

Does firm location influence the export performance of Australian SMEs?

Joanne Freeman, University of the Sunshine Coast

Meredith Lawley, University of the Sunshine Coast

Chris Styles, University of Sydney

Abstract

While improving the export performance of SMEs has been well researched, little research has investigated the differences in export performance of SMEs located in metropolitan areas compared to those in regional or more remote locations. The purpose of this research is to identify and analyse how location specific factors impact on a firm's export performance. The differences between SMEs in regional and metropolitan locations were investigated by way of a series of depth interviews with government experts as well as both metropolitan and regional exporters. Results indicate that the external operating environment in regional locations does present distinct challenges for SMEs and consequently location does matter.

Keywords: Export performance, firm location, SMEs, networks and clusters, competitive rivalry.

Does firm location influence the export performance of Australian SMEs?

Introduction

Due to the rapid globalisation of markets, the pace of technological change and the decline of government imposed barriers, it is increasingly difficult for domestic SMEs to isolate themselves from export markets and foreign competition (Andersson et al., 2004; Fillis, 2007). Estimates are that 99 percent of OECD enterprises are SMEs, hence a significant contributor to world trade (Organisation for Economic Co-operation and Development, 2010). The significance of SMEs to job creation, technological innovation and economic rejuvenation is well recognised (Westhead et al., 2002; Westhead et al., 2004b; Yeoh, 1994). Globalisation of markets has seen more SMEs pursuing opportunities in international markets (Knight, 2000). The contribution that a viable, outward looking, SME business sector can make to a national economy, in employment and the flow on effects from trade is substantial (Nakos et al., 1998; Westhead et al., 2004b) and so it is important that the factors that impact on SMEs export performance be considered. More specifically, improving the export performance of SMEs in regional locations has become important to governments and researchers alike (Department of Transport and Regional Services, 2003; MacGregor and Varazalic, 2005). It has been argued that the solution to reinvigorating the economy in remote locations is to stimulate the growth of existing small businesses through exporting (Larsson et al., 2003; Vatne, 1995). While the overall importance of exporting is acknowledged (Katsikeas and Skarmeas, 2003; Morgan et al., 2004), the differences between regional and metropolitan exporters have received little attention (Katsikeas et al., 2005). This research therefore takes up the challenge highlighted by Mittelstaedt, Ward and Nowlin (2006) who suggest that further research is required on the effects of location on a firm's export performance.

In Australia, regional SMEs are growing more slowly than metropolitan SMEs and on average are half as profitable as their metropolitan counterparts (Department of Transport and Regional Services, 2003). In addition, people living in metropolitan areas on average enjoy higher incomes than people living in the regions and this gap is increasing (Lloyd et al., 2001). Yet regional business contributes 50 percent to the nations export income which implies that SME exporters have the potential to become a major contributor in developing regional economies (MacGregor and Varazalic, 2005). While a significant portion of these earnings come from the mining and agricultural sectors (approximately \$55 billion), regional manufacturing and services sectors are also significant regional contributors (approximately \$23 billion) (Department of Transport and Regional Services, 2003). Regional Australia can only survive with strong, growing businesses that in turn create strong, energetic regional communities and SMEs have been identified as the wealth generators and job providers for regional Australia (Department of Transport and Regional Services, 2003).

Although there has been much research on SMEs and export performance, these studies have not focused on SMEs located in regional areas. As globalisation will continue to impact on regional Australia, Gorton (1999) suggests evidence is required that focuses on how firms located in regional areas move into international markets. Past research fails to account for the environmental context of SMEs location and much research combines regional and metropolitan SMEs and does not distinguish based on firm location when exploring export performance (Westhead et al., 2004a). Hence, our research question is: Does location impact on the export performance of SMEs?

