

**THE INFLUENCE OF FIRM LEVEL FACTORS ON EXPORT PERFORMANCE  
OF SMALL AND MEDIUM-SIZED ENTERPRISES (SMEs)''**

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**Declaration**

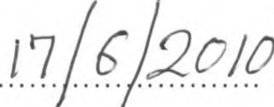
I, the undersigned, declare that this independent conceptual study paper titled “The influence of firm level factors on export performance of SMEs” is my original work and has not been submitted to any University for any award.

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This is to certify that this independent conceptual study paper has been submitted with my approval as a University supervisor.

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## **Abstract**

Increasingly, firms are looking beyond their traditional domestic markets and focusing on high growth export markets to not only grow, but also to enhance their competitiveness (Leonidou and Katsikeas, 1996; Piercy et al., 1998; Ural, 2009). Despite the increasing importance of exporting in international business, its foundations for success at firm level have remained elusive. This paper seeks to examine the interrelationships between firm level (organisational) factors, that is, firm characteristics and competencies, export marketing strategy, entrepreneurial orientation, and export performance of Small and Medium Sized Enterprises (SMEs) from the perspective of the resources based view of the firm. The paper closes with a proposed conceptual framework and hypotheses.

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background

Increasingly, firms are looking beyond their traditional domestic markets and focusing on high growth export markets to not only grow, but also to enhance their competitiveness. Growing liberalization, integration and competition in world economies have been responsible for increasing engagement of firms in exporting activities (Levitt, 1983; Ohmae, 1989). Exporting is a trade related foreign market entry mode; with the other variants being the use of transfer related modes (such as franchising and licensing) and foreign direct investment (Steers and Nordon, 2006). Thus, exporting involves access to international markets through the sale of products either directly (through its own network of agents and distributors) or indirectly (where the firm sells its products to another firm that exports the product(s) to the final market). The other form of exporting is where a firm sells its products to an affiliated firm, which then handles the export (De Toni and Nassimbeni, 2001; Steers and Nordon, 2006).

Exporting is a crucial international business activity for both countries and firms. Exporting enhances the accumulation of foreign exchange of a country, improves the level of employment, increase national productivity and drives economic growth (Diamantopoulos, 1999; Piercy, Kaleka and Katsikeas, 1998; Ruzziery, Antoncicy, and Hisrichz, 2007; Ural, 2009). It also contributes to nations' wealth and standard of living (Ural, 2009). From the company perspective, exporting may help firms to improve the utilization of production capacity, develop superior management capabilities, and enhance innovation in product and production process, in addition to strengthening financial performance (Leonidou and Katsikeas, 1996; Piercy et al., 1998; Ural, 2009). Compared to joint ventures or overseas subsidiaries, exporting remains the single attractive route to market entry for many firms, especially those with resource poverty like SMEs (Katsikeas, Theodosiou, Morgan and Papavassiliou, 2005; Ural, 2009).

Although exporting is a virtually important area of international business, its foundations for superior performance are not well documented and/or understood. While earlier studies (e.g., Porter, 1985) provide valuable insights into factors for sustainable international and thus

successful exporting, far less attention has been given to firm level factors. Certainly, with increasing competition, coupled with the trend towards supplier base reduction by many international buyers (Piercy et al., 1998), firms need to possess certain capabilities (i.e., firm specific advantages) in order to meet foreign customers' requirements more effectively than the competition. While this may be so, there seem to be limited understanding of the nature and operationalisation of firm-level factors that underpin export performance. While a number of studies have investigated this issue (e.g., Cavusgil and Zou, 1994; Zou and Stan, 1989), there is no consensus on the conceptualization or operationalisation of firm-level factors that influence the performance of a given export venture. For example, Viviers and Calof (1999) found disparities in export performance among South African exporting firms operating under similar conditions and opportunities. Certainly, these differences point more to internal (firm level) explanations than to the macro level justifications. This finding lends support to the conclusion by Ruzzier, Antoncic, Hisrich and Koncnic (2007), and more recently Shamsuddoha, Ali and Ndubisi (2009) that export performance is sustained by human capital, not external influences.

The consideration of exporting as a firm strategy is consistent with Porter's (1985) perspective that firms, not nations, engage in trade. This view has been extended by Salomon and Shaver (2005) who have argued that whereas goods flow between nations, it is generally firms that make the decision to export. Sadly, most studies have either considered firm level factors in isolation or have explored the relationship between firm level factors and performance in the context of a developed country. They have failed to explain the variation in export performance of firms that are faced with similar home country conditions. Furthermore, though literature is replete on export performance of firms, there is scanty information on how firms with resource poverty (such as SMEs). Consequently, recommendations from such studies are often less appropriate to exporters, particularly from developing economies (Aulakh, 2000; Ibeh, 2003). This calls for a robust conceptualization of firm-level factors and analysis of their influence on export performance from the perspective of SMEs in order to contribute to export performance theory and testing.

This paper starts by discussing the key concepts in the study, followed by the theoretical framework. In the subsequent sections, the various firm level factors are presented and their



relationship with export performance discussed. This is followed by a discussion of the export performance construct and its measurement. The paper closes with a proposed conceptual framework and hypotheses.

## 1.2 The concept of firm-level factors

Firm-level factors, according to Zou and Sturn(1998), is a sum of managerially controllable and uncontrollable factors internal to the firm that enable it conceive and implement strategies aimed at improving its efficiency and effectiveness. This classification is based on the extent a firm may manipulate a given factor in the short run. Internal controllable factors are viewed to include export marketing strategy and management attitudes and perceptions (as these may be manipulated in the short run) while internal uncontrollable factors encompass management characteristics and firm characteristics and competencies (Harrison, 2008). The concept of firm level factors draws from the work of Aaby and Slater (1989) in which two broad predictors of export performance were delineated: environmental factors and internal influences (encompassing firm competencies, firm characteristics, and strategy). This taxonomy is supported in subsequent studies including, Madsen (1998), Hamilton (1993), and Piercy et al.(1998). Proponents of firm-level determinants of export performance (e.g., Ruzzier et al., 2007; Shamsuddoha et al., 2009) argue that export performance is under the control of the firm and its management.

Although there is consensus on the concept of firm-level factors among authors, there are a number of differing opinions on the operationalisation of the firm-level factors concept. For instance, there is a stark difference between Aaby and Slater's (1989) and Valos and Baker's (1996) classifications of firm-level factors. In the latter, firm level factors were classified as either tangible or intangible factors. Under this classification, tangible determinants refer to the physical resources such as machinery or finance as well as manifestations of the marketing mix (e.g. product and distribution), as well as systems such as total quality management or customer monitoring. On the other hand, intangible factors include variables such as attitudinal factors (e.g., management commitment, perceived importance of exporting, export orientation and confidence); export specific skills (e.g., foreign language skills, international financing expertise) and export relevant knowledge. In an extension of literature, Grimes, Doole and Kitchen (2007)

brings much of the earlier conceptualizations together by suggesting three categories of export capability related to export performance: (1) a firm's characteristics, (2) a firm's competencies, and (3) a firm's export-marketing strategy capability.

### 1.3 The export performance concept

According to Shoham (1998), export performance is a composite outcome of a firm's international sales, which includes three sub dimensions: export sales, export profitability, and export growth (cf. Cavusgil and Zou, 1994). Each of the three includes an objective component, as well as a subjective managerial satisfaction component. A number of scholars have indicated that only managers know the intended results from exporting and thus it is not useful to evaluate export effectiveness and thus export performance apart from management's satisfaction with the results of exporting activities. Export level (or volume) has been regarded as a traditional indicator of the overall importance of exports to a firm, while export sales growth and profitability are the dynamic and crucial indicators of export performance respectively. Moreover, including a subjective component in the measurement of export performance is consistent with previous studies (e.g., Cavusgil and Zou 1993; Dominguez and Sequeira 1993) who argue that relative measures of export performance are more reliable than the traditionally used absolute measures of export performance. There is a cascading effect in the measurement of export performance. For example, it is contended that (Shoham, 1998) firms that use sales growth to measure organisational performance should use export sales growth to measure export performance.

Export performance is a pivotal outcome construct in the study of exporting. Westhead, Binks, Ucbasaran and Wright (2002) report a positive relationship between exporting and firm performance (measured in terms of relative market share, return on investment and sales growth). These authors contend that the performance of an export venture is an implicit measure of strategy success in the export market. The fact that exporting is an investment, we argue that firms need to measure performance of their export ventures in order to justify continued commitment of resources (financial, human, and time) toward exporting activities in order to minimize overall export investment risk.

#### 1.4 SMEs in export business

The definition of SME varies widely depending on the economy and the industry (Lu and Beamish, 2001; Asian Pacific Economic Cooperation, 2003). According to Asian Pacific Economic cooperation on profile of SMEs (2003), an SME is defined based on either the definition adopted by the economy concerned, or by using the standard definition. Based on the standard definition, an SME is defined as a firm employing less than 100 people. On the other hand, Wolff and Pett(2000), citing the American Small Business Administration (SBA), define an SME as a stand-alone enterprise with fewer than 500 employees. Clearly, the most common criteria used to measure firm size is number of employees (Katsikeas et al., 1996; Wolff and Pett, 2000; Thirkell and Dan, 1998) though the size of capitalization, assets, sales (or turn over) and production capacity have been used by various economies ( Asian Pacific Economic cooperation, 2003). The prominence of number of employees as a measure of firm size is heightened by the reluctance of firms (particularly SMEs) to disclose information related to their financial status (Maurel, 2009; Wolff and Pett, 2000).

