

## PROBLEMS FACED BY SMALL AND MEDIUM BUSINESS IN EXPORTING PRODUCTS

Hotniar Siringoringo\*

Prihandoko\*\*

Dharma Tintri\*\*\*

Anacostia Kowanda\*\*\*\*

**T**HE objective of this research is to identify and analyze the problems faced by exporters in conducting product export. Unit analysis is limited to Small and Medium Enterprises (SMEs) considering that they lack resources compared to big enterprises.

Since the problem is subjective in perception, questionnaire is used as the research instrument. Questionnaire was distributed to companies and was filled by their staff who is responsible to handle exporting activities. Data collected was then analyzed by using statistics tool, in order to verify the factors which influence the export problems significantly. The result of the survey shows that the factors which influence SME's export performances in Indonesia are competition, long duration of export document process, product quality, export barrier from country destinations, low capability in high production, delay in transportation, communication barrier, government agencies that presume become barrier, lack of international market knowledge, barrier of entering international market, export administrative procedures, inefficient production cost, unofficial fee in export documents processing, incapable to supply product in time, lack of knowledge in transaction method, limitation of destination country, time limitation in cargo, and delay of shipping. As can be seen, the cause of some of export barriers is because of human knowledge as well as government authorities and agencies. The most important factors considered to overcome the barriers is to equip SME's management with training and information.

**Key Words:** *Exporting Problems, Entrepreneurs, Micro Business, Small Business, Medium Business.*

### Introduction

Based on their earnings and capability in facing economic crisis, Small and Medium Enterprises (SMEs) show better performance than that of big enterprises. There are plenty of SME business units still obtained high profit though the economic rate reached minus thirteen point four percent (-13.4%) in 1998 causing the number of SME business units decrease at two point ninety five million business units (BPS, 2001)

The 6 years time since Indonesia fell into economic crisis is a suitable moment to see the strength of SME. It provides evidence that SME has a strong capability to adapt to the critical business situations

---

\* Lecturer, Gunadarma University, Jl. Margonda Raya No. 100 Depok 16424, West Java Indonesia.

\*\* Lecturer, Faculty of Economics, Gunadarma University, Jl. Margonda Raya No. 100 Depok 16424, West Java Indonesia.

\*\*\* Lecturer, Gunadarma University, Jl. Margonda Raya No. 100 Depok 16424, West Java Indonesia.

\*\*\*\* Lecturer, Gunadarma University, Jl. Margonda Raya No. 100 Depok 16424, West Java Indonesia.

and survive in running their businesses. A significant role of government policies in assisting SME is also important to be noticed. On March 2002, government released an economic policy package focusing on four strategies, i.e., to give a good and easy service to SME, restructuring SME, to open a special window of banking system for SME, and human resource development for SME. Unfortunately, this program cannot run by itself without any involvement from others such as university, department of industry and trade, state-owned corporation, department of cooperation and SME.

We can notice from the strategies formulated above, there's no strategy toward marketing aids, especially to help SME to be able to penetrate abroad market. Abroad market means export activity. Exporting of course will rise SME earning. Indonesian trading activities with other countries require handling export documents accurately, and fast. For big enterprises, handling export documents effectively and efficiently is not a problem. However, for micro, small and medium enterprises, handling export documents effectively and efficiently is a big problem. Based on preliminary interview with micro, small and medium entrepreneurs as respondents, most of them are not interested in exporting due to the difficulties in understanding exporting procedures. Due to the micro, small and medium enterprises have a big role in contributing for our revenue as well as their capability in providing a lot of job opportunities, their export channel must be assisted and facilitated.

## **Theoretical Background**

The role of SME in Indonesia economy can be highlighted from its position among business agents. According to Urata (2000), there are a number of SME roles as follows.

- a. SME is the main player in economic activities in varying sectors
- b. SME is the biggest agent of vocations
- c. SME is an important player in developing regional economic activities and social community development
- d. SME is a creator of new market and innovations
- e. For SME that have been acknowledged internationally, they have played important contributions in maintaining balance of payment through their exports.

Unfortunately, since the economic crisis occurred in 1997-1998, not all the roles and contributions that are already achieved by SME could be maintained. However, compared to the national corporations, the majority of SME are still able to survive in their business. In fact, there were plenty of SME business units still obtaining high profit though the economic rate reached -13.4% in 1998 causing the number of SME business units decrease at amount of 2.95 million business units.

