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EXPORTING AND THE EFFECT IT HAS ON SMALL AND MEDIUM-SIZED BUSINESSES

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by

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ABSTRACT

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The goal of this project is to gain a better understanding of the benefits and challenges faced by small and medium-sized enterprises (SMEs) when exporting on a global scale. This research will establish the positive impact that exporting has on SMEs, as well as determine whether exporting leads to superior organization performance and discuss under what set of circumstances this superior performance can be expected. The research project will also discuss what leads to failure and highlight the general need and importance of governments to make a greater effort to disseminate information, eliminate unnecessary red tape, as well as make programs more responsive to the changing needs of SMEs. Lastly, the project will look at solutions that address challenges preventing effective

exportation and provide insight as to what can be done at both a national level as well as an individual level to reach these solutions and goals.

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CHAPTER 1

IMPACT OF EXPORTING BY SMEs

The United States Department of Commerce emphasizes that small businesses account for 97% of all exporters in the United States. They also report that 96% of the world's customers are outside of the United States. Although looking at these two numbers at first glance might not signal a problem, they surely don't reflect the whole story. Even though it is easier today than ever for a company, regardless of size, to export their goods and services across the globe, government statistics indicate that only about one percent of all United States companies are involved in exporting (Robinson 2018). This means that if a business in the United States is only selling domestically, the business is only reaching a small share of potential customers. Looking outside of the United States, the majority of jobs in developing countries relate to small and medium-sized enterprises (SMEs), yet very few firms are actively involved in exporting, and their productivity level is low. Small and medium-sized enterprises' direct exports represent merely 3% of their total manufacturing sales, compared to 14% for large enterprises (World Trade Report 2016). It has been found that exporting can improve the growth of small and medium-sized enterprises and not just benefit large companies. Firms are able to reach bigger markets through exporting and they are also able to learn new skills that increase their profitability (Atkin & Jinhage 2017).

Many companies assume that they can't compete overseas, which is why this project is so important. During the past decade, exports accounted for nearly 25% of the

United States' economic growth, and it is expected to grow yearly by almost 10% for the next several years. The purpose of this project is to indicate the importance of exporting in small and medium-sized businesses by looking at statistics related to exporting in SMEs, as well as assess the impact that exporting has on the overall performance of small and medium-sized businesses. This research project will also identify and discuss the factors that contribute to failure in exporting for small and medium-sized businesses, and therefore highlight the necessary steps that the government should take to accommodate the changing needs of small and medium-sized businesses.

The impact of small and medium-sized businesses in the United States economy is clearly large, but it could be much greater through an increase in trade. Three out of every four jobs created in the United States since 1992 have been created by small businesses, and 53% of all US workers are employed by small businesses (Cazamias 2017). As noted by Peter Cazamias, official at the Small Business Administration (SBA), if the United States' small business sector were a country, our output would rank number five, above both Japan and Germany (Cazamias 2017). According to Cazamias, small businesses fare better in other countries but there is still an opportunity for them to grow more.

The Small and Medium-sized Enterprise Competitiveness Outlook stated that small and medium-sized businesses represent more than 95% of all firms. They also account for almost 50% of GDP and employ 60% to 70% of the global workforce (SME Competitiveness Outlook 2015). The economic impact of these small and medium-sized enterprises can be much bigger once these businesses take advantage of globalization and enter the global market through exporting. In 2016, the World Trade Report indicated that businesses that take part in exporting report higher sales, pay higher wages and employ more people (World Trade Report 2016). As previously stated, more than 95% of all the world's consumers and 75% of the world's purchasing power is outside of the United States, yet only 5% of all small businesses in America are exporters (Cazamias 2017).

Narrowing it down to one state, it is clear that exporting for SMEs has a remarkable impact even when just examining figures from Texas alone. According to the Small Business Administration (Small Business Administration 2015) state profile for Texas, small firms represented 98.6% of all employers for 2012 (Small Business Administration 2015). Firms with employees fewer than 100 equated to approximately 32% of all workers in Texas (Small Business Administration 2015). Approximately 96% of the world's purchasing power is outside of the United States, therefore jobs, as well as future economic growth for Texas and the United States, depends more and more on expanding trade to the global market. Nearly one out of five Texas jobs are supported by exporting. This equals to a total of 3,150,600 jobs in Texas and grew 1.5 times faster than total employment from 2004 to 2014 (Business Roundtable 2015).

