

# Does Government Export Assistance Moderate Strategic Capabilities and Export Performance Manufacturing SMEs in Malaysia?

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## Abstract

**Purpose:** The purpose of this study was to determine whether the government export assistance moderate the relationship between strategic capabilities (i.e. innovation, market-linking, marketing, technology, and management capabilities) and export performance Manufacturing SMEs in Malaysia.

**Design/methodology/approach:** This study used a quantitative approach. Data was obtained via online questionnaires and physical distribution to respondents. Hypothesis testing was analyzed using Partial Least Square (PLS) technique.

**Findings:** Results showed that the moderator strengthens the relationship between strategic capabilities and export performance if the SMEs use financing assistance provided by the government.

**Research limitations/implications:** The limitation of this study is the small number of sample sizes.

**Practical implications:** This study is to test whether the relationship between strategic capabilities and export performance is strengthened with the usage of government export assistance (moderator).

**Originality/value:** The findings of this study will provide insights to SMEs exporters and policymakers in designing development programs to promote manufacturing products of SMEs in international business. This study is originally focusing on Malaysian manufacturing SMEs usage of government assistance program (financial), thus future research can take a step further by studying types of financial assistance used by manufacturing SMEs to gain deeper understanding of the value creation of government export assistance programs to improve their strategic capabilities and increase export performance.

**Keywords:** SMEs, Government Export Assistance, Strategic Capabilities, Export Performance

## Introduction

Local SMEs have received remarkable support from the government to enable them to enter international markets. The government agencies play an important role in assisting firm promotions and increase their sales and export performance. They provide numerous export assistance that especially help small firms (i.e. SME) that are already known as firms having limited capital and lacking in resources and capabilities compared to larger firms. SME manufacturing in Malaysia for example, is assisted by the Malaysian government in promoting

their products to enter international markets and the assistance constitutes financial, training and marketing assistance. SMEs contributed 37.4% of Gross Domestic Products (GDP), 11.7% of total exports and 47.8% of total employment (SME Annual Report 2021).

It is also noted that the Malaysian government plays an important role in the exporters' development. For example, MATRADE's focus on grooming and strengthening the competitiveness of Malaysian exporters, especially the SMEs, by providing focused training based on their export readiness, market orientation and industry sectors of these companies. The Malaysia External Trade Development Corporation (MATRADE) will continue to build on the success of its trade promotion in promoting the country's goods and services. One of the new initiatives for the GoEx program, a high impact assistance which aims at enhancing the competitiveness, export contribution and internationalization of SMEs through market immersion. Under the program, market advisors will be developed, and market linkers will be appointed to assist the SMEs. This program will target 50 export-ready SMEs. The expected outcome for this program is to have a 30 percent increase in exports per year, with five (5) new buyers established for each company per market.

Other than that, it is also reported in SME Annual Report (2021) that MATRADE also signed MoU with the CIMB Group by having The Sustainability Action Values for Exporters (SAVE) to build mutual trust as well as to partner in providing workshops and training for selected SMEs. The objectives are to assist SMEs in understanding sustainability within the context of global markets and small businesses, the benefits, costs, and action steps; assists SMEs in strategizing and implementing sustainability plans and enhancing local exporters' capabilities in economic, social and social issues. The Ministry of International Trade and Industry (MITI) on the other hand assists the internationalization of SMEs by bringing them together via the ASEAN Economic Community (AEC) Blueprint 2025. The AEC's role is to transform ASEAN into a region with free movement of goods, services investment, skilled labour, and a freer flow of capital (MITI, 2021). It is also reported by MITI and SME Corp (2021) that there is a decreasing trend in the export growth of Malaysian SME manufacturing sectors.

Export assistance can be considered as a 'change agent' that helps small firms to develop organizational capabilities and competencies to exploit opportunities for internationalization. Meanwhile, Francis and Dodd (2004) provided empirical support for this argument where greater use of export assistance was found to contribute to the achievement of export market knowledge and product-market objectives and enhance export capabilities and competencies. Previous studies show that the government's role in export performance has a great positive impact on the firm's export performance (Leonidou & Katsikeas, 1996). However, while some studies indicate that export assistance has contributed to the development of successful export strategies (Denis & Depleteau, 1985; Reid 1984), there are others reporting that this support has been inadequately targeted and has no effect in terms of performance (Gray, 1997; Seringhaus & Rosson, 1990). Therefore, there is a strong need to test the effects of government support programs on the relationship between strategic capabilities and export performance (Gençtürk & Kotabe, 2001), if these firms utilize such programs.