With the increasing global competition, falling barriers to international trade, and improved international communication and information networks, SMEs are pressed to compete in international markets (Wolff and Pett, 2000). In circumstances such as these, Julian and Ali (2009) advise managers to take on international expansion opportunities in order to minimise on their vulnerability to otherwise growth oriented and often large foreign firms. Indeed, as Prasad, Ramamurthy and Naidu (2001) observe, exporting is no longer a choice, but an organisational imperative for survival. However, despite the rising international activities of SMEs (Viviers and Colof, 1999; Ibeh, 2003), their representation in the international economy has remained low compared to large enterprises. While a number of reasons have been suggested in the literature, resource limitations (i.e., financial, managerial, informational) constitute a greater portion of the factors that frustrate SMEs internationalization endeavours(Bancorsci, 1992; Brouthers and Nakos, 2004; Mcdougall and Oviatt, 1996). Compared to SMEs, larger exporting firms are widely considered to possess more financial and human resources (Piercy et al., 1998), enjoy higher levels of scale economies, and hence the low perceived risk about foreign markets and operations compare to SMEs. This finding is consistent with Shuman and Seeger (1986) observation that SMEs are unique and not smaller versions of big businesses. Further, Grimes et

al.(2007) lend support to the notion that SMEs could be disadvantaged in export business as size (as a proxy of resource base) is an integral part of a firm's export capability. Therefore, it is logical to suggest that influences to SMEs export performance may differ from those of large enterprises.

## 1.5 Theoretical framework

This paper is founded on the resource based view (RBV, henceforth) of the firm. The RBV focuses on the inside of firms' resources and assets embodied in, for example, people, machinery and culture (Osarenkhoe, 2008) that underlie any advantages on the product market. Newbert (2007) posits that a firm's growth, both internally and then externally, is due to the manner in which its resources are employed. This suggests that a firm's export performance is based on firm-level activities. The RBV conceives a firm as a unique bundle of tangible and intangible resources (assets, capabilities, processes, managerial attitudes, information and knowledge) that are controlled by a firm which enable it to conceive and implement strategies aimed at improving its efficiency and effectiveness (Zou and Stan, 1998; Fahy, 2003; Lopez, 2005; Grobler, 2007; Newbert, 2007). According to Barney (1991), internal organizational resources are the principal determinants of a firm's export strategy and performance.

The central assumption of the resource based view is that industries are heterogonous and resources are imperfectly mobile; firms also differ from each other because they have different endowments. From this backdrop, Wernerfelt(1984), and Later Osarenkhoe(2008) assert that a resource with a potential to create competitive advantage must meet the prerequisites of value, rarity, limitability and organization. Because competitive advantage is a function of individual advantages, proponents of the RBV (Wernerfelt, 1984; Zou, Fang and Zhao, 2003; Osarenkhoe, 2008; Harrison, 2008) argue that various types of competitive advantages can be held by multiple firms. As focus on internationalization (particularly exporting) moves from countries to industries and firms (Harrison, 2008), the resources held by a firm (both tangible and intangible) become the only convincing explanation for export performance differentials among firms especially in situations of open competition (Viviers, and Colof, 1999). Whereas a firm's performance is driven directly by its products, it is indirectly driven by the resources that go into their production. This line of reasoning is consistent with Wernerfelt (1984) that firms could earn

above normal returns by identifying and acquiring resources that are critical in the development of demanded products. Recent studies (Ruzzier et al., 2007; Shamsuddoha et al., 2009) provide evidence to support the notion that export performance is sustained by resources and competencies, not external influences. While environmental factors (such as export subsidies and other forms of government support) are acknowledged as necessary for export performance, the sufficient condition for sustainable exporting rests on the firm's resources and assets embodied in its people, machinery and culture (Oviatt and McDougall, 1994; Osarenkhoe, 2008; Shamsuddoha et al. 2009). We thus argue that the ability to exploit any international opportunities (such as exporting) depends on the quantity and quality of valuable resources and competencies compatible with those needed in the export market.

## CHAPTER TWO

### FIRM CHARACTERISTICS AND EXPORT PERFORMANCE

#### 2.1 The concept of firm characteristics

Firm characteristics have been categorized as one of the elements of export capability relating to export performance. The demographic characteristics of the firm have potential to shape the context in which exporting activities are conducted. While this may be true, there seem to be no consensus on the individual variables that constitutes the firm characteristics construct (Aaby and Slater, 1989; Zou and Stan, 1998; Aulakh et al., 2000; Grimes, et al., 2007) with several studies reporting different elements that constitute the firm characteristics category. Aaby and Slater (1989), for example, use three elements to describe firm characteristics: firm size, management commitment and management perceptions. Maintaining Aaby and Slater's (1989) three-variable operationalisation, Dominguez and Sequeira (1993) add an extra variable (firm resources) to come up with four variables (that is, firm size, management commitment, management perceptions and firm resources) as elements of the firm-characteristics construct. Other operationalisations of the firm characteristics construct reported in the literature include firm size, years of exporting, motivation and education of management, and industry type (Louter et al., 1991), company size, industry sector, and location and exporting experience (Grimes et al., 2007), and size, years of exporting (exporting experience), motivation and education and industry (Zou and Stan, 1998; Katsikeas et al., 1994). These variables are discussed in the following sections, in turn.

##### 2.1.1 Firm size and export performance

The Resource Based View (RBV) of the firm suggests firm size as one of the indicators of a firm's organizational resource base or slack (Penrose 1959; Wernerfelt, 1984; Barney, 1991). Whereas literature linking firm size and export performance is replete, there is no single universally accepted measure of firm size. Some scholars have measured firm size in terms of number of employees and/or sales volume (Katsikeas et al., 1996); number of employees, sales volume or total assets (Wolff and Pett, 2000) or number of full time employees directly involved in export activities (Thirkell and Dan, 1998). Maurel (2009) reports firm turnover and number of full time staff as dominant measures of firm size. The prominence of number of employees as a

measure of firm size is practically appropriate (particularly in SMEs) in environments where firms are reluctant to disclose information related to their financial status. This, in part, explains why most governments' classification of firms is based on number of employees. Additionally, this approach further enables comparison across studies possible as use of number of employees is less likely to be biased from true levels (Wolff and Pett, 2000).

As internationalization process involves an increasing amount of resources (both financial and human), firm size (as a proxy of organisational resource availability) is assumed to impact on export performance directly and indirectly through behaviour (Walters and Samiee, 1990). Baccorsi(1992) contended that larger firms possess more managerial and financial resources, have greater production capacity, attain higher economies of scale, and face lower levels of perceived risks of exporting operations. A number of factors have been advanced leading to the formation of expectations that company size is related positively to export performance. According to Katsikeas et al.(1995), firm size will determine organizational resources, economies of scale, and the perception of risk in international activity. Obviously, larger exporting firms are widely considered to possess more financial and human resources (Piercy et al., 1998), enjoy higher levels of scale economies, and perceive lower levels of risks about foreign markets and operations compared to SMEs. These size-related advantages are likely not only to facilitate understanding of foreign market characteristics, but also to enhance a firm's ability to respond effectively to the requirements of overseas customers, thus potentially leading to higher export performance levels (Bonaccorsi, 1992; Katsikeas et al., 1995; White et al., 1999). Piercy et al.(1998) found a positive and significant relationship between export venture performance and financial resources for exporting, and for a specific export venture.

Consistently, a number of studies have lent support to the positive relationship between firm size and export performance. For example, Bagchin-Sen's(1998) empirical analysis of problems of SME-Canadian manufacturers revealed that firm size was a barrier to exporting. Similarly, Gertner, Gertner and Guthery(2006) have established firm size(measured by sales), and firm age statistically significant with the export intensity dimension of export performance. Furthermore, Maurel's(2009) in a more recent empirical study on French wine SMEs reported a significant positive relationship between firm size and export performance. Although literature

discrepancies in research findings are evident. For instance, Beamish and Dhanaraj (2003) did not find a relationship between firm size and export intensity. Likewise, Katsikeas et al.(1996) found no relationship between firm size and experience on export performance. Nonetheless, these contradictions are not new. As observed by Dominguez and Sequeira (1993), company characteristics such as firm size, resources, export experience, industry or industry characteristics are confounds, and should be controlled in export performance studies.

### 2.1.2 Firm experience and export performance

Driscoll and Paliwoda(1997) define a firm's international experience as the extent to which a firm has been involved in operations beyond the home country borders. A number of operationalisations of the firm-experience construct have been proposed in the literature. Ogbuehi and Longfellow (1994) operationalised export experience in terms of length of time the firm has been involved in exporting. Based on this operationalisation, they classified exporting firms into three: inexperienced firms, slightly experienced firms (with between 1 and 5 years of exporting), and highly experienced (with six or more years of exporting). In the same way, Katsikeas et al.(1996) suggest a two dimension measure of experience, which include (1) length (represented by number of years in exporting) and (2) scope (represented by number of countries of export experience). The consideration of number of export country markets, perhaps, seeks to measure a firm's broader, rather than a specialist kind of experience derived from a single country.

Thirkell and Dan (1998), and later O'Gorman (2001) posit that export experience is multifaceted and is acquired through export market knowledge represented by the number of years in exporting, export countries and market visits. These authors contend that experience in years gives the company a set of historic actions to learn from and/or improve upon whenever a similar situation comes along. This view lends support to O'Gorman (2001) who argues that though number of years in exporting is a key dimension of firm experience, measurement of firm experience improves when combined with other proxies such as the number of markets and the frequency of visiting those markets. Likewise, Maurel (2009) has used two elements to measure export experience; age of the firm (assessed through its date of establishment or the number of



years since it was created) and firm export experience (represented by the number of years of export activity or the geographical diversification of the firm) to measure firm experience.

Although the firm experience construct has been widely studied within the export performance literature, its effect on export performance is baffling. Anecdotal evidence indicates that firm experience has an obvious influence on export performance as experience gives the company more maturity in terms of management, international transactions and business partnerships. This observation is consistent with Kaynak, Ghauri and Olofsson-Bredenlow (1987) who argue that through export experience, a firm is able to take advantage of export opportunities faster than the competition. Cavusgil and Zou(1994) and O'Casss and Julian(2003) have made similar conclusions. They maintain that the more internationally competent a firm is, the more likely it is able to discern the environment, identify the most attractive markets for the venture, and adapt the marketing strategy to accommodate the specific needs of the market. To the converse, an inexperienced firm would instead seek the closest match between its current offerings and foreign market conditions so that minimal adaptation is required. Therefore, firms with more export experience are more likely to be proactive and adaptive towards export markets besides cultivating exporting as a major source of growth. Katsikeas et al.(1995) have observed that experiential knowledge is necessary for a firm to succeed in pervasive unfamiliar operating environments (e.g., competitive markets and practices, export procedures, legal issues) that tend to typify international markets.