Location effects

The scarcity of empirical studies on the association between a firm's domestic location and export performance is surprising given the acknowledged importance of this relationship (Katsikeas et al., 2000; Mittelstaedt et al., 2006; Zahra et al., 1997). From a theoretical standpoint, the resource based view (RBV) of the firm provides an anchor for this investigation. The RBV maintains that a firm gains and ultimately sustains competitive advantage by having access to a stock of valuable heterogeneous resources and capabilities. Superior performance comes from strategies that exploit these assets (Barney et al., 2001). In the context of exporting, location can be viewed as an enabler of resource acquisition and capability development as it can provide advantages in one or more of the following areas (i) intense rivalry that leads to greater competitiveness, (ii) access to proactive networks and clusters that facilitate knowledge sharing and collaborative activities and (iii) accessibility to appropriate infrastructure services conducive to the flow and accumulation of knowledge, information and support systems (Bennett and Smith, 2002; Kalantaridis and Pheby, 1999; Mittelstaedt, Ward and Nowlin, 2006).

Intense rivalry

Porter (1997) and Zahra, Neubaum and Huse (1997) suggest that firms with dynamic domestic rivalry tend to perform better internationally. The likelihood of a firm surviving in a domestic niche can be determined by the intensity and strength of competition (Bennett and Smith, 2002; Westhead et al., 2001). Metropolitan areas attract more industry players, which makes the competition more intense inducing firms to be more dynamic and ultimately, successful (Phelps et al., 2001). Metropolitan exporters are more competitive than their regional counterparts due to environmental pressures of intense local competition (Westhead et al., 2004a). However, Bennett and Smith (2002) and Westhead, Wright and Ucbasaran (2004b) assert that competitive concentration has a very weak association with SME competitive advantage. Thus our first proposition is:

P₁: SME exporters in regional locations experience relatively low levels of competitive rivalry in their domestic market and this impedes export performance.

Access to networks and clusters

Inter-firm relationships or business networks include rapport with clients, suppliers and industry and government associations (Welch et al., 1998). For example, industry associations are more likely to be within close proximity to metropolitan exporters therefore providing access to cooperation and collaboration activities (Westhead et al., 2004a). Also, metropolitan areas attract clusters of firms in similar and supporting industries benefiting firms from knowledge spillovers and better equipping the SME to compete in overseas markets (Mittelstaedt et al., 2006; Vatne, 1995). There is growing evidence that few firms, specifically SMEs, can innovate in isolation compared to firms that engage in cooperation activities (Freel and Harrison, 2006; Wennberg and Lindqvist, 2010). Chetty and Holm (2000) and more recently Kocak and Edwards (2005) suggest that SME survival is dependent on a combination of collaboration, co-operation and alliances with industry, government and other SMEs. In fact, the sharing of information facilitates new product development enabling SMEs to compete more effectively in export markets (Dyer and Hatch, 2006; Gilmore et al., 2006). However Freel (2000) found disappointing levels of contact between firms and various information sources in his study of small UK manufacturing firms. Perhaps cooperation invested in these relationships for regional exporters could in fact expand the pool of inter-

firm knowledge sharing activities, production sharing and commercial business capabilities (Bosworth, 2009; Dyer and Hatch, 2006; Grimes et al., 2007). Hence our second proposition is:

P₂: SME exporters in regional locations experience relatively low access to industry networks and clusters and this impedes export performance.

