

The Effect of Perceived Market and Export Barriers on Indonesian SME Export Performance

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Abstract: Market knowledge of the export activity becomes one of the factors influencing the perception of manager in perceived market besides international experience, language, age and risk. The knowledge of the overseas market will constitute the perception of manager about export market. But, SMEs also receive the negative influence from various barriers on export activity. The barriers will influence the performance of SMEs in export activity. The purpose of this study is to analyze how the influence of perceived market and export barriers to export performance and to firm performance. A structured questionnaire was designed and generated from 113 SMEs in Indonesia. The data has been analyzed by the partial least square structural equation modeling (PLS-SEM). The result shows the perceived market gives positive impact for export performance and export barriers give negative influence to export performance. While, the export performance gives the positive influence to firm performance.

Key words: Export barriers • Perceived export • Export performance

INTRODUCTION

ASEAN SMEs have big opportunity to penetrate global market since many trade agreements established. For example, ACFTA (ASEAN China Free Trade Area) established in 2005 and in 2007 AKFTA (ASEAN Korean Free Trade Area) was implemented. Then in 2015, Indonesia has faced the AEC (ASEAN Economy Community). One of facilitates of agreements for member is low tariff even free tariff and no barriers. SMEs can utilize this opportunity to wider their overseas market by internationalization.

The trade agreement is open the opportunity for SMEs to globalize their business. There are positive and negative impacts of globalization. The positive impacts are chance for company to expand cooperation and marketing with a wider network. However, globalization also give negative impact for company if the company is not ready compete, the consequences will be detrimental to the business [1].

Even though Indonesia shows a positive growth in economic and becomes one of the countries which has the fastest emerging middle class and the purchasing power [2], as the biggest country in ASEAN in term of population, Indonesia might end up just being a big market for the other ASEAN countries, regarding the

competitiveness rank index is still left behind four other ASEAN countries (Singapore, Malaysia, Brunei and Thailand) on 38th position (Global Competitiveness Report 2014-2015). Considering these facts, Indonesia shall concern in escalating their competitiveness in order to gain the benefit offered by trade agreements.

Exporting become one of the fastest growing economies, it has become important for the development of enterprises. Moreover, global exports have increase sharply since 1945 to 2007, the number of export in 1945 is \$40 billion in 1945 and in 2007 increases become \$13.68 trillion (WTO 2007). In developed country, SMEs contribute 50 percent of gross domestic product and 60 percent of job creation. Thus, escalating the export performance is crucial for well-being, remembering global trade market is open the big opportunities. Exports increase the prosperity of the community, increasing the level of employment, improve productivity. Understanding the export market become crucial for exporting firm to survive and succeed. Knowledge of the overseas market becomes one of the factors influencing the perception of manager in export market besides international experience, language, age and risk [3]. The knowledge of manager about export market, both barriers and opportunity, will constitute the perception of manager about export market. Thus, perceived market could

influence the SMEs in export activity. Good perception regarding exports market can lead SME to enter the international market. Therefore, this paper will analyze how the influence of perceived market and export market to export performance and how the effect of export performance to firm performance.

This paper consists of five sections: section two provides a concise literature review about perceived market, export performance and firm performance and paper hypothesis. The methodology was described in section three. Next, result and analysis are provide in section four. Last, section five presents conclusion and limitation of this study.

Export Performance and Firm Performance: Many previous studies have indicated the variables used to explain export performance. Zou and Stan [4] categorize the variables into internal and external determinants of export performance. Internal variables refer to export strategy, characteristics of manager, characteristics of firm and competences and attitudes and perception of manager. Then, external variables consist of external and domestic market characteristics and industry characteristics. In this study, the effect of manager's perception on market export and external market characteristics focusing on export barriers will be examined to understand the effect to export performance. Remembering in SME, the manager's role is crucial for identify the impulse factors for the internationalization SMEs [5] and export barriers as a hindering factor to develop, to initiate, or to sustain in export activity [6].

To measure the firm performance, researchers mainly utilize change in productivity as measurement [7]. Linkages with overseas market may to open access on variety parties to support increase productivity and economic growth. There are five effect of export activity into productivity of firm. First, exporting will enhance production efficiency [8]. Second, enter the overseas market may open the access to knowledge improving the technology [9]. Third, requirement higher standard on overseas market will improve the production technologies [10]. Fourth, participation in international market could enhance the firms to faster recognize the opportunities for new products [11]. Fifth, entering global market will increase sales while there is a possibility decreasing in domestic market. These conditions will improve performance of firms.

H1: Export performance gives positive effect on firm performance.

Perceived Market and Export Performance: Perceived market in this study defined as the level of consciousness and attention of managers about influences from external firm, mainly opportunities and threats on export market [12]. In SME, the manager plays a crucial part in recognize the stimulant factors for the enterprise to enter global market [5]. Therefore, the manager's motivations and ability in the process internationalization will influence the decisions regarding the internationalization process in firms [13]. Perceptions of managers about perceived market could influence the SMEs in export activity. Good perception regarding exports market can lead SME to enter the global market.

