

**EXPORT CAPABILITY OF SMALL AND MEDIUM
ENTERPRISES (SMEs) - A STUDY OF NORTH-CENTRAL
VICTORIA**

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Abstract

This paper explores factors in the capability of exporting firms in regional Victoria. Starting from the premise that the globalization of business will require many more Australian firms to engage with the challenges and opportunities presented by overseas markets, the author first look briefly at the reasons for the changes in the pattern of Australia's overseas trade, and some of the particular implications for regional business. The results of a broad survey of export circumstances and practice are presented in an investigation which covers reasons for exporting, organisation of export activities, level of competency, market entry strategies, skills, information gathering, government support, and location. The study finds that most regional exporters are not aware of the full range of export opportunities open to them, and for a complex set of reasons cannot fully exploit those opportunities of which they are aware.

EXPORT CAPABILITY OF SMALL AND MEDIUM ENTERPRISES (SMEs) - A STUDY OF NORTH-CENTRAL VICTORIA

INTRODUCTION

Regional firms increasingly need to seek competitive advantages across national borders in order to sustain their existence. They are faced with pressures to reduce production costs, increase productivity, and become more knowledge-intensive. Globalisation has created greater incentives and opportunities to access overseas markets and knowledge sources in order to build lasting competitive advantage and to support continuous innovation. Australian Industry Group (AIG) (2002) indicated that there were untapped potential for small and medium exporting firms to build export markets. Dusevic (1990) suggested that Australia is lagging well behind its major trading in marketing. Australia was seen to have with a perception of weak marketing orientation, inferior product quality and design and poor delivery and after sales service. From the earliest years of settlement in Australia, the prosperity of the regions seemed to be assured through the export of wool, dairy and other agricultural produce, and mineral resources. For these there was a ready market in Britain, and later other countries in Europe and North America. Until the 1970s, Australia's role in international commerce seemed secure as a provider of goods 'from the quarry and the farm', many of them under the terms of the preference scheme which placed Australian goods at an advantage within countries of the British Commonwealth.

Yet substantial changes were beginning to take place in the international economy. The decline of Britain and its accession to the European Common Market in 1973 ended preferential treatment for Australian goods and changed British patterns of purchasing. The emergence of Japan and other newly vibrant economies in the Asia Pacific region, especially Hong Kong, Singapore, Taiwan and South Korea, and most recently China, offered new potential markets and new challenges. The revolution in communications and information technology over the past twenty years has increased the pace and scope of international business exponentially.

For Australia's regions, the conditions and context of business have changed out of all recognition. In their traditional export sectors, agriculture and mining, the destination of exports has shifted substantially to embrace countries in Asia which were not previously significant customers, while multinational corporations have invested in or otherwise become more closely involved with the business process. The traditional export sectors have continued to thrive, but the knowledge of global trends and forces which even Australian primary producers must now have in order to succeed in much more competitive overseas markets is without precedent.

Small and medium enterprises in Australia's regions are seriously threatened by processes of structural change and intensifying competition. The principal reasons for their vulnerability have been shown to be: (a) that ownership of small businesses is restricted to a small number of individuals who are often related by ties of friendship or family; (b) that small businesses are often managed by owners, or part-owners, rather than by professional managers; (c) that small businesses have rudimentary management structures, with few specialised management functions; (d) that most firms operate in one location only; and (e) that they tend to have limited market power (Productivity Commission, 1999). These firms tend to be less aware of environmental externalities and of legislation that affects their activities. As a result of these features regional exporting firms find it difficult to internationalise their business.

Regional exporting firms are faced with pressures to reduce production costs, increase productivity, and become more knowledge-intensive (Productivity Commission, 2002). Globalization has created greater incentives to access overseas markets and knowledge sources in order to build lasting competitive advantage, and to support the continuous innovation, which has become necessary to survival. Lower tariffs on inputs and domestic economic reforms enabled many rural firms in food and food processing to increase their competitiveness and exports (DFAT, 2001). Within central and northern Victoria, there are manufacturing industries

concerned with food processing, textiles and textile products, motor vehicle components, and high-tech engineering. Large tracts of land are given over to agricultural production of various kinds, including wine, poultry, fruit, flowers and vegetables. Throughout the region there is a range of wholesale and retail, financial and business services. The business of the region is diverse and complex. To become successful in the different export sectors, firms need to attain comprehensive knowledge on the international markets they are targeting.