Accessibility to appropriate infrastructure services

Metropolitan areas provide advantages to firms from which they can increase their export performance (Katsikeas et al., 2000; Mittelstaedt et al., 2006). Advantages include favourable supply side conditions, access to financial institutions, technology partners, specialised labour and infrastructure (Fuller-Love et al., 2006; Keeble, 1997; Westhead et al., 2004b). In addition government assistance is more accessible (Bennett and Smith, 2002). North and Smallbone (2000) argue that SMEs in regional locations with poorly developed infrastructure/services will tend to be less innovative or less inclined to develop export markets than their metropolitan counterparts. Further, Mariotti and Piscitello (2001) found that the location's infrastructure and accessible resources or strong external scale economies are a strong predictor of a firm's ability to develop export markets. Developing distribution strategies is more complex for regional exporters due to the time and distance required to complete the transaction (Albaum et al., 2005; Leonidou, 2004). Transport and freight related constraints have also been cited as severe challenges for exporting firms (Aaby and Slater, 1989; Hart and McGuinness, 2003; Morgan and Katsikeas, 1997). A study of SMEs in regional Victoria concluded that 50 percent of exporters considered the cost of domestic freight a major hindrance to SMEs (Alam, 2004). Consequently location has predominately been explained by propensity to export and not the influence on a firm's export performance. Our final proposition therefore is:

P₃: SME exporters in regional locations have relatively low levels of access to appropriate infrastructure services and this impedes export performance.

Method

In this paper, we investigate the role of location on a SME's export performance. We take an exploratory approach to this investigation, using qualitative methods, firstly by conducting seven in-depth interviews with Australian state and federal government representatives directly working with Australian exporters (located in metropolitan and regional areas), followed by in-depth interviews with six current SME exporters (3 metropolitan exporters and 3 regional exporters).

Discussion of Results

Government experts were asked what effect, if any, location had on a firm's export performance generally, looking at a firm's proximity to various services and other firms in the same industry. Table 1 shows that five respondents felt that exporters located in regional areas were disadvantaged due to the lack of access to government services. *TradeStart initiative helps take information to regional businesses but it is still a 2 or 3 hour drive to access an export advisor (Gov1) or as Gov5 indicated if located in Central Queensland it could be in fact up to seven hours travel time to meet with clients for a face-to-face meeting.* There was also support for lack of access to international banking, logistic and legal services but only in more remote regions. *To get the best advice on international contracts and international finance is a huge issue for SMEs.... many banks have international offices but not in regional*

areas (Gov1). Also Gov5 added, *if an exporter is located west of Charters Towers who needs an AQIS inspection ... it costs the exporter more to get a quarantine inspector due to distance from the nearest centre. The main advantage for metropolitan exporters is the transport availability (Gov3).*

Table 1 Location effects – government respondents

Does the location of exporting firms have an impact on their ability to increase their export performance?	Gov 1	Gov 2	Gov 3	Gov 4	Gov 5	Gov 6	Gov 7	Combined Support
Accessibility to appropriate infrastructure services	S	NS	NS	W	S	S	S	M
Access to networks and clusters	NS	M	M	W	NS	S	NS	W
Intense competitive rivalry	NS	NS	NS	NS	NS	NS	NS	NS
S = Strong Support, M = Medium Support, W = Weak Support, NS = No Support								

Further, Gov1 mentioned the lack of international legal expertise was a challenge for regional exporters. Export advisors located in more remote regions placed importance on face-to-face delivery of banking and government services. *SMEs don't go looking for support and advice in major cities, they go looking for support and advice locally ... they won't talk to a bank over the phone therefore uninformed decisions are made and firms get into trouble (Gov1). The culture in regional Queensland is that they like to speak face-to-face with you. It is difficult when you have to travel seven hours for a meeting ... most of the service is provided over the phone unlike the services an exporter can access in the city (Gov5). Gov5 summed up by stating there is not nearly as much access and availability of information for regional exporters as there are for exporters in metropolitan locations.* Finally, in relation to participation in business networks, two case studies suggested that the main advantage of being involved in networks was exposure to industry leaders and peers. *Companies like to learn from their peers (Gov2). In Gladstone and Mackay some networks work well but still need industry champions (Gov3).* One export advisor (Gov6) operating offshore felt that regional exporters were clearly disadvantaged as *SME regional businesses do not get the opportunities given to them as buyers and government representatives do not come to regional locations – very limiting factor and affects their thinking - think more about bricks and mortar than other market entry opportunities like selling IP offshore.* It must be noted that only one export advisor (Gov4) discussed the competitive environment however within an international context. *I think my clients find it most challenging coming to terms with the levels of competition and find it difficult to understand why customers are not falling over themselves to buy their product.*

