

## **Exporting SMEs and public-private relationship**

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### **Introduction**

In recent years, Santa Fe export companies have seen their profit margins erode due to a strong internal inflation of costs and a low exchange rate. Only the most competitive companies managed to maintain their external markets in the face of these unfavorable conditions. In the local scenario, the most commonly perceived barriers were the exchange rate and the legal, economic and political instability (Revale, Curbelo, & Ascúa, 2018). However, the year 2018 meant for the exporters a big change of scenery, compared with the last years, mainly of the hand of an abrupt devaluation of the Argentine peso, close to one hundred percent. This volatile context, added to new changes in international openness and national taxes (export duties and tax refunds) force the productive and academic sectors to know, understand and interpret the main characteristics of the local export activity during this time, in order to make decisions that generate a positive impact on the economy.

The present work describes the current situation of the exporting SMEs of the city of Rafaela, complementing previous works, in order to contribute with new information on the local and provincial exporting reality, allowing the different levels of the State to make decisions that optimize the context for those kind of companies.

## **Rafaela exporting companies**

This research work is located in the city of Rafaela, province of Santa Fe. The city represents an industrial hub within the province, and has been the object of study in recent research. In its industrial export activity, the food, auto parts and metalworking sectors stand out.

The city of Rafaela has a varied productive network, most of which are micro and small firms in the commerce and services sectors (Revale & Ascúa, 2018), however, most of the export companies belong to the industrial sector. Likewise, the SMEs from Rafaela are characterized for being long-lived on average and have a high proportion of family businesses (four out of five) (Revale & Ascúa, 2018), as well as for an active participation in institutional spaces of connection and generation of networks such as the business chambers (Revale & Ascúa, 2018a). In this regard, there is literature linking the role of personal or interfirms networks with the internationalization of them (Manolova, Manev, & Gyoshev, 2010), and as a cause or effect of the same process of international insertion (Welch & Welch, 1996).

Particularly, according to the Chamber of Foreign Trade of Rafaela (CaCEX Rafaela), the city has a total of 40 active exporting companies. Although the destinations are varied, 37% of exports during 2017 were concentrated in Brazil, Germany and the United States of America, these three being the most outstanding destinations. A quality that characterizes it within the province, is the high added value of its exportable offer (export of goods). During the years 2016-2017, the average of the province of Santa Fe was located at 400 dollars per ton. However, the value of the ton exported in Rafaela during the same period was above 5,000 dollars per ton. The autoparts and chemical industry and derivatives obtained the highest values, above 21,000 dollars per ton.

Given this scenario, it is of great value to characterize the exporting companies in order to understand the decisions that are adopted, the perceptions of past management and future perspectives, and the links with local, provincial and national public bodies.

### **Public-private relationship**

The effects produced by the interaction of the State with private companies, in many cases, result in benefits for both parties. When the Government understands, plans and manages programs to encourage exports, a synergy effect is generated in the companies that allows them to achieve greater objectives. However, this is perhaps a less explored area from the academic sector.

It is known that companies that trade internationally face greater risks than those who only work at the domestic market, but this does not necessarily translate into the generation of negative effects. Alvarez (2004) points out that although there are export companies that are exposed to these risks, they also show higher performance. Analyzing a group of Chilean companies, the author found that the greatest efforts in international business, innovation and the use of public programs to promote exports contribute positively to their export performance.

Moreover, authors Gençtürk and Masaaki (2001) found that participation in marketing activities and assistance from government programs are important factors for the success of exporting companies. However, they clarify, the relevance of these assistance programs varies depending on the consideration of the export performance dimension (in general, they are not sufficient to improve the effectiveness of the performance). On the other hand, Acs, et al. (1997), studied the internationalization of SMEs and the policy implications, concluding that if the intention is to encourage the creation and dissemination of innovations of SMEs at the international level, public policies should

aim to reduce the private market costs faced by SMEs companies to internationalize, such as the costs of protection of property rights, costs of reduction of entry barriers and transaction costs. The paper also suggests that these costs could be reduced through an "intermediated international expansion", i.e., the internationalization of an SME through established multinational companies; as opposed to a direct international expansion. Finally, it is clarified that a subsidy policy would generate greater possibilities for SMEs to carry out direct international expansions.

Ayob and Freixanet (2014) evaluated the impact of public export programs among SMEs in Malaysia. Through three factors, level of knowledge, frequency of use and perception of use, they demonstrated that exporters have a greater use and greater perception of use with respect to non-exporting companies. Both groups perceive that programs on information and knowledge about exports are more useful than financing programs. Their contributions revealed that these programs are positively related to the export experience but not to the billing levels.