Besides all good performance shown by SME's, still considerable improvement in performance is required. Researches found, that there are many factors that influence export performances, which can be categorized as internal and external export barriers. Internal export barriers related to company and product characteristics. External export barriers can be classified as distinctive foreign consumer preferences, unfamiliar business protocols and practices, the imposition of tariff barriers and regulatory import controls by overseas governments, fierce competition, exchange rate fluctuations and limited hard currency for international trade. The aforementioned problems are classified as industry, export market and the macro environment barriers.

## **Internal Export Barriers**

Internal export barriers are intrinsic to the firm and are usually associated with insufficient organizational resources for export marketing. For instance, as mentioned by (Czinkota and Rocks, 1983; Kaynak and Kothatri, 1984; Rabino, 1979), problems pertaining to meeting importer quality standards and establishing

the suitable design and image for the export market; problems related to the poor organization of export departments and the firm's lack of competent personnel to administer exporting activities (Yang et al., 1992); the inability to finance exports; insufficient information about overseas markets (the identification of appropriate overseas distributors and communication with overseas customers).

Company problems identified in prior research concern, primarily, the organizational capacity of the firm to execute the marketing function (Katsikeas and Morgan, 1994). Product problems are related to quality and technical requirements of the targeted export market segment, such as export product design, style, quality, packaging and labeling requirements and product adaptation or modification (Keng and Jiuan, 1989). Firm capabilities and constraints profoundly influence their choice of marketing strategy and ability to execute it (Porter, 1985). Key assets and skills of a firm constitute its source of competitive advantage. Katsikeas and Morgan (1994) on their review showed that the company barriers can be regrouped under marketing knowledge and information, financial resources and human resources. Possession of such assets and skills enables an exporter to identify opportunities in the export market, develop appropriate export marketing strategy and execute it effectively.

Marketing knowledge and information are two of export problems which revolve around lack of knowledge of foreign markets, business practices, and competition; and lack of management to generate foreign sales. Lack of knowledge to locate foreign opportunities and promising markets is perceived to be a major barrier in exporting of SMEs in developing countries (Dymsza, 1983; Bodur, 1986; Karafakioglu, 1986; Weaver and Pak, 1990; Li, 2004). Furthermore, several publications show that experienced and inexperienced SME exporters in developing countries believe that poor knowledge of potential markets hinders their export activities (Brooks and Frances, 1991; Kaleka and Katsikeas, 1995; Weaver and Pak, 1990; Burgess and Oldenboom, 1997).

Marketing knowledge is dependent on the relevance and depth of marketing information available to the firm. Firms that use relevant, accurate and timely information are in a better position to respond to export problems. Information about exporting and more specifically market information were mentioned as the most serious problem of manufacturing firms in developing countries (Weaver and Pak, 1990; Figueiredo and Almeida, 1988; Brooks and Frances, 1991; Kaleka and Katsikeas, 1995; Burgess and Oldenboom, 1997; Bodur, 1986; Karafakioglu, 1986). Getting concrete information on prospective foreign markets is essential before exporting can occur. In design intensive industries, regardless of the location of the producer, the need for close and continuous information flows between design setters and manufacturers is paramount (Lall, 1991). This problem is severe for small- and medium-sized firms in developing countries, because they often lack the internal resources to acquire essential information, while large firms frequently have special departments geared to gathering information and promoting their products overseas. Furthermore, the average SME in developing countries can neither digest nor use effectively the vast quantity of general information and flood of statistical data that are routinely handed to them in response to their enquiries. Many of them lack the ability to sift through this mass of detail and pull out the parts relevant to their specific and short-term operations.

Distribution is another major problem area in exporting (Gereffi, 1992; Christensen and Da Rocha, 1994). Many SMEs in developing countries lack information about marketing channels and fail to establish marketing networks. Gereffi (1992) pointed out that the lack of internationally recognized company brand names, and appropriate marketing and retail networks are export barriers to Taiwan's indigenous manufacturers. Researchers have also identified several other marketing barriers that can inhibit exporting, for instance, pricing of the product in the international market. Christensen et al. (1987) concluded that successful exporters rely on international competitive prices as a benchmark and do not ask for premiums for exchange and extraordinary risks.

This example shows that pricing a product is difficult for a manufacturer in a developing country that

has insufficient information about the export market. Deficient advertising and promotion programs are also mentioned as other factors that constrain export activities (Fluery, 1986; Brooks and Frances, 1991; Kaleka and Katsikeas, 1995; Weaver and Pak, 1990; Burgess and Oldenboom, 1997).

