Market Orientation of SMEs in Southeast Asia: An Empirical Analysis

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Abstract

There is a growing consensus among policymakers and academics that internationalization of domestic firms will create jobs and wealth, yet relatively little is known about the incentives for small and medium enterprises (SMEs) to undertake this process. I analyze the motivations of SMEs from Vietnam, Indonesia and the Philippines to engage in exporting in the context of triangulation, which considers the impact of the global economy, national economy, and societal milieu on SMEs. I find that scarce demand in the home market is positively and significantly correlated with exporting, while favourable government incentives are less significant. Significant foreign demand and existing parent–subsidiary relationships are important explanations for SME exports from Vietnam, but not for Indonesia or the Philippines. These findings suggest that national economies are currently more important than the global economy for SME exports in Southeast Asia; my results call into question the ability of governments to encourage SMEs to internationalize via exporting.

Keywords: *SMEs, Southeast Asia, exporting, triangulation, global economy, national economy*

Introduction

In recent years small and medium enterprises (SMEs) have attracted the attention of policymakers and scholars alike. The positive effect of entrepreneurship on economic development is well established (Boettke & Coyne 2003; Oviatt & McDougall 1994; Acs 1992), as is the correlation between international trade and economic growth (Hipsher 2008; Broda & Weinstein 2005). Nations have therefore embraced the formation and internationalization of SMEs[1] (Singh, Pathak & Naz 2010; Arinaitwe 2006) to boost their economies and standards of living.

Despite this enthusiasm for SMEs, there is still much to learn about their formation and internationalization (Andersson 2004; Lu & Beamish 2001). This is particularly true for developing economies, where small businesses constitute the vast majority of business activity (Hipsher 2008;

Amini 2004). While larger developing economies such as China, India and Brazil understandably occupy the attention of academics, smaller vibrant economies such as Vietnam, Indonesia and the Philippines are relatively underserved in scholarly literature.

This article seeks both to join the larger conversation about SMEs and internationalization and to analyze the export patterns of the three countries just mentioned. In addition to furnishing generalizable results about trade among SMEs, this paper provides some stylized facts about three important economies in Southeast Asia. It also supplies the marginal effects of key variables on exports whereas most current literature about trade and SMEs concentrates only on statistical significance. Furthermore, it employs a new perspective, triangulation, in considering the impact of the global economy, national economy, and society on the internationalization of SMEs.

I find that scarcity of home demand pushes exports and this is a key driver for SMEs to export in all three countries. The lure of overseas markets and pre-existing parent–subsidiary relationships are important factors for SME exports from Vietnam, but not Indonesia or the Philippines. The marginal effects of scarce domestic demand, lucrative foreign demand and parent–sub relationships are relatively equal at around 5 per cent in Vietnam, while the impact of little home demand (2 per cent for Indonesia and 3 per cent for the Philippines) also influences exports, but not to the extent of the other two factors. Favourable government incentives designed to stimulate exports, and by extension the internationalization of SMEs, have only minor influence on the SME export decision. This result is surprising and perhaps troubling given the efforts of policymakers to internationalize SMEs via exporting.

I have organized the article as follows. After reviewing the pertinent scholarship, I describe the data and methods. I present my findings and I discuss the implications of those findings for both policy and academe. Directions for future research conclude the article.

Market Orientation and Internationalization of SMEs

Competing Theories and the Need for Triangulation

Market orientation (MO) is 'the organization-wide generation of market intelligence pertaining to current and future customer needs, dissemination of the intelligence across departments, and organization-wide responsiveness to it' (originally Kohli & Jaworski 1990; excerpted from

Armario, Ruiz & Armario 2008: 486). The market orientation of SMEs is conceptually related to the phenomenon of internationalization, which as Singh, Pathak and Naz note, is a broad term used by different scholars to connote 'exporting, trade, cross-border clustering, cross-border collaboration, alliances/subsidiaries, branches, and joint ventures that extend beyond the home country environment' (2010: 153). In terms of testing the degree of internationalization of SMEs, this research will focus on exports, as I lack the data to investigate other forms of internationalization. Note also that these two activities are at the lower end of the spectrum of internationalization in terms of the time and resources necessary, which reflects the idea that SMEs are subject to greater resource constraints than large firms (Hessels & Terjesen 2010; Hollenstein 2005) and therefore the choice of entry mode is a process of cost-benefit analysis (Sharma & Erramilli 2004).

There are a number of different theories to explain the process of internationalization and, by extension, market orientation of firms. One of the first to gain currency is the Uppsala model, which describes internationalization as a series of incremental steps along a risk/reward continuum. From an organizational behaviour perspective, market orientation is a process of continuous learning (Cyert & March 1963; Johanson & Vahlne 1977) that allows a firm to surmount the barriers of scarce resources and information in order to internationalize operations. This cycle typically starts with exporting and over time the firm moves into more high-risk, high-reward activity such as foreign direct investment (FDI) (Korhonen, Luostarinen & Welch 1996; Erramilli & Rao 1990). In addition, firms initially expand where the psychic distance is smallest, e.g. they penetrate foreign markets that are most similar to their domestic markets (Johanson & Vahlne 1977, 2009) before attempting overseas markets that are more exotic. An example would be a US firm expanding internationally to Canada before trying China. In the current version of the Uppsala model, a firm's position within a network of relationships, its commitment to those relationships, and trust-building play a more salient role in the internationalization of firm activities than in the original model (Johanson & Vahlne 2009).

Another internationalization perspective is the famed 'eclectic paradigm' of Dunning (1980). This paradigm is also known as the 'OLI (Ownership, Location, Internalization) model', because the decision to internationalize and various possible modes of internationalization rest upon the interrelationship of ownership advantages of firms, the location advantages offered by host nations, and possible internalizing of

benefits of firm-owned assets instead of sharing some of those benefits with external firms via licensing or franchising (Dunning 1980). Firms need to possess assets such as a global brand, technology, or managerial know-how to compete in a foreign market with local players. They find that local conditions, such as cheap labour supply or market size, augment their ownership advantages or otherwise enable them to profit. The type of assets owned, as well as various competitive and institutional factors, will compel firms to choose whether to internalize these assets within the boundaries of the firm or exploit them through licensing or franchising arrangements.