THEORETICAL FRAMEWORK

Small and medium exporting enterprises aspiring to increase export performance are required to gain capability to capture the diversity of foreign markets. Capabilities such as ability to support growth, devise appropriate strategy and build intangible skills and effective use of factor conditions may assist businesses to reduce costs of production and add value creating features. Entry mode decision stands at the centre of exporting SMEs sustainability. Product-diversification-based approach explains how business can improve performance by pursuing different modes of market entry for geographical dispersion (Rumelt, 1974, Kim et al, 1993, and Lewis and Minchev, 2000). Businesses need to have intangible assets such as technological know-how, brand names, economies of scope, understanding of investment opportunities and lower factor costs to ensure high level of profitability (Grant, 1987 and Kim et al, 1993). Bartlett and Ghosal (1989) suggest that managers' ability to understand diversity in the export markets and devising appropriate strategy is an organisational capability. Businesses do not always need to pursue the traditional internationalisation approach to compete internationally. Williamson (1979), Casson (1976) Dunning (1977) and Hennart (1982) suggest that internationalisation can be widened by incorporating a range of intermediate forms of overseas involvement such as alliances and long-term contracting. Dunning's (1990) 'Eclectic Theory' explains how ownership, location and internalisation process play a critical role in business success. Exporting businesses should have competencies in terms of understanding the language, culture and market information so that they can acquire transaction specific tangible and intangible assets. Markets sometimes fail to correctly value firm specific advantages of businesses. In that circumstance businesses can use organisational capability to go international to appropriate the benefits from firm specific tangible and intangible assets either through licensing, franchising or strategic alliance (Nicholas and Maitland, 1998).

Knowledge, experience, ability to use economies of scope and location factors play significant role for businesses to choose different market entry choices and forms (Hennart and Park 1993, Hennart, 1991 and Kogut, 1988). Andersson and Svensson (1994) argue that firms with organisation and technological skills are better positioned to pursue entry modes other than direct exporting. The organisational capability provides a knowledge platform to businesses to understand the dynamics of international involvement process (Kogut and Zander, 1993). Market specific knowledge can help businesses to skip the sequential process of stages of overseas involvement (Millington and Bayliss, 1990). Dunning (1977), Buckley and Casson (1976) argue that firms require internal resource-based value adding capability to transfer competitive advantages into successful international business operations.

Export performance depends on how an enterprise as a value adding unit engages in a series of transformation functions in a cost effective way. Internal capabilities can be used as factors to reduce transaction costs. It is important in a 'knowledge-intensive and alliance-based' global economy as the market itself can not undertake the transformation functions (Dunning, 2003). Porter's (1998) theory of competitive advantage suggests that locational factor conditions can provide competitive edge to businesses if that could be used to increase business competitiveness. Peteraf,(1993) also states that resource-based approach provides an analytical framework to examine export capability as it focuses on firms competing on the basis of capabilities and resources. Nicholas and Maitland (1998) suggest how capabilities could be created in a competitive external environment and used as a platform for future growth. The above

discussion suggests that firm-specific capability can assist businesses to enter new markets or use various modes of market entry.

Australian exporting SMEs mainly use exporting as a market entry strategy. Regional manufacturers selling product overseas find the market conditions different from those in the established domestic market. In the Asia Pacific region especially, orders may fluctuate substantially in size from year to year, posing a challenge to regional manufacturers in their operations management. If regional firms are to respond effectively to these export opportunities and cultivate overseas markets they must develop strategies to achieve operational flexibility, and adjust their output to meet specific modifications and quantities requested.