Contrasted in a related body of literature, Dominguez and Sequeira (1993) found no significant relationship between export experience and export performance among Least developed countries (LDC) exporting firms. Instead, it were the sporadic exporters who achieved high export volumes, not the continuous (regular) exporters. Similarly, an empirical study by Cadogan, Diamantopoulos and Siguaw (2002) provides evidence to support the non significant relationship between export experience and export marketing activities. They explain that as firms become older and more experienced in exporting, they tend to be bureaucratic and inflexible, thus suppressing innovations and risk taking which are vital in dealing with the rapid environmental changes characteristic of exporting business. The theoretical explanation for the relationship between exporting experience and export performance lies in the uncertainty and the

way firms cope with it. It is contended that less experienced exporters are likely to perceive considerable uncertainty, which in turn might adversely affect their perceptions of potential risks and returns about overseas markets and operations (Katsikeas et al., 1995).

Nonetheless, as Hart, Webb and Jones (1994), and later Muranda (2003) argue, increased amount of exporting experience reduces the risk perception and uncertainty of firms towards exporting activities, leads to better understanding of foreign market mechanisms, facilitates the development of a network of personal contacts and customer relationships abroad, and consequently enables the design and implementation of effective export marketing programmes. Hart et al. (1994) further argue that lack of experiential knowledge may result in small firms having to rely on the less risky-indirect methods of exporting that require less market information, but with less exporting rewards.

### **2.1.3 International experience of managers**

According to Ruzzier et al.(2007), international experience of managers entails the manager's tacit knowledge of international markets acquired from personal experience of specific international markets. These authors contend that through such experience, managers are able to overcome barriers associated with country market differences such as language, culture, business practices, and legislation. Athanassiou and Nigh (2000) have verified the role of international experience of managers, measured in terms of their international work experience, personal networks and relationships abroad, and international business education. Their results show that international experience of managers enhances a firm's likelihood to engage and expand exporting activities through established networks and relationships abroad. The nomological expectation of a positive relationship between international experience of managers and export performance is from the backdrop that knowledge based resources (such as international experience) are difficult to imitate by competitors (Fahy, 2000; Ruzzier et al., 2007).

## CHAPTER THREE

### FIRM COMPETENCIES AND EXPORT PERFORMANCE

#### 3.1 The concept firm competencies

The concept of competencies has no commonly accepted single definition, and depends on the individual's points of view (Hoffmann, 1999) in most cases guided by the purpose for which the concept is being applied (Honderghem and Vandermeulen, 2000). For instance, Honderghem and Vandermeulen (2000) report three approaches to competencies: individual approach to competencies, core competencies, and organisational competencies. The individual approach to competencies labels competencies as attitudes, knowledge, and skills of individuals. Core competencies; on the other hand, refers to a group of specific, integrated and applied attitudes, knowledge, and skills, which are essential to realize the strategic policy of the organization. Organization competencies, in contrast, look at the collective characteristic of an organization, viewed as a unique combination of attitudes, knowledge, and skill structures, management systems, technologies, procedures and personnel instruments.

Day (1994) and Thompson, Stickland and Gramble(2008) view competencies as complex bundles of skills and accumulated knowledge, exercised through organisational processes that enable firms to coordinate activities and make use of their assets. This definition is similar to Honderghem and Vandermeulen (2000) organizational level perspective of competencies. A more expansive definition of competencies has been provided by Lewis (2001). He exemplifies competencies as sets of skills, knowledge, abilities, behavioural characteristics and other attributes that, in right combination, and for the right set of circumstances, predict superior performance.

In the context of an exporting firm, a number of competencies associated with export success have been reported. Notable among them include: acquired experience, systematic planning, use of market information, technological advantages, and emphasis of quality control (Dominguez and Sequeira, 1993); export experience and expertise (Julien and Ramangalahy, 2003); domestic market performance, product uniqueness, production capacity, labour skills, and type of industry in which the firm operates (Crimes et al., 2007). Another set of competencies have been

suggested by Mavrogiannis, Bourlakis, Dawson and Ness (2008). In their paper, they list export competencies as entailing production and marketing capability, product superiority, and safety and control practices. In a related study by Puppusamy and Anantharaman (2008), management, production, and marketing competencies, though not discussed in the exporting context, were cited as key drivers of a firm's performance. The list of competencies is thus inexhaustible; often influenced by the stage of a firm's internationalization, degree of commitment, the characteristics of the export market, product, industry, etcetera (Day, 1994).

While this paper does not seek to rank exporting competencies, there is some consistency on informational, customer relationship, production, supply chain, export management, and marketing as competencies desired for export success (Ogbeuhi and Longfellow, 1994; Piercy et al., 1998; Julien and Ramagalay, 2003; Doole, Grimes and Demack, 2006). Our focus on functional (rather than personal competencies) is supported in Kuppusamy and Anantharaman (2008) who empirically found that functional competencies were more important than personal competencies. Also, Hondeghem and Vandermeulen (2000) indicate that personal competencies are far from the organization, implying their inappropriateness as firm competencies. From this backdrop, following is a discussion of some notable competencies reported to influence exporting success:

### **3.2 Specific firm competencies and export performance**

This section provides an analysis of key competencies desired for export success. It focuses on functional competencies, rather than personal competencies as the latter have been found to be far from the organization.

#### **3.2.1 Informational competencies**

According to Piercy et al.(1998), informational competencies are skills related to identifying export customers and capturing important export market information by company personnel as and when expected. Certainly, managers with market sensing abilities are able to make contacts in export markets, monitor the competition, and appropriately position their firms and offers in the market more effectively and efficiently. Knowledge about export markets may be acquired either objectively (e.g., through research) or through experiential knowledge (acquired through

exporting or export market visits) with the former decreasing with increasing experience (Thirkell and Dau, 1998; Julien and Ramangalahy, 2003). Renko, Rarsrud and Brannback (2009) defend the importance of information skills in exporting. They argue that firms with market knowledge are able to stay close to their market and are able to proactively and innovatively respond to their needs quite quickly, leading to above normal performance.

Julien and Ramangalahy (2003) have classified information considered vital for exporting SMEs. This classification indicates that information on foreign markets(size, potential, structure, trends, emergent market, entry modes); customers(demand and needs, purchase behaviour, preferences, habits); competition(strategy, strengths and weaknesses, offered products and prices); products(need for adaptation, technical norms, innovations); prices(level, trends, mode and terms of payments, and margins); promotion(methods and possibilities); distribution(costs, channels, intermediaries performance) and general environment(barriers to exporting, political and economic background) is critical to any exporting firm. Toften(2005) has empirically verified the influence of export information on export performance. The results indicate a significant positive relationship between export market information (generation, interpretation and utilization) and exporting profitability. This finding is consistent with Peircy et al.'s(1998) argument that informational skills is a perfect discriminator between high and low export performers. Unfortunately, SMEs are unable to acquire sufficient information and knowledge about foreign markets to enable them realize their export ambitions, purportedly due to resource limitations (Julien and Ramangalahy, 2003). Lack of export market information certainly affects the firm's commitment levels in the export market, which in turn, leads to low export market performance. This is in line with Julien and Ramangalahy(2003, p.227-228) remark, that "most SMEs simply do not make the effort, or are afraid of tackling international markets; but some of them limit their international activities because of their poor control of these activities, mainly as a result of a lack of information"

### 3.2.2 Customer relationship competencies

Customer relationship is another export success competency area. This competency entails a firm's ability to develop and maintain good relationships with overseas customers. According to Peircy et al. (1998), the level of customer relationship development depends on the manager's

level of understanding of overseas customers' requirements. Julien and Ramangalaly (2003) have enumerated some important actions that relate to customer relationship building such as selection and collaboration with customers (agents and end users) besides providing after sales service and conducting credit risk analysis as a means of export development.

Despite the complexities associated with developing effective customer relationships in export markets, studies have linked superior export performance to customer relationship quality. For example, Piercy et al.(1998) in their empirical study on sources of competitive advantage in high performing exporting companies, established a positive relationship between superior export performance and customer relationship skills. Implying that, firms with superior customer relationship skills are likely to realize higher export performance than firms where customer relationship skills were poor or floppy.

### **3.2.3 Production competencies**

Product development competencies relate to the capability of a firm to successfully meet demand for its product in a foreign market (USAID, 2009). At the firm level, production competencies relate to skills pertinent with new product development, improvement and modification of existing products, and the adoption of new methods and ideas in the production and manufacturing processes (Piercy et al., 1998; Thompson et al., 2008). Production competencies are a precursor of a firm's capacity to not only meet the demand for its product in the foreign market, but also expand production quickly in order to meet export orders and opportunities as and when they unfold. Therefore, in conditions of increasing competition, fast changing consumer needs and wants, and shorter product life cycles, exporting firms need skills that can enable them modify products in order to meet market requirements at the least total cost(in terms of money, personnel and time) that the competition.

### **3.2.4 Supply chain skills**

Another set of competitive skills required in exporting is supply chain skills. Supply chain competencies relate to the firm's expertise in planning, construction, and establishment of processes between supply chain partners (Piercy et al., 1998; Barclay, 2005). A well designed and managed supply chain is critical for a firm to be able to react quickly to market opportunities while assuring timely deliveries as promised. Surprisingly, Barclay (2005) reports the changing

face of supply chain performance expectations. He argues that the traditional supply chain capabilities of quality, price, on-time delivery performance, and service are now accepted as given. In this perspective, Barclay (2005) contends that firms (particularly, SMEs) must either adopt best practice and core competencies (e.g., creation of a customer interfacing IT supported quality system) or risk preclusion from established and efficient supply chains. This development is in line with Stewart (1997) who then found that higher degrees of internationalization were attained by firms that were able to subcontract a high proportion of their production, and had obtained longer term contracts with their suppliers. The link between superior supply chain skills and export performance should be obvious. All things being equal, firms with superior supply chain skills are able to identify attractive sources of supply (in terms of quality supplies and attractive prices) which, in combination with efficient response to customer demands, leads to reduced supply costs, increased export venture profitability and overall export performance.

