CONCEPTUAL PAPER ON EXTERNAL DETERMINANTS AND RELATIONSHIP WITH EXPORT PERFORMANCE OF SMES

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ABSTRACT

Studying exporting performance of external environment it quite challenging on a lot of factors that have an impact on performance as industry competitiveness, customers and stakeholders. This research elaborates the impact of financial resources in export performance of SMEs, based on fact that during their growth and development international trade face with difficult financing challenges.

Also, they have found a relationship between past and future; it can be called as static measures, when we can compare one year to another, even with long-term results may be appropriate to analyze long-term effects, present results measures incorporate expected future performance. But we have several studies, cases that capture indicators along time for measuring the performance, which helps us to understand the long-term strategy of an organization. One factor that has to do with the strategy of the organization is an external factor, and this factor characteristic of the firm, industry product adaption has the positive influence on firm strategy. By this paper we will try to clarify the relationship of external factors on export performance. Also this research reviews various authors about financial sources as external determinants of SMEs.

Keywords: SME, Export, Financial Resources, Impact.

INRODUCTION

In this complexity of the world, it’s quite hard and very relevant to measure the level of their success or the firm’s performance. Recently, finding the research about export performance, it’s easier because now exists many researchers on exporting development and exporting performance because export is becoming an excellent way to relate and develop the economy. Measuring export performance varies from different perspectives as an industry, size of the firms, financial terms, strategic, satisfaction, profitability, revenue and growth.

As well as, only one indicator cannot measure export performance, found that export performance is multidimensional structure, related with three main areas such as external factors, the characteristics of a firm and the strategy Azzi da Silva & Rocha (2001). Some researchers underlined that definition about export performance should be consistent in general with the performance of firm based on this fact, and if firms use sales growth as performance measure export sales, it has affected from export sales.

THEORY AND LITERATURE REVIEW

Determining factors about export performance, needs to have a broad construction and also multidimensional conceptualization that include external and internal factors, that can be measured in some different ways: financially based on financial performance, economically-export market share and strategically, strategic performance, achievement of objectives, satisfaction with overall performance of organization Grandinetti & Mason (2012); Lages (2005).

Strategic performance can be measured by the participation of export in market share and be competitive in export markets. In financial terms, one way for measuring performance is to calculate the percentage of commodities in the total sale, through satisfaction with operators in foreign markets and also perceiving export success Cavusgil & Zou (1994). In one study done by British firms during 1993-2003, Greenaway, Guariliga & Kneller (2007) founded that export-promoting policies could be useful for exporting firms that indicate increasing productivity and investment, resulting with the relationship between the performance of firms during participating in foreign markets. These activities help mostly SMEs that have limited funds. Another research study by Portuguese firm exporters concluded that exports have positive effects on firm financial performance in this way these firms are more prepared increasing finance dependence through improving the ability to obtain this financing Silva (2012). The research with the Czech Republic of exporter firms concluded that using export assistance from governmental and non-governmental agencies positively contribute to the performance of the company, especially encourage firms to invest in new programs and also continue investing in existence programs Manole & Spatarenau (2010).

The different author continuously argues the role of financial resources, starting from the Schumpeter (1934) on innovation, the more significant innovation in firms is as a result of higher level financial resources, and this economic system helps improves the degree of change and enhancing firm's innovative level. Also, learning about strategies and entrepreneurial and having a success of small firms needs to have a considerable financial resources Wiklund & Shepherd (2005). It is well known that financial resources are a broader concept and essential and fundamental reasons when firms are approaching international markets. During this process firms must have more knowledge about different risks, payoffs, currency fluctuations; delays in payments, all these characteristics may lead the organization to be more competitive, more innovative and more adaptive with the change to the international markets Bell (1997). The literature findings point to the conclusion commercial construction is as a barrier to export participation, and also these financial sources increase the probability for different linkages with new cooperation's. This part analyses the link between export behaviors that lead to increasing export performance and commercial sources. In this part when we said export behavior we refer regarding export participation in total sales. From the literature review, we found that financial sources can play one of the essential roles in the export behavior Manova (2008). When we are studying financial resources, it must separate them in main tow groups: internal and external financing sources. In the international market, financial support it seems to be the fundamental resource of exporting SMEs and allow them to create an effective competition related to specific resources. About this importance Borch et al. (1999) said that financial resources are essential elements, based on the strategies and resources for SMEs. These financial resources indicate on the better financing of production that leads to exports, from this to get better finance in advance known as return on investment, classically it has been called as leverage or Theory of Capital Structure, from Modigiliani & Miller (1963). In literature, we find that level of financial development often called as comparative advantage, may influence international trade flows Beck (2003). Countries that have more developed financial institution tend to be more comparative especially in external finance. To illustrate this issue of study, we based on the

Kosovo case, their level of economic development of small and medium enterprises. The banking sector is regarded as the most successful sector with substantial and qualitative increasing. Kosovo despite the liquidity of commercial banks, which remain as the only financial instruments, for development, for the market still provides loans expensive. According to the Central Bank of Kosovo, taking into account, the banking sector in 2010 has managed to the annual growth of 11.4 percent, reaching its assets about 2.5 billion Euros. The total value of loans to the banking sector was 1.5 billion euro, which represents an annual increase of 13.2 percent. In general terms, loans have the following composition, for manufacturing enterprises credit represent 12.3 percent and construction loans to enterprises 10.6 percent, while credit that dominates financial participation is 50.8 percent of total loans to enterprises in general. Although the banking sector is a success story, continued credit growth, there is little evidence that banks are lending to stimulate the SME.

