
IMPACT OF GOVERNMENT EXPORT ASSISTANCE ON INTERNATIONALIZATION: AN EVIDENCE FROM EMERGING MARKET NATION

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Abstract

The purpose of this paper is to examine the effects of government assistance programmes on internationalization of small to medium-sized enterprises (SMEs) from an emerging market. The study provides a guideline for SME managers as to how they can benefit from both categories of export assistance programmes in improving their positive attitudes towards the export market environment, building their knowledge and enhancing commitment to exporting for better success in their international operations. Objective data were collected for empirical testing of the framework using a quantitative research method where SEM technique was used to estimate the parameters in the model to reveal their direct and indirect effects. Results suggest that the usage of market development-related government assistance significantly influence internationalization directly as well as indirectly via other determinants, whereas finance- and guarantee-related assistance has only indirect effect. The conceptualization, research methods and results are discussed in this article to conclude with implications of the study, and highlight its limitations for future research needs.

Keywords: Exports, International business, Small to medium-sized enterprises, Developing countries, Indian

Introduction

Research into the internationalization of SMEs has emphasized the role of human capital related elements of the firm such as managers' attitude and perceptions toward risks and rewards of international market, their experience, commitment and strategy that influence performance of the firms' international activities. These entrepreneurial/managerial resources are in short supply in most SMEs that discourage them to explore international market opportunities (Czinkota, 1994). Government assistance programmes as an "external change agent" define the premise for successful international activities of the corporate sector and play a key role in stimulating international business activities of domestic firms. The theory of incremental expansion of international activities of a firm is well recognized

in the literature that explains the gradual process of internationalization of SMEs from their non-export stage to different stages of export and finally global manufacturing. Internationalization process (IP) theory (Johanson and Vahlne, 1977, 1990) suggests that a firm's commitment to international market increases gradually with their increased market knowledge and experience of exporting where government assistance as an external "change agent" stimulate awareness, interest and trial at the initial stages.

Literature Review

An extensive search of the literature reveals that export performance related studies are narrowly focused on firm- and management-related internal determinants of export performance. Not many past studies thus far

have explored the impact of export assistance programmes on firm export performance in a rigorous and systematic manner. While some studies concentrate on developing and targeting such assistance and implicitly offered guidance to assistance providers regarding allocation of their resources (Moini, 1998; Seringhaus and Botschen, 1991), only a few studies examined the effect of using such programmes on export performance (Gencturk and Kotabe, 2001; Singer and Czinkota, 1994). Despite their significant contributions in conceptualizing the effect of export assistance on firms export performance, they failed to investigate the complex interrelationship among the internal firm-related factors and this external "change agent" for stimulating internationalization of SMEs. A recent study, for instance, reveals that the total impact of export assistance on annual export performance improvement became non-significant because the direct positive effect was severely affected by its negative indirect effect via export pricing strategy adaptation (Lages and Montgomery, 2005). This surprising result indeed indicates the complexity of the relationship that cannot be uncovered in a simple model.

Objective of study

The major objective of this paper is to investigate the direct and indirect impact of SMEs' usage of export assistance on their internationalization success. To achieve this objective, we developed a research framework drawing on the related literature to conceptualize the complex interrelationship among the internal firm-related factors and usage of export assistance as the external "change agent".

Conceptual framework and hypotheses

As indicated earlier, the primary purpose of this study is to explain the complex interrelationship among firm and management related internal factors and the usage of export assistance programmes in SMEs' internationalization. We develop a research framework

to depict the relationships among the variables under study. The role of internal firm and management related factors on the internationalization of a firm cannot be denied. According to the resource based theory of international business, the human capital and resource related factors of the firm are indeed prime stimulants of its international activities. Resource-based view (RBV) of the firm categorically emphasizes on these firm resources and capabilities to build sustainable competitive advantage of the firm in its served market. From that perspective, entrepreneurial and managerial knowledge and skills are valuable inimitable human capital in the form of knowledge of markets, technologies, consumer preferences, business connection, overseas market environment and legal procedures that create sustainable competitive advantage for the firm and enhance organizational capabilities to mobilize company resources for its internationalization activities (Ruzzier et al., 2007). Given the SMEs' shortage of such resources, especially knowledge of market, SME managers are either unaware of international market opportunities or uninterested to explore any such opportunities, even if it is known. Czinkota (1994, p. 96) argues that export assistance "aim at the organizational characteristics and capabilities of the firm and try to improve those" as well as "work with the managerial characteristics and contribute to their positive change". This suggests that export assistance as an external "change agent" helps small firms develop their organizational capabilities and competencies to exploit opportunities for internationalization. Francis and Collins-Dodd (2004) provided empirical support for this argument where greater use of export assistance was found to contribute to the achievement of export market knowledge and product-market objectives, and enhance export capabilities and competencies of Canadian SMEs at their early stages of export operations.

