THE INTERNATIONALISATION OF SMEs IN SOUTH AFRICA: EXPORT CAPACITY, CAPABILITY AND COMMITMENT

Zuko April*
University of Johannesburg
aprilzuko@yahoo.com

Colin Reddy#
University of Johannesburg
creddy@uj.ac.za

Received: November 2014

Accepted: February 2015

Abstract

The difficulties of exporting require immense commitment on the part of owner-managers of SMEs. This article sought to investigate how the commitment of owner-managers to the export market influences the export capacity of SMEs in a developing country context such as South Africa. It found that export commitment influences export capacity indirectly by means of the SME's export capabilities and confirms the importance of an experiential learning process in the case of SME exporters within developing countries. The article emphasises the importance of the SME owner-manager's commitment to set upon the often difficult and energy sapping experiential learning process for developing export capacity. Up to now, much of the literature on SME internationalisation from developing countries addresses what factors contribute towards their internationalisation but not how they internationalise. We have integrated three concepts in the internationalisation literature - export commitment, export capability and export capacity - into a process model on how export capacity develops among SMEs.

Keywords

Export, internationalisation, capability, capacity, commitment, SMEs, developing country

---

***Mr Z April** is a former master's candidate, Department of Business Management, University of Johannesburg, South Africa.

#Dr CD Reddy is a lecturer in the Department of Business Management, University of Johannesburg, South Africa.

1. INTRODUCTION

Developing country economies increasingly look at ways to increase their export-led growth. In a developing country such as South Africa, small and medium enterprises (SMEs) contribute significantly to the economy. SMEs in South Africa employ 55% of the country's formal labour and generate approximately 42% of GDP (Sanchez, 2006). SMEs also have immense potential to contribute to export-led growth. Accordingly, it is important that developing economies, with similar SME profiles as South Africa, direct their assistance towards the specific export support needs of SMEs.

At the risk of being ill-prepared, the sooner SMEs set upon internationalisation attempts the sooner they climb the experiential export capability curve. Policymakers attempt to incentivise this process through export promotion programmes (Sraha, 2015). But management commitment is also a precondition for the benefits of early internationalisation (Zhou & Wu, 2014). Many SMEs undertake export activity only if production capacity is available (Leonidou, 2004). SMEs, in most cases, suffer from limited and sub-standard production due to their limited resource stock in developing countries (Williams, 2008). SMEs in South Africa are no exception (Abor & Quartey, 2010). Insufficient production capacity due to economies of scale and the fixed costs involved in exporting activities prevent them from devoting some of their production to export markets (Westhead, Wright & Ucbasaran, 2002). Because of such capacity constraints, we might expect SMEs to be less represented in export markets relative to their larger counterparts (Gashi, Hashi & Pugh, 2014).

On the other hand, SMEs perform better in export markets due to their inherent flexibility (Mills & Schumann 1985; Zimmerman, 1995). Facing demand fluctuations, SMEs tend to survive with higher minimum average costs, since they are more flexible. Moreover, high-productivity SMEs self-select into export markets compared to less productive firms, which resort to the domestic market (Greenaway & Kneller, 2008). Such issues of export capacity, including the flexibility to respond to demand, have received little attention in the SME export literature (Gashi et al, 2014).

SMEs that venture into the international market do so at immense risk to their business (Arteaga-Ortiz & Fernández-Ortiz, 2010; Calof, 1994). They have more limited resources to cope with the downside of such international conditions (Arteaga-Ortiz & Fernández-Ortiz, 2010; Buckley, 1989). Moreover, owners of SMEs often do not have the specialist expertise to manage their international operations (Reuber & Fischer, 1997). The proportion of resources committed to a single attempt to export abroad is often greater for an SME than for a larger firm (Westhead et al, 2002). Accordingly, we expect failure to be more costly for the owner of an SME.

Existing research has not paid adequate attention to the importance of the SME owner-manager's export commitment. We argue that a high degree of export commitment - including commitments of management time and finance - is required for SMEs to fulfil export capacity and to maintain the flexibility to respond to changes in international demand. We thus seek to investigate how export commitment affects the export capacity of SMEs in South Africa. We argue that export commitments made by the SME do not affect its export capacity directly. When SME owner-managers commit their own time and finances, SMEs in a developing country like South Africa can undertake the learning-by-doing process (Craig & Douglas, 1996) to build export capabilities. They learn by actively seeking knowledge about international markets, potential customers and competitors, and issues of operations management in distant and unfamiliar environments. Export capabilities such as those in marketing, operations and technology directly affect the SME's export capacity, including its flexibility to respond to changes in demand.

This article contributes to existing research in three ways. First, there has not been research on the SME exporter's production capacity or its flexibility to respond to international demand. Second, much of the literature on SME internationalisation from developing countries addresses what factors contribute towards their internationalisation, but not how they internationalise (Osei-Bonsu, 2014; Zhou & Wu, 2014; Welch & Paavilainen-Mäntymäki, 2014). Third, SMEs in developing countries like South Africa not only have to cope with the well-known problems typically encountered by SMEs in developed countries (Huang & Brown, 1999), but also are further constrained by external and internal factors arising from the institutional development effort (Sraha, 2015). Consequently, studies of the SME export process pertaining to developing countries are becoming an important component of our understanding of the globalisation of business (Pisani, 2009).

We begin by defining the abovementioned concepts more precisely and by deriving hypotheses from the extant literature. We test these hypotheses empirically and we discuss a theory of how an SME owner-manager's export commitment affects its export capacity. We conclude with suggestions for further research and we identify some management implications.