Kosovo enterprises still have the orientation as the only source for business growth in credit access; despite the high rate of interest is something that still provides banks that most of the profit from deposits. In recent studies, there are several studies and new theories that explain about structure capital, financing by debt capital and equity as a function of various costs and benefits, method of agency, the Pecking Order Theory, Credit Rationing Theory Myers (1977), Stiglitz & Weiss (1981); Myers & Majluf (1984). According to the Pecking Order Theory, exporter firms prefer to have the more internal source of financing then external debt, but exporter firms based on growth strategies could expect the need for foreign equity capital as the last resource. According to the report of OECD (2006), many SMEs, especially exporter firms, in many countries are facing with obstacles in accessing to external finance, or even if they have, they have limited access to this finance. For new exporter firms, it’s quite challenging because the OECD reports that one of the main factors for internationalizing depends on available financing, because owners, even personal or private sources are limited, the only way to access in crediting are banks and trade credits for financing Bartholdy & Mateus (2008). Beck et al., (2008), Riding (2012) examined the external financial source, by domestic or foreign banks debt, leasing, equity, supplier credit or informal sources and based on their findings also indicate that firm’s oriented exporters are more likely to apply for financial capital. The most typical sources of finance used by small firms that are growing up based on short and intermediate term financial institution loans. Taking into consideration medium-sized and large firms, most time using medium terms debt and public debt. All of these results about financial sources fit with findings of Tannous (1997) that stress all these needs about financial sources depends on which stage are exporting firms. It's entirely understandable that large firms that have development export activity require significant investments in working capital, associated with higher risk of payment from that flow from the lack of international experience make export activities more complicated in general. In those cases, the best sources of credit for SMEs remain banks. The financial crisis of 2008, indicate to SMEs and credit risk becomes more of an obstacle. Why these credit risks become more obstacles especially for exporter firms, that have developed trade in other countries, because these firms involve aspects of uncertainty more than domestic firms, some of these exporter firms restarted to use trade finance instruments. When this credit risk is growing up, IMF (2011) refers using the letter of credit to be more secure, especially for large transactions between supplier and customer all over the world, trade credit, export credit insurance, etc.

Based on working capital, more capacity for exporting products, to manufacture goods, running the export business it is quite understandable and reasonable why these firms need to have more resources. According to the working capital varies from firm to firm and also differ from industries Berk & DeMarzo (2011). Many studies explain how trade finance effects on their trade sales and number of exporters, based on their financing needs provided by banks and credit insurance by insurance companies. Also, exporters can benefit from the discount a trade receivable on the term of a draft for payment. Achieving sustainable economic growth, improving balance payment, employment rate, trade deficit and standard of living, export is an essential step on the way to making these objectives. Exporting is an indicator that has a contributing to national economic growth. Development and improvement of export performance, it's possible to rise through understanding export precursor and determinants of export. Moreover, the new technological environment, developing high-speed globalization market, new rules of government, is becoming increasingly difficult for SMEs to be part of this export market and foreign competition.

