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Export Performance of SMES in Malaysia and The Important of Relationship Quality Between Exporters and Intermediaries

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ABSTRACT

The purpose of this study is to examine the influence of relationship quality between Malaysia SMEs exporter and their intermediaries. This paper draws insights from three integrating theories such as social capital theory (SCT), internationalization process (IP) theory and relational exchange theory (RET) to examine the synergistic outcome of several constructs on export performance. The model is tested using Structural Equation Modeling (SEM) via Smart PLS on a sample of SME exporters in Malaysia. The findings reveal that all hypotheses are supported. The research highlights that cultural similarity is a catalyst in the internationalization process and show the mechanism of how it (cultural similarity) can influence effective communication and lead to knowledge sharing process thus impetus trust which finally reflect the performance outcomes. Results also confirm that trust serves as a mediator between cultural similarity and export performance. The findings extended the application of the underpinning theories and their tenets in explaining the Malaysian SMEs' export performance use foreign intermediaries.

Keywords: SME; export performance; intermediaries; cultural similarity; trust

1. INTRODUCTION

In this competitive and dynamic global economy, business is being forced to enlarge their business outside the national boundaries to enter in international markets. Small and medium-sized enterprises (SMEs) facing many obstacles when penetrating international market. The main of the obstacles such as lacking of market information and overseas networks can impact the achievement of international performance [3]. In this context, exporting is the main channel to explore overseas markets to boost sales and profit for SMEs company in enhancing export performance [15] [21].

Networking with international intermediaries is crucial in providing competitive advantage in managing foreign business with the complexities inherent in exporting activities. Foreign intermediaries are important in international business as a transactional link between exporters and organizations [28]. However, they are some key issues restricting in developing the relationship quality between exporters and foreign intermediaries. Establishing a working partnership is indeed crucial for small businesses to enhance SMEs capabilities due to the limited of tangible and intangible resources. Despite the crucial roles of foreign intermediaries some major issues have also emerged when SME exporters dealing with intermediaries [37]. The major issues that have been highlighted is cultural factor which can lead to the failure in developing good relationship for both parties. The differences in cultural background between SME exporters and intermediaries can influence the performance of export activities since conflict can arise when exporters using the services of foreign intermediaries. Therefore, social capital is important in inter-organizational relationship as a critical component in the strategic formulation of global business operations [28].

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Strong networking with competent foreign intermediaries can provide SMEs with adequate competitive advantage as well as allow them to penetrate foreign markets and surpass the complexities inherent in exporting and ultimately succeed in managing their foreign businesses. As a middleman, export intermediaries play a crucial role in international trade as a transactional link between individuals and organizations [27]. Trust and commitment between both parties is crucial in building relational governance in a partnership. Nevertheless, limited studies focusing on the effect of social capital on the relationship between exporters and intermediaries and export performance [29]. Therefore, this study attempts to examine the effect of cultural on trust that which can facilitate to export performance impact.

2. PERFORMANCE OF SMEs

In Malaysia, SMEs are the dominant form of business establishments. Out of the 662,939 business establishments, 97.3 per cent are SMEs. More than three quarters of the total SMEs establishments were micro enterprises, followed by 20 per cent small-sized enterprises, and 3 per cent medium-sized enterprises [19] [20]. Malaysia has fewer medium-sized enterprises, and thus portraying missing middle group. The performance of SMEs is often evaluated by its performance, for example, by examining its contribution to output and employment, its productivity as well as its performance in innovation activity.

The SME share to exports in Malaysia was only 19 per cent, suggesting that Malaysian SMEs are largely domestic market oriented. The share is much lower as compared with those of other high-income countries such as Germany (55.9 per cent), Japan (53.8 per cent) and upper-middle income countries such as Thailand (29.5 per cent), People's Republic of China (68 per cent). It was also lower than those of some lower-middle income countries such as India (40 per cent), Pakistan (25 per cent), Vietnam (20 per cent), the Philippines (20 per cent), and higher than Indonesia (15.8 per cent) [22].