2. THEORY AND HYPOTHESIS DEVELOPMENT

Internationalisation is the process of increasing involvement in international markets (Welch & Luostarinen, 1988). SMEs might choose to license their manufacturing process, establish a sales office in the target country, or even set up a manufacturing plant. However, exporting is considered the most common internationalisation mode, due to the minimal business risk and capital required (Leonidou & Katsikeas, 1996). The accumulation of experience during exporting leads SMEs to a better knowledge of business opportunities both domestically and internationally, and, therefore, as time passes, the international involvement of SMEs increases.

Our view of SME exports - derived from how SMEs produce export capacity through capabilities and export commitment - relies on the resource-based view (Penrose, 1959; Barney, 1991) of the firm. This theory holds that the type, magnitude, and nature of a firm's resources and capabilities are important determinants of its performance. The resource-based view of the firm is particularly useful in the study of SME exporting, since the lack of resources or resource deficiency is a major barrier to internationalisation and negatively affects SMEs' internationalisation decisions (O'Gorman & McTiernan, 2000). In comparison to larger companies, SMEs are constrained in finance, time, management, and market knowledge (Gilmore & Carson 1999). Many SMEs have limited financial and managerial resources as well as administrative and control systems, which are important for venturing into international markets (Roth, 1992).

2.1 Export capacity

'Export capacity' refers to the maximum output of products and services that a firm can export. Firms are less likely to export when they perceive large opportunities in the domestic market or even experience domestic supply problems; these same firms are also likely to experience poorer export performance than those firms that have capacity available and can grow within existing infrastructure (Cooper & Kleinschmidt, 1985; Sullivan & Bauerschmidt, 1990). Firms must also respond quickly to an increase in foreign demand to function competitively in the international market.

2.2 Export commitment

Export commitment is the general willingness to allocate the required resources to exports (Cadogan, Sundqvist, Salminen & Puumalainen, 2005). Dierickx and Cool (1989) describe a path-dependent process to build capabilities that require effort, finance and learning. We use management time to indicate effort. Management effort is important for expanding one's business into the international market (Lages, Jap & Griffith, 2008; Todd & Javalgi, 2014). The extent of market commitment also determines export commitment. Accordingly, our use of the term 'export commitment' refers to tangible resources like finance, management effort and market commitment.

Commitment of financial resources is important, because financial constraints faced by SMEs (Weinrauch, Mann, Robinson & Pharr, 1991) and a reluctance to use external funding (Westhead, 1997) deter the owner-manager from using the latest technology. Consequently, owners of SMEs might be unable to export products or services of superior quality. They often lack working capital to finance their market research and eventual exports; they also face difficulties in dealing with different currencies and their associated payment retrieval abroad (Ortiz, Ortiz & Ramırez, 2008). SMEs have an even greater need for credit relative to large firms due to their limited capital resources. Moreover, SMEs face greater difficulties in obtaining external finance when they export (Beck, Demirgüç-Kunt & Maksimovic, 2008). Hence, we investigate the export effect of the availability of external finance.

Export commitment also refers to the level of dedicated assets that cannot be transferred from one country to another without loss of economic value (Randoey, 1997). For instance, an exporting SME might adapt its products to the specific needs of the customers or authorities in the importing country. The product adaptation represents a dedicated asset in as much as it generates additional sales revenue in one specific foreign country, but does not fit the demand requirements of other foreign countries (Petersen, Welch & Nielsen, 2001). More generally, export commitment depicts management's general willingness to allocate the required resources to exports.

2.3 Export capability

Capabilities imply action. SMEs with an abundance of resources will not enjoy their benefits when their owners and managers do not act on export market opportunities. 'Export capabilities' refer to the purposeful deployment of a combination of resources and processes (Amit & Schoemaker, 1993) in order to meet and sustain a firm's export capacity. Resources, on the other hand, are stocks of available factors that are owned or controlled by the firm (Amit & Schoemaker, 1993).

Resources range from physical and tangible to intangible and knowledge-based ones. Intangible resources include higher market reputation, relational capabilities as well as greater knowledge of foreign markets, and the management skills needed to handle the greater complexity associated with foreign operations. Firms must enhance these so that they can be successful in international markets (Antoldi, Cerrato & Depperu, 2012). Tangible resources are those seen and quantified (Hitt, Biermant, Shimizu & Kochhar, 2001). They might include physical resources like the firms' plant and equipment, financial resources and organisational resources like the firms' coordinating and planning structure and systems.

For instance, resources like raw materials, financial and human capital are converted into exportable products or services by using a wide range of other firm assets. Firms must also have adequate technology, management information systems, incentive systems, and trust between management and labour. Capabilities differ from resources because they are enhanced by use (Nelson, 1991). It is a firm's capabilities and not simply its resources that give it competitive advantage (Chetty & Patterson, 2002). The more a capability is utilised, the more it can be refined and the more sophisticated and difficult to imitate it becomes (Daugherty, 2001).

SMEs use management skills and experience to contribute to export capability (Ibeh, 2003). SMEs can then exploit opportunities for internationalisation with a degree of confidence. They can go on to manage processes and relationships abroad, and create routines that facilitate the undertaking of international operations (Westhead et al. 2002). Managerial resources and capabilities involve the ability to create, maintain, negotiate and develop appropriate relationships with customers in export markets (Morgan, Kaleka & Katsikeas, 2004), as well as an ability to obtain important market information. However, SMEs often lack appropriate managerial resources. For instance, the lack of qualified personnel can hinder an SME's export efforts (Pinho & Martins, 2010). SMEs often have trouble in hiring specialised personnel (Ortiz et al. 2008), and this can become a significant constraint to exporting.