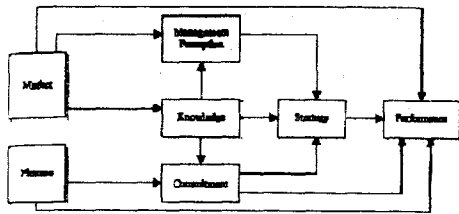


Figure 1. Conceptual framework

The proposed framework in Figure 1 shows interrelationships among variables in the model. First we propose direct effect of the use of market development-related, and finance and guarantee-related assistance on the firm's export performance as well as three firm and management related factors (management perception of the export market environment, export knowledge, and export commitment), which influence export strategy and export performance directly and indirectly. Therefore, these three firm- and management-related factors and export strategy become simultaneously dependent variables (being explained by the usage of export assistance programmes) and explanatory variables (explaining strategy and export performance). SEM technique has the capability to estimate direct and indirect parameter value of the independent variables in the model. These interrelationships are conceptualized in this section and a number of hypotheses have been developed for empirical testing. Export assistance programmes refer to all public measures designed to assist firms' exporting activity. Perceptions relate to managers' levels of awareness of, and concerns about external environmental influences, particularly international market opportunities and threats. Export knowledge in this context relates to both knowledge of exporting procedures and knowledge of the foreign market. The export commitment is defined as a general willingness by management to devote adequate financial, managerial and human resources to export related activities. The presence of any formal strategies in the

firm for entering into new country market, expansion of export products and other marketing programme related activities is defined as export strategy. Export activities are sole international activities of most SMEs, therefore, performance in SMEs' internationalization is defined as the extent to which the firm's objectives with respect to exporting are achieved.

Managers' favorable attitude toward foreign market environment tends to encourage the existing exporting firm to consider international expansion as an attractive path for the growth of the firm. However, due to the complexity of the international business environment and the comparative scarcity of resources, small and medium-sized firms are at a disadvantage if they decide to compete internationally (Serinhaus, 1986). The uncertainties of the oversea market expansion, ignorance about foreign markets, and the daunting nature of international marketing processes all militate against such firms' international market commitment (Bilkey and Tesar, 1977). Export assistance offered by government agencies includes a variety of initiatives to deal with different export barriers. This helps overcome mental barriers and develop managers' positive perception toward international operations. Singer and Czinkota (1994) conceptualized the role of export assistance in overcoming managers' barriers at different stages of international marketing operation and argued that export assistance programmes stimulate managers' positive attitudes and perception toward international marketing by increasing, accelerating, and substituting foreign market knowledge, and gain experiential knowledge toward increasing their commitment and international marketing activities. On the basis of empirical findings, Geneturk and Kotabe (2001) argued that the usage of export assistance programmes influence both export efficiency and competitive position of the firm. This brief review indicates the impact of export assistance programmes on firm performance in international marketing. This also provides some conceptual

foundation to the proposition that the usage of export promotion programmes increases firms' informational and experiential knowledge stimulates managers' positive attitudes and perception toward international marketing and market environment and increases export commitment. Therefore, this study proposes the following hypotheses:

H1. The use of market development-related export assistance programmes positively influence (a) management perception of foreign market environment, (b) international marketing knowledge, (c) commitment to international marketing and (d) firm performance in international marketing.

H2. The use of finance and guarantee-related export assistance programmes positively influence a firm's (a) commitment to international marketing and (b) performance in international marketing.