Both the Uppsala model and Dunning's eclectic paradigm, with various revisions, have remained important to the internationalization literature, in part because their inception coincided with an interest in the relationship between the multinationality of firms and firm financial performance (Buckley & Casson 1976). This relationship, known as the M-P (multinationality-performance) relationship, has been the subject of innumerable empirical studies over the past several decades; however, 'there is no theoretical rationale supporting a generalizable M-P relationship' (Kirca et al. 2011: 5; summarizing arguments by Hennart (2007) and Verbeke, Li & Goerzen (2009)).

One point of commonality that the Uppsala model, OLI model, and M-P relationship share is that the focus is the multinational enterprise (MNE), a category populated almost exclusively by large firms when these theories appeared and where large firms still dominate today. These theories may not capture the internationalization process of SMEs, given their resource constraints, so how do these smaller companies become global? Outside of frontier technology, what firm-specific asset could a start-up possibly own that would allow it to compete internationally according to the eclectic paradigm? A start-up wouldn't have a brand name or, in most cases, a vast reservoir of managerial know-how to internationalize, yet many SMEs outside high-tech sectors are internationalizing their operations despite these constraints.

A contrasting view of internationalization to the incremental approach of the Uppsala model is the idea of 'born global' (Armario et al. 2008; Knight & Cavusgil 1996; Oviatt & McDougall 1994). This perspective argues that a firm can internationalize from inception; there is no need to proceed in stages. The new firm is able to do business across borders because it already possesses the necessary resources, such as technology (McDougall, Shane & Oviatt 1994) or a founder with an international orientation (Zahra, Hayton & O'Neill 2001). These firms are typically

in high-tech sectors like computer software (Armario et al. 2008). A preliminary investigation of my data reveals that few of the SMEs are high tech and their internationalization efforts are limited to trade; they are therefore not 'born global'.[2] At best, they are 'instant exporters' (McAuley 1999).

What we have then, is a situation where SMEs are internationalizing despite lacking the key resources (e.g. firm-specific assets) that various theories deem important to both the 'why' and the 'how' of internationalization. Another approach towards understanding SMEs and their development in the Southeast Asian context is triangulation (Chin 2010; Jakobsen 2011). Triangulation refers to the interrelationships among the global economy, the national economy and the societal milieu and how these linkages affect the SME (Chin 2010; Jakobsen 2011; Block & Evans 2005; Migdal 2001).[3] Unlike the other perspectives above, triangulation focuses on external factors such as institutions and their interactions across national borders. This approach can complement the other two, with their emphasis on firm characteristics. I will test the effects of global demand and national institutions in my analysis, and I discuss elements of all three points of the triangle in the next section.

Background

Table 1 displays some data relating to the dimensions of the triangle for Vietnam, Indonesia and the Philippines. Examining aspects of openness/connection to the global economy, one notes that Vietnam is ahead of both Indonesia and the Philippines in terms of trade. Vietnam's exports as a percentage of gross domestic product (GDP) is 26 per cent versus only 14 per cent for the other two. Vietnam's imports to GDP is 30 per cent compared to 11 per cent for Indonesia and 17 per cent for the Philippines. Given these overall figures, one would expect that Vietnam's SMEs are more likely to internationalize via trade than those of the other two nations.

Per-capita FDI stock is the sum of all FDI flows as of the end of 2010 divided by the population. Here we see that Vietnam has a decided advantage over Indonesia and the Philippines, while Indonesia is far ahead of the Philippines. The figures for the respective nations are US$862, US$330 and US$72. Many multinationals have invested in Vietnam to take advantage of its cheap but relatively high-skilled labour as well as the reforms under the central government's *dong moi* policies. Indonesia has a wealth of mineral resources including petroleum and natural

gas, and has also made attempts in the past decade to reform sclerotic industries and combat corruption. The Philippines does not possess locational advantages relative to the other two. We would anticipate more FDI recipients among Vietnamese SMEs than among the other two, and more FDI recipients in Indonesia than in the Philippines.

The last heading for global economy is the percentage of Internet users among the population. Here again, Vietnam holds a distinct advantage over Indonesia and the Philippines. Twenty-six per cent of the population uses the Internet, versus only 8 per cent for Indonesia and 6 per cent for the Philippines. We would expect that if we were to measure the degree of internationalization of SMEs by their volume of e-commerce, adjusted for domestic sales, Vietnamese SMEs would likely be ahead of SMEs from the other two countries. In all four measures of the global economy, Vietnam is more open and connected than the other two.

There are four indicators for the national economy. For the first three, population, PPP GDP,[4] and per-capita GDP, there is a clear ranking of Indonesia, the Philippines and Vietnam. Indonesia has a population of nearly 246 million people and an economy that, when measured in terms

TABLE 1: Summary of Country Statistics

Global Economy	**Vietnam**	**Indonesia**	**Philippines**
Exports as a % of GDP	26%	14%	14%
Imports as a % of GDP	30%	11%	17%
Per-capita FDI stock, US$	$862	$330	$72
Internet users, % of population	26%	8%	6%
National Economy			
Population in millions	90.5	245.6	101.8
PPP GDP (US$ billions)	$278	$1,033	$353
Per-capita GDP, PPP in US$	$3,100	$4,300	$3,500
Days to start a business	50	76	52
Social Institutions			
Legal system origins	Marxist/French	Dutch	Spanish/US
Level of societal trust	46%	48%	7%
Dominant religion, %	None, 81%	Muslim, 86%	Catholic, 81%
Literacy rate	90%	90%	92%

Sources: CIA 2010 World Factbook, World Bank 2009 Country Data, World Values Survey 1981-2006.

of what the rupiah can purchase, is slightly more than US$1 trillion. Its per-capita GDP is US$4,300, which indicates a lower-middle-income nation by World Bank standards.

The Philippines has a population just over 100 million and a PPP GDP of US$353 billion. Its per-capita GDP is US$3,500, also a lower-middle-income figure. Vietnam's residents number 90.5 million and the national economy is US$278 billion for a per-capita GDP of US$3,100. Indonesia has the most lucrative domestic market, followed by the Philippines and then Vietnam. A lucrative domestic market might be a disincentive to internationalize, since an SME may have plenty of profit opportunities at home and need not risk overseas operations. On the other hand, the figures tell us nothing about the competitiveness of the national markets; fierce domestic competition may push SMEs abroad.