In the year 2014, Texas exported a total amount of $53.6 billion in services and $283.7 billion in goods. These goods and services consisted of basic chemicals, oil, and gas, petroleum and coal products, as well as travel services. According to the International Trade Administration, in 2015, there was a total of 37,471 small and medium-sized goods exporters in Texas (International Trade Administration 2018). In 2016, a total number of 910,304 jobs in the United States was supported by goods exported from Texas, which increased by fifteen thousand over the past ten years (International Trade Administration 2018).

Free trade agreements (FTAs) have helped spur export growth between Texas and partner countries (Business Roundtable 2015). There was a 143% increase in exports from Texas to these partner countries from 2004 to 2014. This equals to 61% or a total amount of $174.3 billion of Texas' goods exports that went to the free trade agreement partners. Texas' exports have increased by more than 60% faster than the state GDP since 2004 (Business Roundtable 2015). The average annual state GDP growth was 6.1% while the average annual export growth during this period reached a total of 10%. Of Texas' 40,000+ exporters, nearly 93% of them are small and medium-sized businesses (Business Roundtable 2015). Goods exported by Texas firms accounted for a total of 17.3% of the state's GDP in 2014 (Business Roundtable 2015). Texas mainly export goods to Brazil, Mexico, and Canada, while the top market for services is the United Kingdom. Texas' exports to Brazil increased by 22% per year since 2004, while exports to Ecuador and Panama have increased by 27% and 30% per year, respectively.

This information supports the idea that exporting is growing at a fast pace and what I hope to accomplish in this study is to show that businesses have to aim to expand their markets through exporting in order to ensure future growth and prosperity. According to a study published by the Institute for International Economics, companies in the United States that export not only grow faster, but they are nearly 8.5% less likely to go out of business than non-exporting companies. Less than 1% of America's 30 million companies export, which is a percentage that is much lower than in other developed countries. Among the companies in the United States that do export, 58% only export to just one country (International Trade Administration). Small businesses create 70% of the new jobs in America, thus they play a vital role in the economy, but many of them are so busy running their day-to-day operations that they often never realize their export potential. The following chapter will discuss what motivates firms to export.

CHAPTER 2

WHAT MOTIVATE FIRMS TO EXPORT

Many businesses have started to compete on a global scale with the expansion of the internet. When a business starts operating on an international level, there are several additional factors that can have a big impact on the success of the company. If a company is successful in the United States market, it will more than likely be successful in markets abroad, especially in markets with similar conditions and needs. Companies that are considering their potential to start exporting to global markets, need to determine the uniqueness of their product and therefore, consider how much competition they might face. The demand for a product that has little unique features, or features that are easy to duplicate, will face greater competition in foreign markets. A big motivator for firms to start exporting is when sales are declining in the company's current market. This can especially be the case if the product once did well in that market, but due to technological advancement, sales are declining. Countries that are less developed or unable to afford the newest and most sophisticated products on the market will most likely still have a big demand for it.

Trading is associated with higher wages, more innovation, and higher productivity (World Trade Report 2016). Small and medium-sized businesses hold a lot of employment and growth potential and therefore, entering the global market and participating in trade is seen as one of the keys that can help these businesses reach their full potential.

Some of the motivational factors that drive companies to start exporting their products and services to foreign markets include the following:

- Exporting can increase the company's profits and sales: More markets as well as larger populations to sell to, generally equals more opportunities for sales. On average, exporting companies make 121% more revenue than non-exporting companies (Brown 2017). These companies expand their vision and markets regionally, internationally, and even globally, and they are always looking for new opportunities to present their work abroad. Exporting help these companies expand their customer networks as well as their exposure to new technology and ideas. The exporting company will also potentially increase its profits since foreign orders are usually larger than orders from local buyers. Additionally, exporting companies can increase their overall profitability in the long term, once their export development costs have been covered (A Basic Guide to Exporting 2008).
- Exporting can make a company more competitive domestically: The reason for this is that companies that take part in exporting, acquire new skills from the markets that they export to. A company's international markets can provide a lot of valuable information and ideas about new marketing techniques and new technologies, thus providing valuable information that can help a company's domestic market as well. Another reason for why an exporting company is more competitive domestically is that a company that takes part in exporting has a deeper knowledge of what is successful in other markets. This helps them adapt to changing customer demands and contribute to the overall competitiveness and flexibility of the company. Exporting companies are constantly learning about new

technologies and processes that can help the company be more relevant and efficient. Exporters are 25% more likely to adopt innovative technologies and according to Industry Canada, they are also three times more likely to invest into research and development, as well as into new information communications technology, training, and equipment (Brown 2017).