### 3.2.5 Export management competencies

Critical in export management is export planning competencies. Ogbeuhi and Longfellow (1994), and later Doole et al.'s (2006), have attributed export market failure to export planning weaknesses. They particularly cite poor market analysis, absence of product-market match, ineffective distribution, and lack of management planning and control as factors associated with poor export performance. The vitality of planning in exporting has been exemplified in Shamsuddoha et al. (2009) study on government export assistance and export performance of SMEs. Their results indicate that management commitment typified by export marketing planning, allocation of sufficient managerial and financial resources, as opposed to direct finance and government guarantees, were responsible for export performance.

A number of management competencies that influence a firm's involvement in exporting activities have been cited in the literature. Notable among them include aspects such as foreign language proficiency, export procedure, international financing, overseas working, and living experience of managers (Valos and Baker, 1996; Alam, 2004); education, international exposure, expertise, international orientation, and commitment (Francis and Collins-Dodd, 2004). Similarly, Kuppusamy and Anatharaman (2008) found skills related to monitoring government actions and policies, and the competition, exploration, international language, and international

experience highly related to successful exporting. According to these scholars, knowledge acquired through monitoring provides the organization with correct input for successful planning and adaptation to the changing environment.

### 3.2.6 Export marketing competencies

Marketing competencies refer to how well a firm performs specific marketing related activities (Prasad et al., 2001). A number of specific marketing skills believed to significantly influence a firm's export performance have been proposed. These include general marketing expertise, marketing planning, marketing analysis, and niche marketing (Valos and Baker, 1996); distribution, developing contacts in export markets and information acquisition in foreign markets (Cavusgil and Zou, 1994; Francis and Collins-Dodd, 2004; Julien and Ramangalahy, 2003); and research and monitoring, market, pricing, distribution, customized marketing practice (Kuppusamy and Anatharaman, 2008). Similarly, a USAID report (2009) on export readiness of exporting firms exposes the positive relationship between marketing skills and export performance. According to the report, successful exporting firms are characterized by a clear export marketing strategy and adequate marketing/promotional materials (e.g., brochures, catalogues, and websites). Also, Prasad et al.(2001) investigated the influence of internet-marketing integration on marketing competencies and export performance. They found that marketing competencies enable an exporting firm to enjoy superior export performance. This finding is consistent with Piercy et al. (1998) who found that higher export performers were associated with high competencies in product development, product quality, technical support/after sales service, product line breadth, cost/price (competitiveness), and customer relationship skills.

In sum, competencies are a firm's inroad for sustained exporting, and international business in general; as such firms involved in international business should have certain competencies as building blocks for competitive advantage (La, Patterson and Styles, 2005; Hutchnson, Quinn and Alexander , 2006; Kuppusamy and Anathanraman, 2008). As Doole et al.(2006) observe, poor performance in export markets is, in part, exacerbated by firms' failure to prioritize competencies and assign the relevant resources. This observation is in line with Ibeh(2003) who established that the main discriminating variables between exporting and non exporting firms lay



in their capacity to develop new products, manage relationships, adopt innovations and new technologies, export market planning and research. However, Piercy et al.(1998) put a caveat on the role of competencies in superior export performance. They argue that competencies alone do not fully explain superior export performance. According to the authors, critical in superior export performance are the firm's competitive resources, that is, the capabilities in exporting such as experience, physical resources, scale and finance.

## CHAPTER FOUR

### EXPORT MARKETING STRATEGY AND EXPORT PERFORMANCE

#### 4.1 The concept of export marketing strategy

Studies in export marketing cite marketing strategies as key determinants of a firm's export performance (e.g., Zou & Stan 1998; Cavusgil & Zou, 1994). Consistent with previous scholars, Lee and Griffith (2004) define export marketing strategy as a means by which a firm responds to the interplay of internal and external forces to meet the objectives of the export venture. This definition is in line with Stewart and McAuley(2000) call for exporting firms to align exporting marketing strategy to their internal and external environments. Westhead et al.(2004) site the criticality of a good strategy in driving performance. In the context of exporting, export marketing strategy therefore is viewed as a mediator of a firm's internal environment and the performance of an export venture.

A number of studies (e.g., Cavusgil & Zou, 1994; Namiki, 1988) have operationalised export marketing strategy as a four dimension construct comprised of product adaptation, promotion adaptation, distribution adaptation(i.e., support to foreign distributor), and price competitiveness(price adaptation). Adaptation, according to Vrontis, Thrassou, and Lamprianou(2009) involves market tailoring to fit the unique dimensions of different international markets so as to achieve a positive export performance. The argument for adaptation is founded on the insurmountable differences between countries, in aspects such as level of market development, physical conditions, legal, and political situations (Cavusgil et al., 1993). This view is consistent with Cavusgil and Zou (1994) who posit that the degree of adaptation is a function of product, industry, market, organization and environmental characteristics. Dow (2001) and Vrontis(2009) in support of adaptation of the marketing mix (i.e. product, price, promotion and placing decisions) argue that a change in either aspect of a firm's strategy will often force a firm to adapt other strategy aspects. This argument has also been supported by Walter & Samiee (1990), Julien and Ramangalahy, 2003), and Aulakh, Kotabe and Teegen (2000). They maintain that since firms could encounter different competitive environments, they can only unravel through by adapting their export marketing strategies to suit such market needs. In their recent work on export marketing strategy, Gregory, Karavdic and

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Zou (2007) argue that the key dimension to a firm's marketing strategy is the degree to which a firm adapts its marketing strategy to the export market environment. Following is a discussion of the various export marketing strategies.

#### 4.2 Product adaptation

Product adaptation is conceptualized as the degree to which the product, including positioning, design/ style, quality, features, characteristics, brand/branding, packaging, labeling, services, warranty, and items/models in the product line differs from that of the domestic and export markets(Lages, Abrantes and Lages, 2008). Cavusgil and Zou (1994) clearly defend the notion that firms engaging in product adaptation can meet cross boarder customers needs and wants thus increasing customer satisfaction and overall export performance. Comparably, Cavusgil et al.(1993) argue that marketing is a local issue and the best course of action for a product ought to differ from market to market, focusing on appropriateness of some product aspects like product features and product name. Nonetheless, advocates of the contingency perspective on standardization–adaptation issue (Albaum and Tse, 2001) argue that the two concepts as extremes of the same continuum. Vrontis et al.(2009), consistent with Albaum and Tse (2001), posit that the decision to adapt and how much to adapt is a tradeoff between the costs of localizing the strategy and the benefit of better serving the local market.

Namiki(1988), on the other hand found evidence for the link between product adaptation and export performance in SMEs. The study revealed that small firms that produced innovative products for narrow segments were more likely to succeed. This finding was later supported by Walters and Samiee(1990) who found a positive correlation between product adaptation policy in high technology product lines and export profitability. Further, Lee and Griffith(2004) in support of product adaptation report a positive relationship between export product adaptation and export performance. This implies that, firms willing to customize their product lines were positioned for higher export performance. However, in a related study, Vrontis(2003) found evidence for companies' greater affinity to standardize products, particularly product quality, brand name, image size, and colour. Equally reported is the increasing trend for standardization in aspects such as packaging and styling, pre-sale and after sales service, warranties, design features delivery and installation(Vrontis, 2003).

Moreover, O'Cass and Julian (2003) observe that if a product only meets unique needs, greater adaptation of product and promotion will be required to meet customers' product use conditions and to educate customers in using and maintaining the product. Cavusgil and Zou(1994) argue that the degree of product adaptation is influenced positively by a firm's international competence, product uniqueness, cultural specificity of the product and export market competitiveness, and negatively by a firm's experience with product and technology orientation of the industry. A high degree of product adaptation is expected where the firm is internationally competent; the product is unique, new, or culture specific; the industry is less technology intensive or the export market is competitive (Cavusgil and Zou, 1994).

### 4.3 Pricing adaptation

According to Lages et al.(2008), pricing adaptation is the degree to which the pricing strategies (i.e., retail price, wholesale/trade price, profit margins to trade customers, discounts, and sales credit terms to end customers of a product) differ across national boundaries. Through adaptive pricing strategies, a firm is able respond quickly to local market conditions (Lee and Griffith, 2004) thereby enhancing its market positioning and eventual export success (Louter et al., 1991). This observation is similar to Cavusgil and Zou's(1994) argument that firms need to offer competitive prices to save the export venture from being undermined by competitors. Achieving price competitiveness in export markets is the essence of export market survival. Because of the sensitivity of price, managers tend to use non price competition (e.g., sales force training and technical support). Stewart (1997) contends that higher degrees of internationalization are obtained if the exporter selects target markets with low levels of price competition; suggesting that market price competitiveness acts as a barrier to firm internationalization, generally, and exporting in particular.

Vrontis(2003) while emphasizing the sensitivity of price in foreign markets contends that the price(particularly, price levels, list price, and price changes, and to a lesser extent discount allowances and credit terms) is the most likely single element of the export marketing mix susceptible to adaptation in foreign markets. To this end, varying some elements of the marketing mix, while keeping some aspects standardized or less adapted, confirms the mutuality of adaptation and standardization of marketing mix elements. The link between price adaptation

and export performance has remained debatable in the literature. For instance, while Cavusgil and Zou (1994) failed to find a relationship between price adaptation and export performance, Lee and Griffith (2004) found a positive relationship exists between export pricing adaptation and export performance. Apart from the discrepancies in research findings on the relationship between price adaptation and export performance, Stewart (1997) encourages resource poor SMEs to seek out markets in which domestic marketing strategy is likely to be successful, rather than adapting or devising strategy to fit a particular market.