This paper addresses the critical question of how regional SMEs can attain organisational capability to succeed in the intensely competitive global market. The issues discussed in this paper are: (1) what organisational capabilities do the regional exporting firms in Victoria have to internationalise them? (2) Why do many firms have not been able to differentiate products to respond to changes taking place in the composition of international demand structure? (3) What level of competencies, knowledge base and technology do these firms use in repositioning themselves in the new internationalised economy? An analysis of these questions will help to determine whether regional exporting firms have the organisational capability to manage the transition needed for survival in the new era of heightened global competition.

RESEARCH METHODOLOGY

Following a comprehensive review of the literature, the data available from government statistics and through local business promotion agencies and organizations were used to identify a cross-section of exporting firms in the region. The region being addressed is central Victoria, covering Bendigo, Echuca, Shepparton and surrounding areas.

A questionnaire was devised and sent to a sample of 80 of these firms. The questionnaire has several sections with specific questions about aspects of their exporting practice. This questionnaire sought information about structure, competencies, product range, export market research capabilities, decision processes related to the export function, the importance of government assistance in tackling export markets, payment difficulties and a variety of other factors impacting on their export performance. The information collected was later analysed using a statistical software package (SPSS). In addition to the survey some exporters were subject to in-depth interviews. These interviews were carried out with the objective of gaining more detailed knowledge on their exporting performances.

The survey was sent to exporters in the north-central Victorian area. The majority of responses were received from exporters in the Bendigo area. A response rate of approximately 30% was achieved, with 25 out of 80 firms surveyed responding. The respondents represented a wide range of business activities, with no particular group being dominant. Businesses represented included primary production such as dairy products, beef and fruit & vegetables, information technology, food processing, metal products and textiles. The respondents came from varying size companies with 36% of the firms employing more than 40 people each. 48% of the respondents employed between 5 and 30 people and only 12% employed less than 5 people. 36% of the businesses were valued at less than \$1million and 20% were valued at more than \$20million.

RESEARCH FINDINGS

Reasons for Becoming an Exporting Firm

In an economy like that of Australia domestic demand for goods and services is limited. There is a need for firms to refocus business operations in order to look for new opportunities in overseas

markets. In responding to a question on what led the businesses to become export oriented, 24% of businesses have indicated that they are born global, 20% have stated that the domestic market is saturated and pushed them to become export focused, 48% have indicated that they think there are opportunities in the overseas market and 36% of businesses have become export oriented due to specific demands for Australian products.

Organisation of Export Activities

The survey results indicate that the regional firms responding only 20% have a formal export section charged with the task of managing and expanding export business. Some 12% have 'other' unspecified arrangements for dealing with exports, while in an overwhelming 68% of the exporting businesses responding the whole of the export effort devolves onto one person. This figure starkly illustrates the challenge facing regional exporting firms. Further figures indicate that 80% of firms with an export section have only from one to five people involved in export, 20% have between six and ten, and none have more than ten.