- Exporting can reduce a company's total reliance on the domestic market: Due to the product life cycle that most products go through, namely the introduction, growth, maturity, and declining stage, a product is mostly only useful in a specific market for a certain period of time. When a product reaches the declining stage, which is the final stage in the product life cycle, that same product can be introduced in a different market. This means that a company can keep its products relevant for a longer period of time and therefore earn optimal profit on the same product.
- Exporting can address seasonality in product use and market fluctuations: Firms that export is better able to survive during economic downturns. Putting all of your eggs into one basket by limiting your company to your domestic market leaves your company extremely vulnerable to market fluctuations. Exporting firms can combat this problem by spreading their risk and diversifying into multiple markets. Companies that sell products or services that are only in demand during a certain season domestically, can export those products and services to foreign markets during seasons when those products or services are not in demand.
- Exporting can improve capacity utilization: Companies that are actively involved in exporting are exposed to new technology, ideas, and processes, as well as potentially cheaper equipment and resources. They are also more productive

because selling into larger markets to larger populations can create economies of scale and therefore increase efficiency and decrease cost. Lowered cost and increased productivity will help the firm improve its competitiveness in their home market as well (Brown 2017). Access to export market means that in the event of excess inventory from over-production, firms can sell their excess products in a foreign market instead of being forced to sell them at a big discount in their domestic market. Another benefit is that exporting companies are better connected with global networks of partners, suppliers, distributors, customers, government contacts, and industry associations, which also adds to their ability to improve their operations and add to their competitiveness.

- Exporting can help a company leverage competencies in foreign markets: Companies that have a unique competency that is not easy to imitate, can leverage the competency to enhance their rate of growth by exporting their products or services to foreign markets and therefore leverage their competencies in foreign markets.

2.1 Relationship between exporting and financial performance

There are theoretical and empirical studies that explain the relationship between internationalization and financial performance. However, the findings have been equivocal. In some studies, a positive linear relationship was observed when the benefits that are associated with the exporting process, including economies of scale and risk diversification, were greater than transportation, distribution, logistics, and transaction costs (World Trade Report 2016). In other cases, studies have found a negative association between exporting and performance when costs outweigh the benefits from exporting. In other instances, studies found a "U"-shaped relationship with costs of internationalization initially outweighing the benefits, but after a certain level of internationalization the benefits exceeded the associated costs resulting in improved performance.

2.2 Empirical evidence of the effect exporting has on firm performance

It can be hard to determine exactly how exporting affects the productivity, sales, level of innovation, and wages of small and medium-sized enterprises. Moreover, it is difficult to determine causality (i.e., whether firms that do better, choose to engage in exporting). Some people claim that the most productive firms start to engage in international trade in the first place, having reached a high level of productivity and efficiency even before starting to export. Selection bias, as well as differences in the type and quality of products, can be a big obstacle for researchers to overcome when looking at the effects that exporting has on small and medium-sized enterprises. Atkin, Khandelwal, and Osman (2017) conducted the first-ever randomized controlled trial, which is considered the "gold standard" for overcoming the problems mentioned above.

In their study, Atkin et al. (2017), examined the effect that exporting has on firm performance. Through a randomized controlled trial (RTC) on rug manufacturers in Egypt, they managed to examine how the profits and productivity of a company are affected by exporting by providing a subset of firms in Fowa, Egypt, the opportunity to export their handmade carpets to high-income markets. The researchers tracked the performance measures of both the treatment firms (who received the opportunity to export their rugs) and the control firms (who did not receive the opportunity to export their rugs). The study results concluded that the firms who received the opportunity to export had an overall performance increase as measured by increased profits. These firms reported a 16-26%

increase in profits relative to the control firms. In the study, the researchers also focused on understanding the mechanisms that contributed to the increase in profit. The fact that buyers from high income countries demand rugs of higher quality, there was an overall decline in total output. Prices and total labor hours increased and therefore the rugs took longer to produce (Atkin, Khandelwal, Osman 2017).