Scant attention has been given to examine the effects of export assistance programs on firm export performance. Shamsuddoha et al., (2009) observed that only two studies (i.e. Donthu & Kim, 1993; Katsikeas et al, 1996) in export performance literature have examined the effects of export assistance on export performance of a firm. Donthu and Kim (1993) found that those who utilize more export assistance from federal, local government and private agencies tend to have higher export growth than those who do not. Katsikeas, Piercy and Ioannidis (1996) also found that

national export promotion policies serve as export stimulus for managers and positively influences export performance (export goal achievement). Thus, this study examined the moderating effects of the use of government export programs on export performance.

Thus, the study aims to provide insights to policymakers in designing development programs to promote manufacturing products in international business. The policymakers such as MITI, SME Corp. MIDA, MOF, MOSTI and other related government agencies directly involved in developing SMEs skills and capabilities will be able to effectively plan and organize government export assistance programs to help strategies and increase export performance. This will then contribute to an increased GDP, and eventually drive the aspiration to be a high-income and developed country by 2025.

The idea behind a moderation effect of GEA on the relationship between strategic capabilities and export performance among manufacturing SME exporters is that SMEs in Malaysia lack those assistance programs as stated above. SMEs are less likely to be able to obtain bank loans than firms. At the initial stage, they rely on internal funds or cash from friends and family to launch and initially run their enterprises. About half of formal SMEs do not have access to formal credit (Razak, Abdullah and Ersoy, 2018). Thus, the role of the government is to encourage companies to move to higher levels and gain competitive advantage in the globalised economies (Samad, 2007). Most SMEs require support or assistance from the government especially to strengthen the company's competitive position (Muhammad, Char, Yaso' & Hassan 2010) which eventually enhances export performance (Freixanet, 2011; Gencturk & Kotabe, 2001; Wilkinson & Brouthers, 2000).

## **Literature Review**

### ***Dynamic Capability Theory***

Teece et al., (1997) work popularized Dynamic Capabilities, wherein the term 'Dynamic' refers to the shifting character of the environment. Also, 'capabilities' emphasizes the key role of strategic management in appropriately adapting, integrating, and reconfiguring internal and external organizational skills, resources, and functional competences toward changing environment and export performance. The dynamic markets and environment act as push factors for organizations to reinvent their capabilities to gain competitive advantage internationally.

Zahra, Sapienza and Davidsson's, (2006) similarly defined dynamic capabilities as processes to reconfigure an organization's resources and operational routines to modify operational capabilities for export performance. Essentially, re-configuration is the true essence of strategy, resulting in alignment (or 'fit') between the organization's structure, activities, and environment (Miller, 1996). This makes them able to compete with firm rivals. Thus, capabilities need to be flexible and managed to fit with the dynamic markets and fast changing environment which effect organisations or companies to expand their business internationally especially export.

It is hoped that when manufacturing SMEs focus on their resources and assets and enhance capabilities to gain competitive advantage and increase performance, the firms will be motivated to move forward to internationalize their business.

### ***Strategic Capabilities and Export Performance***

In clarifying the terms resources and capabilities, Ireland, Covin and Kuratco (2009) described 'Resources' as the assets an organization possesses. When a combination of resources enables an organization to accomplish a task, those resources are referred to as a 'Capability'. Additionally, Teece et al., (1997) viewed capabilities to be dynamic when they enable the implementation of new

strategies to reflect changing market conditions by combining and transforming available resources in new and different ways.

The relationships between strategic capabilities and performance studied years ago by scholars, are still relevant now. The capabilities may be viewed at different levels in the firm, many of which cross different functional areas (Eisenhardt & Martin, 2000). The strategic capability dimensions for this study include innovation, marketing, market-linking, technological and management capabilities.