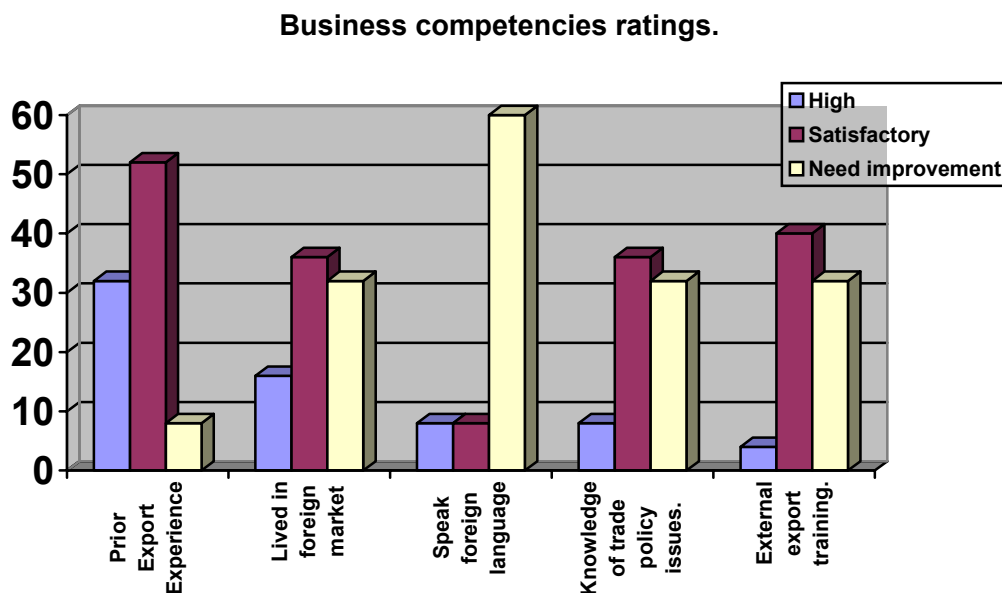
The way in which the regional firm's exporting function is organised can have a significant bearing on the efficiency with which that firm approaches its overseas markets. Larger firms commonly have an export section which will have established procedures for dealing with export enquiries, and may have built up over the years a fund of knowledge and experience which will help the firm to assess the significance and priority of particular export opportunities. Smaller firms, and many regional operations fall into this category, may have only one person who deals with export orders, in which case the exporting function may take on the character of a cottage industry, and may stand or fall on the capabilities of that one individual.

Participants were asked to identify what methods were used to market products and services overseas. 48% of the respondents said they used a distributor, 32% appointed an agent in the target market. However, 24% operated through an international trading company, 20% used an import/export company in the target market, and 20% sold directly to a retailer. Further to this, 44% used 'other' means. This shows that most regional firms are using more than one method in their attempts to break into the export markets. This would suggest that different techniques are being used dependent on what is appropriate for the targeted market.

Level of Competency

There are some important competencies that business should have to compete internationally and to make inroads in overseas markets. Prior export experience, and experience in living in a foreign market are valuable attributes. The ability of management to speak a foreign language, knowledge of trade policy issues specific to a target market and understanding of technical export related issues play a significant role in making businesses successful. The survey results indicate that 32% of businesses have a high level of prior export experience and 52% have a satisfactory level. 32% of businesses have indicated that there is a need to improve their first hand knowledge about the overseas market by visiting or living in those markets. Only 8% of businesses indicated that managers speak a foreign language, and 60% of businesses have no one who can speak a language other than English. About 44% of businesses suggested that they have a satisfactory level of understanding of trade policies, while 32% felt that there is a need for improvement. 24% of businesses offered no response. Only 4% of businesses indicated that they have a high level of competency in regard to export related matters, 40% indicated that they have a satisfactory level of understanding, and 32% of businesses suggested that they need training to have a better understanding of export related policies and practices.

Figure 1: Business Competency Rating



Current Export Markets

A shift in focus of Australia's export activity can be observed following the erosion of traditional markets in the 1970s, and the government policy of engagement with Australia's Asian neighbours from the late 1980s. Of the firms sampled, 72% indicated that they export to Southeast Asia, with 40% exporting to Japan, and 36% to the difficult Chinese market. As might be expected, a significant number, 52%, export to New Zealand, and 48% to the United States. Only 32%, export to any part of Europe.

These figures are very much to the credit of regional exporters, and show that despite language and cultural barriers, and the fact that they often do not have the in-house marketing capabilities of larger companies, regional firms have not been slow to take advantage of Asian markets. Australian businesses have the technical capability and managerial expertise to add new features to existing products to export. There is no indication that firms are complacent about the products which they presently export. The survey shows that 72% of those in the sample believe that they could, if the need arose, add new features to their products to follow trends in particular markets.

But it is important to note that 55% of businesses do not have a printed company profile. Only 45% of businesses have some form of company profile. Only 10% of businesses that have a company profile and other promotional material prepared this material in languages other than English.