The perceived of export market of SMEs in this study linked with the condition in foreign country. First, it correlates with perception about profitability. When the manager has a good perception about the profit from export market, it will enhance SMEs to engage in export activity. Second, the stability of foreign country, it relates with the condition of economic and politic in foreign country. Third, the competition in export market, when the managers perceived the competition is hard in host country it will decrease the export performance of SMEs. Fourth, the market shares in foreign country, if the manager perceived the market share in the foreign country is large, it will enhance the SMEs to engage in export activity. All these market condition will influence the performance of export on SMEs.

H2: Perceived market gives the positive influence on export performance.

Export Barriers and Export Performance: Leonidou *et al.* [6] stated that export barriers are the factors hindering SMEs to develop, to sustain and to initiate in global market. Leonidou [14] has categorized barriers to exporting into three groups of firms; non-exporters, it refers to the firms which is not exporting currently but have potential in the future to involve in export activity. They have subjective perception about barriers. Second, current exporters, who is engaging with export activity. They have faced the problems daily in export market. Third, is ex-exporters, it refers to firm which in the past has used to involve in export activity. They see export barriers from experiential and perceptual.

Previous research has identified the conceptual structure of export barriers. Morgan and Katsikeas [15] divide the export barriers into three groups as, operational, strategic and informational barriers. Leonidou [14] has classified export barriers as internal and external

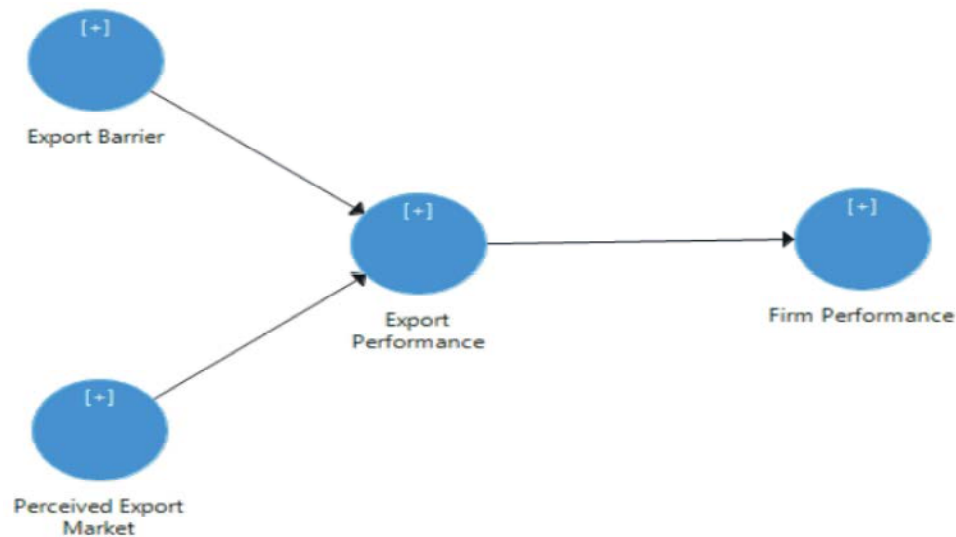


Fig. 1: Relations between Perceived market, Export Performance and Firm Performance

arriers. Internal barriers refer to sources and ability inside the control of the firm and factor outside the control of firms knowing as external barriers [14]. For this research, the barriers united as export barriers.

Researchers have pay the attention into the negative part of export barriers to SMEs internationalization [16]. Two-third of SMEs have estimated vanish the business within ten. Export barriers will give negative effect on export performance. The key factor of SMEs to existence in export market, they have to able overcome the negative effect from export barriers.

H3: Export barriers gives negative effect on export performance.

MATERIALS AND METHODS

This study conducted in quantitative approach through survey. In this study, the data were collected from Indonesian SMEs who joined in Association of Exporters and Producers of Indonesian Handicrafts and Indonesian Furniture and Craft Association. The data also gathered from SMEs who become the exhibitors in Inacraft 2016 and Jakarta Fashion Week 2016. SMEs for this research were defined as firms with less than 300 employees based on World Bank criteria of SME. A total 600 questionnaires were sent to SMEs and 113 were returned.

The result shows that majority of respondents are small enterprise 43.4%, micro enterprise 41.5%, and only 15% included as the medium enterprise. Fashion is the

dominant sector of respondents, following by craft, culinary and design. Next, the length of export, majority enterprise still new entry in export activity. 44.2% of respondent has 1-3 years experience in export. Only 5.3% has more than 10 years in overseas market. Commonly, enterprise only export their product into 1-2 countries around 37.1%.

