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Trade promotion and SME export performance

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Abstract

In this paper, we attempt to further develop an international resource-based view of small and medium-sized enterprises (SMEs) by examining the effectiveness of a set of export promotion services. Specifically, we investigate the impact of US state-sponsored export promotion activities on the international marketing efforts of small to medium-sized enterprises. We hypothesize and find that, even after controlling for internal firm resources, the use of trade shows and programs identifying agents and distributors contribute positively to SME satisfaction with export performance. Managerial implications are discussed.

Keywords: Export promotion; Resource-based view; Trade shows; Trade missions

Like their larger MNC rivals, the ability of smaller manufacturing firms to become successful international competitors is dependent upon the resources they bring to bear on potential export opportunities (Andersen & Kheam, 1998; Bloodgood, Sapienza, & Almeida, 1996; Crick & Batstone, 2001). From a resource based perspective, American small to medium-sized firms (SMEs) frequently lack necessary internal resources, know how, and information about foreign markets (Acs, Morck, Shaver, & Yeung, 1997; Alvarez, 2004; Ramaswami & Yang, 1990; Wolff & Pett, 2000). As a result, US based SMEs commonly view exporting as a high-risk venture (Burpitt & Rondinelli, 2000). For this reason, they are often tempted to be 'homebodies', thereby avoiding the uncertainties of overseas markets (Acs et al., 1997).

Smaller manufacturing firms can overcome the limitations of inadequate information about foreign markets by choosing partners, either in their home countries or in targeted host country markets, who possess such knowledge (Inkpen & Beamish, 1997). These partners include international not-for-profit trade/export associations, distributors, and various types of export

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intermediaries. In addition, they may access the services of governments, an often aggressive player in the field of export promotion.

In the US, government promotional activities are largely sponsored by individual states. The economic justification for this activity is the inability of many American SMEs to successfully export their products into overseas markets. This inability may be viewed as a condition of market failure, thereby providing an economic justification for government involvement in export promotion (Singer, 1990). State policymakers encourage small to medium-sized manufacturers to sell overseas as a means of achieving increased employment, expanded tax bases, and consistent capital formation (Eisinger, 1988). Government officials have become adept at using a wide array of marketing tools to directly assist SMEs. These tools range from computerized trade lead-matching programs to trade missions and trade shows. Such activities can be used to complement the internal resources and capabilities of SMEs by providing what is, essentially, a subsidization of international marketing efforts.[1]

Lages and Montgomery (2001) point out that much of the research on export promotion is of little relevance to policymakers and mangers because it focuses on tangential issues (i.e. program awareness) rather than on specific promotion activities. The present study fills a gap in the literature by analyzing the impact of programs (trade missions, trade shows, and the identification of agents and distributors) sponsored by state government EPOs on the export performance of firms. While previous research has examined trade shows and trade missions, the context has been (1) aggregate levels of state or national exports (e.g. Coughlin & Cartwright, 1987), or (2) firm level export performance as influenced by the private sector or by national governments. In contrast, we analyze the effectiveness of state-sponsored export promotion activities using the firm as the unit of analysis. In addition, no previous study has examined the impact of state-sponsored programs identifying agents and distributors at the firm level.

The paper proceeds as follows: first, past studies on export promotion are discussed. Second, the literature on export barriers is summarized. A theory section follows in which it is hypothesized that both specified internal firm resources and export promotion programs are positively associated with export performance. Finally, implications for policy makers and managers are discussed.

1. Export studies

Research into small firm exporting has been largely empirical and descriptive, lacking the kind of theoretical underpinnings that could lead to the development of a substantial export strategy literature (Gemunden, 1991). Numerous empirical studies have examined the impact of managerial attitudes, marketing mix variables, and organizational resources on a wide range of export related activities (see Cadogan, Diamantopoulos, & Siguaw, 2002; Gray, 1997; Leonidou and Katsikèas, 1996; Peng & Ilinitch, 1998).

In recent years the emphasis has remained empirical, but the data sets have become larger and the methods used have become more sophisticated (Dhanaraj & Beamish, 2003). For example, Lages and Montgomery (2001) used an asymptotically distribution free method of estimation in

[1] It is not necessary to draw clear distinctions between resources and capabilities (Conner, 1991); the former is considered to be the foundation of the latter (Amit & Schoemaker, 1993). Capabilities consist of the capacity of a resource set to integratively perform a task (Grant, 1991). Here, we focus primarily on internal and external resources rather than capabilities (particularly regarding services offered by external providers). As a convenience we use the two terms interchangeably throughout the paper.