Operations Management for Achieving Flexible Manufacturing for Export

In order to maintain successful export business, firms must be able to respond quickly and positively to changes in the scale of orders submitted by their customers. Of the firms surveyed, 84% indicated that they are able to respond to requirements that are larger than usual, while all showed an awareness of the need for a substantial degree of flexibility in this respect. Here, 52% of regional firms responding felt confident that they achieved designed quality levels for export goods all the time, while 32% believed they achieved them 'most of the time'. Only 12% showed rather less confidence on this matter, saying that 'not always' did their export goods attain designed quality levels. The level of technology used is quite satisfactory. Only 12% of businesses rely on technology introduced before 1992, while 40% of businesses have updated

their technology base in 2000. Due to competitive pressures businesses have been very alert to update the technology base. 68% of businesses under study have taken measures to maintain their technology advantage. 32% of those who have taken measures have done so through customer alliance, 24% through business alliance, 12% through technology transfer, and 36% responded that they used other means.

PROBLEMS AFFECTING EXPORT CAPABILITY

Transport and Freight Related Problems

Transport and freight related costs are causing concern for regional exporting firms. The survey data indicates that 50% of businesses consider that cost of international freight is a major hindrance, 38% of businesses suggested that cost of internal freight is a major problem, 29.4% of businesses feel that they have a major problem due to limited freight options from the point of production. On the other hand 70% of businesses believe that they have no problems in regard to provision of specialised freight facilities – for example 89% of fresh produce businesses find no problem in handling of fresh produce. 39% of businesses indicated that they have minor problems in regard to turnaround time at airports and ports.

Export Intelligence: researching overseas markets

The survey shows that a range of techniques is employed in the search for information about potential markets, many of them simultaneously. Most popular, with 76% of firms taking this approach, is the personal visit to the overseas market by export managers with a view to undertaking market research. Indicating the impact of information technology on regional firms as an 'equalizer' in their competition with larger metropolitan firms, the internet is consulted by 60% of firms responding, for overseas market information. Also used by 60% of respondents are the facilities and services of Austrade. A significant number, 56%, also consult conventional published sources. However only 16% would get in touch with the Victorian Government's Department of State and Regional Development, and only 8% would think of consulting the Commonwealth Government's Department of Foreign Affairs and Trade in their quest for market intelligence. Overall, it is clear that the personal visit to the market by a member of the firm's export team is by far the most common method used to undertake market research. Internal research, that is consultation of published and on-line sources of information was also used.

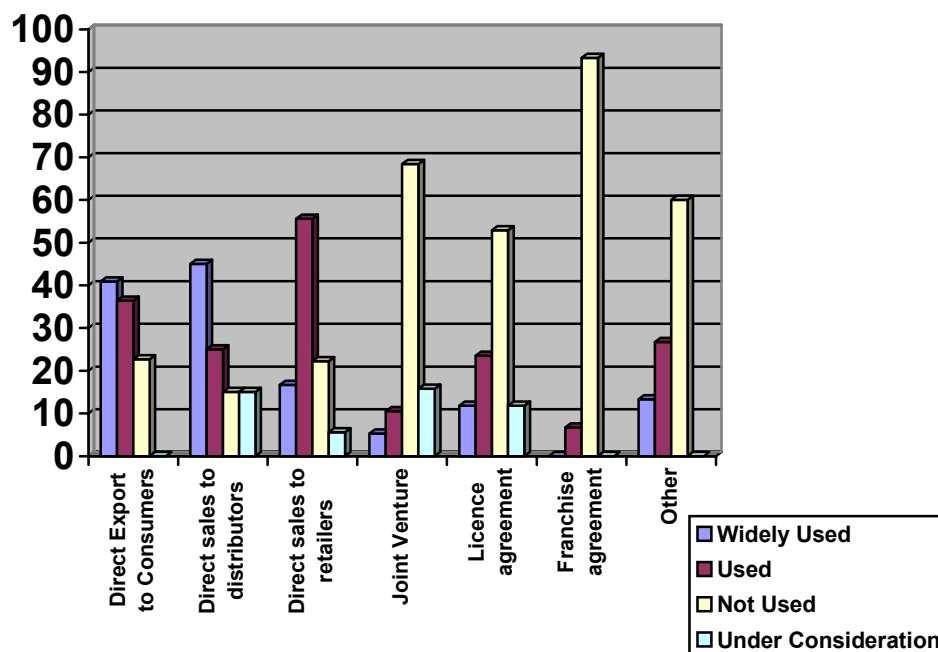
Australian exporting firms are under constant pressure from new competitors in their traditional markets. The EU is getting bigger and stronger, a new informal Asian regional block is emerging, and APEC is exploring new possibilities. Exporting firms require more forward looking policies to withstand these new pressures. A comprehensive understanding is needed of market size, pattern of market growth for existing and new products, changes in the distribution networks, needs for customised products, packaging and labelling requirements and legislative changes taking place in both the developed and transitional economies.

