THE IMPORTANCE OF RESOURCE-BASED VIEW IN EXPORT PERFORMANCE OF SMEs IN THAILAND

Theingi
Department of Marketing, ABAC School of Management,
Assumption University

Sharon Purchase, Ph.D.
Information Management and Marketing, Business School,
University of Western Australia

Abstract

This study focuses on the importance of manufacturing SMEs in the Thai export economy and develops propositions based on the Resource-Based View adapted from the Strategic Management literature. This study also highlights the important link between variety of firm resources and export performance.

Introduction

Advances in transportation, communication, and technologies have resulted in an increasing number of Small and Medium Enterprises (SMEs) pursuing opportunities in international markets (Knight 2000). As a result, SMEs have become critical players in national economies and world trade. Exporting is the most popular mode of international market entry for SMEs (Katsikeas et al. 1998; Leonidou et al. 2002a). However, little is known about how such firms operate and prosper under globalization (Acs 1999; Knight 2000).

SMEs are particularly important in contributing to exports of manufactured goods in Southeast Asia (Sawhney 1998). Among Southeast Asian nations, Thailand, known as the fifth tiger in Asia, is a country where export performance plays a crucial role in its economy, and hence this study focuses on export performance of manufacturing SMEs in Thailand.

Although there is a wealth of research in the area of export performance, the existence of major inconsistencies is often recognized by researchers (Cavusgil and Zou 1994; Katsikeas et al. 1998; Leonidou et al. 2002a). The typical problems are the multiplicity of determinants of export performance, the large number of different measures of export performance and the lack of a consistent theoretical framework (Zou and Stan 1998).

Many empirical studies have researched the determinants of export performance, such as firm characteristics, managers’ characteristics, external environments and marketing strategies. Despite the fact that the Resource-Based View (RBV) appears more frequently in strategic management literature, Peng’s (2001a) study indicated a lack of RBV studies in export and international marketing disciplines (Srivastava et al. 2001). It is well-recognized that, firm resources, are crucial in influencing internationalization of SMEs (Jones 1999) and important determinants of export performance (Leonidou et al. 2002b; Zou and Stan 1998). However, most studies have looked at firm resources in general, and hence the effects of specific firm resources on export performance have not been investigated. Therefore, it is important to fill this gap by investigating the role and influence of firm resources on export performance in Thailand, highlighting the link between the resource-based view and export performance.

Thailand: Export Economy

Thailand is an export-oriented country where exports account for around 47% of the gross domestic product (GDP) (IMD 2000). Thailand had the 20th largest export market share in the world in 2000 and accounted for the 7th largest gains in market share during 1985-2000 (World Investment Report 2002). Thailand’s present export structure reveals a greater diversity in terms of both products and markets than its main competitors (The National Identity Board 2000).

It is widely accepted that Thailand’s economic recovery lies with strong export growth, and exports were among the key engines driving Thailand’s economic
recovery in 2002 (Maneerungsee 2002). Moreover, the advantages of low-priced handling, cheap labor and inexpensive storage cost offered by Thailand, and its strategic location at the centre of South East Asia have helped to make it an export platform in Asia (Country Commercial Guide 2002).

Underpinning the importance of the export sector's contribution to the Thai economy, the manufacturing industry is crucial to export competitiveness and Thai economy. The growth of the manufacturing sector is directly related to export growth in the manufacturing sector (Bangkok Bank 2000). It is evident that the export manufacturing sector is an important aspect of the Thai economy.

More than 90% of the total number of establishments in the manufacturing sector in Thailand are SMEs (APEC 2003). Therefore, the Thai government promotes and assists SMEs, especially those in the manufacturing sector, to improve export competitiveness of Thailand in an increasingly competitive global environment (Japan Bank for International Cooperation 2003).