A sound financial position is one of the keys to secure price advantage in the target market. Many SMEs in developing countries run into problems for lack of timely and adequate working capital, which not only adds costs but can also endanger the entire production operation. The importance of financial barriers to exporting, such as difficulty in acquiring the necessary funds to initiate or finance export sales, is shown by (Weaver and Pak, 1990; Kaleka and Katsikeas, 1995; Dicle and Dicle, 1992). Frances (1987), in his study of 75 Venezuelan exporting manufacturers, identified unsatisfactory financial facilities as the major export barrier. Credit unworthiness and transaction costs are reported as major factors that reduce access to credit. According to Collier and Gunning (1999) in Kenya more than half of the trade credits were extended, and delaying payments was the most common form of dealing with unexpected liquidity shocks. Bodur (1986) mentioned the high costs involved in export credit as a problem for Turkish manufacturing firms.

The success of the firm's export marketing activities depends on the attitudes and characteristics of the managers. Export marketing knowledge problems can be attributed to a large extent to the lack of trained and experienced human resources. For instance, Aggarwal (1986) indicated that the quality of manufactured products in Venezuela, Argentina and Chile stays at a low level due to low quality human resources. Ibeh (2004) found out that the lack of qualified decision makers was a barrier to internationalization.

Cook (1983) stressed that product characteristics affect the competitive advantage and influence the choice between an offensive and a defensive export strategy. The product barriers that influence the export marketing strategy of the firm could be grouped into quality and technical adaptability.

Quality is often indicated as one of the most important conditions for entering and remaining in foreign markets (Christensen and Da Rocha, 1994, Neupert et al., 2006) and logistic management (Neupert, et al., 2006). It concerns packaging, meeting importers quality standards and establishing the suitable design and image for export markets. There are different quality standards in developing countries. However, many of the quality problems are the result of inadequate knowledge about market requirements, product characteristics and production technologies. A product, which sells well in a developing country, may not sell at all in a developed country (Lall, 1991). Daniels and Robels (1982) conclude that product quality was a key competency for Peruvian exporters. The studies of Figueiredo and Almeida (1988) mentioned poor product quality and fashion sensitivity, as problems to Brazilian exporters. Aggarwal (1986) pointed out that manufacturers in countries such as Venezuela, Argentina, and Chile are facing product quality problems. Christensen et al. (1987) indicated that lack of emphasis on research, product service and quality, characterize the profile of Brazilian firms that eventually ceased exporting. As low content undifferentiated marketers they faced direct competition from any marginal cost rival that bursts on the scene.

Several researchers (Lall, 1991; Katsikeas and Morgan, 1994) indicated that local product standards, customer standards and buying habits may be unsuitable for foreign sales and may require adaptation. In most studies successful firms adapt their products to foreign markets. Christensen et al. (1987) show that, although Brazilian firms were exporting standardized products, they could have done better if the product was adapted to the requirements of the target market. This was attributed to lack of experience and the products exported. Inexperienced exporters may find it simpler to export standardized products and rely on the importers branding, design and promotional skills (Wortzel and Wortzel, 1981). Most of the problems related to technical adaptability are due to a lack of knowledge of market

requirements or a lack of resources to meet the requirements: poor quality control techniques (Figueiredo and Almeida, 1988; Cardoso, 1980), poor quality of raw material, (Figueiredo and Almeida, 1988), packaging and labeling requirements, product design and specification (Brooks and Frances, 1991). Although product line management has not been extensively investigated, Christensen et al. (1987) conclude that companies with multiple product lines are more successful in their export activities. Moreover, Hasan (1998) mentioned that lack of product diversification was a barrier to internationalization of Pakistani firms.

### **External Export Barriers**

We start the discussion of external export barriers with industry barriers. Industry barriers further are classified as industry structure, supply of raw material, technology, competition barriers. The intensity of exporting activities and the nature of export marketing strategies differ considerably across industries. Porter (1985) noted that this is largely due to the varying nature of industries. Kerin et al. (1990) considered industry structure as a key determinant of a firm's strategy in the domestic market context, where as Jain (1989) stressed that technology intensiveness and intensity of price competition in the industry are important determinants of the marketing strategy.. In order to develop a proper export marketing strategy the differences between market systems, firm sizes and presence of foreign competitors across markets should be taken into account.