It was also found that exporting increases the efficiency parameters due to the concept of learning-by-exporting. Knowledge gets transferred over from buyers to producers. To prove this, the researchers ensured that specifications were completely controlled by asking all the firms to produce an identical-specification rug for the domestic market using inputs that were identical as well as a common loom in a workshop. This allowed the researchers to be more accurate in controlling for changes in the product mix caused by exporting. The rugs that were produced by the treatment firms were more accurate regarding the desired weight and size, and they received scores that were higher along every quality metric when compared to the control firms. Despite these higher levels of quality, the treatment firms did not take more time to produce these rugs. Knowledge passed from foreign buyers to the intermediaries is a clear contributor to the improvements in efficiency and quality. According to the researchers that conducted this study, this evidence strongly supports the presence of learning-by-exporting (Atkin, Khandelwal, Osman 2017).

Follow-up research done by Atkin and his colleagues also shows that exporting improves the well-being and income of families, workers, and owners. This is even more reason to support small and medium-sized enterprises to engage in international trade. The research shows that household consumption rises when exporting increases. For example, as a result of increased engagement in international trade, families' monthly meat consumption increased by 24% (Atkin & Jinhage 2017).

Although there are many benefits to exporting, as well as countless factors that can motivate a firm to start selling their products and services to foreign markets, there are also some challenges that firms will face. In the next chapter, we will discuss some of the challenges related to exporting in small and medium-sized businesses, as well as some of the assistance that the Small Business Administration (SBA) can provide SMEs during their journey to exporting.

CHAPTER 3

CHALLENGES RELATED TO EXPORTING IN SMEs

Small and medium-sized businesses face many barriers when considering exporting. Often, these barriers are difficult to overcome from the perspective of many small and medium-sized businesses and prevent them from entering the international market. Matching frictions, which refers to the cost of matching buyers to sellers, normally constitute up to half of all trade costs (Allen, Clark, & Houde 2014) but for small and medium-sized enterprises, this cost can be a much bigger share.

Even though the internet offers countless opportunities for small and medium-sized businesses to enter the international market and grow, enterprise size can still be a problem for these companies to overcome. Small and medium-sized businesses often find themselves lagging behind the bigger firms in online selling and buying. It remains a challenge for the smaller firms to capture a global niche market, according to the World Trade Report in 2016. Since smaller firms employ fewer technical specialists and have fewer financial resources available to them to upgrade their technology more frequently, they experience difficulties in keeping up with technological changes. Another barrier that small and medium-sized businesses face when attempting to leverage international e-commerce platforms relates to the lack of skills required in identifying e-commerce needs, how to engage in them, as well as identifying the potential benefits they can draw from it (Sandberg and Hakansson 2014).

Firms that participate in the global market and take part in exporting have extra costs like market research, transportation costs, and costs related to the adaptation of their products and services to local markets and regulations. For this reason, it is only the more productive firms that can take part in exporting, since they will be able to afford these costs associated with exporting. It is also only the more productive firms that can usually afford to cover the market entry cost. On average, smaller firms are less productive than their larger counterparts, therefore they are less likely to take part in exporting (World Trade Report 2016).

The reason for the productivity gap between smaller firms and their larger counterparts, seem to be explained by economies of scale. Since bigger firms are more likely to be a participant in exporting, they have access to larger markets and therefore are able to sell more of their products and spread their products' fixed costs over more units. Smaller firms, especially in developing countries, experience many constraints like contract enforcement problems or credit constraints which can prevent them from benefiting or fully exploiting economies of scale (Van Biesebroeck 2005).

Almost 30 percent of non-exporters say that they would export if they had information on how to get started, such as information on the best markets for their products or services, potential buyers, and export procedures (A Basic Guide to Exporting 2008). Three of the major liabilities that companies need to consider before exporting their products or services to foreign markets include the following:

- Liability of newness: This points out that the risk of an organization failing is the biggest during the initial founding point and decreases as the organization gets older. There are three main reasons for this. New organizations that are just starting out often operate in new areas that require new roles. This requires both financing and time. Secondly, employees have not had the chance to form trust among each other. Finally, the newly found company has not yet built a stable client portfolio. Some additional disadvantages newly found companies exporting to foreign markets can face, include barriers of entry, high start-up costs, not familiar with the market, lack of organizational legitimacy, questionability on credibility, and no previous learning (Chinta, Cheung, & Capar 2015).