Measures

Independent Variables: In this study, perceived market (PM) and export barriers analyzed as independent variable. To measure perceived market was using four items statements that identified the perception of manager about opportunities to obtain profile in export market, stability in foreign market, competitiveness in export activity and market share in export market by six-point scale.

The indicators used for measuring export barriers relate with the indicators examine by [14]. The questions using six-point Likert scale to measure consist of government policy, import restricted, foreign exchange policy and language differences.

Mediating Variable: Mediating variable in this paper is export performance. The indicators to measure export performance are the growth in number of countries, achievement the targeted export growth, growth in profit and growth in sales of export activity Shoham [17] and. SME Export Performance was measured using six-point scale.

Dependent Variable: Last, dependent variable for this study is firm performance. The measurement for firm performance is related with the productivity of SMEs. The questions identified the total sales growth, growth in profitability and satisfaction of customer. All the statements to indicate firm performance using six-point Likert scale ranging from 1= extremely disagree to 6 = extremely agree.

Partial Least Square Structural Equation Modeling (PLS-SEM) is used to analyze the data. PLS is approach which categorize as a soft modeling approach. In PLS-SEM do not need the assumption of distribution data [18]. Therefore, PLS-SEM is a good analyze procedure when the sample is small, the theory is scarce, predictive accuracy is paramount, cannot be ensured the correct model [19, 20 21].

RESULT AND DISCUSSION

Reliability Test: Indicator reliability describe the extent to which a variable or set of variable is consistent regarding what it extends to measure. Value > 0.70 or higher is preferred, but value > 0.55 is also valid [22]. In PLS-SEM indicator reliability result can be seen in “Outer Loadings”. Result of model measurement in indicator reliability test can be seen in the Table 1.

From the indicator reliability test, all the indicators have meet the number > 0.55 . So, all indicators could be included in the further analysis.

Validity Test: In social science research, internal consistency reliability was measured by the use of composite reliability as a replacement has suggested by prior literature [23]. Table 2, indicates all the values are larger than 0.5, it exhibit the reliability all the reflective latent variables because the internal consistency reliability is high.

To check convergent validity, the Average Variance Extracted (AVE) of latent variables are examined. Table 2 shows that all of the values of AVE are greater than 0.5, these results indicate the convergent validity is confirmed. To establish discriminant validity, Fornell and Larcker [24] have proposed to use the square root of AVE of each latent variable. To confirm the discriminant validity, the correlation among the latent variable have to lower than the value of square root of AVE. Result of model measurement in PLS-SEM, can be seen in Table 3.

The result shows the value correlation among latent variable is lower than the value of square root of AVE, so the measurement model possesses the discriminant validity property.

Table 1: Indicator Reliability Result

Latent variables	Indicators	Loadings	Reliability
Export Performance	EP1	0.760	Reliable
	EP2	0.911	Reliable
	EP3	0.913	Reliable
Firm Performance	FP1	0.868	Reliable
	FP2	0.745	Reliable
	FP3	0.816	Reliable
Perceived market	PM1	0.848	Reliable
	PM2	0.880	Reliable
	PM3	0.727	Reliable
	PM4	0.705	Reliable
Export Barriers	EB1	0.773	Reliable
	EB2	0.853	Reliable
	EB3	0.882	Reliable
	EB4	0.570	Reliable

Table 2: Internal Consistency Reliability and Convergent Validity Result

	Cronbach's alpha	Composite reliability	AVE
Export Performance	0.831	0.898	0.747
Firm Performance	0.738	0.852	0.658
Perceived market	0.801	0.871	0.630
Export Barriers	0.788	0.858	0.607

Table 3: Discriminant Validity Result-Latent Variable Correlation & SquareRoot of AVE

Model I	EP	FP	PM	EB
EP	0.864			
FP	0.511	0.811		
PM	0.488	0.364	0.791	
EB	-0.190	0.053	0.105	0.779

Table 4: Path Coefficient and T-value Result

	Path coefficient	t-value	Result
EP-FP	0.509	7.043	Accepted
PM-EP	0.508	6.289	Accepted
EB-EP	-0.244	2.427	Accepted

Table 5: VarianceExplained and Stone-Geisser Q^2

	Variance explained	Stone-Geisser Q^2
Export Performance	0.238	0.201
Firm Performance	0.259	0.163

Structural Model Path: In a significant correlation, the t-value must be greater than t-table. Significant relationships are indicated by t-values are colored blue in Table 4 with value = 1.96. Structural model test was measured to predict the causal relationship between variables or to test the hypothesis. Structural model in PLS-SEM were tested using Bootstrapping.

