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THE IDENTIFICATION OF THE PERCEIVED DIFFICULTIES IN OVERCOMING THE BARRIERS TO DIRECT EXPORT WHEN MOVING FROM INDIRECT EXPORT: THE CASE OF CHINESE SMES

Robin Stuart Bell
University of Worcester, UK
Lecturer in Management
r.bell@worc.ac.uk

Abstract

The indirect export route can often provide a low risk first stage in the internationalization process. Many enterprises, however, can become locked into the indirect export route and do not progress to direct export. It has been suggested that indirect exporting in China can be a double edged sword, and that it may prevent the accumulation of international experience and knowledge that organizations need to develop further. The aim of this research is to identify which of the selected barriers to export represent the greatest increase in perception of difficulty when considering the transition from indirect to direct export. This research identifies a range of 17 barriers that impact on small to medium sized enterprise (SME) export, from the export stream of literature, and then measures the perceptions of decision makers in the difficulty in overcoming these barriers when using the indirect and direct export routes. The differences in perception of the individual barriers between the export routes are a measure of the difficulty, through gaps in knowledge and resource, in moving from indirect to direct export. The research methodology adopted a quantitative approach and data was collected from 98 SME decision makers in the Chinese province of Ningxia, and was then subjected to statistical analysis.

The findings include the wide differences in the perception of difficulty in accessing foreign distribution channels, the ability to obtain and understand information to operate in new markets, and finding reliable local representation when moving from indirect to direct export. In addition, two of the barriers are perceived as more difficult when using indirect export compared to direct export.

Keywords: Export, SME, China

JEL Classification: M16

1.1 Introduction

Traditionally, SMEs, despite being significant contributors of wealth and employment in domestic economies, have played only a minor role overseas (Doole and Lowe, 2001). However, the liberalisation of markets, improvements in technology and communication, advances in transportation, and increasing globalisation has led to increasing numbers of SMEs now pursuing opportunities abroad (Knight, 2000; Leonidou, 2004). The importance of actively promoting the development, and the national and international expansion of small and medium sized organizations, has been highlighted by Cardoza (1997), who pointed out that they play a key role in entrepreneurship, job creation, fiscal income, technology diffusion, risk diversification, identification and adoption of best international practices and wealth generation. These factors are important in driving local and national economies. According to Singh, Garg and Deshmukh (2010), SMEs are considered an engine for economic growth all over the world.

Export has been traditionally regarded as the first stage to entering international markets, serving as a platform for future international development (Kogut and Chang, 1996). Exporting is a particularly important strategy for SMEs (Leonidou and Katsikeas, 1996), as SMEs often lack the resources for foreign direct investment (FDI) (Dalli, 1995; Zahra, Neubaum and Huse, 1997). The export stage provides fast access to foreign markets, with minimal capital investment, but with the opportunity to gain some limited experience of international markets (Zahra et al., 1997). The export stage of internationalization can take place in two ways. The first is through the indirect export route using an intermediary, and the second is through the direct export route. The indirect export route can be considered to be the use of an intermediary for exporting, sourcing or distribution agreements and, who manage on an organization's behalf, the transaction sale or service with overseas enterprises or customers (Fletcher, 2004). Export intermediaries play an important role as 'middlemen' or facilitators in international trade by linking individuals and organizations that would not have been connected otherwise (Peng and York, 2001). Export intermediaries can help identify customers, financing and distribution infrastructure providers (Balabanis, 2000). They can also help organizations overcome their knowledge gaps and can reduce the uncertainties and risks that are associated with operating in foreign markets. Intermediaries may also possess country specific knowledge that the organization lacks and which is vital to a successful operation (Li, 2004). Market research, seeking new customers and negotiating orders can all be expensive and an intermediary can manage these processes. In some cases, where the organization does not have the authority or rights to export, the intermediary can be a way of gaining access to foreign markets. The use of intermediaries in this way can facilitate exports into new markets and can act as a steppingstone towards direct export and a closer involvement with the overseas market. However, this route offers reduced margins per sale and can prevent the accumulation of experiential and spill over knowledge that direct contact with foreign customers would provide. The use of intermediaries adds cost to the exporting process, particularly in transaction costs and rent extraction (Acs and Terjesen, 2006). Moreover, many enterprises can become locked into the indirect export route and do not progress to the direct route and consequently the internationalization process is inhibited (Naude and Rossouw, 2010; Sandberg, 2008). It has been suggested that indirect exporting in China can be a double edged sword, and that it may prevent the accumulation of international experience and knowledge that organizations need to develop further (Sandberg, 2008). In this way, indirect exporting can be regarded as inhibiting further internationalization. More recently, Naude and Rossouw (2010) concluded that indirect exporting delayed the internationalization process of indigenous enterprises. Direct export can potentially offer a relatively low risk accessible pathway to export markets (compared to foreign direct investment), and can potentially offer greater rewards than indirect export, including the accumulation of new experiential knowledge through dealing directly with overseas markets. However, it can have higher associated costs (both financial and managerial) and risks than the indirect route. It also involves overcoming the barriers to direct export which include internationalization knowledge, adequate networks and contacts, the ability to overcome cultural and institutional differences and financial resources.