- Liability of foreignness: This refers to the cost that multinational companies face when doing business in foreign markets abroad. These costs are mainly caused by the differences in cultures, politics, and economics, as well as the unfamiliarity of the environment. Foreignness is seen as a liability mainly because firms that export to foreign markets have costs that firms operating within their own country do not have. These costs are normally associated with distance costs like coordination and transportation. These costs put a great burden on foreign firms and increase their operational expenses. Although liability of foreignness is a big problem among firms exporting to foreign markets, these costs can be reduced when venture capitals cooperate with the foreign ventures. Venture capitals are a great help to foreign ventures since they help these ventures attracting customers, providing contacts to financiers, open doors to business opportunities, help with recruiting, and assist the venture to better understand the legal environment (Mäkelä and Maula 2005).
- Liability of origin: This is a direct consequence of the national origin of the company and can impact the company's performance through a variety of processes

such as organizational imprinting, organizational identity, and image (Ramachandran & Pant 2010).

Companies that are new and that operate in foreign countries are subjected to liability of newness, foreignness, and origin. These three factors together are a big challenge for a new company wanting to successfully export to foreign markets. Exporting often does not lead to the kind of success that exporters envision because of factors beyond their control. Some of the environmental factors that are responsible for that include the following:

- Economic challenges: Exchange rate risk arises from unanticipated changes in the exchange rate between the currency in your domestic market and the currency in your foreign market.
- Legal and political risks: A political environment that is uncertain can strain company operations in multiple ways. Political violence and civil war can endanger your staff and partners or result in payment defaults, blockages in the transfer of earnings, and confiscation of assets and property, and a trade embargo can hamper the delivery of goods.
- Risks associated with protectionism: This includes the risk of restricting imports from foreign countries by imposing tariffs on imported goods, put import quotas in place, and a range of other government regulations.
- Cultural risks: This refers to the risk a company faces when doing operations in a foreign country due to differences in norms, customs, language, and customer preferences.

- Competitive risks: This refers to the risk of competitive forces preventing your company from reaching success in exporting to foreign markets, for example, the risk of declining revenue because of the actions of your competitor.

In addition, firms seeking to export are often constrained by organization limitations. These include the lack of organizational resources, including financial resources, human capital, and managerial knowledge and experience. Organizational culture can, at times, be an impediment to exporting.

3.1 Impact of exporting in SMEs in Idaho

An example of an economy transitioning away from its historical base is Idaho, a state that is moving away from predominantly being a producer and processor of agriculture and natural resources, to one that is seeking to export technology-based products (Neupert, Baughn, Dao 2006). Idaho's export value has increased from 1998 to 2005 by more than double, from $1.5 billion to $3.2 billion, with small and medium-sized businesses contributing to much of this growth. Small and medium-sized businesses also received support from the state in order to grow and succeed as a source of economic growth (Neupert, Baughn, Dao 2006). Although Idaho is a success story when it comes to supporting small and medium-sized businesses with exporting, this success does not come without challenges. Some of the problems that the small and medium-sized businesses encountered during the early stages of exporting includes understanding logistics in the host country (receiving the exports), customs documentation, adequate and proper training for customers, and international measurement standards. In addition, there were ongoing problems that had to do with having to deal with foreign government bureaucracy, problems with agents, cultural differences, business risk and international competitiveness.

The best way to address such difficulties is to train managers to effectively handle these situations when they occur, instead of trying to train them to prevent it.

3.2 Assistance by the SBA

Many of today's big firms that do business internationally once were small innovative firms that took advantage of technology and SBA assistance to grow into the successful global players they are today. Even though many small firms were successful in their journey of going global, there are still several barriers that small and medium-sized companies face when trying to export to international markets. As stated by Cazamias (Cazamias 2017), the main barriers include capital, barriers to market entry, and access to information. The SBA has the State Trade Expansion Program, also known as STEP, which assists small and medium-sized enterprises to take advantage of opportunities to trade internationally. This includes trade shows, matchmaking services, and trade missions (Small Business Administration). There are also three programs that the SBA offers in order to assist small and medium-sized businesses with exporting.