The last item is the number of days to start a business according to the 2009 World Bank Country Data. It takes entrepreneurs in both the Philippines and Vietnam around 50 days to found a firm, while in Indonesia it is 76 days. This indicates that it is more cumbersome to operate an SME in Indonesia than it is in either Vietnam or the Philippines, which could influence internationalization efforts.

For social institutions, there are four measures. The first is the legal system, which I gathered from the CIA World Factbook. Note that all three countries have civil law influences owing to European colonialism, but different flavours of civil law. Vietnam has a base of French civil law overlaid with Marxist–Leninist ideology. Indonesia borrowed the Dutch civil law tradition, and the Philippines has an amalgamation of Spanish civil law and Anglo–American common law owing to the US occupation in the first half of the twentieth century. It is difficult to say *a priori* which of these legal systems would be more conducive to the internationalization of SMEs, but nonetheless the legal system is a critical element of the third side of the triangle: the social milieu.

Societal trust is the belief in the honesty of other actors; it is trust as social capital (Putnam 1995; Coleman 1990). I calculate a country average from the World Values Survey question: 'In general, do you think most people can be trusted, or that you cannot be too careful when dealing with others?' The percentage represents the number of people responding that most people can be trusted out of the total number surveyed by country. Vietnam and Indonesia are comparable in levels of societal trust at 46 per cent and 48 per cent, respectively, while the Philippines is remarkably lower than both at 7 per cent. There is a vast literature on trust and entrepreneurship; in general, higher-trust environments

generate more entrepreneurial activity because they lower transaction costs (North 1990).

The dominant religion and the percentage of the population identifying as a member are the next indicators. Vietnam, owing to Marxist–Leninist ideology, has around 80 per cent of the population self-identifying as having no religion; however, historically the majority of Vietnamese have been Mahayana Buddhists in the north and Theravada Buddhists in the Central Highlands and Mekong Delta. For Indonesia, 86 per cent identify themselves as Muslims; these are mainly of the Shafi'i school of the Sunni branch. Roman Catholicism is the dominant faith in the Philippines, with 81 per cent of the population identifying themselves as Catholics. The connections between religion and entrepreneurship are complex; the point here is to demonstrate that while the three countries share the same geographic space (Southeast Asia) they have greatly differing fundamental social institutions.

There is no discernible difference in literacy levels among the three nations. All are around 90 per cent, and the rates by gender slightly favour the men. One would expect that countries with higher rates of literacy might have more SMEs internationalizing; more education might lead to more willingness to do business abroad. The differences already noted with respect to linkages to the outside world, e.g. exports as a percentage of GDP, do not seem to be tied to education levels as measured by literacy rates.

Framework and Testable Hypotheses

SMEs have two basic options for exports: direct or indirect (Hessels & Terjesen 2010; Peng & York 2001). The difference is that the former involves no intermediary while the latter does (Fletcher 2004). Regarding motivations for exporting, there are both motives internal to the firm and incentives external to it (Hessels & Terjesen 2010). Internal motives stem from owner characteristics such as age, education and experience, or firm attributes such as core competencies. External factors include the competitiveness of domestic markets (Axinn 1988), the attractiveness of foreign markets (Thirkell & Dau 1998) and government policies that either encourage or inhibit trade (Wilkinson 2006). Based on this research, the hypotheses to be tested are as follows:

H1: Scarcity of domestic demand will increase exports as a percentage of total sales.

H2: Significant foreign demand will increase exports as a percentage of total sales.

H3: Favourable government incentives will increase exports as a percentage of total sales

H4: An existing relationship between a parent firm and the SME as a subsidiary will increase exports as a percentage of foreign sales.

The last hypothesis is an alternative explanation to those cited above for SME exports. As Hessels and Terjesen (2010) note, most of the extant literature focuses on internal characteristics. This article instead analyzes external factors in conformity with the triangulation approach previously mentioned. Whereas Hessels and Terjesen (2010) use a sample of SMEs from the Netherlands in their study of direct and indirect exporting, I have data for three developing countries: Vietnam, Indonesia and the Philippines. Examining the relationship between external factors for these nations and the degree of SME exports may reveal knowledge different from the advanced-country context. Furthermore, while one would expect that factors such as little domestic demand, significant foreign demand, favourable government policies, and existing ties between SMEs and larger foreign firms would increase exports, *ceteris paribus*, it behooves policymakers to understand how much each of these drivers contributes to greater exporting. Since resources are scarce, policymakers naturally desire to devote them to where returns can be maximized; an analysis of the marginal effects of these influences will assist in this undertaking. The magnitude of these factors, as much as the testing of the hypotheses, is the contribution to the body of scholarship on SME exports.

Data and Methods

Data

I use 2009 data from the World Bank Enterprise Survey Project (WBESP) for Vietnam, Indonesia and the Philippines. The WBESP aims to measure the investment climate of a given country as well as to analyze firm performance. It hires private contractors to conduct interviews of business owners and top managers of companies around the world to gather firm-level statistics on operations, finance, marketing, human resources and perceptions of the business environment. The sampling methodology stratifies according to industry sector, firm size and geographical location.[5] Most of the firms tend to be small, but to be consistent with my definition of an SME being 250 workers or fewer, I dropped the observations where the number of full-time employees exceeded 250.