Why study SMEs?
SMEs are important in many countries due to their large number, the employment they provide and growth opportunities, making them worthy of further research (Moen 2000a). This study aims to focus on SMEs based on the following reasons: Firstly, more than 90% of firms in most ASEAN countries are SMEs (APEC 1998). In the Asian economies, SMEs contribute between 25-35% of world exports (OECD 2000; World Investment Report 1999) and provide 35% of direct exports (Acs 1999). Secondly, despite the crucial role of SMEs to the country economy, there are only limited, poor quality data on SMEs in Southeast Asian countries (Bjerke 2000). Finally, in Thailand, SMEs account for 80% of producers and contribute 70% of all employment (Bunyamanee 2000); they are therefore important to the Thai economy.

SMEs in Thailand
Thai SMEs are characterized by their lean organizational structure, their limited resources and their lack of core competencies (Regnier 2000). SMEs also face financial problems due to lack of capital and difficulties in securing credit from formal financial institutions (Eiamkanitchat 1999). They also encounter supply constraints and rising input costs because of the depreciation of the Thai baht (Regnier 2000). Difficulty in acquiring information, lack of managerial export experience and weak formal planning systems are also internal barriers faced by Thai SMEs (Regnier 2000). In addition, most Thai SMEs are family owned and they have limited capabilities in financial management, market research, administration, and analysis of markets as well as cost benefits (Eiamkanitchat 1999).

Despite those challenges, SMEs in Thailand represent the backbone of the economy, especially in the manufacturing sectors and export-oriented industries (Phuangketkeow 2003). Thus, discovering how Thai SMEs operate and perform well in their export markets is of vital importance to Thai manufacturing exporters, export intermediaries, policy makers and researchers.

Definitions of SMEs
The definition of SMEs varies across countries (APEC 2002; OECD 2000) and at present, there is no generally agreed definition of SMEs in Thailand (see Table 1 for more details). SMEs are referred to non-subsidiary, independent firms which employ fewer than a given number of employees (OECD 2000). In this study, SMEs are defined as "firms with fewer than 500 employees" because: 1) potential growth in exports are the greatest among this group in Thailand (Julian 2003); and 2) previous empirical studies (Naidu and Prasad 1994; Piercy et al. 1998; Styles and Ambler 2000) have used the same definition, which could allow comparability of data across studies.
**Table 1: Definitions of SMEs**

<table>
<thead>
<tr>
<th>Firm size</th>
<th>Ministry of Industry, Thailand</th>
<th>APEC</th>
<th>(Naidu and Prasad 1994; Piercy et al. 1998; Styles and Ambler 2000)</th>
</tr>
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<tr>
<td>Small firm</td>
<td>Fewer than 50 employees. Invested capital not exceeding 10 million baht (about 250,000 US$)</td>
<td>Fewer than 50 employees. Invested capital not exceeding 20 million baht (about 500,000 US$)</td>
<td>Fewer than 500 employees.</td>
</tr>
<tr>
<td>Medium firm</td>
<td>Between 50 to 200 employees. Invested capital between 10 to 100 million baht (approximately between 250,000 to 2,500,000 US$)</td>
<td>Between 50 to 200 employees. Invested capital between 20 to 100 million baht (approximately between 500,000 to 2,500,000 US$)</td>
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**Literature Review and Conceptual Development**

The Resource-Based View (RBV) describes a firm as a unique bundle of tangible and intangible resources (assets, capabilities, competencies, organizational processes, firm attributes, information and knowledge and so forth) that are controlled by the firm (Barney 2002). These resources enable a firm to implement strategies designed to improve its efficiency and effectiveness (Barney 2002; Camelo-Ordaz et al. 2003). The resource-based view suggests that valuable firm resources are usually scarce, imperfectly imitable and lacking in direct substitutes (Peteraf 1993). A firm’s resource must have four attributes: 1) it must be valuable; 2) it must be rare among a firm’s current and prospective competition; 3) it must be imperfectly imitable; and 4) it cannot be substituted for strategically equivalent resource (Barney 1991).