Specific questions were asked of the responding firms on how they gather information about export markets. 21.7% of the firms use internal research or sources to gather information about market size, 13% of businesses use Austrade trade fairs, and external consultants are used by 4.3% of businesses. Most firms use internal research in assessing market growth (33.3%), market distribution (22.7%), packaging requirements (40%), and environmental requirements (28.6%). Austrade trade fairs have been used in assessing the pattern of market growth by 19% of businesses, in gathering information about market competition by 12.5%, and to obtain information about customer needs by 8.7%. It is important to note that personal visits were used by 73.9% of businesses to gather information. Personal visits were used by 61% of respondents to collect information about market size, and 54.5% of them used visits to establish links with distribution networks. About 50% of businesses gathered information about packaging requirements of the export markets by personal visits.

Market Entry Strategies

It is argued that Australian businesses prefer direct export entry mode in their business expansion strategy. The survey results indicate that in 40.9% of businesses direct export to consumers was widely used, while another 36% sometimes used the direct export mode, in 45% distributors were widely used. Only 5.3% of businesses used joint ventures, and 11.8% of them used licensing. The results suggest that relatively few regional businesses have tried joint ventures, strategic alliances, franchising or licensing to internationalise their business operations.

Figure 2: Market Entry Strategies



Quality of market information

Apart from having specific knowledge about particular markets, how well informed are regional firms about a whole range of other issues and risks which impact on their exporting success. The survey explored their views on the extent and quality of information available to them on financial risks, economic and political conditions in the export market, transfer risks, buyer behaviour, exchange rate information, export documents, export insurance, forward exchange contracts, and services available from the various state and federal agencies. The results are indicated in the table below.

Table1: Knowledge Ratings

	Excellent	Very Good	Good	Fair	Poor
	%	%	%	%	%
Financial Risks	8.3	50.0	25.0	16.7	
Economic & Political Conditions	12.0	32.0	40.0	16.0	
Transfer Risks		33.3	28.6	28.6	9.5
Buyer Behaviour	12.5	29.2	41.7	16.7	
Exchange Rate Fluctuation	25.0	25.0	29.2	16.7	4.2
Export Documents	22.7	50.0	18.2	4.5	4.5
Export Insurance	18.2	36.4	27.3	9.1	9.1
Forward Exchange Contracts	20.0	30.0	15.0	15.0	20.0
State/Federal Agency Services		13.6	45.5	36.4	4.5

While regional firms surveyed appear to be most confident of their information on export documents, financial risks, export insurance, exchange rate fluctuations and forward exchange contracts, with over 58% saying that their information on these matters is 'excellent' or 'very good', it is most striking that they feel least well-informed about the services available to exporters from state and federal government agencies, with 40.9% saying that their information about these services is only 'fair' or 'poor'. This should be a matter of significant concern to these two levels of government.

Support from Government and Non-Government Programs

Following on from the findings indicated above with respect to the information available to firms about services available to exporters, it is appropriate to explore how effective firms which have used those services have found them to be. A range of Commonwealth, State and non-government services were listed, giving firms the opportunity to say whether they had found the particular services helpful or not.