## **Methodology**

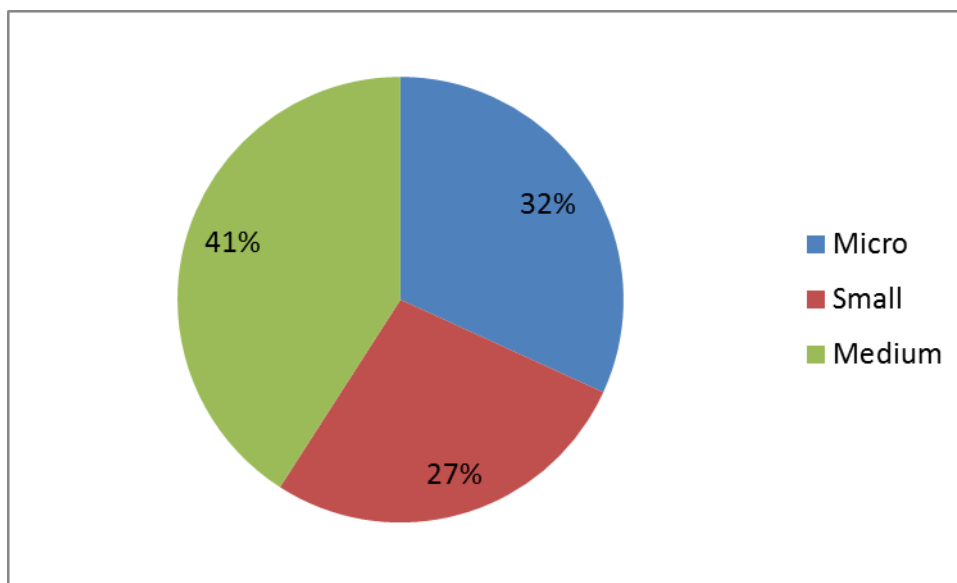
The study population was identified as the Rafaela export companies. Out of a total of 58 exporting companies registered in the Chamber of Foreign Trade of the city (exportable offer), 95% identified themselves as industrial. Forty of these companies are currently active exporters, mostly industrial companies, to which they were contacted for the realization of the survey. To collect the information, a structured questionnaire with closed and open questions was used as a tool, which was provided by digital means, and then a telephone follow-up was carried out.

A total of 22 complete answers were obtained, representing a total of 55% of the total of active exporting companies. Next, a summary of the results will be presented in terms of characteristics regarding exports and public-private relationship.

## Results

Observing the number of employees, we can classify the companies in micro, small and medium according to resolution 154/2018 of the Secretary of Entrepreneurs and SMEs of the Ministry of Production. We obtain that 32% are micro companies, 27% are small and 41 % medium (Fig 1).

Fig. 1. SME classification by number of employees



Of the companies surveyed, 82% said they had made exports during 2018. The average percentage of exports over the total production throughout the year is 34.50%, of which only 28% of companies have exported more of half of its production. On the other hand, the companies that did not export highlighted as main causes: high logistic costs, changes in the market in which they had been exporting, and an unfavorable macroeconomic context for exporting. In turn, 95% of companies said they plan to export during 2019.

In proportion, the majority of exports are destined to Mercosur countries, with 59% of the total exported by companies in 2018, followed by North America with 18% and, to a lesser extent, Europe (10%); rest of America (9%), Africa (3%) and Asia (1%) (Fig. 2). Likewise, 94% of the companies have made some exports to Mercosur during that year, 44% to North America, 33% to Europe, 28% to the rest of America, and 11% and 6% to Asia and Africa respectively (Fig. 3).