Table 2 presents some summary statistics of exports by recipient, industry segment and firm type. The percentage represents the number of exporters answering the question, 'What country is the primary recipient of your exports in terms of value?' divided by the total number of export-

TABLE 2: Summary of Exports by Recipient, Industry and Firm Type

Top 5 recipients of exports						
	Vietnam	%	**Indonesia**	%	**Philippines**	%
1	USA	17.8	Malaysia	14.8	USA	29.3
2	Japan	11.1	USA	13.0	Japan	22.4
3	S. Korea	9.3	Japan	10.4	S. Korea	4.6
4	Taiwan	8.9	Saudi Arabia	6.1	China	4.3
5	China	4.8	China	4.3	Germany	3.9
Total		**51.9**		**48.6**		**64.4**
Top 5 exporting sectors						
	Vietnam	%	**Indonesia**	%	**Philippines**	%
1	Garments	50.8	Electronics	60.0	Machinery	66.7
2	Plastics	46.2	Basic Metals	25.0	Electronics	51.0
3	Textiles	43.5	Other Mfg.	18.5	Fab. Metal	42.9
4	Chemicals	40.0	Chemicals	18.2	Other Mfg.	36.6
5	Food	39.6	Garments	16.6	Basic Metals	33.3
					Textiles	33.3
Exporting by firm type						
	Vietnam	%	**Indonesia**	%	**Philippines**	%
	Publicly traded	26.7	Publicly traded	11.1	Publicly traded	20.7
	Private LLC	35.6	Private LLC	30.8	Private LLC	28.8
	Sole Proprietor	22.9	Sole Proprietor	3.9	Sole Proprietor	14.8
	Partnership	21.1	Partnership	0.0	Partnership	28.4
	Limited partner	30.7	Limited partner	10.7	Limited partner	20.0
	Other	31.6	Other	6.3	Other	12.1

Source: Calculated from 2009 World Bank Microenterprise Data

ers. For recipients, SMEs in Vietnam and the Philippines name the US, Japan and South Korea as the three most important countries, while the US and Japan are second and third after Malaysia for Indonesian SMEs. China is ranked fifth for both Vietnam and Indonesia and fourth for the Philippines. In terms of less obvious trade partners, Saudi Arabia is fourth for Indonesia and Germany is fifth for the Philippines. The former may reflect a connection in the petroleum industry between the two nations.

For sectors, the percentage is the number of firms exporting divided by the total number of firms. A comparable calculation by firm type also appears. In terms of sector, 'garments' and 'chemicals' appear among the top five for both Vietnamese and Indonesian SMEs, while 'electronics', 'basic metals', and 'other manufacturing' are key for both Indonesia and the Philippines. Private, limited liability corporations (LLCs) are the most prevalent exporters by firm type across the three nations, but there is no clear trend otherwise. Approximately 20-30 per cent of the limited partnerships and partnerships in Vietnam and the Philippines engage in exporting.

Variables

The dependent variable in my analysis is 'PercentExports'. It is a continuous variable from 0 to 100 that measures the percent of the SME's total sales due to exports.

With regards to possible explanations for exporting, there are four independent variables of interest: 'LittleDomesticDemand', 'SignificantForeignDemand', 'FavourableGovtIncentives' and 'ParentSubRelationship'. The first exemplifies a 'push'; SMEs export overseas because their home market is not lucrative. The second is a 'pull'; foreign markets are too lucrative to ignore. The third captures government incentives for exporting and the fourth explains exporting as the consequence of existing parent–subsidiary relationships. While the survey is not specific about the types of government incentives, the most prevalent form is an export subsidy. Note that these explanations are not mutually exclusive; respondents were asked to answer 'yes/no' for each of these items as a possible reason for exporting. Each of these variables is categorical in nature. The survey asks: 'In general, are each of the following a reason for exporting?'

1. There is little or no domestic demand for this establishment's products
2. There is significant foreign demand for goods produced by this establishment
3. There are favourable government incentives when exporting
4. Exporting occurs due to an existing relationship between a parent firm and subsidiary

I control for both firm-level and industry characteristics. 'FirmAge' is the age of the firm in years. 'FirmSize' is the number of full-time employees. 'FirmSales' is the amount of annual sales in the local currency for 2008. 'TopMgrEduc' is the measure of the education of the top manager on a scale from 1 to 7, where 1 represents no education and 7 is a graduate degree from an overseas university.[6] 'TopMgrFemale' is a categorical variable equal to 1 if the top manager is female, on the premise that females are generally more risk-averse than males (Fossen 2009) and therefore less likely to export. There are six types of firms: 'PubliclyTraded', 'PrivateLLC', 'SoleProp', 'Partnership', 'LimitedPartnership', and 'Other', with categorical variables for each type. 'Other' is the base variable in the regression analysis. For industry, I have categorical variables for each of the 18 sectors identified in the data.[7] I use 'Transportation' as the base variable in the regressions.

Table 3 displays the descriptive statistics for the variables except the industry controls. For the dependent variables, SMEs in Vietnam and the Philippines export approximately 11 per cent of their sales directly and 5 per cent of their sales indirectly. Indonesia lags at nearly 4 per cent and 2 per cent, respectively. For the independent variables, significant foreign demand has the highest mean across all three countries. In terms of the control variables, 'FirmAge' is nearly 20 years for both Indonesia and the Philippines, while Vietnamese SMEs are younger,

TABLE 3: Descriptive Statistics

Variable	Obs.	Mean	Std. Dev.	Min	Max
Vietnam					
PercentExport	863	16.95	33.62	0	100
LittleDomesticDemand	867	0.06	0.23	0	1
SignificantForeignDemand	867	0.21	0.41	0	1
FavourableGovernmentPolicies	867	0.09	0.28	0	1
ParentSubRelationship	867	0.04	0.19	0	1
FirmAge	867	11.42	9.86	1	108
FirmSize	867	33.27	41.99	1	300
FirmSales	867	$3.84*10^8$	$1.11*10^6$	0	$1.7*10^{11}$
TopMgrEduc	867	4.55	1.11	1	7
TopMgrFemale	867	0.23	0.42	0	1
PubliclyTraded	867	0.02	0.13	0	1
PrivateLLC	867	0.20	0.40	0	1
SoleProp	867	0.30	0.46	0	1
Partnership	867	0.07	0.25	0	1
LimitedPartnership	867	0.39	0.49	0	1
Other	867	0.02	0.15	0	1

TABLE 3: Descriptive Statistics (cont.)