A learning orientation among SMEs makes them ready to adopt new technologies and alert to export opportunities. For example, when SMEs learn about customers and competitors they have a better chance of product success in exporting markets (Li et al., 1999). The sources of learning include technology, market, and social (Yeoh, 2004). Technology learning provides knowledge that supports the development of innovations. It enhances a firm's performance through research and development capabilities (Lefebvre et al., 1998), design of differentiated products, and speed to the market (Zahra, Ireland & Hitt, 2000). Technological knowledge is knowledge about how to produce a cheaper or better product at given input prices, or how to produce a given product at a lower cost than competing firms (Caves, 1996). From a resource theory perspective, technological knowledge is an intangible asset that can serve as a source of competitive advantage when it is valuable, non-imitable, and non-substitutable (Barney, 1991).

Market learning determines the firm's preparedness to sense market and customer changes and anticipate responses (Weerawardena, 2003). It includes market-focused learning applied to creating a marketing capability for accessing niche markets and for building market positioning (Luo, 2001). SME managers tend to focus on decisions relating to everyday questions and may neglect long-term strategic objectives and activities, such as analysing trends in international markets and developing new capabilities to enter new markets. As a result, SMEs find it more difficult to monitor the international marketplace and assess their strengths and weaknesses.

Gaps on the marketing side might include issues related to a firm's product, pricing, distribution, logistics and promotional activities in international markets (Leonidou, 2004). Export barriers arise from difficulties in adapting products to the requirements of foreign markets in terms of customer preferences and conditions of use. Firms from developing countries find it difficult to meet the quality standards required especially by more advanced economies; customers in advanced economies are generally more demanding than those from developing countries.

Furthermore, advanced economies have stricter regulations - for example, those related to customer health and safety. These oblige SMEs in developing countries to make a number of changes to the product, which may be costly (Leonidou 2004) to achieve, depending upon the firms' internal competences and resources. A lack of adequate after-sales services, difficulties in selecting a reliable distributor, and a limited ability to communicate with customers abroad are associated with marketing resource constraints (Kaynak & Hudanah, 1987).

Social learning can develop and maintain collaborative relationships with customers, channels, and suppliers. Export development is associated with high levels of cooperation between exporters and importers, high levels of trust, and communication sufficiency (Leonidou & Kaleka, 1998).

2.4 Export commitment, export capability and export capacity

The export capability-building process is driven by entrepreneurial owner-managers with a global mind set, prior international experience and a learning orientation (Weerawardena, 2007). According to behavioural internationalisation models (Cavusgil, 1980; Johanson & Vahlne, 1977), learning about internationalisation is a cumulative, path-dependent process. These models emphasise a process of experiential learning, where SMEs accumulate experiential knowledge that can be acquired only through actual operational learning-by-doing in the foreign market.

During this process, SMEs face many challenges and barriers (Arteaga-Ortiz & Fernández-Ortiz, 2010). These include their limited capabilities and resources, insufficient administrative procedures and methods, and inadequate planning and control, in addition to the lack of know-how and access to overseas distribution channels (Roth 1992). SMEs often also lack knowledge about marketing, production, and capital in the markets (Holmlund & Kock, 1998).

Moreover, export markets have diverse sets of institutional contexts. For some markets there are relatively underdeveloped capital markets, a lack of reliable market information, extensive state intervention for business operations, and lack of effective mechanisms to enforce contracts. Such institutional voids make market transactions in these regions less efficient (Khanna & Palepu, 2000), and from an exporter's perspective create significant uncertainty. High levels of management commitment compensate for this uncertainty.

The lack of knowledge of potential export markets is a particularly relevant barrier if we take into account the fact that information on overseas markets is not normally readily available and is costly for individuals to obtain. Export knowledge has been positively associated with the commitment of resources to exporting (Bilkey & Tesar, 1977). The SME builds export capabilities through a series of incremental managerial decisions and actions to overcome the uncertainties of foreignness (Haiyang et al, 2006). In particular, tangible resources must be committed to overcome the liability of foreignness (Zaheer, 1995).

SMEs are less advanced, and have a mechanistic approach to knowledge and a lack of investment in knowledge management approaches and systems relative to their large counterparts, as SMEs tend to rely on their owners and managers for decision-making (McAdam & Reid, 2001). Underlying such decision-making is a commitment by SMEs (Tan et al, 2007) to deploy the necessary resources required to undergo the experiential learning process. This behavioural orientation, where firms make decisions and act sequentially while gaining new information and knowledge, implies that managers' commitment of resources, including their own time, plays an important role in developing export capabilities. Therefore:

Hypothesis 1: An increase in export commitment will result in an increase in export capability

Export capabilities are important to an SME's export capacity when it has to face up to threats or would like to take advantage of opportunities for growth and profitability (Seringhaus, 1993; Cavusgil & Zou, 1994). Generally, those SMEs venturing into an international market have the entrepreneurial ability to adapt (Westhead et al, 2002). However, the learning-by-exporting process (Clerides et al, 1998) also allows SMEs to increase productivity.