#### 4.4 Promotion adaptation

Promotion adaptation is defined as the adjustment of the domestic promotional programme (i.e., advertising, creative/execution style, message/theme, media allocation, sales promotion, sales force structure/management, sales force role, public relations, personal selling, and advertising, promotion budget) to the export market (Lages et al., 2008). According to Cavusgil and Zou (1994), and later Lee and Griffith (2004), promotional strategy should be altered where the product has unique features, is not technology-intensive, or the market is highly competitive. The authors vehemently argue for adaptation of advertising effort, particularly for firms yet to establish brand familiarity in foreign markets.

Further, Madsen (1989), Lages et al. (2005), and Lee and Griffith (2004) suggest adaptation of trade promotion (i.e., buying allowances, free goods, cooperative advertising) to enhance export performance. As Madsen (1989) maintains, supporting the distributor in the export market can lead to cooperative relationships between the exporter and distributor thus increasing export performance. Vrontis (2003), and Cavusgil and Zou (1994) found promotion the second most adapted element of the marketing mix (after product), with greater adaptation reported in sales promotion, public relations, and personal selling, and less evident in direct marketing and advertising. Vrontis et al. (2009) uses the message content of advertisements (i.e., whether the message is transformational or informational) to argue for promotional adaptation. Transformational messages seek to associate the brand with a unique set of psychological characteristics and therefore are universal. However, informational advertisements should be more localized (i.e., adapted) in order to concentrate on consumers' practical and functional needs by emphasizing product features and benefits. As Cavusgil et al. (1993) earlier suggested,

the peculiarities in customer-attribute-importance structures require different appeals to be developed across customer groups. However, empirical studies on promotion adaptation and export performance have reported mixed results. While Lee and Griffith (2004) found a positive relationship between overseas trade promotions and export performance, Cavusgil and Zou(1994) found a negative association between promotion adaptation and export performance. Likewise, Zou and Stan (1998) found that overseas advertising expenditures had no influence on export performance.

#### 4.5 Distribution adaptation

Distribution adaptation reflects the adjustment of distribution (i.e., distribution channels, physical distribution, type and role of middle men) to the export market (Lages et al., 2008). Export venture's distribution network is seen as a necessary resource for successful participation in foreign markets. According to Lee and Griffith (2004), export channel strategies are divided into two: direct and indirect distribution channels. Direct channel strategy (i.e., where exporters sell directly to buyer located in a foreign market) are responsible for the direction of activities associated with export sales. This option has some advantages. For instance, through direct exporting, the exporter is able to gain greater knowledge of export markets due to direct contact and increased export profitability by absorbing part of the gross margin provided to trading companies. Alternatively, exporters may opt for indirect exporting (i.e., the use of independent middlemen to market the firm's products in international markets). In turn, these middlemen employ their network of foreign distributors and their own sales force.

Lee and Griffith (2004) content that exporters employing a direct channel strategy have greater access to market information and are able to adapt more quickly to changes in the market place than exporters pursuing an indirect channel strategy. Therefore, exporters employing a direct channel strategy are expected to achieve enhanced export performance. O'Cass and Julian (2003) suggest supporting the distributor when the export market is competitive. They contend that this would motivate the distributor to perform adequate promotion, delivery, and proper maintenance and service of the clientele. The extent of support to the distributor depends on the nature of the product and the industry (Cavusgil and Zou, 1994; O'Cass and Julian, 2003). More support is expected in technology intensive industries whose products are characterized by a high degree of



complexity. In such circumstances, manufactures/exporters are expected to provide adequate training support to the foreign distributors so that the product can be properly handled, marketed, and serviced. Through empirical testing, Cavusgil and Zou (1994) found that strong and mutually beneficial relationships with foreign partners strongly correlated with the managers' adequate success in international markets. Specifically, the study revealed that support to distributors in form of sales force training, technical assistance, marketing knowhow and promotional support, were critical especially in technology-intensive industries.

## CHAPTER FIVE

### ENTREPRENEURIAL ORIENTATION

#### 5.1 The concept of entrepreneurial orientation

Lumpkin and Dess(1996) define entrepreneurial orientation as a firm's strategic orientation, capturing specific entrepreneurial aspects of decision making, styles, methods, and practices managers use to act entrepreneurial. This definition is consistent with Miller(1983), Lee and Peterson(2000) and later Lee, Lee and Pennings(2001) who posit that entrepreneurial orientation is a process construct concerned with the methods, practices, and decision making styles managers use. According to these authors, specific entrepreneurial aspects include experimenting with promising new technologies, being willing to seize new-product market opportunities and having a predisposition to undertake risky ventures. Ibei and Young (2001, p.567) have compared concept of entrepreneurial orientation with exporting entrepreneurship. They contend that exporting is an entrepreneurial act underpinned by export entrepreneurship. They describe export entrepreneurship as a the process by which individuals, either on their own or inside organizations, pursue export market opportunities without regard to the resources which they currently control, or environmental factors which they face.

Other variants of entrepreneurial orientation pertain to the behaviour of firms in the way they do business. In this regard, Baker and Sinkula(2009) argues that entrepreneurial orientation reflects the priority that firms place on the process of identifying and exploiting market opportunities. Following this icon, Renko, Carsrud and Brannback (2009) contend that entrepreneurial orientation is an environmental management capability to undertake proactive initiatives to change the competitive landscape, rather than adapt and respond to the conditions in the market place. It therefore becomes obvious under this perspective for a firm to adopt a culture that emphasizes innovativeness, proactiveness and risk taking in order to stay afloat in the marketplace and ahead of the competition. In addition, Wiklund and Shepherd (2003) in a further attempt to situate entrepreneurial orientation in an organization, distinguish entrepreneurship from entrepreneurial orientation. They argue that while entrepreneurship involves the discovery and exploitation of opportunities to bring into existence future goods and services, entrepreneurial orientation, in part, explains the managerial processes that allow some firms to be

ahead of the competition because it facilitates firm action based upon early signals from its internal and external environment. Therefore, entrepreneurial orientation is a firm-level construct that is closely linked to strategic management and the strategic decision making process of a firm (Richard, Barnett, Dwyer and Chadwick, 2004). Particularly, Richard et al.(2004) posit that entrepreneurial orientated firms tend to act independently (autonomy), encourage experimentation (innovativeness), take risks, take initiative (pro-activeness), and aggressively compete within the markets. It is concluded that firms that operate at the high end of the continuum on such dimensions have a strong entrepreneurial orientation, whereas those lacking some or all these have a weaker entrepreneurial orientation (Lee and Peterson, 2000). Ibeh (2004) presents a similar understanding of entrepreneurial orientation when he views it as “the sum total of a firm’s radical innovation, proactive strategic action, and risk taking activities that are manifested in its support of projects with uncertain outcomes”.

To this end, it is logical to argue that entrepreneurial orientation is not created or imposed by top management; rather, it reflects the strategic posture as exhibited by multiple layers of management (Richard et al., 2004) and represents how the firm operates in order to discover and exploit opportunities. This view is akin to Maurel’s (2009) observation that dynamism and willingness behaviour of management, whatever the resources, are crucial in firm export performance. Thus, entrepreneurial orientation is an undisputable critical organization resource for sustainable organizational competitiveness and thus export venture performance. Since entrepreneurial orientation is embedded in organization routines (Lee et al., 2001), firms seeking high levels of entrepreneurial orientation should invest a great deal of time to cultivate such a culture in their firms.

## 5.2 Dimensions of entrepreneurial orientation

Studies (e.g. Lumpkin and Dess, 1996; DeClercq and Rius, 2007; Richard et al., 2004; Maurel, 2009; Okpara, 2009) have conceptualized entrepreneurial orientation as a multi-dimensional construct. While the entrepreneurial orientation is reported to have as many as five dimensions (autonomy, innovativeness, pro-activeness, risk-taking, and competitive aggressiveness), it is usually associated with three dimensions, that is, innovativeness, pro-activeness and risk-taking

(Miller, 1983; Richard et al., 2004; Maurel, 2009; Okpara, 2009). These are further discussed in the following sections:

### 5.2.1 Innovativeness

Innovativeness reflects a firm's propensity to support new ideas, novelty, experimentation, and creative processes, thereby departing from established practices and technologies (Lumpkin and Dess, 1996; Baker and Sinkula, 2009). Firm's (such as SMEs) characterized by resource constrains when comparison is made to large sized firms, innovativeness is more of an imperative than a choice. A similar view is held by Wolff and Pett(2006) who argue that SME's lack of adequate resources(particularly, financial and human) may be compensated by flexibility, agility and innovation. Certainly, without innovation, resource poor firms would have to rely on traditional ways of doing business, that is, offering traditional products/services distributed through traditional channels, a situation that would unfortunately put small firms in an awkward competitive position vis-à-vis the highly innovative ones. For instance, Ibeh (2004) warns that a head-to-head competition (especially by an SME) with established players is bound to result in failure due to resource shortcomings, scale diseconomies, and questionable reputation. Li, Zhao, Tan and Liu's (2008) argue that innovativeness is underpinned by strong emphasis on research and development, technology leadership and innovation, attaching importance to product and service innovation, and keeping ahead in technology. Supported in a related body of literature, Li, Guo, Liu and Li (2008) make a similar observation on the vitality of innovativeness in firms. These authors contend that managers in firms with a high entrepreneurial orientation will tend to emphasize the development of innovative activities, which produce new products and new process technologies that the competition.