Fig. 2. Proportion of destinations over total exports

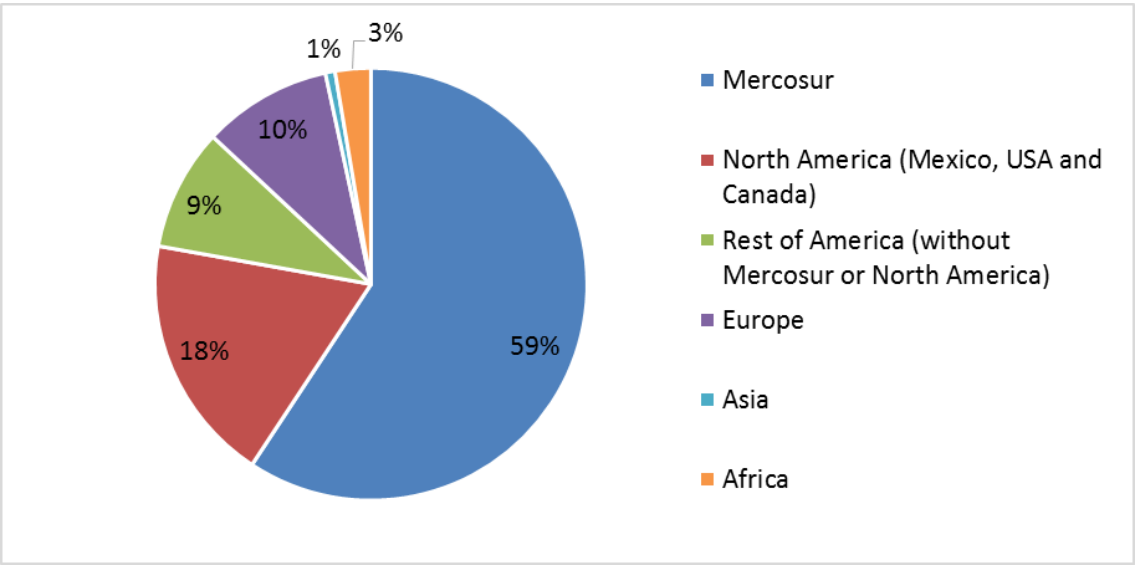
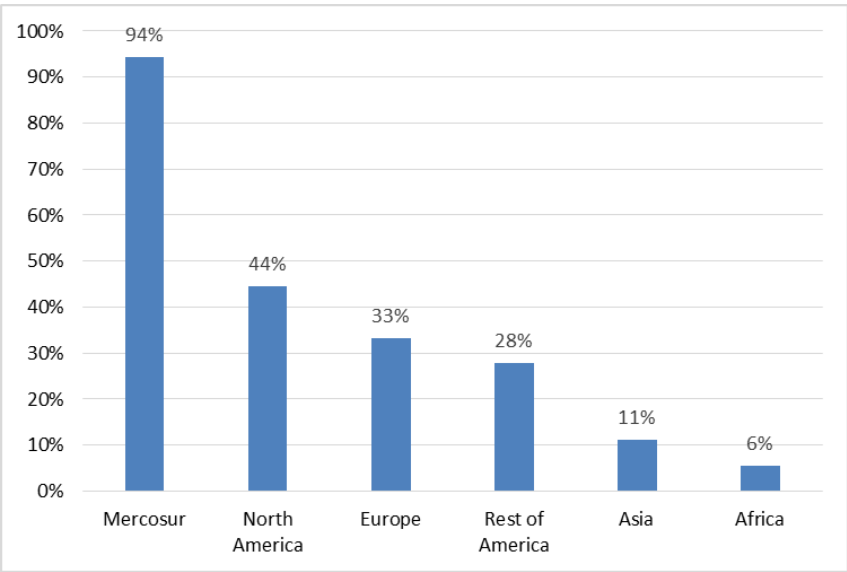


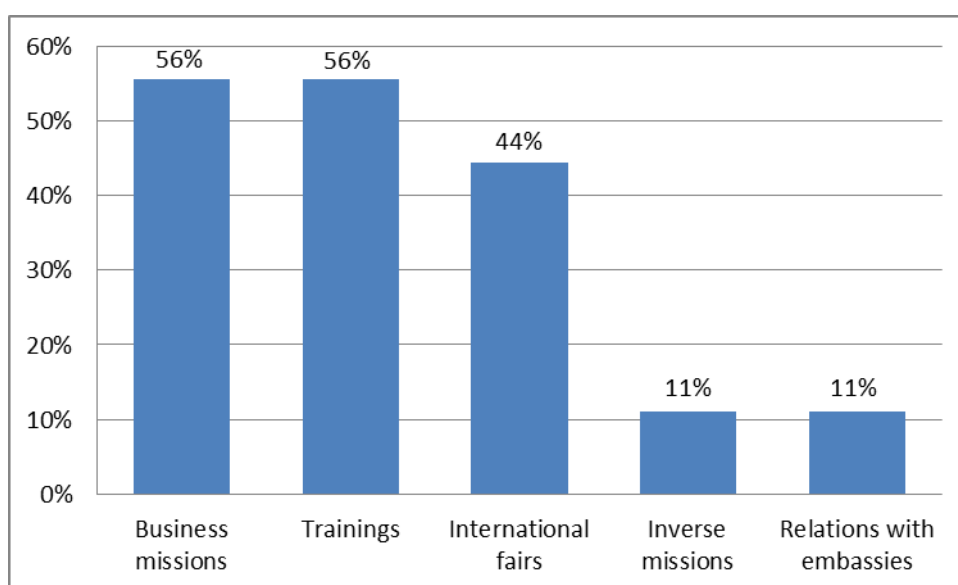
Fig. 3. Destinations over total companies