For many firms contemplating export market entry, exporting knowledge and information gaps create a barrier (Reid, 1984) and subsequently discourage them from pursuing exporting as an ongoing activity. Gripsrud (1990) identified that the more experienced the firms were in exporting to a foreign market, the more positive the attitude they would have toward that market. Therefore, it has been suggested that acquisition of knowledge through experience from business operations in a specific overseas market is the primary means of reducing foreign market uncertainty and consequently becomes a driving force in the internationalization of the firm. Those firms with a high degree of international exposure are generally more able to manage and overcome potential barriers in export markets. As a firm gains more market experience and knowledge, firms gradually gain positive perceptions of export market environment. Internationalization process theory (Johanson and Vahlne, 1977, 1990) also focused on firms' gradual acquisition, integration and use of knowledge about foreign markets and operation, and on their successively increasing commitment to foreign

markets. The theory indicates that the lack of knowledge and resources are most important obstacles to internationalization for SMEs and these obstacles are reduced through incremental decision making and learning about the foreign markets and operation. This indicates a direct relation between knowledge and commitment.

A firm's physical resources and its capabilities (i.e. the mental models of its managers) interact to create competitive advantage (Mahoney, 1995). McKee and Varadarajan (1995) argue that competitive advantage is the cornerstone of strategy, and enacted knowledge is the essence of competitive advantage. Lack of this knowledge makes international activities more risky and exotic, especially for SMEs. On the other hand, improved knowledge will significantly reduce the perceived barrier and complexity of international activities and help to implement proactive international marketing strategies. Singer and Czinkota (1994) found that export knowledge increases pre-export activities such as decision, planning, contacts and channels. The use of government export assistance gives managers more information and experience to help them overcome perceived barriers and increase their level of pre-export activity. Therefore, knowledge may help a small firm select its initial export markets and formulate and implement its proactive marketing strategies more effectively. SMEs' international market knowledge is a critically important competence and it facilitates forming their managers' positive attitude toward international marketing and its environment as well as building commitment and a proactive strategy, which consequently influence their performance in international activities. Drawing on the above discussion, the following hypothesis will be tested:

H3. The firm's international marketing knowledge is positively related to (a) management perception of foreign market environment, (b) commitment, and (c) strategy.

Researchers asserted that interest and commitment

among the top management levels is a critical determinant in carrying out the international marketing functions. The willingness of top management to commit resources to the formulation and implementation of international marketing strategies is the important ingredient needed to produce an aggressive international marketer (Lim et al., 1993). When managers are committed to international marketing activity, they carefully plan the entry and allocate sufficient managerial and financial resources to it. With formal planning and resource commitment, uncertainty is reduced and marketing strategies can be implemented effectively. High management commitment also allows a firm to aggressively go after the international market opportunities and pursue effective international marketing strategies that improve performance. Empirical studies suggest that there is positive relationship between the commitment to and performance in international marketing. Cavusgil and Nevin (1981) in particular reported that commitment to international marketing is causally related to performance, which was further confirmed by Grønhaug and Lorenzen (1982). Top management commitment has also been seen as critical to successful business performance in foreign markets, particularly during the early stages of internationalization. This leads to the following hypothesis to be tested:

H4. Management commitment is positively related to a firm's (a) international marketing strategy and (b) performance.

Managers' positive attitude and perception toward overseas marketing operation and its environment has a positive impact on performance because it encourages the manager to adopt a more proactive strategy for the firm. Environmental influences significantly affect decision making of some managers who perceive the environment unfavorably, which in turn seriously affects their overseas marketing involvement and in developing proactive strategies. A SME manager perceive high risks in international

marketing due to the lack of knowledge of foreign markets and cultures, perceived difficulty in finding the right trading partner, and see currency fluctuations as critical problems. This severely affects the firm's chances of extending markets beyond their national boundaries and exploiting overseas market potential. Managers who perceive the export environment favorably tend to search for and organize the acquisition of environmental information to make proactive strategies and rational market entry decisions. Moreover, Axinn (1988) posited that managers' positive perceptions of the relative advantages and complexity of overseas marketing are important for their strategy making. Drawing on the above discussion, the hypothesis for testing is:

H5. Management perception of overseas market environment is positively related to a firm's international marketing strategy.

Success in international marketing activities on a firm is not an accident. It requires proactive strategy and detailed planning and implementation of strategies. Strategy is the means by which a firm responds to market forces to meet a firm's objectives. The export literature increasingly reflects the importance of strategy on export success. Empirical studies unequivocally suggest that a firm's performance in its international activities is determined by its strategies and management's capability to implement the strategies as a whole (Aaby and Slater, 1989). Proactive SME managers look for sufficient market information to find opportunities for increasing market share and expanding product line in existing market(s), market expansion for existing products, and even diversify international marketing activities in other market(s) on the basis of their experience. Drawing on this brief review the following hypothesis on international marketing strategy and performance was tested:

H6. A Firm's international marketing strategy positively influences its performance.