The increasing role of SMEs as exporters makes the understanding of the decision making process and the process itself more important. This is also true of the barriers to export since they are often the cause of enterprises' failures in foreign markets, leading not only to financial losses but also negative attitudes towards export both amongst current and would be exporters (Leouidou, 1995a). Importantly, when making decisions, it is not necessarily a specific barrier that prohibits or inhibits the path to internationalization but instead it is the perception of the barrier. Other factors make specific barriers operative and these factors are usually associated with the characteristics of the manager, the organization and the organization's environment, within which it operates (Cavusgil and Nevin, 1981). This paper will investigate the perceptions of the decision maker to a selected range of barriers to indirect and direct export in order to consider the relative differences when considering indirect and direct export.

1.2 The Development of SMEs in China

One of the main outcomes of the opening up and liberalisation of the Chinese economy was the tremendous growth in smaller firms (Liu, 2007). Currently SMEs account for 98.9% of the total number of Chinese businesses and 65.6% of industrial output value in China (Singh et al., 2010). The rapid development of SMEs, particularly private ones, has become the most dynamic facet of the Chinese economy, and in some areas private SMEs have become the backbone of the local economy (Chen, 2006).

Although researchers have tried to understand the behaviour of Chinese enterprises using models developed from Western theories and perspectives, such approaches have met with limited success. This is largely due to a number of major influences on the behaviour of Chinese organisations which include the important role of networks within the culture (Buckley et al., 2007), the level of education and impact of bounded entrepreneurship (Liu et al., 2008), and the impact of government and institutional influences (Peng, 2002). As a result, the pattern of Chinese internationalization does not fit the traditional Western models of internationalization but requires new multifaceted approaches and different perspectives in order to more accurately describe the behaviour of Chinese enterprises. Reasons for this include a lack of internationalization knowledge, the difficulties of breaking through the institutional barriers between Chinese and non-Chinese business networks, domestic policy formulation, and marketization and political risk considerations (Jansson, Hilmersson and Sandberg, 2008). These factors will all have an impact on the decision to export and the export route that is adopted.

2. Barriers to Export

Barriers to exporting can be defined as all the attitudinal, structural, operational and other constraints that hinder the firm's ability to initiate, develop or sustain international operations (Leonidou, 1995a). Barriers to exporting can often be the cause of many enterprises' failures in foreign business ventures, which can result in financial losses, negative attitudes towards international involvement (Leonidou, 1995b) and a permanent withdrawal from a potentially important development route (Welsh and Weidersheim-Paul, 1980). It follows that removal or the minimization of these barriers or obstacles can contribute to greater export intensity and performance (Bilkey, 1978). This has led to considerable research into both the internal and external barriers that organizations face when exporting, including that by Leonidou (2004) and Tesfom and Lutz (2006). Barriers can originate internally and are often associated with organizational resources or their approach to export marketing, or from the external environment (Leonidou, 1995a).

The barriers adopted in this research are based largely on those described by Leonidou (2004) and by Tesfom and Lutz (2006), and have been identified from the literature as particularly relevant in the Chinese context. The barriers adopted within this study are focused on five main areas which are particularly appropriate for the studying SMEs in China. These are financial barriers, knowledge barriers, network barriers, cultural and institutional barriers, and risk barriers.