According to Bodur and Cavusgil (1985) firm size has been most associated to firms export activities and interest in exporting. The organization size is a key determinant of the propensity to export. The larger the firm, the greater the size advantage over the smaller firms; and this will usually have a positive impact on the export activity. Larger firms possess more "slack" in managerial and financial resources as well as production capacity, thus enabling them to direct greater efforts to exporting than smaller firms (Reid, 1987). Firm size and high industry concentration are important export barriers to small firms (Figueiredo and Almeida, 1988). Rauch (1991) stressed that firms graduating from the small informal status show up on the radar screens of regulators and tax collectors and suffer the consequences. In line with Rauch's argument, Little (1987) mentioned that Indian small manufacturing firms not only have to cope with much more difficult licensing policy but also have to contend with higher labor costs and substantially higher excise duties.

The impact of technology on export performance has been discussed by Christensen et al. (1987), Neto (1982), and Dicle and Dicle (1992) for instance. Christensen et al. (1987) stated that if exporters market their products in developed countries, technology could be an important source of competitive advantage over local producers. As well, Neto (1982) observed that manufacturing of footwear showed better results in terms of export performance if they were more ready to change to new production techniques, to develop new products and to invest in production capacity. Dicle and Dicle (1992) mentioned lack of new technology as an export barrier to Turkish manufacturing firms. Another important factor for exporting SME's in developing countries is supply of raw materials. Collier and Gunning (1999) stated that firms also face unreliability in their supplies from other domestic firms.

Regarding competition barriers, in principle it should not be considered a barrier if no information asymmetries exist among competitors in the market. However, in practice, information on export opportunities is costly and not easily available. Furthermore, the type of competition perceived by a firm affects its interest in exporting. A few of researchers who found that competition is a barriers for company are Burgess and Oldenboom (1997), Fluery (1986), Kaleka and Katsikeas (1995), Karafakioglu (1986), Hasan (1998. Price competition (Fluery, 1986), lack of competitive prices and fierce competition in export markets (Kaleka and Katsikeas, 1995; Karafakioglu, 1986; Hasan, 1998) were reported as export barriers. Especially small firms are vulnerable because their limited financial and human resources hamper the collection of adequate information (Burgess and Oldenboom, 1997). Mohy-ud-Din

et al. (1997) mentioned tough competition, from other yarn producing countries, as a main reason for the deteriorating yarn export in Pakistan. In the same vein Nadvi and Jhouburn (2004) discussed the competitive pressure from China as a challenge to Vietnamese textile manufactures.

Export market barriers are related to product requirements in the export market, the country of origin, cultural similarity and brand familiarity. Lack of similarity of legal and regulatory frameworks of the exporting and importing countries and lack of familiarity with market export procedures are also mentioned as export market barriers. These factors are regrouped into customer and procedural barriers.

Customer barriers stem from the customer's perception of product characteristics. An important issue here is that in addition to specific quality problems, exporters from developing countries face the poor reputation of their country, as stated in the research of (Ford et al., 1996; Mohy-ud-Din et al., 1997; Gereffi 1992; Brooks and Frances, 1991; Lall, 1991). For instances, Ford et al. (1996) indicated that the country of origin effect hampered the growth of Indian consumer durable exports; Mohy-ud-Din et al. (1997) reported that the Pakistan yarn manufacturers have lost market share in virtually all their major markets due to image problems.

Second export market barrier is export procedures (Haidari, 1999; Dymsha, 1983; Bodur 1986; Brooks and Frances, 1991; Weaver and Pak, 1990). One of the most cited obstacles with regard to exporting concerns the time and paperwork required to comply with foreign and domestic market regulations. Governments do not solely impose these procedural requirements. Also independent organizations such as banks, shipping organizations and insurance companies, have their own procedures. A firm that wishes to enter the export market or intends to increase its export activity will have to acquire the knowledge and skill to deal with administrative procedures. In particular for inexperienced managers foreign documentation and paper work may appear very difficult to cope with. The upshot is that the mere perception of inability to process the paperwork, either because of cumbersomeness or due to lack of time, constitutes a barrier to exporting. Often, the documents are not properly completed, causing delay in payments and thus creating cash flow problems for the exporter. Haidari (1999) shows that delays in the refund of duty and sales taxes are affecting the cash flow of many small tanners in Pakistan. Brooks and Frances (1991) argued that when the government is highly involved, official procedures may lead to red tape, which is difficult to manage for those just starting to export. Adjusting to different cultures, including business customs and attitudes in foreign markets was also mentioned as a second major problem to Korean small- and medium-sized manufacturing firms (Weaver and Pak, 1990): 65 percent of the sample reported at least some problems in this regard. Jones and Jones (2004) argue that the customs in developing countries do not apply transparent control mechanisms to verify the invoice value. As a result some of them require inspection of shipping before leaving the country of export.