Variable	Obs.	Mean	Std. Dev.	Min.	Max.
Indonesia					
PercentExports	1276	5.31	19.69	0	100
LittleDomesticDemand	1294	0.03	0.18	0	1
SignificantForeignDemand	1294	0.08	0.27	0	1
FavourableGovernmentPolicies	1294	0.02	0.14	0	1
ParentSubRelationship	1294	0.02	0.14	0	1
FirmAge	1294	19.66	17.53	3	110
FirmSize	1294	19.05	37.18	1	300
FirmSales	1294	$1.45*10^8$	$2.97*10^6$	0	$9.0*10^{10}$
TopMgrEduc	1294	3.51	1.26	1	7
TopMgrFemale	1294	0.26	0.44	0	1
PubliclyTraded	1294	0.01	0.12	0	1
PrivateLLC	1294	0.19	0.39	0	1
SoleProp	1294	0.70	0.46	0	1
Partnership	1294	0.00	0.00	0	0
LimitedPartnership	1294	0.09	0.28	0	1
Other	1294	0.01	0.11	0	1
Philippines					
PercentExports	1204	16.37	34.42	0	100
LittleDomesticDemand	1210	0.06	0.24	0	1
SignificantForeignDemand	1210	0.17	0.37	0	1
FavourableGovernmentPolicies	1210	0.08	0.28	0	1
ParentSubRelationship	1210	0.10	0.30	0	1
FirmAge	1210	21.51	17.16	3	110
FirmSize	1197	25.50	41.52	1	300
FirmSales	1037	$2.67*10^6$	$3.27*10^5$	0	$1.0*10^9$
TopMgrEduc	1210	5.02	0.81	2	7
TopMgrFemale	1210	0.30	0.46	0	1
PubliclyTraded	1210	0.09	0.29	0	1
PrivateLLC	1210	0.55	0.50	0	1
SoleProp	1210	0.25	0.43	0	1
Partnership	1210	0.06	0.23	0	1
LimitedPartnership	1210	0.02	0.16	0	1
Other	1210	0.03	0.16	0	1

Note: Industry controls not included for brevity.

with a mean of 11.42 years. The Philippines boasts SMEs with the highest average education of its top managers; these managers typically have a bachelor's degree. Vietnam's average indicates an education midway between vocational training and university, while Indonesia is between secondary education and vocational. Between 20 and 30 per cent of the top managers of SMEs are female across the countries. The distribution of firm types varies considerably. The most common firm type in Vietnam is a limited partnership at 30 per cent of the total,

while in Indonesia it is a sole proprietorship (70 per cent), and in the Philippines the private LLC (55 per cent) is the most favoured.

Methodology

The distributions of the dependent variables present an estimation challenge because they contain both continuous and dichotomous components. The measure is a percentage of sales that extends from 0 to 100; however, many SMEs export nothing. This necessitates a model that can estimate the export/no export choice as well as the continuity of values.

The standard Poisson model would be appropriate for the count variable represented by the positive percentages of sales, but would result in a misspecification due to the excessive number of zero values in the data. A modified version of the Poisson, the zero-inflated Poisson (ZIP) model, is ideal for this circumstance. The ZIP combines the properties of a logistic binomial model (logit) and a standard Poisson regression (Long 1997); it first estimates the export/no export decision to account for the high number of zeroes with the logit and then estimates the percentage of sales with the Poisson. The data shows that out of 863 SMEs in Vietnam, 615 export nothing (71.26 per cent). The comparable figures for Indonesia and the Philippines are: 1,167/1,290 (90.47 per cent) and 918/1,206 (76.12 per cent).

The ZIP model also allows specification of an independent variable that may be correlated with the inordinate number of zeroes in the data. I identify 'FirmAge' as a possible driver due to the learning effect theorized by the Uppsala model: younger firms are less likely to export versus older SMEs. I run two models, one with only the four independent variables of interest and a full model with all of the control variables. In addition, I estimate the variance-covariance matrix using the Huber-White method since the observations are independent of one another. The standard errors I report are robust.

I check for collinearity among variables prior to running my regressions. Table 4 displays the correlation matrix for the four main independent variables along with 'FirmAge'. The highest correlation of 0.634 is found for 'SignificantForeignDemand' and 'FavourableGovtIncentives' in the Philippines. The full matrix reveals no correlation above 0.700. Collinearity does not appear to be a concern.

To check the fit of ZIP to the data I perform a Vuong test after the regressions. The Vuong test compares the results from the ZIP model to what would have been obtained using a standard Poisson. A positive, significant result for this test indicates that the ZIP model is preferable,

TABLE 4: Correlation Matrices

Vietnam	1	2	3	4	5
1	1.000				
2	0.444	1.000			
3	0.288	0.506	1.000		
4	0.103	0.159	0.167	1.000	
5	0.060	0.079	0.069	0.031	1.000
Indonesia	1	2	3	4	5
1	1.000				
2	0.512	1.000			
3	0.295	0.403	1.000		
4	0.289	0.332	0.380	1.000	
5	0.013	0.054	0.048	0.008	1.000
Philippines		2	3	4	5
1	1.000				
2	0.492	1.000			
3	0.369	0.634	1.000		
4	0.389	0.570	0.495	1.000	
5	-0.044	-0.058	-0.088	-0.075	1.000

Variables are indicated as follows:

1 is LittleDomesticDemand

2 is SignificantForeignDemand

3 is FavourableGovtIncentives

4 is ParentSubRelationship

5 is FirmAge

Note that the full correlation matrices including industry controls reveal no correlations above 0.700.

i.e. there are enough zeroes in the data to justify its use. I also calculate marginal effects of the significant explanatory variables. This gives the magnitude of change in the amount of exports as a percentage of sales if a categorical variable changes from 0 to 1, holding constant the other variables at their mean values.

For purposes of comparison, I provide results from a linear regression, where the dependent variable is Exports/Sales. The regression equation is as follows:

$$\text{Exports/sales}=\alpha_1+\alpha_2\text{LittleDomesticDemand}+\alpha_3\text{SignificantForeign Demand}+\alpha_4\text{FavourableGovtPolicies}+\alpha_5\text{ParentSubRelationship}+\Sigma_{i=1}^{10}\alpha_i\text{FirmControls}+\Sigma_{j=1}^{17}\alpha_j\text{IndustryControls}+\varepsilon \quad (1)$$

The alphas represent coefficients, except for the first one which is the intercept term or constant. Beyond the four variables of interest, we have 10 firm-level controls: FirmAge, FirmSize, FirmSales, TopMgrEduc, TopMgrFemale, PubliclyTraded, PrivateLLC, SoleProp, Partnership, and LimitedPartnership. For industry controls we have the 17 sectors listed previously. The epsilon is the error term.