Technological capabilities, in particular, are important to increase the export capacity of the firm (Lopez-Rodríguez & García-Rodríguez, 2005). The technological capabilities of SMEs are also important to adapt production capacity in order to respond to changes in market demand (Bansak et al, 2007). We thus argue that:

Hypothesis 2: An increase in export capability will result in an increase in export capacity

The above discussion implies a mediating relationship between export commitment, export capability, and export capacity (see FIGURE 1). We argue that export commitment sets off an experiential learning process (Zhou & Wu, 2014) that is important to developing export capability. For instance, this export commitment sets off the development of strong marketing competencies (Cavusgil & Zou, 1994; Julian, 2003). In turn, the SME's export capability has a strong influence on its capacity to export. Therefore, we propose:

Hypothesis 3: The influence of an SME's export commitment on its export capacity is fully mediated by its export capability

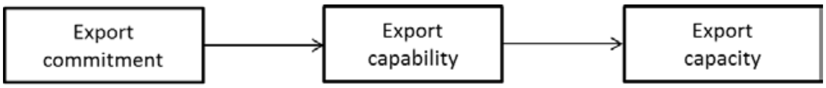

FIGURE 1: Conceptual framework

3. METHODOLOGY

We drew our sample of SME exporters from the South African Department of Trade and Industry's (dti) Export Marketing and Investment Assistance (EMIA) scheme. According to the dti 2011/12 annual report, of the 920 applications approved in the 2011/12 financial year, 83% were SMEs that are exporting (less than 40m turnover and total assets excluding fixed property must be less than R15 million), while 17% are emerging (less than 5m turnover and not currently involved in exporting). The EMIA aims to increase the contribution of small, medium and micro enterprises to the economy, advance broad-based black economic empowerment (B-BBEE), increase the levels of direct investment in the economic sectors with long-term development potential, improve emerging exporters' export market access to high-growth markets and to link the first and second economy. The scheme achieves its objectives by taking part in various trade fairs and exhibitions around the world in the form of national pavilions and group missions. Assistance is provided only to qualifying South African exporters for introducing South African products into foreign markets by cost-effectively taking part in suitable exhibitions. The EMIA qualifying criteria approve only South African manufacturing companies that have an EMIA-qualifying product and are in good standing with the South African Reserve Bank.

Every year, the dti's Trade Investment South Africa (TISA) captures all the names of the companies who applied for EMIA support per type of business into a database. The exporting companies are then categorised according to size, and emerging exporters are put in a different database, which includes the contact details of the owner, the province, the sector and main type of business.

A sampling framework of 1 300 emerging exporters was drawn from the TISA emerging exporters' database. A sample of 338 was randomly selected from this framework. Questionnaires were emailed to the owner-managers of these SMEs. Of the questionnaires sent, 64 were received after two months. Reminder e-mails were sent again to respondents who did not answer, and they were then followed up by a phone call. At the end of three months 106 questionnaires were received, which represents a response rate of about 31%.

3.1 Measures

We drew on existing measures from the dti's export-readiness questionnaire (the questionnaire can be found at http://www.thedti.gov.za/trade_investment/ready_to_export.jsp). It contains six categories of questions, viz. management's commitment to exports, financial resources, capacity to supply/manufacture, management skills in international business, technical know-how and international marketing intelligence and know-how. The dti uses this questionnaire to determine the readiness of those enterprises applying for EMIA scheme benefits. While the dti asked the potential beneficiaries a series of categorical yes/no type questions, we revised each of these questions to draw responses on a five-point Likert scale. We also added demographic questions on gender and education as well as a question to determine if the owner-manager's family operated a business prior to him or her starting a business. These were used as control variables.

We also subjected the data to a factor analysis, which resulted in a four-factor solution. The categories "Management's commitment to exports," "Financial resources" and "Capacity to supply/manufacture" formed three factors according to the EMIA questionnaire. Their reliability coefficients were .71, .73 and .72 respectively. However, the three skills-based categories - "Management skills in international business," "Technical know-how" and "International marketing intelligence and know-how" - combined to form a factor with an alpha reliability coefficient of .90.

3.1.1 Export capacity

Export capacity was our dependent variable. We used the category "Capacity to supply/manufacture" as our measure of export capacity. Only two items were used to measure export capacity. These include "Do you have spare capacity to produce over and above your domestic market needs?" and "Can you increase your capacity to produce at short notice and without any major capital investment?"

3.1.2 Export commitment

Export commitment serves as our main independent or predictor variable. We used the categories "Management's commitment to exports," and "Financial resources" to measure export commitment.

3.1.3 Export capability

We used the three skills-based categories -"Management skills in international business," "Technical know-how" and "International marketing intelligence and know-how" - to measure the export capability of the SME.

3.2 Analysis

We used the generalised least squares regression test on Stata to conduct our analysis. We chose the robust option in the Stat regress command to mitigate non-linear data and heteroscedasticity. This option estimates standard errors using the Huber-White sandwich estimators. The estimator allocates smaller weights to observations with larger residuals. Though there are changes in the standard errors and *t*-tests, there are no changes in the coefficients.

A mediator variable represents an intervening variable, or, stated differently, a mechanism through which an independent variable is able to influence a dependent variable (Baron & Kenny, 1986). There must be a significant relationship between the main independent variable and the dependent variable before a mediating effect is tested for. Baron and Kenny (1986) suggest that a variable functions as a mediator when it meets the following conditions: (a) variations in levels of the main independent variable significantly account for variations in the presumed mediator, (b) variations in the mediator significantly account for variations in the dependent variable, and (c) when the paths indicated in (a) and (b) are controlled, a previously significant relation between the main independent and dependent variable is no longer significant.

Following Baron and Kenny (1986), we modelled export capacity with the effect of export commitment and control variables only, and in a second model we included the effects of both export commitment and export capability. We also modelled the effect of export commitment on export capability. We tested our models at both 1 and 5% statistical levels.

4. RESULTS

The mean values in TABLE 1 indicate that most owner-managers of SME exporters have some degree of family business background.

The majority of these owner-managers are female. In addition, most owner-managers have a tertiary qualification. There are no extremely high correlations, typically greater than .70, between independent variables. Therefore, there is no need to take precautions against multicollinearity.

