product.

Attitude and characteristics of a manager influence the success of a firm's export marketing activities. Ibeh (2004) mentioned that a company would have problems to internationalize due to the lack of qualified decision makers. Most studies mentioned that to make a firm successful, products shall adapt to foreign markets but Christensen et. al., (1987) mentioned that due to inexperienced exporters, they failed, and the products are then not standardized. According to Contractor et. al (2008) human capital may have significant effects to the services and goods exported but with the former being more crucial in reality. Human capital has greater effect in emerging Asia than developed countries. There are unidirectional causalities between these two variables and

it runs from human capital accumulation to export growth. Chuang (2000) found positive relationship between human capital accumulation and exports. Narayan and Smyth (2004) revealed that there was bidirectional causal relation between human capital and real exports of country after examining the causality among exports, human capital and real income in China. The study by Farok and Mudambi in 2008 showed how the export performances of 25 nations, in services and manufacturers, over a 14-year period, was affected by human capital. Based on the above literature, it has been postulated that: -

H2 Human Capital has a positive relationship with challenges to export among SMEs.

Export Market Attractiveness

Export marketing is the management activity to market products across the national boundaries of a country. Some of the roles include earning foreign exchange and international relation (Shivani R. et al., 2013). Based on Daniel Spohn (2004), market attractiveness is a technique literature in the part of planning in business portfolio that suggests a firm to invest in markets with certain attractiveness characteristics, like the after sales service (Craig C.J and Zafar U.A, 2005). Mokhtar, Khalil and Zain (2008) stated that most of the SMEs prefer doing import than export because of the high cost which includes transportation, insurance and non-payment risk. It is also because small firms have fewer fixed assets to offer as collateral, thus bringing more challenges to the firm in maintaining financial liquidity. Craig & Zafar (2005) indicated the problem quoting prices with fluctuating exchange rates, high transportation cost, difficulty in collecting payments from foreign customers, difficulty in providing after sales service and high cost associated with selling abroad as issues to export market attractiveness. Da Silva and Da Rocha (2000) stated that the inconvenience in collecting payments from foreign customers causes cash flow problems for exporters. Asugman, After-sales service is a strategic tool in export market but has also become the barrier to firms that want to enter other markets.

The high cost of selling abroad includes insurance cost, market research cost, distribution cost and etc (Chung,2003; Grady and Lane, 1996; Karunaratna and Johnson, 1997) and it is the vital constraint to many small firms (Chung, 2003; Da Silva and Da Rocha,

2000). High cost reduces firms’ attraction in foreign market as higher prices are imposed to cover the extra cost such as the transportation cost (Da Silva and Da Rocha, 2000; Grady and Lane, 1996; Moini, 1997). According to Cavusgil (1993), quoting prices with fluctuating exchange could be a problem to the export as they need to find ways to stay covered in foreign exchange risk. The exporter also needs to study their competitors’ prices to know the value of targeted market of a similar product. Therefore, based on the above literature, it has been derived that: -

H3 Market attractiveness has a positive relationship with challenges to export among SMEs.