Of all the services listed, Austrade scored the highest, with 60% of respondents indicating that they found the services provided by Austrade to be helpful or very helpful. Some 40% found the Export Market Development Grants provided by the Commonwealth Government to be helpful or very helpful, while next in line was the support provided by the overseas offices of the State Government at just over 21%, and the support given by the Australian Industry Group at 16.7%. This must be seen in the context, however, of the findings from a question that many businesses in fact do not know what services state or federal governments provide.

It appears many respondents simply did not know whether the services available to them were likely to be helpful or not. Thus, for example, leaving aside the Wheat Board, Meat Industry Board, and other very specific cases, almost 69% had no view and were apparently unaware of what Tradex has to offer, almost 56% were unaware of State Government export management and planning assistance, almost 54% did not know about State Government assistance in forming

export networks, while half did not know about State Government overseas trade missions or about assistance offered by the Commonwealth Department of Foreign Affairs and Trade.

Generally regional businesses, especially exporting firms, face some location specific disadvantages. Inadequate transport network, government support, access to supplies, lack of skilled labour, small size of the local economy and distance from major metropolitan areas constitute problems in regard to the intellectual and physical infrastructure. These problems are difficult to assess but businesses in the region have felt these infrastructure and support services are crucial for the sustainability of business.

DISCUSSION

Australian firms have mainly used a direct export strategy as the primary foreign-market entry mode. The use of other modes of international operation such as licensing, franchising, distribution networks, or cooperative networks is limited (Mahmood, 1997). Internationalisation solely through exports has not allowed firms to gain the benefits of other forms of market entry. There are clear indications that SMEs in Australia have been selective in going to foreign markets and have used a very concentric diversification strategy (Mortimer, 1997). Daley (2001), suggests that in Australia there are few companies that are able to use intangible assets in quality differentiated products. They do not have a broad understanding of the business cultures of different markets, and have not been able to see the opportunities available. Only a few small to medium Australian businesses have taken strategic moves to globalise. Of those that have, some have made attempts to internationalise by using a low-level multi-domestic strategy, establishing small overseas operations to “see how they go” (BRW, 25 September 2000). It is important that businesses explore other modes of market entry to increase their market involvement in the new markets. More information is required on how they are identifying the markets that they are targeting their goods to. Regional businesses need to work together to find a solution to high transportation costs. Because of lack of internationalisation, Australian intangible assets are not commercialised and networks are lacking.

What is striking is that for the greatest number of regional businesses responding, 23% of businesses stated that inadequate government support is the most significant difficulty. This is closely followed by poor access to supplies cited by 21%, a poor transport network cited by 19%, and lack of skilled labour cited by 17%. A recent study (AIG, 2003) suggests that a shortage of suitable skills and the quality of infrastructure services are major concerns for regional businesses. The size of the local economy and distance to major centres were both cited as most important by 10%.

The need for different types of information was met in different ways. The needs of customers, the size of the market for the product or service in question, the nature of the competition, and the type of market distribution system were all most commonly assessed through a personal visit to the overseas market. The pattern of market growth as well as requirements for packaging and labelling were investigated through ‘internal research’, while information about environmental legislation was usually sought from an external consultant. This survey reveals that most regional export firms are not aware of the market opportunities. This lack of awareness is an indication that many exporting firms would not be able to respond to overseas demand if contacted.

Regional firms find it difficult to have access to necessary working capital to resource expansion or extra production AIG (2002a). A national study conducted by Austrade (cited in Styles and Harcourt, 2002), indicates a similar pattern. According to the Austrade research, 25 per cent of market entries happened as a result of the distributor contacting the exporter. This suggests that one quarter of our export firms are not aware of the market opportunities which is an indication that many exporting firms will not be able to respond to changes in the structure of overseas demand composition. The Austrade research also suggests that senior managers in many exporting firms believe that exporting is too difficult because firms are not fast and flexible enough to respond

quickly. Because of the lack of market awareness and inadequate production capabilities most firms find it hard to penetrate to new markets with existing level of products and services quality.