2.1 Malaysia export performance

The global economy is turning a corner and has begun to recover from the series of recent shocks, including the COVID-19 crisis, Russia's war of aggression against Ukraine, and the largest energy crisis since the 1970s. Nevertheless, the outlook remains uncertain, with economies facing a long unwinding road to attain strong and sustainable growth and deliver on the longer-term policy objectives of an inclusive, green and digital transition. Small and medium-sized enterprises (SMEs) and entrepreneurs will be critical to driving a resilient, inclusive and sustainable recovery. They have been on the front-line of, and disproportionately affected by, recent shocks and many governments provided significant support to shield them from the short-term impacts. Representing 99% of firms, and around 60% of business sector value-added, SMEs will also need to be on the front-line of driving the green and digital transitions. Harnessing their full potential to contribute to major economic, environmental, and societal transitions, and to strengthen economic resilience, requires the right enabling framework conditions and action on a number of fronts [21].

Malaysian SMEs' contribution in terms of exports is still low despite their large numbers, which stands at merely 16.3 % (among over 900,000 local SMEs)). As claimed by Biamiatzi and Kirchmaier [28] [26] [28], factors that contribute to SME growth, particularly regarding exports, are still in need of further research because in order to achieve profitability, all SMEs should export [17] [30]. Referring to the comparison of large firms in Malaysia, SMEs lack behind due to limited resources and capabilities for acquiring information, which forces them to venture into exports with the government's supervision [30] [31]. Approximately 95% of Malaysian SMEs focus on local businesses, which represent close to 99% of total establishments in the country

Malaysian SMEs only contributed 38.4% to the country's GDP in 2022, which is a slight increment of 1% compared to 2021 [22]. In the manufacturing sector, SMEs' value added recorded 19.5%, . This shows that Malaysian SMEs have broadened their export base but the intensity of involvement in export activities remains low [22]. Therefore, continuous support from the government as well as expert advice from intermediaries can ensure SME exporters accomplish the next stage in the internationalization process and avoid export withdrawal.

By economic activity, SMEs' employment increased in all sectors except for the agriculture sector, which declined by 0.4 per cent, comprising 788 thousand persons or 42.3 per cent of the overall agriculture sector employment. Meanwhile, SMEs' labour productivity as measured by value added per employment grew 7.5 per cent in 2022 as compared to 0.5 per cent in the preceding year, recording a value of RM76,433 per person, surpassing the pre-pandemic value in 2019 of RM75,625 per person [22].

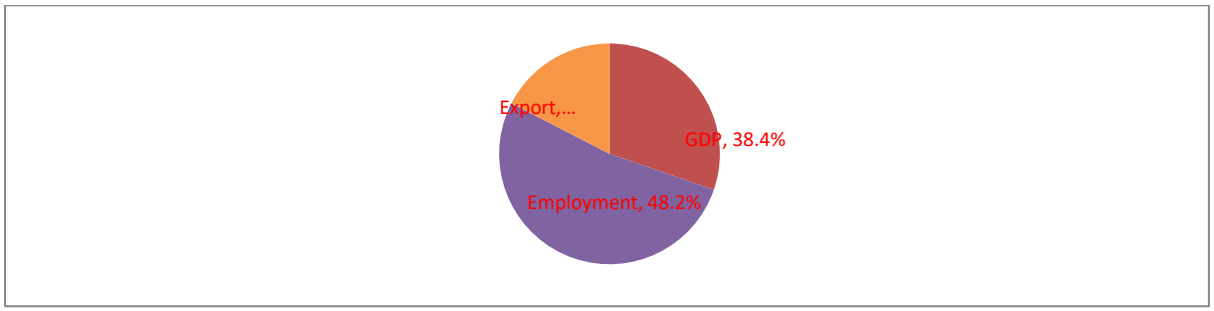


Figure 1. SME contribution to the Malaysia economy

3. LITERATURE REVIEW

This section discussing about factors that trigger and lead to export performance in Malaysia.