Financial Barriers

- Cost of export expansion
- Raising the finance required

Knowledge Barriers

- Identifying new market opportunities
- Obtaining and understanding relevant market information
- Dealing with unfamiliar procedures and documentation

Network Barriers

- Expanding without existing networks
- Finding appropriate distribution channels
- Finding reliable local representation

Cultural and Institutional Barriers

- Foreign customer attitudes
- Language differences
- Tariff and export barriers
- Foreign rules and regulations
- Foreign business practices

Risk Barriers

- Physical distance of export markets
- Ability to compete with local competition
- Matching competitors' prices in export markets
- Expansion undermining the base operation

3. Methodology

The data was collected from manufacturing SME decision makers in the Chinese province of Ningxia. The definition used for SMEs was that defined by the

National Bureau of Statistics of China (2008). The questionnaires were self-administered under supervision and were collected after completion. The research produced a total of 98 completed responses with a further four questionnaires deemed invalid due to incomplete completion. The sampling technique that was employed was a judgement form of convenience sampling and the respondents were all SME decision makers. Judgement sampling ensured that it was the SME decision makers that completed the questionnaires. Roy, Walters and Luk (2001) highlighted the fact that many published Chinese management studies used a form of convenience sampling due to the difficulties in employing other sampling methods.

The research adopted a quantitative questionnaire approach which was based on the use of seven point likert scales to measure the relative perceptions of the selected barriers to indirect and direct export. The definitions of indirect and direct export used within this research and the questionnaire are as follows; indirect export is defined as export or supply through a Chinese based intermediary where your enterprise has no direct contact with the international market and requires only limited knowledge of the international market. Direct export is defined as export or supply direct to an international or overseas customer.

The data collected was statistically analysed to check for a normal distribution and internal consistency. The decision makers' perceptions of difficulty for the selected barriers, both for the indirect and direct export routes, were then analysed using Wilcoxon Matched Pair's analysis, to discover which barriers exhibited the greatest difference in the perception of difficulty. This approach identified which barriers were perceived by the SME decision makers as potentially being the most difficult to overcome when moving from indirect export to direct export. This highlights areas of knowledge and resource deficit which are impacting on the potential for further international development of SMEs. Conversely, this highlights which direct export barriers are perceived to be mitigated or reduced by the use of the indirect export route.

4. Results

The internal consistency of the data was tested using the Cronbach Alpha score. The Cronbach Alpha score for the perception of the indirect barriers was 0.803 and for the perception of the direct barriers was 0.816. A high value of alpha is often used as evidence that the items measure a good underlying or latent construct. According to Sekaran (2000), reliabilities less than 0.6 are considered poor, those in the 0.7 range acceptable, and those over 0.8 good. Since the data had been collected using a non-probability sampling technique, it was not assumed to be parametric in nature, which was confirmed by the Shapiro-Wilk test of normality. The data was tested using nonparametric Wilcoxon Matched Pair's analysis. The table below contains the results from the analysis of the perceptions to the selected barriers to export when using both the indirect and direct export routes. The results are tabulated in order of decreasing difference in perception between the indirect and direct export routes.

Barrier	Ranks	No. of Ranks	Mean Rank	Sum of Ranks	Sig.	Z Value	R Value
Finding appropriate distribution channels	Negative	3	15.00	45.0	.000	-8.243	-0.833[a]
	Positive	88	47.06	4141.0			
Obtaining and understanding relevant market information	Negative	2	33.50	67.0	.000	-8.353	-0.844[a]
	Positive	87	45.26	3938.0			
Finding reliable local representation	Negative	2	30.50	61.0	.000	-8.030	-0.811[a]
	Positive	81	42.28	3425.0			
Identifying new market opportunities	Negative	5	25.50	127.5	.000	-7.127	-0.720[a]
	Positive	70	38.89	2722.5			
Cost of export expansion	Negative	10	40.10	401.0	.000	-5.782	-0.584[a]
	Positive	67	38.84	2602.0			
Foreign customer attitudes	Negative	3	18.00	54.0	.000	-5.696	-0.575[a]
	Positive	44	24.41	1074.0			
Physical distance of export markets	Negative	11	29.95	329.5	.000	-5.656	-0.571[a]
	Positive	59	36.53	2155.5			
Expanding without existing networks	Negative	16	27.66	442.5	.000	-5.213	-0.527[a]
	Positive	57	39.62	2258.5			
Raising the finance required	Negative	1	35.00	35.0	.000	-5.197	-0.525[a]
	Positive	36	18.56	668.0			
Expansion undermining the base operation	Negative	23	40.09	922.0	.000	-3.824	-0.386[a]
	Positive	60	42.73	2564.0			
Unfamiliar business practices	Negative	12	28.13	337.5	.002	-3.150	-0.318[a]
	Positive	38	24.67	937.5			
Foreign rules and regulations	Negative	8	18.63	149.0	.001	-3.229	-0.340[a]
	Positive	29	19.10	554.0			
Tariff barriers	Negative	2	6.00	12.0	.012	-2.517	-0.254[a]
	Positive	11	7.18	79.0			
Dealing with foreign procedures and documentation	Negative	16	30.44	487.0	.030	-2.170	-0.220[a]
	Positive	37	25.51	944.0			