Assessing R^2 will show the quality of the structural model. The value of R^2 will explain how much exogenous variable explain the variance of dependent variable. The results for this study show in Table 5, the R^2 for export performance was 0.238. Indicating that export barriers (EB)

and perceived market (PM) can contribute for 23.8% of the variance in export performance (EP). There are three categories to considered the quality of structure model, 0.26 categorize as substantial, 0.13 indicate the structural model is moderate and 0.02 show the structural model is low [25]. Our R^2 in this study is considered as moderate. Then, export performance (EP) can explain 25.9% of the variance firm performance and considered as moderate.

Another assessment to check the quality is cross-validated communality and cross-validate redundancy. In PLS, blindfolding procedure could be utilized. Blindfolding is the process to estimate the model parameters. The procedure conducted by remove and handle the data as missing values [26]. We need to have the value of cross-redundancy more than 0, to establish the predictive quality of model [27]. If not, we cannot conclude the predictive relevance model. The model shows an adequate prediction quality based on the value of cross validated redundancy was found more than 0.

Hypothesis Testing

H1: Export performance gives positive effect on firm performance.

Export performance gives the positive influence to firm performance. The path coefficient is 0.509 and t-value is 7.043. It indicates that export performance has significance effect to firm performance because the t value is higher than 1.96. Therefore, the hypothesis 1 is accepted. Bernard *et al.* [28] stated exporting is crucial to gather information, the root of competitiveness and other gain in productivity for increase the performance that has been known as “learning by exporting”. Many literatures focus with the impact of export activity on the firm performance [7].

H2: Perceived market gives the positive effect on export performance.

The result of this study, show the significance effect between perceived market to export performance. The path coefficient is 0.508 and t-value is 6.289. Therefore, the hypothesis 2 is accepted. Perceived market could influence the SMEs in export activity. Good perception regarding exports market can lead SME to enter the international market. When the managerial has the good perception about the overseas market including profitability, stability, competitiveness and market share the export performance will increase.

H3: Export barriers give negative effect on export performance.

The result of this study shows the significance effect between export barriers to export performance. The path coefficient is -0.244 and t-value is 2.427. Export barriers give negative influence on export performance. The result is suitable with the expectation. So, hypothesis 3 is accepted. Barker and Kaynak, [29] Katsikeas and Morgan, [15] have stated that SMEs are mainly susceptible to barriers related the scarce of resources, operating cost and “trade restrictions”. The barriers will hinder firms to learning and adaption. Subsequently, the barriers will give negative effect to performance of export on SMEs. Firms must have ability to minimize the impact of export barriers.

CONCLUSION AND LIMITATION

Perceived market give the positive effect larger on export performance than the negative effect of export barriers. This result indicates that by the understanding how to utilize opportunity and overcome the risk and barriers, manager on SMEs can increase their export performance. Furthermore, the export performance will give the positive influence to firm performance. In other words, export performance indicates as the developing factor of firm performance. So increasing the good perception of market export will indirectly influence the performance of SMEs.

Exporting firm has shown positive impact into firm performance. This result indicates the firms which engage with export activity could be more productive. They have to improve production efficiency, enhance to higher technology and knowledge, higher quality standards, supply larger stimulant to increase production technology, encourage to prompt understand about market opportunities for fresh products and export activity could improve maximizing resource by expanding sales.

The positive influence between perceived market and export performance probably can be explained by the perceived of export market in SMEs linked with the opportunity and risk in export market. The effect of management perceived about export market, as the crucial element, will influence the export strategy. As Chetty and Blankenburg [5] state, the managerial, mainly in SMEs, perform as crucial factor in recognizing the stimulant of the enterprise to enter export market. When the manager has good perception about export market, they will actively engage with the export activity process. The main problem with the barriers may depend on the degree of uncertainty connecting with each barriers and the

difficulty perception to overcoming the barriers. The manager's perception to export barriers becomes main factors to determine export strategy of the firms.

This study makes some valuable contributions to the study of SMEs internationalisation. Previous research has included the competitive advantage, networking, entrepreneurial orientation, learning orientation and market orientation as factors to enhance export performance [30, 31, 32]. In this study, the effect of perceived market and export barriers on export performance has been examined. Which is could give the fresh insight for export performance study. To increase the export performance, managers need to get the appropriate insight and training to get the knowledge. Involve actively in export activity, assistance programs, export community, or join the export association also suggested to get the experienced in overseas market. In addition, firms with high export experience also have a much higher level of perceived market than those with low export experience.

The number of sample is other limitation from this research. The number of sample may not represent the number of SMEs. Majority respondents only come from Java and Bali islands. It could be quite different with other islands in Indonesia. It is necessary to study export performance more deeply. Conduct qualitative approach to gain the understanding about perceived market and export performance could be the further study. Next, it possible to elaborate other factor influencing the export performance in SMEs, such as export experience, capabilities in overseas market, such as networking, market orientation, learning orientation and engage to export activity could assist enterprise to overcome the perceived of barriers and boundary in exporting.

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