We also asked to the companies about the importance of a series of tools when entering a new market or generating agreements with new clients. Based on their responses we developed a ranking of them, ordering them from most to least important: 1st Personal trips abroad. 2nd Internet (website, e-mailing, etc.). 3rd International trade fairs. 4th Commercial missions. 5th Brokers / intermediaries. 6th Inverse missions.

In addition, we consulted on links with export promotion agencies. 41% responded having joined during 2018 with one of these agencies, such as government agencies, chambers or related groups. Of these, 56% have carried out trade missions and training with such organizations, 44% have participated in international fairs, and 11% have generated relations with embassies and participated in reverse missions (Fig. 4). On the other hand, the majority of those who did not join, claim not to have an interest or not to require it. In turn, 76% of the respondents answered that they are interested in actively linking with the public sector programs for the promotion of exports in 2019.

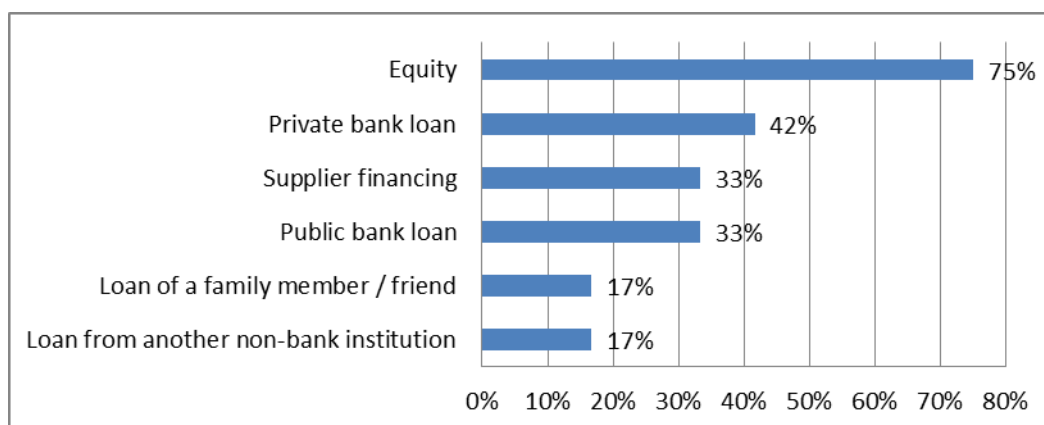
Fig. 4. Activities carried out with export promotion agencies



Finally, from the point of view of financing, the companies were consulted on whether investments in fixed assets were made for an export project during 2018. Of the 55% who

answered affirmatively, we observed that 75% have used equity to finance themselves, 42% private banks, 33% have obtained financing from the provider or public banks, and only 17% received loans from relatives or friends, or from another non-banking institution (Fig. 5). Of this group, only 25% had contact with local, provincial or federal agencies to finance themselves, 13% had access to subsidized programs, and 8% related to chambers or groups for this purpose. On the other hand, of those that did not make investments for an export project during 2018, the main reasons for this were uncertainty about the economic context or simply that it was not necessary.

Fig. 5. Funding sources of export project



## Findings and conclusions

The companies surveyed do not demonstrate a particularly high export intensity. Likewise, the majority of exports are centered in the Mercosur region, and the reach to markets outside the American continent is very low. On the other hand, it is observed that the main strategies taken at the time of internationalization in new markets do not involve the collaboration of other organizations, where personal trips abroad and the use of digital tools are the first two options.

More specifically, 41% of companies have linked with export promotion agencies, however, a percentage of almost twice as many companies claim to be interested in



linking with public sector programs for the current year. On the other hand, regarding the financing of investments in fixed assets, only a very low proportion of companies have contacted other organizations to finance themselves.

Argentina is in a period where the promotion of exports is a policy priority due to a continued deficit in the balance of payments and, additionally, the potential of SMEs in this area has been identified. That is why it is considered of great interest to continue studying the degree of incidence and effectiveness that the proposals of the public sector have on the productive sector, both in export promotion policies, as well as in financing lines or training in general.

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