Language differences	Negative	17	18.68	317.5	.073	-1.795	-0.181[a]
	Positive	25	23.42	585.5			
Ability to compete with local competition	Negative	43	31.85	1369.5	.002	-3.161	0.319[b]
	Positive	18	28.97	521.5			
Matching competitors' prices in export markets	Negative	58	35.43	2055.0	.000	-4.922	0.497[b]
	Positive	12	35.83	430.0			

a is based on negative ranks b is based on positive ranks

Overall, of the seventeen barriers that were selected, the perception of difficulty was less in fourteen cases for indirect export, the perception of difficulty was less in two cases for direct export, and in one case the difference was not statistically significant at a 95% confidence level. These findings highlight some of the potential advantages of exporting through an intermediary who can help to reduce or mitigate many of the barriers to export. The most significant findings are discussed below.

5. Conclusions

Networks - The network barriers were all perceived as being significantly greater when using the direct export route. Two of the biggest differences between the indirect and direct export routes in this study were the distribution channel barrier and the finding reliable local representation barrier. This finding is in line with expectation as contacts and networks play a highly significant part within both the Chinese culture and working environment.

Knowledge Barriers - The perceptions of all three of the knowledge barriers were less when adopting the indirect export route. The second greatest difference in the perception between the indirect and direct export routes in this study was in the obtaining and understanding information on how to develop and operate in new markets. Even when organizations are aware of where to acquire information, they may not necessarily know what specific information is required and how to use it most effectively. The perception of difficulty in the identification of new market opportunities showed the fourth largest difference between the indirect and direct export routes.

Financial Barriers - The cost of undertaking export and the ability to raise the required finance barriers were both seen to be significantly greater when using the direct route. This is particularly significant when SMEs have difficulty in raising finance or when interest rates are high. This finding is in line with expectation as the indirect export route avoids the costs associated with obtaining orders, marketing and advertising, and other associated costs. This makes the indirect route particularly suitable for SMEs who have limited resources and little experience of operating in foreign markets. Difficulties for Chinese SMEs in raising capital have been highlighted by Hussain, Millman and Matley (2006) amongst others.

Cultural and Institutional Barriers – Foreign customer attitudes, foreign rules and regulations, and foreign business practices all showed a significant difference in perception between indirect and direct export. Foreign customer's attitudes showed the sixth largest difference in perception of the seventeen barriers which were tested. Interestingly, the perception towards the language difference barrier was not found to be significant in this research. This suggests that little additional foreign language skills are required to make the transition from indirect to direct export.

Risk Barriers – Whilst the physical distance and expansion undermining the base operation barriers can both be seen as showing statistically significant differences between indirect and direct export routes, these appear to be less than for some of the other barriers. The barrier of physical distance can be reduced by the use of an intermediary in indirect export or by improved technology. Importantly, the matching competitors' prices and the ability to compete with local competition barriers both show the indirect route as being perceived greater than the direct route. This may highlight the impact that using an intermediary has on the price competitiveness and the reduced ability that enterprises have to directly compete with competition at a local level.

The findings of this research have highlighted those areas where there are the greatest gaps of knowledge and resource between indirect and direct export within the Chinese context. These represent areas where policy development can help to reduce the perception of barriers to direct export. Some of these findings may be reflected in other geographic areas at the same stages of economic and industrial development.

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