Exporters were asked whether firm location impacts on their export performance (Table 2). This question generated the most interest from regional exporters. All exporters with the exception of Ind4 (new exporter) cited networks as important to their export development. *I am involved with industry organisations ... absolutely vital to my business. I stepped back from networking and my business suffered for two years (Ind3).* Whereas Ind6 attend industry network functions as professional development activities for their staff. Regional exporters suggested that network participation was important however due to travel time restraints they were not generally able to attend. *We get invited to a few things but driving down to Brisbane to attend workshops/seminars takes a lot of time out of our production day therefore we don't go (Ind1).* Or as Ind2 points out *we tend to find that the best events run by government are in Brisbane so that all takes time – the whole day.* Also Ind5 suggested *that an exporter's network would be useful to bring fresh blood and ideas to the network.* Regional exporters also supported strongly the challenges of freight solutions in more remote locations. *Being in Maleny is difficult because we find that freight companies do not like to come up the hill just*

to pick up our product They will only come up once a week (Ind1). Also Ind2 added to get a container from the Sunshine Coast to the Port of Brisbane for export can cost you another \$500.00 ... its very expensive. It's also not very regular. Ind5 felt that higher freight costs meant that our main competitor had a competitive advantage over us as they can get product to market much quicker than us.

Table 2 Location effects - exporters

Does location of your firm have an impact on your ability to increase your export performance?	Ind 1	Ind 2	Ind 3	Ind 4	Ind 5	Ind 6	Combined Support
Access to networks and clusters	S	S	S	NS	M	M	M
Accessibility to appropriate infrastructure services	S	S	NS	NS	S	M	M
Intense competitive rivalry	S	S	W	W	NS	NS	W
S = Strong Support, M = Medium Support, W = Weak Support, NS = No Support							

Finally, respondents were asked if the local competitive environment had an influence on their export performance. All respondents except Ind5, agreed that the existence of competition in their local area did in fact have a positive impact on their firm's export success or a firm's decision to export. Ind2 pointed out that *local competition only makes us more determined to succeed*. Further Ind1 stated, *we don't find competitors a problem as the markets they target aren't necessarily the same markets as ours. Some competitors are quite helpful with information with regards to exporting and giving advice*, which is contrary perhaps to Porter (1997) who argues that firms with dynamic domestic rivalry tend to be more aggressive and perform better internationally. However, Ind5 believed *that being such a small industry, if we were close to competitors I would suspect that a lot of head hunting would occur which would be detrimental to all businesses concerned*.

Conclusions and Implications

Our propositions suggested that the export performance of SME exporters in regional locations would be influenced by the level of competitive rivalry (P₁), access to networks and clusters (P₂) and thirdly their accessibility to appropriate infrastructure services (P₃). Only one study to date by Zahra, Neubaum and Huse (1997) has in fact explored the association of a firm's domestic location and export performance which reported a positive and significant result. This finding supports the comments from the majority of case studies where there was a high level of local competition which served as a driver for increased export performance. However the importance of networks particularly involving other exporters, was strongly advocated by regional exporters. Once established, SMEs can leverage off these networks to: (i) facilitate new market opportunities, (ii) access to up to date market information, and (iii) develop links with other potentially useful industry players who are connected to other industry. SMEs therefore should be encouraged to actively participate in relevant public and private sector networking associations and consequently explore and develop links with potentially useful market players such as competitors, intermediaries and suppliers. The data also highlighted the lack of access to various export related services and infrastructure as an impediment to success. These results support the argument that the external operating environment in regional locations presents distinct challenges for SMEs. Firms seem to benefit from being located in metropolitan areas. Consistent with the RBV, location appears to be an enabler (or impediment) to access to resources and the development of capabilities which in turn impact performance.