Model one in TABLE 2 shows that export commitment is significantly correlated with export capability (β = .805, $p < 1\%$). This finding lends support to hypothesis one: that an increase in export commitment will result in an increase in export capability.

Model two shows that export capability is significantly correlated with export capacity (β = .627, $p < 1\%$). This finding lends support to hypothesis two: that an increase in export capability will result in an increase in export capacity.

TABLE 1: Descriptive statistics

	Mean	SD	1	2	3	4	5	6	7	8	9
1. Family business background	2.74	1.54									
2. Below matric	.10	.30	.03								
3. Matric	.19	.39	-.08	-.16							
4. Degree or diploma	.37	.48	-.07	-.25*	-.37**						
5. Postgraduate	.35	.48	.12	-.24*	-.35**	-.55**					
6. Male	.36	.48	-.05	-.04	.00	-.07	.09				
7. Female	.64	.48	.05	.04	.00	.07	-.09	-1.0**			
8. Export capability	2.18	.76	.08	.04	.12	-.06	-.06	-.07	.07		
9. Production capacity	2.24	.94	.12	.03	-.03	.04	-.03	-.15	.16	.61**	
10. Export commitment	2.22	.55	.20*	.02	.-01	.03	-.03	-.20*	.20*	.58**	.50**

Source: Authors' analysis

TABLE 2: Regression statistics

Models	*Model 1*	*Model 2*	*Model 3*
Dependent variable	*Export capability*	*Export capacity*	*Export capacity*
	β	β	β
Family business background	-.021	.009	-.003
Below matric	.126	.027	.104
Matric	.238	-.160	-.013
Degree or diploma	-.028	.086	.066
Male	-.039	-.136	-.114
Export capability		.627**	
Export commitment	.805**	.374	.874**
Constant	.410	.071	.338
Observations	101	100	100
R square	.341	.433	.266
F statistic	10.09	9.90	5.88

Source: Authors' analysis

** $p < 1\%$, * $p < 5\%$

While export commitment does not correlate with export capacity in the presence of export capability (Model 2, β = .374, $p > 5\%$), it does correlate with it in its absence (Model 3, β = .874, $p < 1\%$). These conditions - models one, two and three - support hypothesis three: that the influence of an SME's export commitment on its export capacity is fully mediated by its export capability.

5. DISCUSSION AND CONCLUSIONS

The purpose of this study was to investigate the effect of export commitment on the export capacity of SMEs based in South Africa. Consistent with our prediction, the results show that export commitment influences export capacity indirectly by means of the SME's export capabilities. We measured export capabilities by means of the SME's management skills in international business, its technical know-how and its international marketing intelligence. Our finding implies that in a developing country such as South Africa, with its export promotion programmes such as the EMIA, which recognises that SMEs have to get onto the export experience curve as soon as possible, the commitment of resources by SME owner-managers is an important pre-condition. The export process is fraught with many challenges and barriers (Arteaga-Ortiz et al, 2010) that necessitate a high level of commitment by SME owner-managers to persevere in the export market.

This export commitment is particularly important for SMEs to traverse the difficult and lengthy experiential capability-building process. With the notable exception of very large firms (Johanson & Vahlne, 1990), which can shorten the process through the acquisition of specialised assets, the process of building dedicated resources is time-consuming, especially for SMEs. Information on foreign markets is generally difficult and costly to obtain. Many small firms are not familiar with national and international sources of information. In particular, they often do not have a clear idea about the specific information required in order to identify and analyse potential export markets. In addition, SMEs lack the financial and managerial resources to acquire rapidly external services or specialised knowledge in order to internationalise. Consequently, the accumulation of experience concerning both the management of international transactions and the market and cultural conditions of foreign countries appears to be a long process (Majocchi, 2005).

Thus far, there has not been much research on the SME exporter's production capacity or its flexibility to respond to international demand. We have integrated three concepts in the internationalisation literature - export commitment, export capability and export capacity - into a process model on how export capacity develops among SMEs. Much of the literature on SME internationalisation from developing countries addresses what factors contribute towards their internationalisation, but not how they internationalise (Osei-Bonsu, 2014; Zhou & Wu, 2014; Welch & Paavilainen-Mäntymäki, 2014).

Our evidence of a positive relationship between export commitment and export capabilities supports the learning-by-exporting process (Zhou & Wu, 2014; Johanson & Vahlne, 1990; Clerides et al, 1998). According to this literature, the international expansion of firms is a learning process where firms progressively acquire international experience, leading them to increase their commitment to foreign markets (Forsgren, 2002). They get to learn about administrative procedures and methods, planning and control, knowledge about marketing, production, and distribution in these markets (Holmlund & Kock 1998). Moreover, export activities allow SMEs to accumulate institutional, business and internationalisation knowledge (Sharma & Blostermo, 2003). Selling to foreign markets allows SMEs to become familiar with different national market rules, to get in contact with clients with different tastes and preferences and to develop internal resources and routines dedicated to the servicing of international markets (Majocchi & Zucchella, 2003; De Chiara & Minguzzi, 2002).

As SMEs gain export capabilities their capacity to supply the international market also increases. Our evidence suggests that an SME's export capacity is more directly affected by its export capabilities rather than by its export commitment. SMEs can then increase their export capacity (Lopez-Rodríguez & García-Rodríguez, 2005) with the development of export capabilities through such an experiential process (Weerawardena, 2007).