According to Lumpkin and Dess(1996) there are two broad variants of innovation: product-market innovation and technological innovation. Technological innovativeness consists primarily of product and process development, engineering, research, and an emphasis on technical expertise and industry knowledge. On the other hand, product-market innovativeness suggests an emphasis on product design, market research, and advertising and promotion. However, these categories of innovation are hard to distinguish because of the inherent overlap between product-market and technological innovation. Product and process innovations may not only improve the

firm's competitiveness at home, but also help the firm to take advantage of opportunities presented in international markets. Numerous methods have been proposed in a bid to measure innovativeness. Some studies (e.g. Quian and Li, 2003; Wolff and Pett, 2006) report the use of research and development (R&D) expenditures as a measure innovation capability of a firm. Their argument is that R&D indicates a firm's effort to improve its operating processes, create new products, or improve/modify existing ones. Baker and Sinkula (2009) report both objective and subjective measures of innovativeness. Objectively, innovativeness is measured by the level of research and development costs (as a percentage of sales) and subjectively in terms of the manager's willingness to discard old beliefs (Karagozolu and Brown, 1988).

Although the innovativeness dimension of entrepreneurial orientation has been widely studied, its link to firm performance has not been conclusive (Miller, 1983; Lumpkin and Dess, 1996; Lee and Peterson, 2000). For instance, Wiklund and Shepherd (2003) posit that entrepreneurial oriented firms, through innovations (such as creating and introducing new products) can generate extra ordinary performance. Also, Baker and Sinkula(2009) have empirically established that innovation success mediates the reported positive relationship between entrepreneurial orientation and profitability (an export performance dimension) in small firms. This finding lends support to Wiklund and Shepherd's (2003) argument that entrepreneurial oriented firms, through innovations, can generate extra ordinary performance. Conversely, Renko, Carrud and Brannback(2009) in their study of young biotechnology ventures in the US and Scandinavian found no significant relationship between product innovation and entrepreneurial orientation. It was observed that entrepreneurial orientation measures innovativeness as an attitude and culture within the firm which only materializes in the form of new product innovations after some time.

### 5.2.2 Proactiveness

Proactiveness refers to a firm's approach to market opportunities through active market research and first mover actions such as introduction of new products/services ahead of competitors (Lumpkin and Dess, 1996; Lee and Peterson, 2000; Baker and Sinkula, 2009). Being a pioneer by anticipating and pursuing new opportunities and participating in emerging markets is a hallmark of pro-activeness. A number of scholars have underscored the importance of pro-activeness in an organization. For example, Li et al(2008) assert that for an organization to

obtain competitive advantage, its managers should focus on finding and grasping new market opportunities and proactively compete with their rivals by using their new products and new process technologies. Therefore, entrepreneurship does not necessarily start with the product or service to sell, but an opportunity found in the environment (Wiklund and Shepherd, 2003). Lending support to past studies (Miller, 1983; Lumkin and Dress, 1996), Baker and Sinkula (2009) observe that firms with a forward-looking perspective are able to create first mover advantages, target premium market segments, and skim the market a head of competitors. This outcome can only take effect when management is skillful and entrepreneurial (Cunningham and Lischeron, 1991).

### 5.2.3 Risk-taking

Risk taking refers to the willingness of management to commit significant resources to opportunities that might be uncertain (Miller, 1983; Limpkin and Dess, 1996; Baker and Sinkula, 2009). Risk taking depends on risk propensity and risk perception. Risk propensity (i.e., defined as the tendency to take or avoid risks) is a relatively stable characteristic but can be modified through experience. Although risk propensity is viewed as an individual characteristic, the positive association between risk propensity and risky decision making by individuals is expected to translate to organizations through top management teams. Risk perception on the other hand, is the perceived degree of risk inherent in a certain situation. The higher the risk propensity and the lower the risk perception, the more likely it is that a risky decision will be made. Moreover, most international markets, in comparison to the domestic one, are perceived risky. Thus, risk taking initiatives should be more necessary in order to achieve good results in hostile markets. Just as Aaby and Slater (1989) established, only management with international vision, favourable perception and attitudes toward exports, willingness to take risk and with the capacity to engage positively in export activities, is likely to lead a company to export success. In effect, managers with higher risk-taking propensity are expected to positively influence export performance.

Scholars such as Wiklund and Shepherd (2003) contend that risk taking reflects the organization's willingness to break away from the tried-and-true and venture into the unknown. Moreover, with shortening product life cycles (due to fast changing customer needs and wants),

future sales growth and profit streams are unlikely to come from current business operations. It is thus evident that growth oriented enterprises need to constantly seek out new market (including going international) opportunities. This is only possible where a firm is willing to venture into the unknown.

Drawing from Lee and Peterson's (2000) study on entrepreneurial orientation and global competitiveness, it is concluded that business gains accrue to firms willing to support proactivity, tolerate ambiguity and uncertainty; and commit resources to risky ventures bearing chance of high returns. However, Renko, et al.(2009) hold a contrary view . In their study of young biotechnology ventures in the US and Scandinavian they found no significant relationship between capital investment (a measure of risk-taking) and entrepreneurial orientation. They observed that firms operating in a technologically intensive environment did not necessarily benefit from being entrepreneurially oriented than their competitors. This was founded on the background that all firms in such an industry already have a certain level of innovativeness, proactiveness and risk-taking and that more extreme risk- taking may simply not be adaptive. Similar results were found in a study by Walter, Aver and Ritter (2006) where entrepreneurial orientation did not have a direct effect on sales growth, sales per employee or profit attainment in a sample of technology intensive University spin-offs.

### **5.3 Entrepreneurial orientation and export performance**

McGregor (2004) argues that in the context of SMEs, entrepreneurial orientation has a moderating effect on firm performance. A case for entrepreneurial orientation in exporting firms is increasingly obvious with increasing competitive pressure literally in all international markets. Thus, flexibility and willingness to capitalize upon fleeting market opportunities in a fast entrepreneurial manner is regarded a primary source of strength in export markets (Walters and Samiee, 1990; Richard et al., 2004). Undoubtedly, firms that emphasize data acquisition and formal planning may miss a significant number of attractive market opportunities. As Wood and Robertson's (1997) observed, the process of implementing a strategy is a key success determinant in export markets.

It is logical to expect a firm with a high need for achievement, propensity to take risk, tolerance of ambiguity, self confidence and innovativeness (Mitton, 1989; Koh, 1996) to formulate and implement an appropriate export market strategy for superior export performance (Koh, 1996; Velos and Baker, 1996; Lee and Peterson, 2006; Hutchnson, Quinn and Alexander, 2006). Okpara's (2009) study on exporting SMEs in Nigeria revealed that exporters that were active, pro-active and aggressive in their pursuit of opportunities in overseas markets outperformed their reactive, passive and conservative counterparts. On the other hand, domestic oriented (non-exporters) entrepreneurs were found to treat foreign markets as secondary, high risk and problem laden; a feature associated with a weak entrepreneurial orientation. As the business environment is not only dynamic but also a haven of fast fleeting opportunities, firms with a weak entrepreneurial orientation are expected to remain at home.

The unique situation of SMEs (e.g. limited financial and human capacity) in the export market makes entrepreneurial orientation in SMEs more of a prerequisite than an option. As Li et al(2008) argue, small firms are under pressure to develop distinctive strategic competencies to enable them sustain their exporting activities, while refraining from deadly head-on-competitive approaches with their large, resource endowed counterparts. Thus, with a strategic posture focused on innovation, willingness to take risks (bearing chance of high returns) and an inclination to market opportunities(proactiveness), a firm is more likely to gain improved export performance(Ibeh, 2004; Li et al., 2008).



## CHAPTER SIX

### EXPORT PERFORMANCE AND MEASUREMENT

#### 6.1 The concept of export performance

Shoham(1998) conceptually defines export performance as the composite outcome of a firm's international sales. Cavusgil and Zou (1994) provide a more comprehensive definition of export performance. They define export performance as the extent to which a firm's objective, both economic and strategic, with respect to exporting a product into a foreign market, is achieved through planning and execution of exporting marketing strategy. Key to export performance measurement is the need to determine the level at which performance is measured, that is, the unit of analysis (Katsikeas et al., 2000; Pendergast, Pasic and Sunje, 2006). While early export performance research relied on aggregate, firm-level analysis, Cavusgil and Zou (1994) introduced a product-market focus on discrete product ventures. They assert that focusing on one export venture as a unit of analysis enables researchers to better isolate the impact of influencing factors on export performance, instead of averaging out successes, and or failures across the entire firm activities (Carneiro, da Rocha and da Silva, 2007). This argument draws support from the view that export marketing strategies may differ significantly among various export marketing ventures of the same firm (Cavusgil and Zou, 1994; Pendergast et al.,2006). Piercy et al.(1998), and later Lages, Lages and Lages(2005) lend support to this view. They observe that responding executives have detailed knowledge of a specific export venture performance than of the aggregate firm-level performance.

Besides, Katsikeas et al.(2000, p.500) observe that while academics emphasize firm-level as a unit of analysis, the practitioners' focus tends to be on success or failure of individual projects. Nonetheless, aggregate firm-level export performance assessment appears out of touch with the real dynamics of export-decision making and evaluation (Katsikeas et al., 2000; Pendergast et al., 2006). Export performance reflects the outcomes of export behaviour in firm-specific and environment specific circumstances (Diamantopoulos and Kakkos, 2007). Export performance has two main utilities: At the national (macro) level, governments are concerned with improving the international competitiveness of their economies, and reducing the balance of trade deficits.

At the individual (micro) firm-level, many of them require export market access to achieve their business goals.

There is no uniformly accepted conceptualization and operationalization of the export performance construct (Cavusgil and Zou 1994; Zou and Stan, 1998; Shoham 1998; Sousa, 2004). According to Flor and Oltra(2005) , the most controversial aspects in export performance measurement endeavour relate to unit of analysis, number and type of dimensions to be included in the analysis and whether to employ objective or subjective indicators of export performance. Despite the ensuing confusion in the operationalisation of the export performance construct, Cavusgil and Zou (1994) cite economic measures (that is, export sales, sales growth and profitability) as the most frequently used export performance measures. Another category of measures (strategic measures) mentioned by Cavusgil and Zou (1994) comprise a set of non economic objectives such as market expansion, competitive response, gaining a foothold in foreign markets, or increasing the awareness of the product or firm. Because these measures are usually taken at firm level, these authors claim that it is impossible to precisely establish the marketing strategy-performance relationship.