It is not always easy to get reliable information on the political and commercial risks of exporting, and this restricts the willingness of exporters to expand businesses (Donnelly and Harcourt, 2000). The private insurers and financiers are not supportive to insure the associated payment risk and to supply credit. Australian regional exporting firms are in need of some specific information about market risks. Economic risks such as exchange-rate volatility and currency inconvertibility are just two of the many obstacles. The regional firms surveyed appear to be most confident of their information on export documents, financial risks, export insurance, exchange rate fluctuations and forward exchange contracts, with over 58% saying that their information on these matters is 'excellent' or 'very good'. It is most striking that they feel least well-informed about the services available to exporters from state and federal government agencies.

CONCLUSION

Australia's success as a knowledge-based society and economy depends on its ability to generate new knowledge, ideas and skills through international engagements and its ability to broker export partnerships between local and international businesses. Economic growth and competitiveness in the global market is increasingly dependent on the generation and diffusion of knowledge and technology. A well-performing export sector can increase competitiveness and economic growth of a region by advancing knowledge and skills which sustain innovation and productivity.

While the impact of the September 11 attacks, the slowdown in the global economy and tech wreck fallout contributed to Australia's poor showing, the worrying news is that local entrepreneurship is not robust enough to bounce back from severe business shocks. In addition, America will seek bilateral trade agreements across South-East Asia as part of a strategy of linking its economy with emerging democracies after confirming free trade negotiations with Australia. America's business links with New Zealand, China, Japan, Northeast and Southeast Asian countries will create a new competition regime (Hartcher and Davis, 2002). A bilateral free trade agreement linking Australia more closely to the US economy could generate benefits to Australians businesses (AFR, 15 November, 2002). But regional exporting firms need to create new capabilities to avail themselves of this opportunity.

Regional exporter should be able to build up a profile of the most likely target markets for their product, technology or service. Globalisation has produced intense competition with businesses needing to have the ability to produce to customer requirements at the lowest cost and with short lead times. They must have the management capability to cope with continuous change in customer requirements. Businesses have often been unable to produce improved and differentiated products. Foreign competitors have displaced non-innovative Australian firms. Exporting firms have failed to extend their operations to new markets, relying on existing core competencies, and not being able to create new core competencies (Daley, 2001, Alam and Pacher, 2003).

Many SMEs are also slow to reorient their strategic focus in order to find new market opportunities. Relatively few businesses in the region consider export growth as a leading strategy (AIG, 2003). Firms in Australia do not have a large domestic market, and this prevents them from taking risks in strategic readjustment; there is a lack of any long-term policy to achieve excellence in this area (Mortimer, 1997). Moreover, a relative lack of R&D activity has deprived Australian firms of international collaboration in product and market development though Australia has highly-skilled and technically-qualified manpower (Boston Consultancy Group, 200, p. 2 and Sheehan et al. 1995). Australian industry has only relatively recently embarked upon reengineering and restructuring manufacturing through activities such as TQM and the 'six sigma' processes to reduce defects introduced in the late 1990s. They have been slow to move to 'flexible manufacturing'. Because of this, some industrial enterprises in Australia have been unable to use

the same equipment to produce small quantities of different product at lowest cost to cater for customer needs, preventing them from taking advantage of export markets. Assistance programs have been designed support internationalisation process (Productivity Commission, 2002). But businesses need their organisational capability and internationalised mind-set to utilise these programs for increased export performance.

Exporting firms in Australia, particularly those in regional areas, need to pursue a 'leap-frog strategy' (Welch, and Luostarinen, 1988). It will be dangerous for Australian businesses to follow the stage theory of internationalisation. They should use resource-based approach and build organisational capability to use various forms of market entry and gradually move to international markets. Businesses need to be forward looking and able to fully utilise the existing capabilities in order to understand market opportunities and identify and create a new customer base and find good partners, and start interacting with them to develop overseas networks. Regional exporting firms do not need to secure a large domestic market to become internationally successful. Firm specific factors including level of competency in market intelligence, product design and quality, and strategies to internalise business operations will play a significant role in influencing the performance of exporting SMEs. Locational factor conditions could provide competitive edge if that could be used to increase business competitiveness.

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