TABLE 5: Vietnam Exports

	(1)	(1)	(2)	(2)
	No Controls	No Controls	Controls	Controls
		Marginal effects		Marginal effects
LittleDomesticDemand	0.377***	5.567***	0.367***	4.901***
	(0.071)	(1.269)	(0.077)	(1.181)
SignificantForeignDemand	0.312***	4.261***	0.407***	5.229***
	(0.115)	(1.471)	(0.126)	(1.160)
FavourableGovtIncentives	0.117	1.521	0.093	1,034
	(0.075)	(1.024)	(0.075)	(0.918)
ParentSubRelationship	0.301***	4.312**	0.430***	5.854***
	(0.096)	(1.528)	(0.103)	(1.678)
FirmAge			0.000	
			(0.004)	
FirmSize			-0.000	
			(0.000)	
FirmSales			-0.000	
			(0.000)	
TopMgrEduc			-0.025	
			(0.031)	
TopMgrFemale			0.102	
			(0.088)	
PubliclyTraded			0.347	
			(0.445)	
PrivateLLC			-0.040	
			(0.300)	
SoleProp			0.252	
			(0.280)	
Partnership			0.083	
			(0.308)	
LimitedPartnership			0.049	
			(0.284)	
Constant	3.664***		3.043***	
	(0.109)		(0.324)	
Observations	863		851	
Wald Chi-squared	51.560***		2012.450***	
Vuong test z-score	7.740***		8.360***	

Robust standard errors in parentheses
* significant at 10%; ** significant at 5%; *** significant at 1%
Model (2) includes industry controls, which aren't shown for brevity

Note that the variables are the same for the ZIP model, but that the underlying distribution differs from the linear. The ZIP is a count model that corrects for the overdispersion of zeroes. Following Lambert (1992), the ZIP estimates the percentage of exports to sales as probability function for each observation i given the vector of variables x:

$$P(\text{PercentExport}=0 \text{ with probability } \rho;\ \text{Poisson}(Y) \text{ with probability } (1-\rho)) \quad (2)$$

$$\text{where } P(Y_i=\gamma_i \mid x_i=e^{\mu i}\mu_i^{\gamma}/\gamma_i),\ \gamma_i = 0, 1, 2, \ldots \quad (3)$$

Therefore, for each event *y*, the probability of *Y* = PercentExport is calculated along the vector of variables *x* specified above in the linear regression, e.g. firm controls, for each observation *i*.

Results

Table 5 presents the outcomes of the regressions for Vietnamese SMEs for the two models, along with the marginal effects for the variables of interest. For both models, three of the four main variables are positive and significant at 1 per cent; only 'FavourableGovtIncentives' is insignificant. In terms of the marginal effects, 'LittleDomesticDemand' has the greatest impact in the basic model while 'ParentSubRelationship' has the largest influence in the full model. If we use the full model to interpret these effects, we learn that a respondent indicating that the parent-subsidiary relationship is important for exporting has 5.854 per cent more exports to total sales than a respondent who doesn't think the parent–sub relationship is important for exporting. Likewise, respondents believing that little domestic demand is driving their exports have 4.901 per cent more exports to sales than those who don't think so. The Vuong test z-scores are positive and significant at 1 per cent, showing that the ZIP is a better fit to the data than a standard Poisson. The Wald Chi-squared statistic is also positive and significant at 1 per cent, suggesting that overall the model fits well.

For Indonesia, the results are more sparse; Table 6 displays the outcomes for both models and the marginal effects. 'LittleDomesticDemand' is positive and significant at 1 per cent for both models, while 'FavourableGovtIncentives' is negative and significant in the basic model. The marginal effect of 'LittleDomesticDemand' is less than in Vietnam; there is an increase of 2.148 per cent in exports to sales for the full model. As before, the Vuong test z-score and Wald Chi-squared statistic are positive and significant at 1 per cent.

Table 7 shows the results for the Philippines. 'LittleDomesticDemand' is positive and significant at 1 per cent for both models. 'FavourableGovtIncentives' is positive and significant at 5 per cent in the basic model, but drops to the 10 per cent significance level in the full model. The impact of these variables on exporting differs markedly. 'LittleDomesticDemand' has a marginal effect on exports/sales of nearly 3 per cent, while 'FavourableGovtIncentives' has an effect of just over 1 per

TABLE 6: Indonesia Exports

	(1)	(1)	(2)	(2)
	No Controls	No Controls	Controls	Controls
		Marginal effects		Marginal effects
LittleDomesticDemand	0.468***	2.670***	0.421***	2.148***
	(0.099)	(0.724)	(0.104)	(0.675)
SignificantForeignDemand	0.067	(0.315)	0.130	0.573
	(0.165)	(0.755)	(0.168)	(0.719)
FavourableGovtIncentives	-0.238*	-0.967*	-0.210	-0.791
	(0.134)	(0.539)	(0.143)	(0.518)
ParentSubRelationship	-0.138	-0.589	0.010	(0.041)
	(0.155)	(0.642)	(0.151)	(0.631)
FirmAge			-0.004	
			(0.004)	
FirmSize			-0.000	
			(0.000)	
FirmSales			-0.000	
			(0.000)	
TopMgrEduc			-0.045	
			(0.046)	
TopMgrFemale			0.369***	
			(0.114)	
PubliclyTraded			-0.614	
			(0.462)	
PrivateLLC			-0.654***	
			(0.252)	
SoleProp			-0.554**	
			(0.261)	
LimitedPartnership			-0.522*	
			(0.306)	
Constant	3.858***		4.615***	
	(0.167)		(0.524)	
Observations	1290		1276	
Wald Chi-squared	30.530***		1955.670***	
Vuong test z-score	4.550***		5.150***	

Robust standard errors in parentheses
* significant at 10%; ** significant at 5%; *** significant at 1%
Model (2) includes industry controls, which aren't shown for brevity

cent. As with both Vietnam and Indonesia, paucity of domestic demand is the most statistically significant and has the largest marginal effects on exporting of the four main explanatory variables.