References

- Aaby, N., Slater, S., 1989. Management Influences on Export Performance: A Review of the Empirical Literature 1978-88. *International Marketing Review* 6(4), 7-27.
- Alam, Q., Export capability of small and medium enterprises (SMEs) - a study of north-central Victoria. Monash University, 2004.
- Albaum, G., Duerr, E., Strandskov, J., 2005. *International Marketing and Export Management*, Prentice Hall, London.
- Andersson, S., Gabrielsson, J., Wictor, I., 2004. International Activities in Small Firms: Examining Factors Influencing the Internationalization and Export Growth of Small Firms. *Canadian Journal of Administrative Sciences* 21(1), 22-34.
- Barney, J., Wright, M., Ketchen, D., 2001. The resource-based view of the firm: ten years after 1991. *Journal of Management* 27(6), 625-641.
- Bennett, R., Smith, C., 2002. Competitive conditions, competitive advantage and the location of SMEs. *Journal of Small Business and Enterprise Development* 9(1), 73-86.
- Bosworth, 2009. Education, mobility and rural business development. *Journal of Small Business and Enterprise Development* 16(4), 660-677.
- Department of Transport and Regional Services, *Regional Business - A Plan for Action*. report prepared by John Keniry, Aivars Blums, Edward Notter, Elspeth Radford and Sally Thomson, Department of Transport and Regional Services, Canberra, 2003.
- Dyer, J., Hatch, N., 2006. Relation-specific capabilities and barriers to knowledge transfers: creating advantage through network relationships. *Strategic Management Journal* 27(8), 701-719.
- Fillis, I., 2007. A methodology for researching international entrepreneurship in SMEs. *Journal of Small Business and Enterprise Development* 14(1), 118-135.
- Freel, M., 2000. Barriers to product innovation in small manufacturing firms. *International Small Business Journal* 18(2), 60-80.
- Freel, M., Harrison, R., 2006. Innovation and cooperation in the small firm sector: evidence from Northern Britain. *Regional Studies* 40(4), 289-305.
- Fuller-Love, N., Midmore, P., Thomas, D., 2006. Entrepreneurship and rural economic development: a scenario analysis approach. *International Journal of Entrepreneurial Behaviour & Research* 12(5), 289-305.
- Gilmore, A., Carson, D., Rocks, S., 2006. Networking in SMEs: evaluating its contribution to marketing activity. *International Business Review* 15(278-293).
- Gorton, M., 1999. Spatial variations in markets served by UK-based small and medium-sized enterprises (SMEs). *Entrepreneurship and Regional Development* 11(1), 39-55.