While an internationalisation strategy offers opportunities for growth and value creation to SMEs, the potential for failure is also strong for newly internationalising SMEs given the difficulties associated with their liabilities of newness (Stinchcombe, 1965) and foreignness (Johanson and Vahlne, 1977). It is important, therefore, for policymakers to assist SMEs with the capability development process. We might go as far as to argue that policymakers should be more accommodating to business failure for those SMEs venturing into the international market. In addition, our research indicates that export commitment ought to be a key screening factor for SME support by governments in developing countries.

Our research is limited in that we omitted the social networking capability as a measure in our export capability factor. The EMIA data does not contain any items aligning with measures of social networking. The ability to develop social networks within the international business community is an important capability to further one's export business. Social networks help in gathering information about new markets and developing new distribution channels. Social networks might ease the difficulty of exporting and perhaps even compensate for export commitment. Thus, it is important for future research to include the SME's ability to build social networks in any assessment of export capability.

In comparison with the resource-based view used here, the dynamic capabilities view assigns a prominent role to the entrepreneurial decision-makers behind the SMEs. The building of dynamic capabilities involves processes that are knowledge-based and are instrumental in knowledge creation, integration and configuration. Dynamic capabilities does not merely accrue to the firm, but are developed consciously and systematically by the wilful choices and actions of the firm's management (Grant, 1991; Teece, 2009). Although our notion of export capability includes this perspective, we suggest that future research on SME exporters use this theory more explicitly to build on our research.

LIST OF REFERENCES

Abor, J. & Quartey, P. (2010). Issues in SME development in Ghana and South Africa. *International Research Journal of Finance and Economics*, 39 *(*6), pp. 215-228.

Amit, R. & Schoemaker, P.J. (1993). Strategic assets and organizational rent. *Strategic Management Journal*, 14(1), pp. 33-46.

Antoldi, F., Cerrato, D. & Depperu, D. (2012). *Export consortia in developing countries: successful management of cooperation among SMEs*. Springer.

Arteaga-Ortiz, J. & Fernández-Ortiz, R. (2010). Why Don't We Use the Same Export Barrier Measurement Scale? An Empirical Analysis in Small and Medium-Sized Enterprises. *Journal of Small Business Management*, 48(3), pp. 395-420.

Bansak, C., Morin, N. & Starr, M. (2007). Technology, capital spending, and capacity utilization. *Economic Inquiry*, 45(3), pp. 631-645.

Baron, R.M., & Kenny, D.A. (1986). The moderator-mediator variable distinction in social psychological research: Conceptual, strategic, and statistical considerations. *Journal of personality and social psychology*, 51(6), p. 1173.

Barney, J.B. (1991). Firm resources and sustained competitive advantage. *Journal of Management*, 17(1), pp. 99-120.

Beck, T., Demirgüç-Kunt, A. & Maksimovic, V. (2008). Financing patterns around the world: Are small firms different? *Journal of Financial Economics*, 89(3), pp. 467-487.

Bilkey, W.J. & Tesar, G. (1977). The export behavior of smaller-sized Wisconsin manufacturing firms. *Journal of International Business Studies*, 8(1), pp. 93-98.

Bogaert, I., Maertens R. & Van Cauwenbergh, A. (1994). Strategy as a Situational Puzzle: The Fit Components, *in G. Hamel and A. Heene eds., Competence-Based Competition*. Chichester, England: John Wiley and Sons, 1994.

Buckley, P.J. (1989). Foreign direct investment by small and medium sized enterprises: The theoretical background. *Small Business Economics*, 1(2), pp. 89-100.

Cadogan, J.W., Sundqvist, S., Salminen, R.T. & Puumalainen, K. (2005). Export marketing, interfunctional interactions, and performance consequences. *Journal of the Academy of Marketing Science*, 33(4), pp. 520-535

Calof, J.L. (1994). The relationship between firm size and export behavior revisited. *Journal of International Business Studies*, 25(2), pp. 367-387.

Caves, R.E. (1996). *Multinational enterprise and economic analysis*. Cambridge University Press.

Cavusgil, S.T. (1980). On the internationalization process of firms. *European Research*, 8(6), pp. 273-281.

Cavusgil, S.T. & Zou, S. (1994). Marketing strategy-performance relationship: An investigation of the empirical link in export market ventures. *Journal of Marketing*, 58(1), pp. 1-21.

Chetty, S. & Patterson, A. (2002). Developing internationalization capability through industry groups: the experience of a telecommunications joint action group. *Journal of Strategic Marketing*, 10(1), pp. 69-89.

Clerides, S.K., Lach, S. & Tybout, J.R. (1998). Is learning by exporting important? Micro-dynamic evidence from Colombia, Mexico, and Morocco. *The Quarterly Journal of Economics*, 113(3), pp. 903-947.

Cooper, R.G. & Kleinschmidt, E.J. (1985). The impact of export strategy on export sales performance. *Journal of International Business Studies*, pp. 37-55.

Craig, C.S. & Douglas, S.P. (1996). Developing strategies for global markets: an evolutionary perspective. *The Columbia Journal of World Business*, 31(1), pp. 70-81.

Daugherty, P.J., Autry, C.W. & Ellinger, A.E. (2001). Reverse logistics: the relationship between resource commitment and program performance. *Journal of Business Logistics*, 22(1), pp. 107-123.

De Chiara, A. & Minguzzi, A. (2002). Success factors in SMEs' internationalization processes: an Italian investigation. *Journal of Small Business Management*, 40(2), pp. 144-153.

Dierickx, I. & Cool, K. (1989). "Asset stock accumulation and sustainability of competitive advantage", *Management Science*, 35(12), pp. 1504-1514.