Research Methodology

Sampling and data collection procedures

A causal research design was used to test the hypotheses with data collected from small and medium-sized exporting firms in Indian. A random sample of 1,200 firms was selected from the sampling frame of 3,230 firms provided by several Government Departments and Trade Associations of these industries. A preliminary version of the questionnaire was pre-tested before final survey. A survey pack containing a personalized letter, a copy of the questionnaire and self addressed prepaid return envelope was sent to a senior executive of each of the sample firms. The recipient had also been instructed to pass it to the appropriate manager in the firm who is responsible for making international marketing decisions. After a telephone follow-up for a more personalized approach of soliciting participation a total of 223 completed questionnaires were received but 15 cases were excluded for incomplete responses. Five cases were excluded as multivariate outlier leaving 203 usable cases for analysis. Almost all the respondents were directly involved in international marketing activities of their firms – 57 percent managers or commercial officers, 27 percent managing director, 8 percent CEO, and 7 percent director and general manager in charge of international marketing activities.

Measurement of Variables

All variables in the model are latent variables with the exception of the use of export promotion programmes. Multi-item scales were used to operationalize all variables. Two construct measures of the export promotion programmes were developed with 19 export assistance schemes that were widely available to the business community in Indian. Respondents were asked to indicate their usage of each programme over the past three years prior to this study (Gencturk and Kotabe, 2001) and the level of benefit the services provided to their exporting activities. A seven-point

scale was used to rate the level of benefit of the services (1= not at all beneficial; 7= extremely beneficial). The level of perceived benefit was used to weigh each service used by respondents, and the sum of weighted usage of export assistance programmes was used as indices for analysis. A total of 12 out of 19 such assistance programmes were categorized as market development-related programmes and the index "market" was developed. The remaining seven assistance programmes were categorized as finance and guarantee-related programmes and the index "finance" was developed with the sum of weighted usage of those programmes by responding firms.

Drawing on the literature, 17 items were used to measure managers' attitude and perception toward foreign market environment, and eight items each for managers' knowledge, commitment, and strategy variables. Respondents rated each item on a seven-point scale (1 ¼ strongly disagree and 7 ¼ strongly agree). The subjective measure of performance was used in this study where four items were drawn from past studies to suit the research context of this study. Respondents were asked to indicate whether their firm expectations were met over the past three years on overseas sales, profit, sales growth, and new market entry on a seven-point scale (1= much below expectations, 7= much above expectations). Scale reliability tests (Cronbach Alpha) for the variables were found close to or above the acceptable level of 0.7 (Nunnally, 1978). The arithmetic average of items was used to form the indices.

Data analysis

Structural equation modeling (SEM) in AMOS version 5 was used to test the multiple causal relationships among variables in the model for its ability to estimate a series of interrelated dependence relationships simultaneously (Byrne, 2001). SEM normally uses factor analyses to estimate latent variables in the measurement and final model but variables are

measured as observed in this study as discussed in the previous section. The hypothesized path model was tested to estimate effects of the antecedent variables on export performance by setting the significance level at $p = 0.05$. The summary statistics for goodness of fit (GFI=0.968, IFI= 0.968, NFI= 0.956, TLI= 0.903, and CFI= 0.968) indicate a good model fit. SEM results are shown in Figure 2 and are summarized in Table 1.

Results and discussion

AMOS representation of the empirically tested structural model of export performance is shown in Table 1. The empirical evidence on the direct and indirect effect of the usage of the market development related export assistance programmes on management perception of international market environment, firm international marketing knowledge and performance supports the main thesis of this study (H1a, H1b, and H1d). However, results suggest a negative impact of

the use of market development-related assistance on commitment. This may indicate that while market development-related assistance tends to improve managers' positive attitude toward exporting and help gain experiential knowledge, the programmes are not quite useful to motivate managers toward devoting more resources for international marketing activities of the firm. Interestingly, finance and guarantee-related assistance positively influence SMEs' commitment (supporting H2a). However, results suggest that the direct relationship between the use of finance and guarantee-related assistance and performance is not significant. This indicates that the SMEs are more committed to devote resources to international marketing activities by using finance and guarantee-related export assistance, which creates a competitive position for the firms in international markets to achieve better performance.