Macro environment barriers are factors beyond the firm's control such as the lack of proper trade institutions, unfavorable exchange rates, the absence of a stimulating national export policy, and international agreements. They are mainly related to the domestic and foreign external environment to the firm but difficult to classify under industry and export market barriers due to their dual behavior. Macro environment barriers are classified as direct and indirect export barriers.

Government authorities and agencies can raise direct export barriers. Government regulations may relate to tariff and non-tariff barriers, such as export regulation of the domestic government (Figueiredo and Almeida, 1988); inadequate diplomatic support and protectionist barriers, (Figueiredo and Almeida, 1988); cost of transportation (Brooks and Frances, 1991); and transport service and infrastructure (Brooks and Frances, 1991). Besides, lack of export promotion and assistance programs sponsored by the government (Kaleka and Katsikeas, 1995; Figueiredo and Almeida, 1988) and foreign exchange allocation (Ortiz, 1984), were noted as export problems to SMEs in developing countries. Exporters

often suffer because of the inadequacy of government export promotion policies. This includes lack of gathering and provision of information on available export opportunities and ineffective promotion of the country's exports overseas (Naidu et al., 1997). Morawitz (1981) reported that in a survey in Taiwan, government export promotion agencies were regarded as being the least useful of seven sources of market information. Similarly he noted that in a study in Columbia, not one of the exporters interviewed credited that country's export promotion office. This inadequacy of government export sales promotion is a serious bottleneck for firms in developing countries as many (potential) exporting companies lack the necessary export market knowledge and marketing skills. Naidu et al. (1997) mentioned that although India has created complex bureaucracies to promote exports the results are dismal. He concludes that high levels of government interference have effectively inhibited international entrepreneurship.

Finally, government has a role in building the necessary infrastructure within the country to facilitate exports. Infrastructure problems are still widespread in even relatively well-developed exporting countries. A well designed and manufactured product will not gain export markets unless it can be transported and delivered to import markets safely, punctually and reliably (Lall, 1991).

Indirect export barriers are rooted in the macro economic policy of the country and international trade agreements. Morawitz (1981) addressed both macroeconomic and firm level issues and found foreign exchange rate policy to be a major determinant for international competitiveness of the Colombian clothing industry. Similarly Juarez (1993) indicated that the loss of competitiveness in Colombian manufactured products is, among other factors, due to an appreciation of the real exchange rate.

Brooks and Frances (1991) find that Venezuelan and Peruvian exporters were obliged to change their foreign currency earnings at the official exchange rate, roughly half of the free market rate. At the same time they could only buy foreign currencies, to import inputs and spare parts, at the free market rate. Exchange rate uncertainties and international agreements (Figueiredo and Almeida, 1988) were mentioned as export barriers. A number of authors mentioned the importance of exchange rates as a tool to promote exports.

Another factor is related to international trade agreements. Trade agreements may open markets to companies in participating nations, but they can also discriminate against third party traders. For instance, the gradual loss of North American companies of some European markets to European Community members is a result of the treaty of Rome (Brooks and Frances, 1991). Simyar and Argheyd (1985) find that import license requirements and other entry barriers hinder exports to China. Similarly, Dicle and Dicle (1992), observed that strict and time consuming procedures for imports of manufactured goods constrain exports to Turkey.

## **Research Methods**

Data needed for this research can be categorized as primary and secondary data. Data is measured for SME management perception regarding the problems which they faced on export activity. In addition to that, we also use SME profile which was collected from ministry of trade (Departemen Perdagangan). Since data obtained is management perception, questionnaire was used as research instrument and SME owner or manager become research respondent.

Questionnaire was designed based on pre interview which was done by Ministry of Trade in 2008. At that time, they used open ended questions to identify problems faced by SMEs. The summary of problems faced is bureaucracy, product quality, export procedures, lack of promotion, competition, etc. Then a closed-ended questionnaire was designed with 5 choices i.e. Likert scale.

Validity and reliability tests were done using statistics technique. Valid and reliable questionnaire then was used as research instrument. Data collected further was analyzed using statistics technique.

Among statistics techniques available, factor analysis is chosen to be most appropriate to answer the research question.