3.0 RESEARCH MODEL AND HYPOTHESES

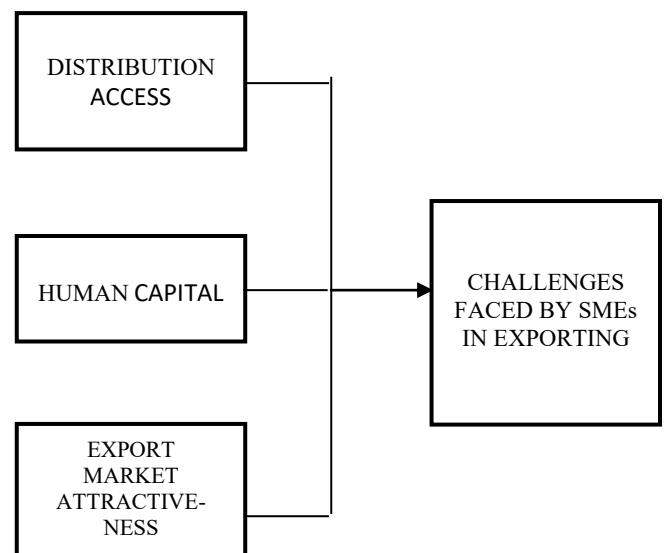


Figure 1: Theoretical Framework

4.0 METHODOLOGY

Sample and data collection

The samples of this study were the owners or managers of SMEs within manufacturing industry in Malaysia. A total of 200 respondents were asked to answer the questionnaires and were given seven days to reply. Only 70 (35%) respondents returned and are usable for the study. The researchers have specifically decided to focus on the manufacturing industry due to its nature that supports exporting tangible products. In order to ensure the status of SMEs, a filtering question was attached whether their full-time employees are more than 5 and less than 200 which is a requirement set by SME Corp Malaysia. The male respondents are 37 which represent 52.9% and female respondents are 33 which is equivalent to 47.1%. Most of the respondents are

between 21-25 years of age with 35 respondents (50%) while the second highest is between 26-35 years age with 13 respondents (18.6%). Most of the respondents are from textile and apparel industry (25.7%) and also furniture (25.7%) which consists of 18 respondents respectively.

5.0 RESULTS

In order to analyze the research model, this study employed the Partial Least Square (PLS) analysis technique using SMARTPLS 3.0 software (Ringle et al., 2015). This study looks into two staged analysis which are measurement model (validity and reliability) followed by structural model (testing hypothesis relationships). In order to test the significance of the path coefficients and the loadings, bootstrapping method was used (Hair et al., 2014).

Measurement Model Evaluation

In assessing the measurement model, the two-types of validity examined are known as convergent validity and discriminant validity. For convergent validity, the measurement is ascertained by examining the loadings, average variance extracted (AVE) and composite reliability (Gholami et al., 2103). Referring to table 1, the loadings are all higher than 0.5 while the composite reliabilities are all higher than 0.7 and the AVE values are higher than 0.5 as suggested by Hair et al., (2014). From the total of 20 items, 4 items namely B1, D4, D5 and E5 were deleted.

Table 1 Convergent validity of measurement model

| Construct | Item | Loadings | CR | AVE |
|-------------------------------|------|----------|-------|-------|
| Challenges for SMEs to export | B1 | Deleted | 0.820 | 0.534 |
| | B2 | 0.754 | | |
| | B3 | 0.688 | | |
| | B4 | 0.811 | | |
| | B5 | 0.660 | | |
| Distribution Access | C1 | 0.682 | 0.820 | 0.536 |
| | C2 | 0.785 | | |
| | C3 | 0.777 | | |
| | C4 | 0.761 | | |
| Human Capital | D1 | 0.710 | 0.821 | 0.535 |
| | D2 | 0.654 | | |
| | D3 | 0.756 | | |
| | D4 | Deleted | | |
| | D5 | Deleted | | |
| | D6 | 0.799 | | |
| Export Market Attractiveness | E1 | 0.753 | 0.824 | 0.540 |
| | E2 | 0.656 | | |
| | E3 | 0.791 | | |
| | E4 | 0.733 | | |
| | E5 | Deleted | | |

In terms of discriminant validity, the measurement is examined by following the Fornell and Larcker (1981) criterion of comparing the correlations between constructs and the square root of the AVE for the construct. Table 2 shows the square roots of the AVEs, represented by the bolded values on the diagonals are greater than the corresponding row and column values which indicate that it is discriminant.

Table 2 Discriminant validity of measurement model

| | Challenges to Export | Distribution Access | Human Capital | Market Attractiveness |
|-----------------------|----------------------|---------------------|---------------|-----------------------|
| Challenges to Export | 0.731 | | | |
| Distribution Access | 0.476 | 0.732 | | |
| Human Capital | 0.681 | 0.501 | 0.732 | |
| Market Attractiveness | 0.396 | 0.400 | 0.367 | 0.735 |