Forsgren, M. (2002). The concept of learning in the Uppsala internationalization process model: a critical review. *International Business Review*, 11(3), pp. 257-277.

Gashi, P., Hashi, I. & Pugh, G. (2014). Export behaviour of SMEs in transition countries. *Small Business Economics*, 42(2), pp. 407-435.

Gilmore, A. & Carson, D. (1999). Entrepreneurial marketing by networking. *New England Journal of Entrepreneurship*, 2(2), pp. 31-38.

Grant, R.M. (1991). The resource-based theory of competitive advantage: implications for strategy formulation (pp. 114-135). *California Management Review*, University of California.

Greenaway, D. & Kneller, R. (2008). Exporting, productivity and agglomeration. *European economic review*, 52(5), pp. 919-939.

Haiyang, C., Griffith, D.A. & Ru, M.Y. (2006). The influence of liability of foreignness on market entry strategies. *International Marketing Review*, 23(6), pp. 636-649.

Hitt, M.A., Biermant, L., Shimizu, K. & Kochhar, R. (2001). Direct and moderating effects of human capital on strategy and performance in professional service firms: A resource-based perspective. *Academy of Management Journal*, 44(1), pp. 13-28.

Holmlund, M. & Kock, S. (1998). Relationships and the internationalisation of Finnish small and medium-sized companies. *International Small Business Journal*, 16(4), pp. 46-63.

Huang, X. & Brown, A. (1999). An analysis and classification of problems in small business. *International Small Business Journal*, 18(1), pp. 73-85.

Ibeh, K.I. (2003). Toward a contingency framework of export entrepreneurship: conceptualisations and empirical evidence. *Small Business Economics*, 20(1), pp. 49-68.

Johanson, J. & Vahlne, J.E. (1977). The internationalization process of the firm—a model of knowledge development and increasing foreign market commitments. *Journal of international business studies*, 8(1), pp. 23-32.

Johanson, J. & Vahlne, J.E. (1990). The mechanism of internationalisation. *International Marketing Review*, 7(4), pp. 11-23.

Julian, C.C. (2003). Export marketing performance: a study of Thailand firms. *Journal of Small Business Management*, 41(2), pp. 213-221.

Khanna, T. & Palepu, K. (2000). The future of business groups in emerging markets: Long-run evidence from Chile. *Academy of Management Journal*, 43(3), pp. 268-285.

Kamakura, W.A., Ramón-Jerónimo, M.A. & Gravel, J.D.V. (2012). A dynamic perspective to the internationalization of small-medium enterprises. *Journal of the Academy of Marketing Science*, 40(2), pp. 236-251.

Kaynak, E. & Hudanah, B.I. (1987). Operationalising the relationship between marketing and economic development: some insights from less developed countries. *European Journal of Marketing*, 21(1), pp. 48-65.

Lages, L.F., Jap, S.D. & Griffith, D.A. (2008). The role of past performance in export ventures: a short-term reactive approach. *Journal of International Business Studies*, 39(2), pp. 304-325.

Lefebvre, E., Lefebvre, L.A. & Bourgault, M. (1998). R&D-related capabilities as determinants of export performance. *Small Business Economics*, 10(4), pp. 365-377.

Leonidou, L.C. & Kaleka, A.A. (1998). Behavioural aspects of international buyer-seller relationships: their association with export involvement. *International Marketing Review*, 15(5), pp. 373-397.

Leonidou, L.C. & Katsikeas, C.S. (1996). The export development process: an integrative review of empirical models. *Journal of International Business Studies*, pp. 517-551.

Leonidou, L.C. (2004). An analysis of the barriers hindering small business export development. *Journal of Small Business Management*, 42(3), pp. 279-302.

Li, T., Nicholls, J.A.F. & Roslow, S. (1999). The relationships between market-driven learning and new product success in export markets. *International Marketing Review*, 16(6), pp. 476-503.

López-Rodríguez, J. & García-Rodríguez, R.M. (2005). Technology and export behaviour: A resource-based view approach. *International Business Review*, 14(5), pp. 539-557.

Luo, Y. (2001). Dynamic capabilities in international expansion. *Journal of World Business*, 35(4), pp. 355-378.

Majocchi, A., Bacchiocchi, E. & Mayrhofer, U. (2005). Firm size, business experience and export intensity in SMEs: A longitudinal approach to complex relationships. *International Business Review*, 14(6), pp. 719-738.

Majocchi, A. & Zucchella, A. (2003). Internationalization and performance findings from a set of Italian SMEs. *International Small Business Journal*, 21(3), pp. 249-268.

McAdam, R. & Reid, R. (2001). SME and large organisation perceptions of knowledge management: comparisons and contrasts. *Journal of Knowledge Management*, 5(3), pp. 231-241.

Morgan, N.A., Kaleka, A. & Katsikeas, C.S. (2004). Antecedents of export venture performance: a theoretical model and empirical assessment. *Journal of Marketing*, 68(1), pp. 90-108.

Nelson R. (1991). Why Do Firms Differ and How Does It Matter? *Strategic Management Journal*, 14(3), pp. 179-192.

O'Gorman, C. & McTiernan, L. (2000). Factors influencing the internationalization choices of small and medium-sized enterprises: the case of the Irish hotel industry. *Enterprise and Innovation Management Studies*, 1(2), pp. 141-151.

Ortiz, J.A., Ortiz, R.F. & Ramırez, A.M. (2008). An integrative classification of barriers to exporting: An empirical analysis in small and medium-sized enterprises. *Paper presented at the 50th AIB conference*, 30 June-3 July, Milan.