Despite various studies on strategic capabilities, export performance or firm performance, there are still limited studies focusing on Malaysian manufacturing SMEs. Thus, there is still much room to explore and better understand the strategic capabilities and export performance of SMEs in Malaysia.

### ***Government Export Assistance***

SMEs appear to be lagging in their exporting activities. Although SMEs make up more than 90% of the total manufacturing firms in Malaysia, they exported about 22.3% of their total output in the sector. To assist the SMEs in their exporting activities, the Malaysian government has introduced various export assistance. Moini (1998) stated that government assistance programs are designed to stimulate exporting activity among SME manufacturing firms and addresses some recurring questions about the impact of these programs on export activity and performance. Amongst others, he questions the awareness level of small and medium sized firms regarding the government programs. Specifically, he mentioned that ‘perhaps the most interesting place to begin is investigating the percentage of respondents who were aware of any of the export assistance programs. Then, those respondents who were aware of specific assistance programs were asked whether they had used them. Overall, it was found that as companies became more aware of the programs, they were more likely to use them.

Syed (2010) reported that although business owners/managers in Malaysia SME were aware of the scheme offered by the Malaysian government and its supporting agencies, the usage of export assistance remains low. Government and relevant parties should put more effort to promote and encourage SMEs to utilize the government assistance programmes. Ahmed et al., (2002) indicated that the availability of sources of information on export programmes were not readily consulted and overall, the firm awareness of export assistance programmes was not high. Mahajar et al., (2006) result showed that SMEs perceive the export assistance programmes as important and have various benefits, however the SMEs lack the awareness of the exporting programmes. Ahmad S. et al., (2012) the importance of export assistance programs included duties and sales tax exemption, double deduction for promotion of exports, double deduction of expenses for promotion of Malaysian Brand and tax exemptions on the value of the increased exports. Purwanto et. al., (2018) found that financial assistance and marketing assistance are directly related to export performance.

In relation to performance, literature on this topic presents conflicting results. For example, assistance has a positive impact on performance (i.e. Reid, 1984; Depleteau, 1985); business growth (i.e. Francis and Dodd, 2004); Ismail and Othman (2014); but no effect of government export assistance programs to export performance (Gray, 1997; Seringhaus and Rosson, 1990). Hence, it is interesting to examine the moderating effect of government export assistance between strategic capabilities of manufacturing SMEs and export performance. Therefore, it is hypothesized that:

*H1: The higher extent of government export assistance usage (i.e. financial assistance) moderate the relationship between innovation capability and export performance*

*H2: The higher extent of government export assistance usage (i.e. financial assistance) moderate the relationship between market-linking capability and export performance*

*H3: The higher extent of government export assistance usage (i.e. financial assistance) moderate the relationship between marketing capability and export performance*

*H4: The higher extent of government export assistance usage (i.e. financial assistance) moderate the relationship between technology capability and export performance*

*H5: The higher extent of government export assistance usage (i.e. financial assistance) moderate the relationship between management capability and export performance*

### **Method**

In the context of this study, the population refers to SMEs in Malaysia. This study focuses on the SME manufacturing sector as its target sample. The reasons for choosing manufacturing SMEs are due to their nature of operations that depend on knowledge, skills, and experience to compete and generating revenues in international markets which exceed earnings in the domestic market (Chelliah et al., 2010). The respondents are CEOs and the upper management team members that are responsible for decision-making and were identified based on their job titles and positions in the company (Vida, Reardon & Fairhurst, 2000). They are assumed to have first-hand knowledge of the subject matter.

Access to financing assistance is an item to measure the manufacturing SMEs' awareness and usage of government export assistance programs. The measurement scale is adopted from prior research conducted by Moini (1998). The items are measured using the two-point Likert scale, where 1=aware and 2=aware and use. The data is analysed using Partial Least Square (PLS) technique.

### **Findings**

Specifically, the Government Export Assistance (GEA) for this study is Access to Financing Assistance. Further and close investigation on the Government Export Assistance variable was conducted using bootstrapping techniques to test the extent of usage for the GEA variable that is assumed to strengthen the relationship between strategic capabilities and export performance. The results of the test show the government export assistance partly moderate the relationship between strategic capabilities and export performance.