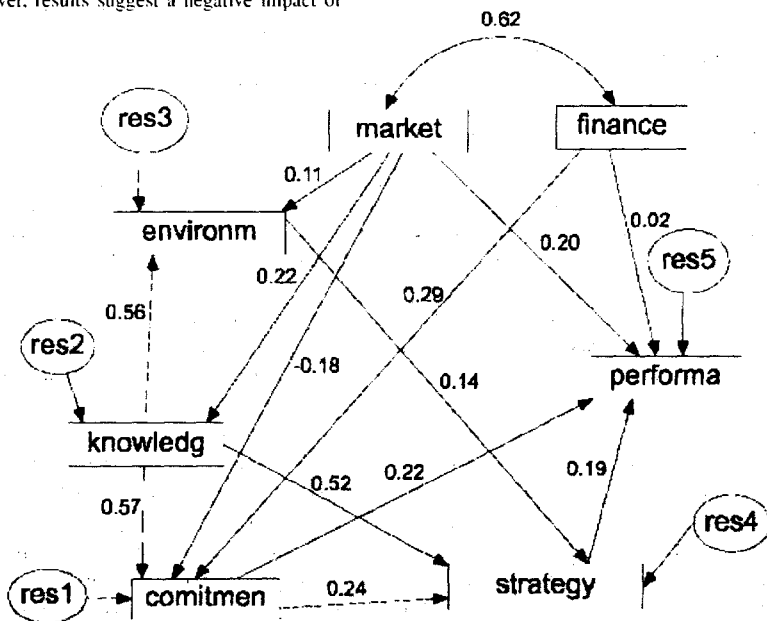


Figure 2: Structural Model

Table I. Results of the Analysis of the Structural Equation Model

Structural Model	Standardized Estimate	Standard Error	Critical Ratios	Conclusion
Market → Perception	0.11	0.001	1.892*	H1a : supported
Market → Knowledge	0.22	0.002	3.187***	H1b : supported
Market → Commit	-0.18	0.002	-2.498**	H1c : not supported
Market → Performance	0.21	0.004	2.518**	H1d : supported
Market → Commit	0.28	0.008	4.052***	H2a : supported
Market → Performance	0.03	0.012	0.298	H2b : not supported
Market → Perception	0.56	0.042	9.577***	H3a : supported
Market → Commit	0.57	0.068	9.928***	H3b : supported
Market → Strategy	0.52	0.081	8.257***	H3c : supported
Market → Strategy	0.24	0.058	4.458***	H4a : supported
Market → Performance	0.22	0.103	2.802***	H4b : supported
Market → Strategy	0.14	0.098	2.518**	H5 : supported
Market → Performance	0.19	0.095	2.395**	H6: supported

Note: Significance level: *p d" 0.05; **p d" 0.01; ***p d" 0.001

Results provide support for H3a, H3b, and H3c that means SMEs' international marketing knowledge has positive impact on management perception of foreign market environment, commitment to international marketing activities and strategy. The result indicates that a high degree of knowledge about the foreign market environment and the international marketing process tends to help managers to manage and overcome potential barriers and gradually gain a positive perception of the foreign market environment. This result is consistent with the findings of Davidson (1982) and Johanson and Vahlne (1977, 1990) who

suggested that acquisition of knowledge through experience from business operations in a specific overseas market is the primary means of reducing foreign market uncertainty and consequently a driving force in the internationalization of the firm. SME managers gain knowledge through the use of export assistance programmes that help overcome mental barriers towards the foreign market environment and develop positive perceptions toward international marketing activities. Findings of this research also indicate that once SME managers gain better knowledge about the foreign market through the use of

government assistance, they are committed to devote resources to international marketing activities. This is supported by the internationalization process theory (Johanson and Vahlne, 1977, 1990). Results also provide support to the contention of the literature that SMEs with improved international marketing knowledge can formulate and implement proactive marketing strategies more effectively.