Structural Model Evaluation

In assessing the structural model, the study looks into the R2, beta and the corresponding t-values (Hair et al., 2014). To obtain the t-values, a bootstrapping with 5000 resamples was applied and the predictive relevance (Q2) and effect sizes (f2) were also assessed. The study has identified that there is a positive relationship between Human Capital and challenges to export ($\beta = 0.561, \rho < 0.01$). As for Distribution Access ($\beta = 0.142, \rho < 0.01$) and Market Attractiveness ($\beta = 0.133, \rho < 0.01$) were not supported. The R2 for this study which is 50.2%, shows a high impact towards the endogenous construct as it is within the range of 0.20 (Cohen, 1988). Thus, only H2 was supported for this study. As for the predictive relevance of the model by using the blindfolding procedure, which is known as a sample reuse technique that omits very dth data pointing the endogenous constructs' indicators. Q2 which is more than 0, at 0.239, suggests that the model has sufficient predictive relevance (Hair et al., 2014).

Table 3. Results of the Structural Model Analysis (Hypothesis Testing)

| Hyp | H1 | H2 | H3 |
|--------------|--------------------------------|--------------------------|----------------------------------|
| Relationship | Distribution Access-Challenges | Human Capital-Challenges | Market Attractiveness Challenges |
| Std Beta | 0.142 | 0.561 | 0.133 |

| | | | |
|---------------------------------|------------------|-----------|------------------|
| Std Error | 0.097 | 0.080 | 0.090 |
| 5% (Confidence Interval) | -0.013 | 0.429 | -0.001 |
| 95% (Confidence Interval) | 0.308 | 0.691 | 0.293 |
| t-value | 1.458 | 7.013 | 1.475 |
| Decision | Not Supported | Supported | Not Supported |

6.0 CONCLUSION

Interestingly, the outcome of this study contradict the previous literatures and it is suggested that SME exporters nowadays no longer find distribution access/channel as a challenge in export. This is because there are numerous options to choose from when exporting especially in search of trusted channels and partnerships for distribution. In 2015 there were various programmes provided for SMEs where they can get a lot of information in terms of distribution and market access. As a matter of fact, Showcase Satu Daerah Satu Industri (SDSI) is one of the SME Corp. programmes for these exporters to find suitable partners and expand their business internationally. The objective of this programme is to facilitate the sourcing and marketing of high-quality SDSI products/services, enhancing networking among SDSI entrepreneurs as well as to establish new business alliances and joint ventures between local and international traders. Furthermore, SME Corp. in cooperation with MATRADE as fund provider also provided a programme for Bumiputera SME vendors to get assistance from GLC's, known as Government-Linked Companies and MNC's (Multinational Corporation) on major services or manufacturing based industries. This programme is called Vendor Development Programme (VDP). Besides SME Corp. and MATRADE, there are also other alternative networks that SME exporters can refer to or join in. It is possible to assume that SME exporters no longer face serious problems regarding distribution access/channel due to a lot of reliable network that provide knowledge and opportunities for them to globalize their products and companies.

Next, it is possible to assume that changes happen in technologies whereby there is an increase in SMEs that use e-Commerce as their medium to stay connected with their customers, causing export market

attractiveness to not become a challenge for the respondents. According to Malaysian Ministry of International Trade and Industry (MITI, 2016), new e-Commerce initiative was launched to help SMEs in accelerating their business performance and expand market access to more than 87 million digital customers in ASEAN region, leading to the increase in the percentage of online shopping activities in Malaysia to 62 percent. Based on Eshopworld website (2018), currently 16.53 million e-Commerce users spend \$79.15 USD online annually in Malaysia. 31 percent of Malaysian shoppers prefer to pay via online bank transfer or online payment like Paypal and Alipay. Therefore, SME exporters do not really have problems in terms of receiving payment or being affected by fluctuation of price as these payment methods take minutes to complete.

However, the researchers found that human capital has significant relationship with challenges in exporting faced by the SMEs in Malaysia. It can be concluded that SME exporters still face problems with regards to managerial skills, lack of knowledge and experts. This study was supported by Chan and Chao (2008) who mentioned that a small company lack the mechanism to store and capture new knowledge because they spend too much time on additional work. Hence, SME exporters in Malaysia are still facing barriers regarding human capital in terms of employees and their managerial skills as well as having inadequate experts to catch up with the current technological advancement.

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