Sousa (2004) undertook a literature review on 43 empirical studies published between 1998 and 2004 about export performance measures. He discovered as many as 50 different performance indicators, which he classified into objective (quantitative) and subjective (attitudes, perceptions: qualitative) indicators. Nonetheless, the most frequently used indicators were export intensity, export sales growth, export profitability, export market share, satisfaction with overall export performance, and perceived export success. Besides, Katsikeas et al.'s(2000) earlier review of 100 articles on export performance measurement revealed 42 different export performance measures, with economic measures(specifically, export sales intensity) emerging the most commonly used export performance indicator. This finding confirms Griffin and Page's (1993) argument that the debate is no longer on whether or not export performance is multidimensional, rather which performance measures should be used. In addition, Maurel(2009) emphasizes the need to measure export performance by different indicators in order to increase the reliability of the results.

## 6.2 Objective export performance measures

Objective measures are export performance indicators that are based mainly on absolute values (Akyol and Akehurst, 2003; Sousa, 2004). A number of objective measures used to assess export performance have been reported in the literature. They are either sales related, profit related or market related (Sousa, 2004; Katsikeas et al., 2000).

### 6.2.1 Sales related measures

The sales related measures sub category is widely used to assess export performance and uses such measures as export intensity, export sales volume, export sales growth (Cavusgil and Zou, 1994; Das, 1994; Sousa, 2004). Export sales value measures the monetary value of total export volume. Because of its emphasis on volume, Pendergast et al. (2006) argue that this indicator has a bias towards large companies. The dynamic nature of export sales is correspondingly tapped through the export sales growth indicator, defined as the year-by-year change in the level of exports, or annual average change over a period of time (Pendergast et al., 2006). However, measuring export performance by use of sales related measures has been criticized on the account that it could obscure a firm's true exporting position. For instance, critics (e.g., Sousa, 2004) argue that a firm doing an inadequate export job with a new product in a very large foreign market might appear to be a superior performer to another firm with a large market share of a relatively small foreign market. Also, export sales growth may overstate export performance especially in situations of price escalations and market growth, or worse still, its performance because of experience curve effects and deteriorating demand.

Export intensity on the other hand, measures the degree of firm involvement in export markets compared to total sales. It is expressed as the ratio of export sales to total sales (White, Griffith and Ryans, Jr., 1998; Katsikeas et al., 2000; Sousa, 2004; Maurel, 2009) and is one of the most common measures of export success. The export intensity measure requires respondents to estimate their firm's percent of total sales attributable to foreign sales. This indicator reflects the importance of, and /or success of a firm's international transaction in terms of its overall operations (White et al., 1998). The advantage of measuring export performance by use of export intensity is that it cancels the effect of firm size, thus facilitating comparison between companies of different sizes, industries and countries (Maurel, 2009). Critics of export intensity as a

measure of export performance argue that export intensity may not measure export performance, but a firm's degree of internationalization (Das, 1994; White et al., 1998). They further contend that its relative dependence on foreign markets or its failure in the domestic market puts its quality in question. Nonetheless, due to the ease of associated with its determination (White et al., 1998), export intensity is a commonly used export performance indicator.

### **6.2.2 Profit related measures**

Compared to sales-related measures, profitability measures are less frequently used in export performance assessments (Sousa, 2004; Katsikeas et al., 2000; Zou and Stan, 1998). The most common indicator under the profit related measures include export profitability, often in comparison with domestic sales (Pendergas et al., 2006). Other indicators under the profit category include profit margin and export profit margin growth. However, the use of profitability has received scorching criticisms. For instance, Sousa(2004), and Pendergas et al.(2006) posit that many companies often never provide information related to their profitability. Moreover, as Sousa (2004) reported, majority of firms (especially, SMEs) lack the capacity to generate information related to profit (e.g., return on investment, return on assets, and the like).

### **6.2.3 Market related measures**

Market related measures are another category of objective measures, albeit, with seldom use. The common performance indicators (Sousa, 2004; Zou and tan, 1998) under the market related measures include export market share, export market share growth, and market diversification (measured by number of markets entered). Measuring export performance of a firm by number of markets it has in its export base is widely documented (White et al., 1998; Sousa, 2004). These authors hypothesize that the number of countries served by a firm is a correlate to its international success. This view is founded on the argument that if a firm is successful in its international expansion, it continues to expand; conversely, if unsuccessful, it will often take a defensive posture and move back to the sanctuary of the domestic market place. To capture this measurement, respondents are asked to provide the total number of countries in which they are currently conducting business (White et al., 1998).

The market diversification indicator has been scantily used in the exporting research. For instance, Sousa's (2004) empirical review found that only one study had used the market diversification indicator; which he attributes, in part, to the difficulty in measuring actual market share. This finding lends support to Das (1994) earlier observation that export market share is often very difficult to measure especially for small firms. Despite the decimated application of the market diversification indicator, Madsen (1998) provides a case for its utility. He argues that high market share leads to scale and experience advantages on the cost side as well as more power in approaching customers. Although objective measures have attracted wider application in export performance measurement, some scholars (e.g., Akyol and Akehurst, 2003; Sousa, 2004) report the difficulty in collecting actual absolute performance indicators from documentary sources. As Akyol and Akehurst (2003) argue, measuring performance, especially of SMEs through objective measures is problematic. They contend that these firms tend to be privately owned and as a rule, they are reluctant to disclose sensitive financial information to strangers. Besides, Stewart (1997) observes the tendency of researchers to focus on economic goals of the firm (e.g., sales volume, sales and profitability) rather than in terms of achieving strategic goals, such as the desire to enter a particular foreign market. As argued in Cavusgil and Zou(1994), Akyol and Akehurst(2003), and later Sousa(2004) by pursuing both options(economic and strategic goals) simultaneously, it is contended that significant improvements can be made in the overall measurement of the export performance construct.

### 6.3 Subjective export performance measures

Subjective (also perceptual) measures focus on the perception of respondents on how well their company is performing towards achieving their export objectives (Flor and Oltra, 2005). According to Louter et al.(1991), export success is not an objective term; it is rather a judgment of management based on their interpretation of results evaluated against historical results, expectations and objectives. They contend that what one export manager, for example, may consider being an excellent success may be condemned by the other. In export measurement context, subjective measures provide qualitative information regarding export volume, intensity, and growth during a designated time period.

In the context of export performance measurement, subjective measures are thus indicators of the firm's satisfaction with export operations compared to that of its major competitors or relative to a company's expectations (Cavusgil and Zou, 1994; Cadogan, Diamantopoulos and Siguaw, 2002; Akyol and Akehurst, 2003). Subjective measures are based on top managers' perception of performance of the business often compared to major competitors in the industry. Indicators such as perceived export success and satisfaction with export sales are some of the subjective indicators of export performance. In contrast to objective measures, subjective measures are anchored on a scale rather than seek plain absolute figures (Shoham, 1998). Following is a discussion of the most common subjective measures of export performance reported in the export performance literature:

### 6.3.1 Management's perception of export profitability

White et al.(1998) posit that profitability is synonymous with performance, particularly, in the private business perspective. The use of management perception (e.g., export profitability) of export performance encourages more firms to respond to survey questions given that they do not have to provide confidential export profitability figures (Piercy et al., 1998; Aulakh et al., 2000; Flor and Oltra, 2005). In Flor and Oltra's(2005) study to measure export performance of Spanish tiles firms, the authors asked respondents to indicate their perception on how well their company had performed on the four dimensions: profitability, market penetration, growth of sales, and firm image. Similarly, Piercy et al.(1998), and later Aulakh et al.(2000) used subjective questions that sought to capture sales volume, market share, profitability of the export venture. For example, "exporting has contributed to the sales growth of our firm"; "exporting has improved our firm's market share,,"; and "our export activity has made our firm more competitive." A similar approach has been used by Brouthers and Nakos (2005) to measure export performance by use of the profitability indicator. In their study, respondents were asked to: (1) rate the profitability of their sales abroad in relation to their sales in their domestic market and, (2) compare the profitability of their company with other companies in the same industry. They averaged these two questions together to create an export profitability measure. Similarly, international sales growth was measured by asking respondents whether exports or domestic sales had been higher during the last five years.

### 6.3.2 Managements' satisfaction with export performance

According to Diamantopoulos and Kakkos (2007), management satisfaction entails the subjective evaluation of actual attainment of a given export objective. These authors argue that managers may exhibit differing degrees of satisfaction or dissatisfaction with the same objective even if the actual levels of attainment are the same. Therefore, management satisfaction with the export venture is gauged from the extent to which outcomes are proximate to goals (Diamantopoulos and Nakkos, 2007). Moreover, Ural (2009) suggests a composite measure of export performance comprised of two subjective measures (strategic performance of the export venture and the firm's satisfaction with the export venture) in addition to the financial performance measure.

White et al.(1998) provide defense for use of management's satisfaction with export performance. They contend that effectiveness is evaluated by managers against the intended results, and only a firm's management alone knows what its goals and expectations are regarding export performance. This, according to White et al.(1998), makes management better judges of whether or not the firm is achieving its goals than would outside parties. Both Shoham and Kropp (1998), and Shoham (1998) have included management satisfaction with performance(in addition to the objective financial data) component in the measurement of export performance. These authors, and consistent with Madsen (1998) posit that managerial subjective satisfaction is important because it affects future strategies. Studies using subjective measures of export performance assess the export performance construct on a scale by asking respondents to rate their satisfaction levels in terms of export objective measures, such as sales volume and export market share. Therefore, assessing management's satisfaction with export performance is consistent with the trend of managing by objectives (White, et al., 1998). Accordingly, White et al.(1998) operationalised managers' satisfaction with export performance on a scale of 1 to 5, with 1 being "Very dissatisfied" and 5 being "Very satisfied" According to these authors, firms that meet or exceed their objectives are more satisfied than firms which have not met their objectives.