The International Trade Loan helps smaller businesses to compete more effectively if adversely affected by imports, as well as assisting them in entering into or expanding in overseas markets. The loans also help such businesses to make the necessary investments in order to be competitive (Office of International Trade). Another program is the Export Express program which is designed to help small and medium-sized businesses export their products. The third program is the Export Working Capital Program, which can be used by smaller businesses in order to fund short-term export working capital needs. The SBA seeks to assist smaller U.S. businesses to enter into joint ventures, commercialize their intellectual property, and trade internationally.

CHAPTER 4

DIRECT AND INDIRECT EXPORTING STRATEGIES USED BY SMEs

A company seeking to export its products or services to foreign markets can use a direct or indirect approach. The method chosen has a significant effect on its marketing strategy and export plan since it relates to the company's level of involvement in the exporting process.

With direct exporting, there is no intermediary and, therefore, businesses sell their products and services directly to their customers in different countries. This method is the most challenging and ambitious because the company handles the entire exporting process without the help of an intermediary. In order to be successful with direct exporting, management will have to commit significant resources (including management attention and time) in order to achieve good results. One of the benefits to this approach is direct contact with the customers and opportunity to build closer relationships with them. This enables the exporting firm to better understand their customers and cater to their needs. That often results in higher customer satisfaction and leads to competitiveness. The direct exporting method may be the best way to reach long-term growth as well as maximum profits, and it allows the company to exercise more control over the export process. Small and medium-sized companies can make use of this method to successfully export their products and services to foreign markets with the proper guidance and assistance from state trade offices, international banks, the U.S. Department of Commerce, freight forwarders, shipping companies, etc. (A Basic Guide to Exporting 2008). Direct exports can also help smaller firms protect their patents or trademarks better.

Small and medium-sized businesses can also connect to global markets through indirect exporting. Smaller firms that are involved with indirect exporting may use the help of distributors or agents in order to help them market their products in other countries in order to reach new markets (World Trade Report 2016). Many businesses that are new to the exporting process choose to export indirectly through an exporting intermediary which allows the company to export their products and services to foreign countries without the potential risks and complexities that come with direct exporting. In determining whether to use an export intermediary, an important consideration is whether the firm has individuals who are knowledgeable about exporting, as well as the level of effort that the company can devote to the exporting process. A company may choose to make use of an intermediary to handle more challenging exports to markets far away and culturally very different from the domestic market but make use of direct exporting to nearby markets. A company may also gradually increase their level of direct exporting once they gain more experience. In other words, using an intermediary at first does not rule out the possibility of direct exporting in the future.

The following list includes different kinds of intermediary firms that provide a range of export services with distinct advantages (A Basic Guide to Exporting 2008):

- Confirming Houses: This refers to foreign firms that want to buy the exporting company's products at the lowest price possible and get paid commission by their foreign clients. They provide short-term credit to their clients that want to import the products, and they confirm and guarantee payment to the manufacturer or suppliers in the suppliers own local currency. Confirming houses typically negotiate prices with the suppliers and arrange for export handling and shipments to buyers in foreign markets.

- Export Management Companies (EMCs): This company can act as the export department for producers of goods and services. They usually specialize by foreign market, or by product. They know their products and the markets they sell to really well and have established networks of foreign distributors in place. One of the disadvantages of using an export management company is the fact that you might lose control over foreign sales.
- Export Trading Companies (ETCs): This is a company that is independent and provides support to firms that are exporting to foreign markets in areas such as shipping, warehousing, insuring and billing on behalf of the client. Like an export management company, an export trading company can either act as the export department for the producers or take title to the product (A Basic Guide to Exporting 2008). Export trading companies can assist producers in finding buyers in foreign markets and provide them with valuable information on local laws and regulations in the foreign country. Even though such companies charge a fee for their services, it is usually cheaper than recruiting and training staff to take care of exports to a foreign market. Export trading companies also provide advice regarding hedging strategies in order to minimize exchange rate risk.
- Export Agents, Merchants, or Remarketeers: They purchase products directly from the producers and then assume all risks and sell these products to foreign markets through their contacts in their own names. The effort that is required by the

producer in order to market the product is very little and therefore may lead to sales that would otherwise take a lot more time and effort.