There is a controversial issue on whether the resource-based view should be recognized as a theory (Priem and Bulte 2001). While some researchers applied the “Resource-Based Theory” in their studies (Andersen and Kheam 1998; Conner 1991), some conservative academics just use the term “Resource-Based View (RBV)” and regard it as a potential theory (Barney 2001; Collis 1991; Mahoney and Pandian 1992; Michalisin et al. 1997) arguing that many RBV studies are not empirically grounded (Conner 1991; Grant 1991). However, there are some empirical studies that constitute direct tests of the resource-based theory (Barney 2001). Since there is very limited application and empirical studies of RBV in export literature, this study uses the term “Resource-Based View (RBV)” to be conservative.

Although it is understood that the resource-based view focuses internally on the firm and its resources (Jarema 1996), a fundamental idea in the resource-based view is that a firm must continually enhance its resources and capabilities to take advantage of changing conditions (Pettus 2001). A firm can change to acquire new competencies that can shift the competitive environment in its favor (Pettus 2001).

**Classifications based on resource-based view**

The strategic management literature provides different classifications of resources. Some empirical studies used simple classifications such as tangible and intangible resources (Michalisin et al. 1997). Human resources (for example, knowledge and experience of managers), technological resources, reputation and organizational assets are also categorized as intangible resources (Andersen and Kheam 1998). Penrose (1959) claimed that the firm is a collection of productive resources: physical and human resources. However, physical, tangible resources are not necessarily rare resources because they are often purchasable on the open market (Michalisin et al. 1997). Thus, intangible resources receive more attention from researchers as they are difficult to imitate (Hall 1993; Michalisin et al. 1997). Thus, for this study, the firm resources' category is made up of a combination of classifications in the above mentioned studies.
The effect of firm resources on export performance

The following comprehensive classification is developed based on the resource-based literature. In the following propositions after each classification, the firm refers to SMEs in Thailand.

Physical resources

Physical resources include the physical technology used in a firm, plant and equipment, its geographic location and its access to raw materials (Barney 1991). Although physical resources such as proprietary process and equipment may be able to imitate in the long term (Schroeder et al. 2002), continuous development and improvement of resources and capabilities could help firm to maintain its competitive advantage. Moreover, superior export performance is linked to advantages in physical resources (Piercy et al. 1998). Therefore, the following proposition has been developed.

P1: There is a positive relationship between firm’s physical resources and its export performance.

Financial resources

Firms need to gain access to one of the important resources, capital input, in entering an industry (Guillen 2000). The availability of capital and ability to acquire financial capital allows the firm to overcome problems and to pursue a broader range of activities (Westhead et al. 2001). It was found that the amount of capital contributed a positive association with marginal survival and growth (Cooper et al. 1994) as financial resources are basic requirements to implement business operations. Moreover, adequate financial resources are positively associated with high level of performance (Piercy et al. 1998). This leads to the following proposition.

P2: There is a positive relationship between firm’s financial resources and its export performance.

Human resources

Despite the fact that the role of human resource management is an internal determinant of export performance, it has not been explicitly examined in the literature (Gomez-Mejia 1988). Human capital resources include the training, experience, judgment, intelligence, relationships, and insight of individual managers and workers in the firm (Barney 1991; Camelo-Ordaz et al. 2003).

RBV suggests that human knowledge and skills are the most important resources to many business operations (Wang and Olsen 2002). Human resources in this study focuses on managers rather than employees since the availability of educated and experienced individuals (especially decision-makers with a wide variety of skills and networks) are regarded as key factors influencing business survival and development (Bjørke 2000; Westhead et al. 2001). Manager’s international experience, competence and commitment to a particular export venture contribute to export performance (Cavusgil and Zou 1994). Therefore, it is important to examine how these valuable human resources contribute to export performance in the Asian context.

P3: There is a positive relationship between firm’s human resources and its export performance.

Technological resources

Process-related knowledge such as technology and operational know-how are also important firm resources (Guillen 2000). A high technological intensity was indicated by a high research and development expenditure and technology know-how (Dhanaraj and Beamish 2003). Evidence on the effect of technology intensity on export performance was mixed and the role of technological resources in export performance has not been clearly demonstrated. However, it was claimed that firms with high technology competencies perform better at exporting (Chetty and Hamilton 1993) and the intensity of research and development is a prominent export success factor (Gemunden 1991; Kotabe et al. 2002). Thus, it is worth investigating how technological resources influence export performance of SMEs in the Thai context.