I also perform some ancillary analysis to discover why SMEs choose not to export. Respondents were asked to provide reason(s) why they don't export; there were six options: foreign markets are too competi-

TABLE 7: Philippines Exports

	(1)	(1)	(2)	(2)
	No Controls	No Controls	Controls	Controls
		Marginal effects		Marginal effects
LittleDomesticDemand	0.231***	3.514***	0.227***	2.886***
	(0.058)	(0.972)	(0.058)	(0.857)
SignificantForeignDemand	0.100	1.417	0.132	1,589
	(0.089)	(1.251)	(0.089)	1,061
FavourableGovtIncentives	0.154**	2.249**	0.106*	1.271*
	(0.062)	(0.975)	(0.060)	(0.771)
ParentSubRelationship	0.049	0.684	0.006	(0.067)
	(0.063)	0.896	(0.060)	(0.692)
FirmAge			-0.009**	
			(0.004)	
FirmSize			0.000	
			(0.000)	
FirmSales			0.000	
			(0.000)	
TopMgrEduc			-0.027	
			(0.036)	
TopMgrFemale			-0.100	
			(0.072)	
PubliclyTraded			0.114	
			(0.213)	
PrivateLLC			0.155	
			(0.192)	
SoleProp			0.221	
			(0.203)	
Partnership			0.137	
			(0.217)	
LimitedPartnership			0.232	
			(0.296)	
Constant	4.011***		4.151***	
	(0.078)		(0.355)	
Observations	1206		1185	
Wald Chi-squared	34.870***		1933.860***	
Vuong test z-score	9.890***		10.190***	

Robust standard errors in parentheses
* significant at 10%; ** significant at 5%; *** significant at 1%
Model (2) includes industry controls, which aren't shown for brevity

tive, weak customs facilities in the overseas market, weak transportation facilities in the overseas market, the SME is too small to export, overseas regulatory barriers, and financial constraints the SME faces. Table 8 presents the results by country, where the percentages are the number of

TABLE 8: Reasons for not exporting

Reason	Vietnam	Indonesia	Philippines
Foreign markets are too competitive.	20,06%	16,92%	26,68%
The customs facilities in the foreign country are too weak.	1,62%	4,53%	9,98%
The transportation facilities in the foreign country are too weak.	2,10%	5,04%	8,57%
This firm is too small to export.	34,95%	49,15%	30,69%
The regulatory barriers in the foreign country are too high.	3,24%	8,55%	10,30%
The financial constraints faced by this firm are too great.	22,98%	31,11%	20,28%
Other	13,75%	9,32%	13,45%

Note: The percentages are the number of firms agreeing with the reason divided by the total number of firms not exporting. Firms could agree with more than one reason, so the percentages don't sum to 100%.

firms agreeing with a given reason divided by the total number of firms that did not export. Respondents could agree with more than one reason or fail to give a reason, so the percentages don't total 100 per cent.

Although the magnitudes differ, the first three reasons for not exporting are the same for all three countries. The belief that the firm is too small to export is the primary reason, followed by financial constraints and then the competitiveness of foreign markets. I checked the correlation of these first two reasons and the range across the three countries is 0.40 to 0.50, which suggests some collinearity but not enough to prevent treating these as separate reasons. Among the countries, nearly half of the SMEs in Indonesia that do not export gave their small size as the explanation, whereas for Vietnam and the Philippines the percentages are approximately 35 per cent and 31 per cent. Likewise, 31 per cent of respondents in Indonesia cited financial constraints as a factor, while in Vietnam and the Philippines the rate of agreement was around 20 per cent. SMEs from the Philippines find foreign markets too competitive to a greater degree than do firms from Vietnam and Indonesia, while customs, transportation, and regulatory burden are not considered to be major hindrances to exporting across the countries.

In an appendix I have included linear regressions of exports for the three countries for informational purposes. Since the Vuong test indicates that the ZIP model is an excellent fit to the data, I place more confidence in the results I have just described. The linear results support the notion that little domestic demand is a key driver for exporting.

Discussion and Conclusion

Of the four main variables tested, 'LittleDomesticDemand' consistently displays the highest statistical significance across the specifications. 'LittleDomesticDemand' is positive and significant at the 1 per cent level in all of the six regressions shown in Tables 5 through 7. Both 'SignificantForeignDemand' and 'ParentSubRelationship' are positive and significant at 1 per cent for the basic and full models in Vietnam, but not in the other regressions. The picture for 'FavourableGovtIncentives' is mixed. It is insignificant for both models in Vietnam. It is negative and significant at the 10 per cent level for the basic model in Indonesia, and insignificant for the full model. It is positive and significant at 5 per cent for the basic model and positive and significant at 10 per cent in the full model for the Philippines. The takeaways from these results are that a paucity of domestic demand correlates strongly with exporting across the three nations, the lure of foreign markets and pre-existing parent–sub relationships matter only in Vietnam, and the efforts of governments to spur exporting hardly matter at all. Hypothesis **H1** is supported, while **H2** and **H4** are only supported for Vietnam. **H3** is not supported.

Beyond the statistical significance of the variables are the marginal effects. For Indonesia and the Philippines, scarcity of home demand has the greatest impact, and is not far behind either foreign demand or existing parent–sub relationships in Vietnam in the full model. It has an effect of 5.5 per cent in the basic model in Vietnam, but more weight should be placed on the full model results as they are more robust with the inclusion of the controls. The marginal effect of the parent–sub relationship in the Vietnam full model is the largest across the six regressions at a value of nearly 6 per cent. Government incentives to export only have an effect slightly more than 1 per cent in the Philippines, which is the smallest value of the significant variables in the full model.

These results indicate that domestic market conditions tend to influence the internationalization of SMEs in these three Southeast Asian countries more so than policies designed to help small firms export. A perceived lack of opportunity in the domestic market is the most important consideration for SMEs to internationalize; domestic market conditions may push them abroad. It is unclear from the data which factors account for the paucity of domestic demand SMEs observe; e.g. competition from rivals, novelty of product offerings, lack of marketing, etc. In terms of triangulation, then, the national economic context has a decisive effect, followed by global market conditions in the case of

Vietnam. Other aspects of the national economy, such as policy, have minor influence.

These conclusions are broadly supported by the results in Table 8. Here we observe that firm size, SME financial constraints, and the competitiveness of overseas markets have the most impact on the decision not to export. The first two relate to the national economic context interacting with firm characteristics, while the third speaks to global market conditions. Weak customs facilities, weak transportation facilities and regulatory barriers are not significant for this decision. The global context and firm characteristics mattered, while certain policy areas had less bearing.