- Piggyback Marketing: Piggyback marketing can be defined as "a low-cost market entry strategy in which two or more firms represent one another's complementary (but non-competing) products in their respective markets (BusinessDictionary.com). The most common situation of piggyback marketing takes place when a company in the United States has a contract with a foreign buyer to provide a wide range of products and services. It is usually the case that the U.S. company does not produce all of the products requested by the foreign buyer under contract and therefore the company has to turn to other companies in the U.S. to provide the products that are remaining. This means that the second U.S. company piggybacks its products into the international market and generally don't incur the marketing and distribution costs that are associated with exporting.

The above represents the different types of intermediaries providing a range of services to potential exporters interested in selling their products in foreign markets. In the following chapter I will discuss the effect management has on the exporting success of SMEs.

CHAPTER 5

THE EFFECT OF MANAGEMENT IN SMEs EXPORTING SUCCESS

Considering the importance of the process of learning-by-exporting makes the case for better policies and increases in trade finance to encourage exporting among small and medium-sized enterprises. Policies that need to be addressed in order to spur trade in small and medium-sized sectors include the need to address the barriers and the high costs associated with the searching for and matching of buyers and sellers. That includes policies which reduces the costs of developing connections between sellers and buyers, as well as policies that facilitate better access to information on exporting opportunities and regulations (Atkin & Jinhage 2017). This will help small and medium-sized businesses a lot in their journey to going global and cut back on cost that would have historically been a big barrier for them.

It has been argued by Acedo and Florin (2006) that a major predictor of a firm's exporting behavior is not external factors but the extent of commitment that managers have towards exporting. They shifted the focus to firm managers as one of the key drivers in the internationalization of small and medium-sized businesses. Exporting is the crossroads of international business and entrepreneurship, and the driving force for internationalization of small and medium-sized businesses include (a) the individual's international orientation and (b) the knowledge assets and other resources that underline the strategy for international expansion. The age and size of a firm are the most commonly researched firm-level determinants of exporting. The profile of a firm (size, age, and scope of national decisions) will have a positive relationship to its level of exporting (Acedo and Florin 2006). Firm age is associated with company experience that facilitates exporting. In addition, larger companies typically have lower entry barriers and more available resources and know-how. The location can also have an impact on the exporting process, since firms often choose to export to markets that are geographically proximate.

The SME entrepreneur's orientation explains different cognitive styles, different decision-making strategies and different ways of searching for information. The focus on individual orientation is becoming more important in studying decisions made at small and medium-sized businesses since strategic decision-making is often concentrated in the hands of a single individual. Particularly important is risk orientation of the CEO/entrepreneur. Acedo and Florin highlight the link between managerial perception of risk and exporting when they state, "The CEO's perception of risk associated with international expansion strategies show a negative relationship to the firm's degree of internationalization, so that, lower levels of perceived risk will result in higher degrees of internationalization" (2006).

It is important to identify factors that can help explain success in exporting in order to better understand SME export performance. In a study undertaken by Walters and Samiee (1990), the authors developed a model to highlight those variables that are believed to have a big impact on export performance among smaller U.S. exporting firms. The model integrates the concepts of environmental context, export structure, export strategy, and behavioral factors, as important variables that affect export performance (Walters, Samiee 1990). Management commitment and perceptions of exporting have frequently been identified as important factors that influence exporting performance, and for small exporters, this commitment to exporting by managers will likely have an even stronger impact on the success and development process of exporting. Smaller firms face resource constraints and, consequently, the pressure to export and the logic of exporting is not as compelling for them as it is for larger firms. Another key determinant of export profitability is product policy. Firms that follow a differentiation strategy of adapting high-technology product lines are best positioned for success in the context of exporting (Walters, Samiee 1990).

CHAPTER 6

SOLUTIONS TO EXPORTING CHALLENGES FACED BY SMEs

Smaller firms often find it difficult to gather the information needed to be a successful exporter. This involves information on how and where to find potential international buyers, how to determine their potential buyer's wants and needs, or how to get in touch with them in order to make effective export sales. Likewise, foreign buyers lack information on potential sellers as well and this can make it difficult for firms to export their products to potential buyers in foreign markets. For this reason, it is necessary to make it easier for buyers and sellers to connect. This can be done through an online platform. (Atkin & Jinhage 2017).