3.1 Cultural and performance

The existing studies demonstrated a mixed results and inconsistencies in finding between cultural and performance. It can be seen through many perspectives which some scholars argued that cultural distance will promote negative results, while others yielded totally contrasting findings which cultural distance has a positive correlation with performance [15] [21]. For example, the researcher [23] found that cultural distance positively impacts efficiency and competitiveness of IJVs. The reason of these contradict findings is due to multilevel nature of culture [29], the fact that economic and psychological performance are in congruent [25] [26] and the varying concept and methodology of the cultural distant construct [33]. However, Aronson and Carlsmith [1] and Festinger [5] notes that the notion of theory cognitive dissonance implies that people will support information which consistence with their attitudes and behavior and will be biased to gather data that reinforce their belief [5]. Due to this concern, many scholars emphasizes that cultural similarity is important to encourage people to cooperate and work together to develop a high-quality relationship as well as to enhance export performance. This notion was supported by some scholars [31][32] who confirmed that exporters will earn better performance via similarity of culture. In line with other scholars [29] stressed that similarity cultural background can lead to compromises in which both members abandon their preferred problem-solving approaches and effectively eliminate a significant amount of their tacit knowledge. Imitating of another cultural behaviors can back fire and very difficult to follow [8].

In addition, Golbeck [4] [8] revealed that similarity can impetus trust which related to the user's determination whether or not to trust another person. Even though an exploration regarding the impact of the cross-border culture and trust relationship is being undertaken, relatively limited studies that focused on culture similarity as an antecedent of trust. In fact, existing literature has mostly promoted that an exporter tends to look for a partner who can be trusted in a market with cultural similarity which in turn, leads to better export performance. A possible explanation is cultural similarity is a catalyst for international business actors to communicate effectively, sharing knowledge, and gain experience from culturally proximal markets to accelerate business growth and expansion particularly for the initial stage of SMEs firm to infiltrate overseas market [4].

3.2 Underpinning theories

This notion resonates with the perspective of IP theory popularize by Johanson and Vahle (1977) which claimed that firms prefer to attempt culturally similar markets in their initial stage of internationalization to freely communicate and to gain knowledge through engagement in foreign business relationship [12] [13]. Cultural similarity is positively associated with knowledge flows and innovation because similar business practices, ethics, morals, and styles facilitate learning and the knowledge gathering process [10] [12]. It is crucial to remove barriers in relational exchange and communication [7] [14] to enhance the effectiveness and understanding of such relationships [7]. This is because easy and effective communication helps exporter and intermediaries exchange the information to share unavoidable situations which go toward enhancing effective channel relationships [11] [15]. Other than that, Wernerfelt [39] asserted that cultural closeness and free communication could be viewed as a critical company resource which leads to knowledge sharing. In the context of SME exporters and intermediaries, it appears that cultural similarity overcomes various communication and knowledge sharing barriers because physic closeness helps parties to understand each other. This is also consistent with IP theory, which proposes that exporting firms initially target culturally similar markets to learn and gain knowledge through effective communication and understanding towards building the relationship [12] [13]. In addition, some scholars [18] supported that managers may discover a culturally similar market since it may have some positive impacts on partner relationship and export performance. However, the review of the relevance literature shows that very few studies have examined cultural similarity and its impact on the relationships between exporter and intermediaries in the international exchange processes in general and export performance in particular. The result of previous studies suggested that cultural closeness is a contributory element of psychic closeness. Nevertheless, very limited study so far has validated this finding [30] [31] with resulting in consistencies in findings. This in turn, implies the importance of the effects on the exporter and intermediaries' relationship and so will be worthwhile to further investigate.