Given the efforts of governments worldwide to internationalize their firms, it is noteworthy that favourable government incentives overall had little impact on SME exports. This finding suggests that policymakers might allocate scarce resources more efficiently than by offering special terms to SMEs to export, at least in the context of these countries. An assumption of the Uppsala model is that SMEs export to access markets incrementally and increase their knowledge as Johanson and Vahlne (1977) posit. If it is the case that SMEs desire knowledge of foreign markets, then policymakers may want to consider other avenues besides exporting to acquire that knowledge. Perhaps policymakers might support specialized business education for SME owner/managers to help them obtain knowledge of foreign markets. Even generalized business education might be a boon, since learning how to grow might overcome the size constraint that many SMEs acknowledged as a deterrent to exporting. An alternative interpretation of the findings is that SMEs simply export for survival, not to glean knowledge. The perception of a harsh domestic market pushes them to trade overseas.

In their study of Dutch firms, Hessels and Terjesen (2010) draw upon both institutional theory and resource dependency theory to explain exporting by SMEs. They find that the former helps to explain the export decision while the latter explains the mode of exporting: direct versus indirect; they measure the perceptions of owner/managers with regard to competitors, customers, suppliers and investors. My findings highlight the condition of home demand on the export decision; the scarcity of home demand compels exporting by both direct and indirect means. This result may be the consequence of different perceptions of SMEs in a developed versus developing market context: the Netherlands versus Vietnam, Indonesia and the Philippines. On the other hand, Hessels

and Terjesen (2010) test a wider variety of variables, so this difference may not simply be a matter of economic development.

The research presented here has several limitations. First, owing to a paucity of reliable data about SMEs, it offers only a cross-sectional analysis of the phenomenon of exporting. A longitudinal analysis would be more robust and informative, so that one could observe changes over time. In particular, the results are correlations suggesting certain relationships; causation from the independent to the dependent variables cannot be established. Second, the study is restricted to exporting. It would be useful to know the extent to which SME owner/managers contemplate foreign direct investment as a means of market access. Third, we are measuring the perceptions of owner/managers, which may or may not comport with reality. Fourth, although the World Bank Enterprise Data is among the best for examining SME operations globally, there are variables of interest that are not available. It would be useful to know the role of intermediaries and the activities of multinational companies as they relate to the SMEs across the three countries, but this information is not included in the data. Last, I was not able to test the impact of the third point of the triangle, the societal context, on exporting. These limitations form a helpful guide for future research, as addressing them should increase knowledge of the market orientation of SMEs for academics, policymakers and practitioners.

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NOTES

1 The International Finance Corporation (IFC) World Bank defines an SME as an enterprise employing 300 or fewer workers. The definition of an SME can differ widely among countries both within categories such as employment and the parameters that are applied. The most common parameters are employment, sales turnover, and assets, with the first being the most common. The IFC definition is broadly consistent with the individual definitions used by Vietnam, Indonesia and the Philippines.

2 Vietnam is an illustration and somewhat typical of both Indonesia and the Philippines in terms of the distribution of SMEs in high-tech/low-tech sectors as well as internationalization activities. Only 1% of Vietnamese firms are in electronics, and

less than 1% are in IT. Furthermore, only 2% of Vietnamese SMEs are engaged in any form of foreign direct investment.

3 Both Block and Evans have written extensively on globalization, national economies and the state: cf. Evans 1997 and 1995, and Block 1994.

4 PPP GDP is purchasing power parity gross domestic product. It measures the value of an economy based on what a market basket of goods and services costs in that economy relative to the same basket in another economy. In this case, the comparison is to the US and the figure is in US dollars; the effect is to equalize the costs of goods and services across nominal exchange rates so that standard comparisons can be made between/among nations.

5 The source document for the WBESP sampling techniques may be found at https://www.enterprisesurveys.org/documents/Sampling_Note.pdf. The verbiage and facts of sampling are from this document; please see it for a complete description.

6 The complete scale is: 1-no education, 2-primary school education, 3-secondary school education, 4-vocational school education, 5-university degree, 6-graduate degree from a domestic university, and 7-graduate degree from an overseas university.

7 The industries are: Other Manufacturing, Food, Textiles, Garments, Chemicals, Plastics, Non-metal Mineral Products, Basic Metals, Fabricated Metal Products, Machinery and Equipment, Electronics, Construction, Vehicle Services, Wholesale, Retail, HotelRestaurant, Transportation, and Information Technology (IT).

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APPENDIX: Linear results

	Vietnam	**Indonesia**	**Philippines**
Dependent variable:	Exports	Exports	Exports
LittleDomesticDemand	0.054	0.190***	0.097**
	(0.041)	(0.057)	(0.046)
SignificantForeignDemand	0.803***	0.811***	0.727***
	(0.028)	(0.036)	(0.036)
FavourableGovtIncentives	0.119**	0.095	0.024
	(0.046)	(0.081)	(0.042)
ParentSubRelationship	0.443***	0.285***	0.264***
	(0.077)	(0.088)	(0.046)
FirmAge	0.001	-0.000	-0.001
	(0.001)	(0.000)	(0.000)
TopMgrEduc	0.011	0.003	-0.002
	(0.007)	(0.003)	(0.010)
TopMgrFemale	0.040*	-0.003	-0.012
	(0.021)	(0.008)	(0.016)
PubliclyTraded	0.014	-0.016	0.084***
	(0.096)	(0.019)	(0.032)
PrivateLLC	0.035	0.048**	0.093***
	(0.054)	(0.021)	(0.022)
SoleProp	-0.023	-0.001	0.053**
	(0.050)	(0.013)	(0.023)
Partnership	-0.051	0.000	0.144***
	(0.058)	(0.000)	(0.042)
LimitedPartnership	-0.048	0.026	0.006
	(0.050)	(0.022)	(0.039)
Constant	-0.011	0.009	0.034
	(0.061)	(0.029)	(0.061)
Observations	853	1278	1189
Adjusted R-squared	0.710	0.810	0.660
F-statistic	263.380***	148.800***	379.500***