Findings of the study also provide support to both hypotheses 4a and 4b that a firm's commitment to international marketing activities is positively related to international marketing strategy and performance, and lend support to the literature. This result indicates that the SMEs' strong commitment to international marketing activities leads to the achievement of proper international marketing strategies. Companies that placed a higher priority on international marketing activities were also found to perceive profitability of this activity more positively and achieve increased international sales and increased ratio of revenue from international marketing activities to total sales. From these results, it is evident that the reported findings regarding the impact of commitment on international marketing performance have been quite consistent. The results also suggest that in firms where management is firmly committed to international marketing activities, tends to perform better than other non-committed firms.

Results also provide support for H5, where management perception of the foreign markets environment positively influences international marketing strategy. The result supports the position that favorable management perception toward the foreign market environment has a significant positive effect on firms' international marketing strategy. Conditions in foreign markets pose both opportunities and threats for SMEs. International marketing strategy must be formulated in such a way to match a firm's strengths with market opportunities and neutralize the firm's strategic weaknesses, or to overcome market

threats. SMEs are pulled into international marketing activities by growing opportunities for their product in foreign countries. In this study, favorable foreign market conditions are represented by the perception of being less risk in international marketing activities. As shown in this study, if SMEs perceive that foreign markets are favorable, they develop efficient strategies to increase current export sales or export to new foreign markets. In this sense, favorable foreign market conditions are seen to have a positive impact on the strategy. That means SME managers who have a positive perception of the foreign market environment tend to search for and acquire environmental information to make proactive international marketing strategies. The results also support H6, which is well established in the literature that a firm's international marketing strategy positively influences its performance. This suggests that SMEs can achieve better international marketing performance through formulating proactive strategies and deliberate strategy implementation.

Conclusion, implications, limitations, and future research

The empirical findings of this research provide evidence that government export assistance programmes play an important role in the SMEs' internationalization process by contributing to a number of firm and management related factors that determine international marketing performance of a firm. Based on the findings, it can be concluded that the use of market development-related assistance programmes influences a SME's initial internationalization through export activities directly as well as indirectly through improving managers' perceptions of the overseas market environment and international marketing knowledge. The use of export market development-related assistance such as export market information through trade missions, trade fairs, export workshops and seminars, overseas training programmes on product development and marketing

helps overcome SME managers' mental barriers and develop positive attitudes toward international marketing activities. This human resource and entrepreneurial development influence SMEs' formulation and implementation of export strategy to achieve better performance in their internationalization programme. SMEs also gain objective and experiential knowledge through the use of market development-related assistance, and enhance their export commitment and develop an effective and proactive export strategy to achieve export goals. This finding is consistent with the contention of internationalization process theory that firms' gradual knowledge acquisition leads to a higher commitment to export which in turn leads to more international operations. Findings indicate that SME managers who used more of the market development-related export assistance have positive attitude toward export environment, are more knowledgeable about export market and export procedures.

Finance and guarantee-related export assistance tend to influence export performance indirectly through export commitment, though not directly. The finance and guarantee-related export assistance are generally designed to provide resources support to SMEs to create their competitiveness at the initial stage of exporting and other international activities. Some finance and guarantee-related programmes such as the duty drawback scheme and income tax rebates creates more profitable export trade and a competitive position for the exporting firms. The export credit guarantee schemes provide much required security against trade and political risks for SMEs in their initial international ventures. This encourages SMEs to commit more human and financial resources to international activities.

This study contributes to the literature as well as management practices of SMEs in relation to internationalization. First, this study extends the tenet of internationalization process theory as well as RBV

in explaining the effects of government export assistance on internationalization of SMEs. Drawing on these two basic theories, this study provides empirical evidence to suggest direct effect of government export assistance on firm and management related factors that ultimately facilitate SMEs' internationalization. Therefore, this study suggests that government export assistance programmes have long-term impact on SMEs' internationalization through building their human resources and capabilities to explore and succeed in international endeavors rather than the traditional way of looking narrowly on its direct effect on export performance.

This study also provides a guideline for SME managers as to how they can benefit from both categories of export assistance programmes in improving their positive attitudes towards the export market environment, building their knowledge and enhancing commitment to exporting for better success in their international operations. This study reports findings of a study in a least developed country and can be generalized for other least developed countries. However, readers should use caution in interpreting the results in other country contexts unless further empirical support is provided for its generalization. This is mainly in recognition of the differences in export assistance programmes provided by different countries as well as the different resources and competencies in these countries, which may have differential impacts on the higher order constructs. Therefore, future research could be directed to that direction.

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