Getting information on export opportunities and regulations can be very expensive for SMEs and can be a big barrier for small and medium-sized businesses seeking to engage in international trade. An increase in information availability, as well as superior access to accurate information on export opportunities and regulations, can make it easier (and, less costly) for these firms to enter the international markets. Even when small and medium-sized enterprises have the necessary information on exporting opportunities, they might still face difficulties receiving export orders due to a lack on the part of both the buyers and sellers (Startz, 2016). This can be overcome by introducing reputation metrics that rate buyers and sellers, and therefore assure quality and trust.

Another way to facilitate contracting and build trust among buyers and sellers can be through innovative marketing techniques (Anderson - Macdonald, Chandy, Zia 2014).

Another way to reduce matching frictions can be through the use of well-structured export promotion agencies. These agencies can spur the growth of small and medium-sized enterprise exports by working strategically with these firms and help them with the entire trade process.

According to the World Trade Report 2016, access to information networks is essential to the reduction of distribution and information costs, improve market efficiency, as well as foster trade. It can also assist businesses in keeping pace with a changing business landscape. Online platforms can also be a great tool in assisting small and medium-sized businesses that are less productive than bigger firms to connect with distant customers (World Trade Report 2016). E-commerce offers opportunities for small and medium-sized businesses to grow and this can play an important role in developing countries. It can help small and medium-sized businesses export their products to international markets, and that, in turn, can help smaller firms become more productive. Exporting enlarges the size of a firm's market and allows it to exploit economies of scale (World Trade Report 2016). Exporting also helps expose firms to international best practices, which stimulates technology upgrading, promotes their learning and also encourages them to develop different products of higher quality (Baldwin, Gu 2003). According to the World Trade Report, exporting and innovation goes hand-in-hand and promotes growth in small and medium-sized businesses. More innovative small and medium-sized businesses are not only more likely to be exporters, but they are also more likely to be successful at it as well. They are more likely than non-innovating firms to generate growth from exporting. In addition, compared to traditional small and medium-sized businesses, a relatively high percentage of Internet-enabled SMEs trade internationally. This indicates that access to online platforms can help smaller firms reach international markets, especially in developing countries.

In order to celebrate National Business Week in 2015, Tradewinds shared exporting success stories to show the importance of trade in small businesses across the U.S. Keats Southwest is one such firm. They went from 6 employees and 6 production machines to 50 employees and 50 machines running on 3 shifts. They are manufacturers of precision metal stamping, wire forms, and assemblies to the electronics, consumer goods, medical, and automotive industries. They were originally founded in Chicago in 1958, and the company later expanded to El Paso in 1994 in order to open their Keats Southwest facility. They attribute their exporting success to NAFTA, which enabled them to be competitive in the Mexican market during the manufacturing boom. They credited the simplified framework of export documentation under NAFTA and the duty-free movement of goods with helping their company expand and grow their annual revenue from $1 million to $10 million (Tradewinds 2015).

Jet Incorporated from Cleveland, Ohio, is another exporting success story. The CEO of Jet Incorporated, Ron Swinko, said: “It is extremely encouraging that the trade agreements currently being negotiated recognize the contribution of exports by SMEs and include specific objectives to minimize the trade barriers encountered by SMEs.” The company designs and manufactures onsite wastewater treatment systems and commercial package plant equipment for treating biological wastewater from homes, commercial facilities, and communities. Jet Incorporated exports pumps, panels, motors, compressors, pipes, and plastic tanks that are used for treating domestic biological wastewater. Of the company’s 32 employees, 5 jobs are directly related to exports, with sales to 33 countries.

International sales account for roughly 25% of the firm's business, with an annual growth of more than 20%. Export revenue increased sales and made it possible for Jet Incorporated to increase its staff during the economic downturn. Jet Incorporated exports a variety of products that could benefit from reduced tariffs under the TPP and the WTO Environmental Goods Agreement since Jet Incorporated faces tariffs as high as 30% in TPP countries (Tradewinds 2015).

The manager of Wheeling Truck Center in Wheeling, West Virginia, stated that trade agreements have largely benefited the company. He added that some of his most successful markets are countries that the United States has an FTA with. For example, the Korean FTA helped increase sales into the Korean market. The company was founded in 1933 and is a fourth-generation family-owned and operated business. The company has 21 employees and 3 of the employees are full-time and dedicated exclusively to international sales (Tradewinds 2015).

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