- Grimes, A., Doole, I., Kitchen, P., 2007. Profiling the capabilities of SMEs to compete internationally. *Journal of Small Business and Enterprise Development* 13(1), 64-80.
- Hart, M., McGuinness, S., 2003. Small firm growth in the UK regions 1994 -1997: towards an explanatory framework. *Regional Studies* 37(2), 109-122.
- Katsikeas, C., Leonidou, L., Morgan, N., 2000. Firm-level export performance assessment: review, evaluation, and development. *Journal of the Academy of Marketing Science* 28(4), 493-511.
- Katsikeas, E., Skarmeas, D., 2003. Organisational and managerial drivers of effective export sales organisations. *European Journal of Marketing* 37(11/12), 1723-1745.
- Katsikeas, E., Theodosiou, M., Morgan, R., Papavassiliou, N., 2005. Export market expansion strategies of direct-selling small and medium-sized firms: implications for export sales management activities. *Journal of International Marketing* 13(2), 57-92.
- Keeble, D., 1997. Small firms, innovation and regional development in Britain in the 1990s. *Regional Studies* 31(3), 281-293.
- Knight, G., 2000. Entrepreneurship and marketing strategy: the SME under globalization. *Journal of International Marketing* 8(2), 12-32.
- Kocak, A., Edwards, V., 2005. Independence and co-operation among small businesses. *International Journal of Entrepreneurial Behaviour & Research* 11(3), 186-200.
- Larsson, E., Hedelin, L., Garling, T., 2003. Influence of expert advice on expansion goals of small businesses in rural Sweden. *Journal of Small Business Management* 41(2), 205-221.
- Leonidou, L., 2004. An Analysis of the Barriers Hindering Small Business Export Development. *Journal of Small Business Management* 42(3), 279-303.
- Lloyd, R., Harding, A., Hellwig, O., 2001. Regional Divide? A study of Income inequality in Australia. *Sustaining Regions* 1(1-14).
- MacGregor, R., Varazalic, L., 2005. A basic model of electronic commerce adoption barriers, a study of regional small businesses in Sweden and Australia. *Journal of Small Business and Enterprise Development* 12(4), 510-527.
- Mariotti, S., Piscitello, L., 2001. Localized capabilities and the internationalization of manufacturing activities by SMEs. *Entrepreneurship & Regional Development* 13(1), 65-80.
- Mittelstaedt, J., Ward, W., Nowlin, E., 2006. Location, industrial concentration and the propensity of small US firms to export. *International Marketing Review* 23(5), 486-503.
- Morgan, N., Kaleka, A., Katsikeas, C., 2004. Antecedents of Export Venture performance: a theoretical model and empirical assessment. *Journal of Marketing* 68(90-108).
- Morgan, R., Katsikeas, C., 1997. Obstacles to Export Initiation and Expansion. *International Journal of Management Science* 25(6), 677-70.

- Nakos, G., Brouthers, K., Brouthers, L., 1998. The impact of firm and managerial characteristics on small and medium-sized Greek firms' export performance. *Journal of Global Marketing* 11(4), 23-47.
- North, D., Smallbone, D., 2000. The innovativeness and growth of rural SMEs during the 1990s. *Regional Studies* 34(2), 145-157.
- Organisation for Economic Co-operation and Development, SMEs, Entrepreneurship and Innovation. OECD Publishing, 2010.
- Phelps, N., Fallon, R., Williams, C., 2001. Small firms, borrowed size and the urban-rural shift. *Regional Studies* 35(7), 613-624.
- Porter, M., 1997. Creating Advantages. *Executive Excellence* 16(11), 13-14.
- Vatne, E., 1995. Local resource mobilisation and internationalisation strategies in small and medium sized enterprises. *Environment and Planning* 27(63-80).
- Welch, D., Welch, L., Young, L., Wilkinson, I., 1998. The importance of networks in export promotion: policy issues. *Journal of International Marketing* 6(4), 66-82.
- Wennberg, K., Lindqvist, G., 2010. The effect of clusters on the survival and performance of new firms. *Small Business Economics* 34(3), 221-241.
- Westhead, P., Binks, M., Ucbasaran, D., Wright, M., 2002. Internationalization of SMEs: a research note. *Journal of Small Business and Enterprise Development* 9(1), 38-48.
- Westhead, P., Ucbasaran, D., Binks, M., 2004a. Internationalization strategies selected by established rural and urban SMEs. *Journal of Small Business and Enterprise Development* 11(1), 8-22.
- Westhead, P., Wright, M., Ucbasaran, D., 2001. The internationalization of new and small firms: a resource-based view. *Journal of Business Venturing* 16(4), 333-358.
- Westhead, P., Wright, M., Ucbasaran, D., 2004b. Internationalization of private firms: environmental turbulence and organizational strategies and resources. *Entrepreneurship & Regional Development* 16(6), 501-522.
- Yeoh, P., 1994. Entrepreneurship and Export Performance. *Advances in International Marketing* 6(43-68).
- Zahra, S., Neubaum, D., Huse, M., 1997. The effect of the environment on export performance among telecommunications new ventures. *Entrepreneurship Theory and Practice* 22(1), 25-47.