Likewise, Akyol and Akehurst (2003) measured satisfaction with export operations in terms of export sales volume, export market share, and rate of new market entry. They asked respondents

to rate their level of satisfaction on a 5-point scale ranging from 1, "Very dissatisfied" to 5, "Very satisfied". In the same study, respondents were asked to rate their company's overall export performance on a 5 point scale ranging from 1, "Poor" to 5, "Outstanding". Racela, Chaikittisilpa and Thoumrungrroje's (2006) used a similar anchor (albeit on a 7-point-scale) to assess the performance satisfaction dimension of export performance.

The use of subjective measures has been suggested for various reasons. Foremost, subjective measures become the only practical measures in cases where managers may be unwilling or unable to provide objective financial data (Madsen, 1998; Katsikeas et al., 2000; Sousa, 2004; Lages et al., 2005). Secondly, by using relative measures, executives are able to answer performance questions without revealing confidential sales and profit information. Further, comparisons across industries and markets are adjusted for differences in local conditions and competition (Piercy et al., 1998). In addition, Lages et al.(2005) argue that since study samples are often drawn from a heterogeneous population(i.e., varying market characteristics, level of competition, and market intensity) of exporting firms, only managers' own perceptions of export performance; and not objective values, are useful performance measures. Moreover, Madsen (1998) reports the lack of cost accounting systems, particularly in SMEs, making calculation of actual profits complicated, thus the obvious reliance on subjective assessments.

Like objective measures, subjective measures also have their own shortcomings. According to Das (1994) subjective measures suffer from weaknesses associated with measuring perceptions of performance, rather than actual performance itself. Madsen (1998) reports that the common use of subjective (such as mental benchmarking) introduces an ambiguity that complicates the selection of criteria for measuring export success. Subjective measures are susceptible to various cognitive biases. Depending on the time period involved, respondents may suffer memory loss. Since many privately-held firms (for instance those in the category of SMEs) do not publish financial results, it is precarious for a manager to subjectively compare the profitability of his/her company with other companies in the same industry. Depending on the position of the firm, each specific export venture may be loaded with different strategic and economic expectations. Though this shortcoming could be diminished through Cavusgil and Zou's (1994) recommendation for use of export venture (as opposed to the aggregate firm-level analysis) as a



unit of analysis, to a great extent the relative importance (weight) of each measure of export performance resides in the eye of the manager/decision maker(Pendergast et al., 2006).

Furthermore, Pendergast et al.(2006) posit that different stakeholders of a firm have divergent values and perspectives, thus complicating the use of subjective assessment of objective outcomes, and of expressions of satisfaction with performance. They cite financial officers as one such stakeholder who may value the short-term profitability of exports more than their volume (sales). Yet, in contrast, export managers may wish to sacrifice short-term profitability for long-term benefits such as gaining market share, economies of scale and market presence. In sum, results from subjective measures should be interpreted cautiously, albeit the evidence from Dess and Robinson's study (as cited in Racela et al., 2007, p.154) that subjective and objective measures are positively associated. Although there is some consistency regarding the subjective approach in the measurement of export performance (Aulakh, et al., 2000; Akyol and Akehurst's, 2003), the width of the scale anchor remains an area yet to be harmonized. For examples, while some scholars use a five point scale (e.g., Akyol and Akehurst, 2003) others employ a 7-point scale (e.g., Aulakh, et al., 2000) or even a 10 point one (e.g., Cavusgil and Zou, 1994). With such scale differentials, one would expect insurmountable response bias, data in equivalency and data comparison problems.

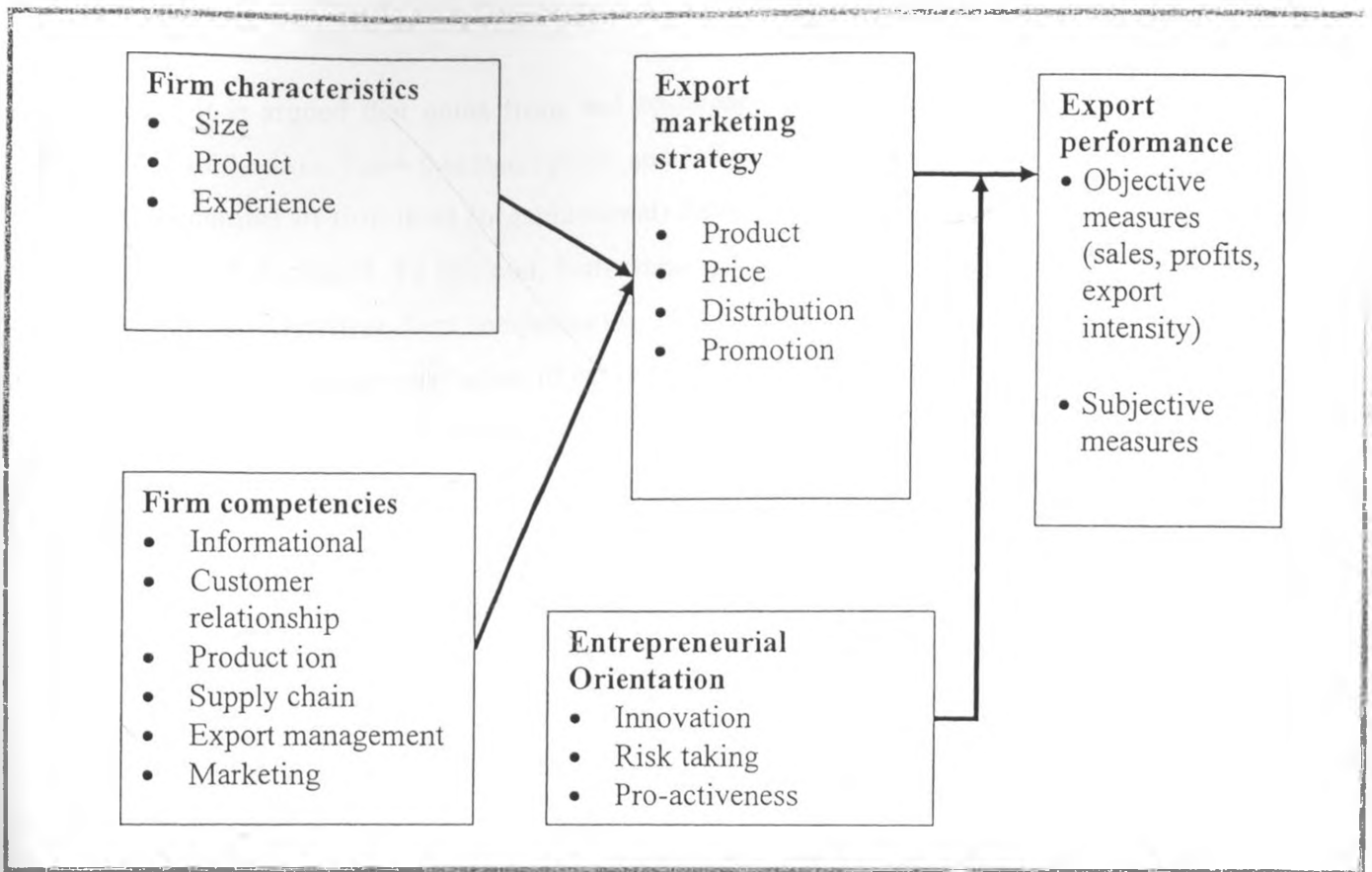
## CHAPTER SEVEN

### PROPOSED CONCEPTUAL MODEL AND HYPOTHESES

#### 7.1 Conceptual framework and model

The proposed conceptual framework of the relationship between firm level factors and export performance is founded on the resource based view (RBV) of the firm. The framework is adapted from the works of Aaby and Slater (1989), Cavusgil and Zou(1994), and later Morgan et al(2004) by including entrepreneurial orientation(as a moderator of export marketing strategy and export performance). The conceptual framework postulates that a firm's characteristics and competencies shape the export marketing strategy a firm adopts for its export markets. Export marketing strategy, in turn, is expected to influence the performance of the firm's export venture.

Although organizational characteristics and competencies are said to impact on the decision to initiate exports, the current global competitive environment necessitates firms with an entrepreneurial orientation (i.e. decision makers able to innovate, take risk and are proactive) in the design and implementation of specific export marketing strategies in order to achieve success in foreign markets. Therefore, it is theorized that a firm's entrepreneurial orientation will moderate the effect of the relationship between export marketing strategy and export performance.



**Figure 1:** Conceptual framework depicting the influence of firm level factors on export performance.

## 7.2 Hypotheses

From the literature review and the above model, the following hypotheses can be formulated:

- H<sub>1</sub>: There is a relationship between firm characteristics and export marketing strategy
- H<sub>2</sub>: There is a relationship between firm competencies and export marketing strategy
- H<sub>3</sub>: There is a relationship between export marketing strategy and export performance
- H<sub>4</sub>: Export marketing strategy will mediate the relationship between firm characteristics and competencies, and export performance.
- H<sub>5</sub>: Entrepreneurial orientation of a firm has a moderating effect on the relationship between export marketing strategy and export performance.

### 7.3 Conclusion

In this paper, it is argued that gains from and sustainability of any exporting endeavour is a responsibility of the firm. From this stand point, and informed by the resource based view (RBV) of the firm, a number of firm level (organizational) factors associated with successful exporting are delineated and discussed. To this end, both empirical and anecdotal evidence from literature show that firm characteristics, firm competencies, export marketing strategy, and entrepreneurial orientation could be important predictors of export performance. This paper indicates that though the interrelationships between these internal factors have been documented (e.g., Cavusgil and Zou, 1998; Ruzziery, et al, 2007; Ural, 2009), their specific effects on the export performance of firms with unique operating contexts (such as resource poor firms in developing countries) have not been systematically investigated. This, in part, could be responsible for the conflicting literature on the influence of firm level factors on export performance. Therefore, future inquiries into export performance of firms should integrate contextual concerns of exporters if the results from such studies are to meaningfully inform the export strategy direction of exporting firms and /or their nations.

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