3.3 Social capital, trust and export performance

Despite the importance of SME firms choosing psychic closeness, social network ties are also very crucial between exporters and intermediaries when penetrating export markets, so that the necessary strategies can be developed [36] [37] and information which can increase flexibility when the market is highly volatile [24] [25]. This notion also has been acknowledged in Social Capital Theory (SCT) which supported that social capital is associated with sharing resources that are valuable, rare, inimitable and non-substitutable opening up novel opportunities to individuals and organizations alike [28] [32] thereby it is expected that social capital would have an impact on firm's performance. The SCT focuses on connections and personal ties that play an important role in the exchange of valuable information. It is the bridge ties that link people in various social groups to identify foreign market opportunities that facilitate exchanges market transactions with foreign mediators [28]. However, social capital cannot be generated immediately, as a

certain period of time is required to promote the willingness of managers to make relationship-specific investments that are important to build trust [28]. Trust between partners is very important and can develop through open and honest communication with partners including all marketing decisions, pricing, and market information and giving feedback [2] [9]. With regard to the relational dimension, it comprises the emotional and affective status within the social network. Some authors claim that this dimension is core to the social capital concept [11]. In the context of exporter and intermediary relationship, trust has been found as key facets of the relational dimension [36]. According to Pinho [28], trust is also considered as the most essential factor at the onset of the relationship for mutual expectations of both parties.

In line with Morgan and Hunt [24] claimed that trust is critical in the inter-organizational context and has been extensively employed in building the relational governance of partnership. Even though trust is widely used as a determinant of a successful relationship, there has not been much work carried out to investigate the functional impact of trust on the performance of inter-firm exchange [21] [22]. Authors in the international business field have claimed that scant research has been carried out to examine how trust-performance is related [2] [24] particularly in small business. Although previous literature has measured relationship quality in national level, there is a little empirical research which explains the effect of relationship quality on export performance in international level and classify of SMEs based on relational quality dimensions. Due to this constraint, this study proposed to investigate the effect of cultural similarity on trust and export performance.

4. FINDINGS

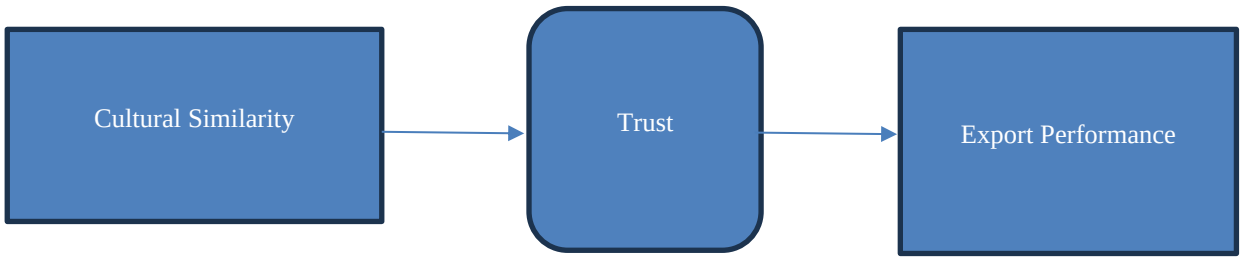


Figure 2. Conceptual framework

This study attempts to investigate the process on how relationship development between SME exporters and their intermediaries by focusing on an Asian country, which is Malaysia since the previous studies is concentrating more on developed nations. Figure 2 shows the conceptual framework of this current study. The pertinent independent variables in the framework are cultural similarity, the mediating variable is trust and the dependent variable is export performance.

5. CONCLUSION

Exporting via local intermediary is the path most often adopted by SMEs serving foreign markets particularly for initial growth of stages [28]. the intermediary's knowledge of the market and its marketing infrastructure are typically important resources for SME exporters since being a local, the intermediary is usually better equipped to face cross-cultural issues, including differences in the language and ways of dealing with local business and government constraints [38]. Due to this reason local network is important since it can contribute to high social capital provided to SMEs with access to critical resources contributing to export performance. Thus, this study enriches our understanding of how cross cultural and social capital, explain a firm's performance within the context of exporters and local intermediaries.

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