## Result and Discussion

### SME Profile

Based on data from Ministry of Trade in 2008, there are 1537 SMEs which have conducted international trade (export). However, not all of them continue exporting, or they only did it few times. Among 1537, as much as 787 units are medium enterprises and 750 units are small ones. The SMEs are located in different states of Indonesia, as can be seen on Figure 1 and 2.

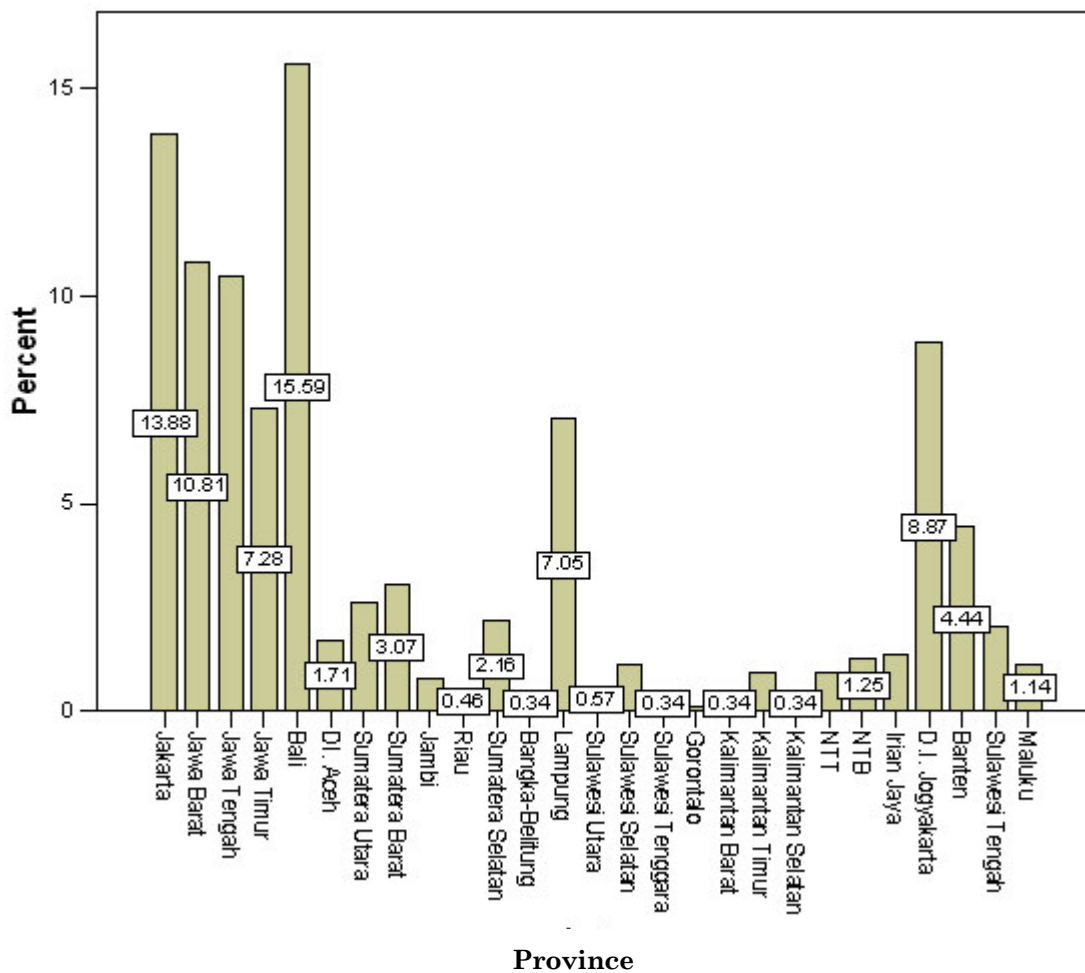


Figure 1: Statistics of Small Entrepreneurship in Every Province

We counted small and medium entrepreneurship in 27 provinces. As can be seen in Figure 1, small entrepreneurship in Bali show the highest percentag. In the other hand, province Gorontalo has the lowest of small entrepreneurship percentage, less than 0.34%. On medium entrepreneurship, the highest percentage can be seen in province DKI Jakarta, and the smallest percentage are in Bengkulu and Sulawesi Tenggara. As much as 25.3% of medium entrepreneurship is located in DKI Jakarta, and only 0.1% is located in Bengkulu and Sulawesi Tenggara, respectively.