The level of trading, including several aspects of firms as meeting international trade requirements, exports will determine the export performance levels. Some economies are encouraged to export their products that is based on export improvement Czinkota & Griffith (2012), also creating job opportunities, increase and develop productivity for domestic industries. There are several determinants of export performance in Small and Medium Enterprises (SMEs), based on earlier studies about export performance Maurel (2007) categorized the determinants of export performance in these groups: external determinants, internal determinants, and strategy-related determinants. The result of the empirical study in French wine companies shows that effective business management structure, innovation and well-developed and organized relationship with partners have a significant positive relationship with export performance (based on revenues of firms during the years). A study that addresses export performance and competitive advantage in a Chinese context supports that there is a positive impact that exporting financing resources has on superior export performance and competitive advantage. From this study it seems a positive influence of export performance of SMEs and financial structure, this is because the improvement of export performance and integration of the company internationally is affected importantly if they can make investments. Considerable firms have limited financial resources, as self-financing as internal resources, debt and financial markets as external resources are the major sources of business financing LeCornu et al., (1996). Lack financial resources can constitute in serious barriers to the firms that are on the way of international development; it appears as the limitation in making an important investment that will develop their performance on exporting. Self-financing is the first idea of any business entrepreneur, followed by debt, and resort lastly to obtain financial support from external investors Calof (1985). According to the Pecking Order Theory, Myers & Majluf (1984), that supports an idea to take control of their business as much as possible. It is not the most optimal and profitable choice but makes the company has additional resources that are limited as a result of external resources. Debt as financial resources is the most popular and riskier that company uses to balance their interest in investment. If firms based most of the investment on debt, the probability of bankruptcy is higher, even though this external financing is necessary for companies, to be the smart new investment, innovative products, and services and thrive. Except this in the way of financing firms have financial gaps, that could limit a company's investment capabilities and cost them profitable projects by stifling funding. The financial system, including the allocation of capital and efficiency, varies considerably across the regions and countries. Different industries, countries, and enterprises experience setbacks due to a financial crisis that took place as a result of heterogeneity. Comparing small companies with bigger ones, the lack of capital of financial planning, using information from different ratio explaining the poor credit and debts constitute obstacles of export performance. Most of the SMEs, in the beginning, have been experiencing a lot of difficulties, such as lack of financial capital. Even so, this would have a significant impact on their strategy, marketing and export performance as a way of finding new sales and become the new competitor in a foreign market. During the enterprise policy, it is essential to understand the extent of nature of financing issues, financial mechanisms as debt and collateral constraint, faced by some enterprises and industries, and their indication on growth and investment Siedschlag et al., (2014). According to Siedschlag et al. (2014) study about the financial constraints, especially on external financing as one way of steady growth, focuses on policy-relevant issues related to access external financing. The analysis contained itself relevant theoretical and empirical research that inform policy measures and instruments to assist SMEs in obtaining access to external financing resources and support enterprise growth. It provides a broad, wide-ranging review of the nature and extent of financing constraints. This research focused on some issue as what types of financial sources are used mostly by SMEs, this external financing impacting on firm's decision including investment, productivity, and sales or exporting, what are the main constraints of accessing to external financing. From this analysis on supporting and assisting the SMEs, what policy recommendations could be drawn to have the impact on firm growth? From the analysis Siedschlag, et al., (2014) can conclude the main findings as; firstly financial gap occurs as result of some major factors including complexity of financial life cycle, cost of a transaction, and uncertainty in high rate. Theory and empirical evidence suggest these market failures are more likely seen in the following situations. In a very early stage of project financing cycle, internal fund are low, collateral of the firm is low, an uncertainty of project success is high, asymmetries of information between the lenders and borrows are great and some other issues. Form this research it is quite known that accessing to finance or this financial gap occurs when feasible projects could not be financed due to disadvantages of financial markets. Siedschlag, et al. (2014) further stated in some conclusions as: For European SMEs, the most relevant source of funding is bank financing including the loan and working capital, over 80 percent of firms indicate bank loans. Formal market financing is relevant for less than 30 percent, and for firms 16 percent. Credit trade of firms from banks is relevant for 64 percent and retained earnings are relevant only for 50 percent. For firms, it’s quite clear that as much they grow and developed financial instruments become more convenient, due to the fact the firms in the early lifecycle have less variety financing.

For policymakers would be a positive development to be deep and broad the range of option financial sources. Differences in financial markets divers a lot from firms as in the construction sectors or industrial firms or trade firms, services that are less diversified, regarding combinations between inputs and outputs. For instance, the retained earnings are less relevant for young firms and also for service firms, in some cases; some firms are very keen on to build up cash stocks when they have this available they are more likely to use them. Finally, Siedschlag et al. (2014) posited the following concerning the determinants of Financing Constraints - Evidence based on the SAFE Data Set: Investigation is found on actual and review constraints about the financial markets. Real financial restrictions have to do with credit rationed firms or rejected lenders/borrowers, and some of them that didn’t apply anywhere due to possible rejection and firms that do not accept the offer as the cost were too high.

A review constraint is being to be the most significant restriction of growth and development, as well. “*For firms that are credit rationed and discouraged, constraints decrease considerably with age, except firms aged less than two years which are less likely to be* *discouraged*". Discouraged borrowers are likely to be more familiar with this constrains decrease with size and age; however, they do not have any credit in differencing if they are small, medium or micro firms regarding loans and working capital. Related to trade facilities, there is no general effect of firm age, firm aged 2 to 5 are more likely to be rationed and discourages. Firms in the Eurozone are more constrained for trade applications than they are published. Based on research done by Capon et al., (1990) about the determinants of financial performance indicates that export, show a negative relationship with financial performance at the business level. Furthermore, a meta-analysis of these empirical studies suggests that economic performance is not related to export performance.

DISCUSSIONS AND FINDINGS

Based on these literature backgrounds on the financial resources as external determinants of export performance, we conclude that this factor has strong effect on export performance. During the literature review, we found different findings related to export performance, some of them found positive relationship, negative relationship while some others do not find any strong relationship.

Despite various research and studies related to determinants and export performance of SMEs, we can say that there is still a gap in this kind of research and more needs to be done.

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