Osei-Bonsu, N. (2014). Understanding the Internationalization Process of Small-to Medium-Sized Manufacturing Enterprises (SMEs): Evidence from Developing Countries. *European Journal of Business and Management*, 6(2), pp. 167-186.

Penrose, E. (1959). *The theory of growth of the firm*. Oxford: Blackwell.

Petersen, B., Welch, L.S. & Nielsen, K.V. (2001). Export commitment to foreign markets: The Establishment patterns of Danish firms in South East Asian markets. *Asia-Pacific Issues in International Business*, Cheltenham, UK: Edward Elgar, 7-27.

Pinho, J.C. & Martins, L. (2010). Exporting barriers: Insights from Portuguese small- and medium-sized exporters and non-exporters. *Journal of International Entrepreneurship*, 8(3), pp. 254-272.

Pisani, N. (2009). International management research: Investigating its recent diffusion in top management journals. *Journal of Management*, 35(2), pp. 199-218.

Randoey, T. (1997). Towards a firm-based model of foreign direct investment. The nature of the international firm, *Copenhagen Business School Press*, Copenhagen, pp. 257-280.

Reuber, A.R. & Fischer, E. (1997). The influence of the management team's international experience on the internationalization behaviors of SMEs. *Journal of International Business Studies*, pp. 807-825.

Roth, K. (1992). International configuration and coordination archetypes for medium-sized firms in global industries. *Journal of International Business Studies*, 23(3), pp. 533-549.

Sanchez, D. (2006). Socio-economic transformation in South Africa: Black Economic Empowerment and small, medium and micro enterprises (No. 2006: 31). *Danish Institute for International Studies working paper*.

Seringhaus, F.R. (1993). Comparative marketing behaviour of Canadian and Austrian high-tech exporters. *Management International Review*, pp. 247-269.

Serra, F., Pointon, J. & Abdou, H. (2012). Factors influencing the propensity to export: A study of UK and Portuguese textile firms. *International Business Review*, 21(2), pp. 210-224.

Sharma, D. & Blostermo, A. (2003). The internationalisation process of born globals: A network view. *International Business Review*, 12, pp. 753-793.

Shih, T.Y. & Wickramasekera, R. (2011). Export decisions within Taiwanese electrical and electronic SMEs: The role of management characteristics and attitudes. *Asia Pacific Journal of Management*, 28(2), pp. 353-377.

Sraha, G. (2015). Public policy makers: improving export promotion programmes and entrepreneurial development in a lower emerging economy. *African Journal of Economic and Management Studies*, 6(1), pp. 55-71.

Stinchcombe, A.L. (1965). Social structure and organizations. *Handbook of Organizations*, 142, 193.

Sullivan, D. & Bauerschmidt, A. (1990). Incremental internationalization: a test of Johanson and Vahlne's thesis. *Management International Review*, pp. 19-30.

Tan, A. Brewer, P. & Liesch, P.W. (2007). Before the first export decision: Internationalisation readiness in the pre-export phase. *International Business Review*, 16(3), pp. 294-309.

Teece, D.J. (2009). *Dynamic Capabilities and Strategic Management: Organizing for Innovation and Growth*. Oxford University Press.

Todd, P.R., Javalgi, R.G. & Grossman, D. (2014). Understanding the characteristics of the growth of SMEs in B-to-B markets in emerging economies: an organizational ecology approach. *Journal of Business & Industrial Marketing*, 29(4), pp. 295-303

Weerawardena, J., Mort, G.S., Liesch, P.W. & Knight, G. (2007). Conceptualizing accelerated internationalization in the born global firm: a dynamic capabilities perspective. *Journal of World Business*, 42(3), pp. 294-306.

Weinrauch, D.J., Mann, O.K., Robinson, P.A. & Pharr, J. (1991). Dealing with limited financial resources: A marketing challenge for small business. *Journal of Small Business Management*, 29(4), pp. 44-54.

Welch, L.S. & Luostarinen, R. (1988). Internationalization: evolution of a concept. *The Internationalization of the Firm*, pp. 83-98.

Welch, C. & Paavilainen-Mäntymäki, E. (2014). Putting process (back) in: Research on the internationalization process of the firm. *International Journal of Management Reviews*, 16(1), pp. 2-23.

Westhead, P. (1997). Ambitions, external environment and strategic factor differences between family and non-family companies. *Entrepreneurship & Regional Development*, 9(2), pp. 127-158.

Westhead, P., Wright, M. & Ucbasaran, D. (2002). International market selection strategies selected by 'micro' and 'small' firms. *Omega*, 30(1), pp. 51-68.

Williams, D.A. (2008). Export stimulation of micro-and small locally owned firms from emerging environments: New evidence. *Journal of International Entrepreneurship*, 6(3), pp. 101-122.

Yeoh, P.L. (2004). International learning: antecedents and performance implications among newly internationalizing companies in an exporting context. *International Marketing Review*, 21(4/5), pp. 511-535.

Zaheer, S. (1995). Overcoming the liability of foreignness. *Academy of Management Journal*, 38(2), pp. 341-363.

Zahra, S.A., Ireland, R.D. & Hitt, M.A. (2000). International expansion by new venture firms: International diversity, mode of market entry, technological learning, and performance. *Academy of Management Journal*, 43(5), pp. 925-950.

Zhou, L. & Wu, A. (2014). Earliness of internationalization and performance outcomes: Exploring the moderating effects of venture age and international commitment. *Journal of World Business*, 49(1), pp. 132-142.

Zimmermann, K.F. (1995). Flexibility in the face of demand fluctuations: Employment, capacity utilization, and industry structure. *International Journal of Industrial Organization*, 13(2), pp. 179-193.