Access to Financing in GEA moderate the relationships to marketing capability and innovation capability (see Table 1) on export performance. In other words, the extent of usage of government export assistance in terms of access to financing strengthens the relationship between marketing capability and export performance of the exporting, manufacturing SMEs. Similarly, the higher extent of government export assistance (access to financing) usage also strengthens the relationship between innovation capability and export performance.

Table 1: Results of Government Export Assistance as Moderator



Criteria	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T -values	P-values
GEA -> EP	0.194	0.916	0.071	2.722	0.003
GEA*MgtCap->EP	-0.012	-0.164	0.455	0.027	0.489
GEA*MktLinkCap->EP	0.313	0.318	0.272	1.147	0.126
GEA*MktgCap->EP	-0.596	-0.356	0.291	2.047	0.021
GEA*TechCap->EP	-0.038	0.054	0.309	0.122	0.452
GEA*InnovCap->EP	0.496	0.411	0.255	1.838	0.033

Additional knowledge gained from the results is the significant direct relationship for Access to Financing towards export performance. The t-value is 2.722 and p-value is 0.003 where the value is greater than 1.645 at 0.05 significant levels. Thus, results found that the government export assistance partially moderates the relationship between strategic capabilities and export performance. Each relationship between independent variables (strategic capabilities) and export performance also analysed. The results showed that, the relationship between marketing capability and innovation capabilities with export performance of manufacturing SMEs is strengthen when SMEs use the government export assistance (i.e. financial assistance) with the p-value 0.021 and 0.33 ( $p < 0.05$ ) respectively. From the results, it showed that the financial assistance provided by the Government moderate the relationship between marketing capability and export performance, and innovation capability and export performance among manufacturing SMEs in Malaysia. Unfortunately, the government assistance (financial assistance) not strengthen the relationship between management capability, market-linking capability, and technology capability with the manufacturing SMEs export performance.

### Discussion and Conclusion

A possible explanation for this finding is that, though manufacturing SME exporters in Malaysia face financial problems, they have a government that support them to finance and facilitates the marketing process of their products by subsidizing them to participate in international exhibitions so that their brands will be familiar to foreign customers as well as to create networks abroad. Banking institutions are the main source of financing for SMEs, providing more than 90% of total financing. Provision of SME financing is also complemented by the Development Financial Institutions, BNM's Fund for SMEs and Government Funds. Subsequently, with the financial assistance, it is much easier for MATRADE to do business-matching processes between Malaysian companies and international companies for the purpose of enhancing export performance.

Other than that, in terms of perceptions on the usefulness of financial assistance, a recent study by Ayob and Freixanet (2014) stated that exporters have benefited the most from tax incentives as compared to export infrastructure facilities. They added that since the exporters are already competing in the foreign markets, they consider extra support that enables them to improve their offerings as the most valuable. Therefore, they perceive tax incentives as the most useful assistance for relaxing financial constraints, consequently increasing their profitability. Additionally, support has been provided in the form of loans, credit guarantees, gifts, and venture capital. The most common method of support was loans, with 125 cases. Loans are offered to SMEs according to their stage of development. Of these, 16 support the start of operations, 93 support growth, and 78

support business expansion. Loans are mostly used for working capital and the purchase of production equipment and fixed assets (Ali et al., 2022).

The GEA has strengthened the relationship between innovation capability and export performance possibly because export performance is more influenced by international strategies adopted by the firm. A similar study by Francis and Collins-Dodd (2004) and Freixanet (2011), posited that a positive relationship exists between EPPs use and companies' competitiveness, but not with turnover, as cited by Ayob and Freixanet (2014). Possibly, the main objective of manufacturing SMEs is to improve and innovate their products to meet customer demand to serve and retain loyal customers to significantly compete and survive in the world markets.

Since the possible reasons are as suggested by Ayob and Freixanet (2014) thus, the government should take adequate measures to improve the implementation of such programs, particularly through collaborations with the private sector. Thus, the impact of government export assistance can be further strengthened, by helping firms to become more competitive and successful in international markets.

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