P4: There is a positive relationship between firm’s technological resources and its export performance.

Organizational capabilities

Intangible resources such as reputation of firms, products and services and organizational culture are positively associated with future performance (Michalisin et al. 2000). Intangible resources and capabilities such as close relationships with customers, close cooperation among managers and a sense of loyalty to the firm are productive assets that are difficult to observe, describe and value but that can have a significant impact on a firm’s performance (Barney 2002).
One aspect of organizational capabilities that has been researched in the export literature is organizational structure. Good organizational structure could enhance the firm’s ability to manage change and team working abilities, both of which are an important part of organizational resources (Hall 1993). Another aspect of organizational capabilities that has been extensively researched is that of information usage and marketing research. Acquisition of useful information about customers and export markets are important sources of firm intangible resources (Hall 1993; Michalisin et al. 1997). Awareness of foreign market opportunities is commonly acquired through social contact linking decision makers with others abroad (Ellis and Pecotich 2001; Leonidou and Adams-Florou 1999). The same is also true in Thailand as the study found that 82% of international market research was obtained through personal visits to foreign markets (Koh et al. 1993). Moreover, a review on 50 studies conducted in 18 countries concluded that export-oriented information activities had a positive relationship with export success (Gemunden 1991). Hence, these organizational capabilities should be paid an extra attention.

P5: There is a positive relationship between firm’s organizational capabilities and its export performance.

Marketing capabilities

The export literature suggested that exporting firms seeking opportunities in world markets should develop their own marketing capabilities (Haar and Ortiz-Buonafina 1995). Marketing capability is defined as a company’s ability to market and sell its products effectively and efficiently (Rangone 1999).

The previous empirical studies found that marketing capability in terms of export knowledge and expertise were found to be directly responsible for export profitability (Pope 2002; Wang and Olsen 2002). In the export literature, successful export marketing management was also facilitated by export experience in general and to an even larger extent by country-specific export experience (Madsen 1989). Atuahene-Gima (1995) and Kirpalani and Macintosh (1980) also found that international market experience has a strong impact on export performance. Hence, the firm’s marketing capabilities are crucial for export success.

P6: There is a positive relationship between firm’s marketing capabilities and its export performance.

Production capabilities

Previous studies have strongly argued that production capabilities such as acquisition of appropriate production equipment and proprietary process are an important contribution to firm performance (Schroeder et al. 2002). A review of previous studies concluded that product strength (which was measured in terms of product uniqueness, product quality, design, before and after sales service) had a positive relationship with export performance (Madsen 1987; Pope 2002). Conformity to specification is also identified as an important production capability in the literature (Rangone 1999). In addition, possessing product quality was a distinctive characteristic of successful exporters (Bilkey 1987a; Christenson et al. 1987; Louter et al. 1991). Previous studies conducted in the Western countries consistently indicated the importance of production capabilities to export performance and the same could be true for manufacturing exporters in Thailand. Thus, the following proposition has been developed.

P7: There is a positive relationship between firm’s production capabilities and its export performance.

Hence, the resource-based literature indicates that the availability of resources is important to gain competitive advantage and affects firm performance. However, most studies do not include a comprehensive classification of resources. Thus, it is crucial to highlight the applicability of resource-based view in explaining export performance. Figure 1 shows the relationships of firm resources and export performance.
**Conclusion**

This research makes two major academic contributions. Firstly, it enhances the understanding and applicability of the resource-based view within the export marketing discipline. Secondly, the findings from this research provide a unique contribution to SMEs research, particularly for export driven economies such as Thailand. As to its managerial contribution, this study provides information to export managers in allocating their budgets and efforts on enhancing particular resources which contribute most to the export performance of firms. Therefore, future research on the propositions developed in this study will provide an impetus in improving export performance of SMEs in Thailand.
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