

Management Perceptions, Firm Characteristics and Degree of Export Involvement: A Study of Indian SMEs.

Introduction:

Increasing globalization of the economic system, growing international trade, and growing trade deficit problems faced by many countries both developing and developed has stimulated research interest in export marketing. One of the distinctive areas where empirical research in the field of international marketing has been concentrated is on the investigation of factors motivating a firm to establish, develop and maintain exporting activities (Bilkey, 1978; Seifort and Ford, 1989; Katsikeas and Piercy, 1991). One area of research has been concentrated on analysing the motivating factors as distinguished between exporting and non-exporting firms (e.g. Cavusgil and Naor, 1987; Cavusgil and Nevin, 1981; Yaprak, 1985). However, in this approach, the potentially significant differences between different exporter groups in terms of export performance were ignored (Aaby and Slater, 1989).

Another approach has been focused on measuring export performance according to some criterion depending on the export position of the firm i.e. export-to-total sales ratio (Beamish and Munro, 1986; Dominguez and Sequeira, 1993); export sales volume (Czinkota and Johnston, 1983; Madsen, 1989); export sales growth (Cooper and Kleinschmidt, 1985; Madsen, 1989); and export profitability (Bilkey, 1978; Dominguez and Sequeira, 1993).

A significant stream of research in international marketing has been concerned with the internationalisation of firms. Several models and theories have been suggested based on behavioural theories that describe the internationalisation of firms as a process of trial and error in an uncertain and unknown future though the eclectic theory (combining economic theories of monopolistic competition, location and transaction costs) have been the dominant line of research. One such theoretical line from behavioural theory (Johanson and Vahlne 1977; Bilkey, 1978; Wiedersheim Paul et al 1978; Cavusgil, 1980; Welch and Luostarinen, 1988;) has been concerned with the process of Internationalisation of the firm, which is defined as a gradual development-taking place in distinct stages (Melin 1992). The two generic models on the stage concept of process of Internationalisation are the Uppsala models -U-Models, (Johanson and Wiedersheim-Paul 1975) and the Innovation related

Models (I-Models), (Cavusgil 1980) .The export stimuli were evaluated for significant differences with respect to the degree of export involvement of the firm as conceptualised by Cavusgil, 1980.

Little empirical research has been done on the export behaviour of firms that are already engaged in exporting activities (Gripsrud, 1990). One way of increasing exports at a national level is by encouraging exporting companies to export more. Thus the export behaviour and performance of current exporters can be of importance to both public and private sector policy makers interested in export development. In addition, a review of the empirical literature suggests that the majority of the research efforts have considered firms involved in exporting from developed countries, particularly the US and Canada (Karafakioglu, 1986; Christensen et al. 1987, Leonidou, 1988) and therefore it would be misleading to generalize such findings to other countries, especially India which is at a different stage of development and has a different domestic market size. A search through online database EBSCO did not reveal any significant research on export stimuli in the Indian context. This study attempts to eliminate this lacuna by focussing on manufacturing and non-manufacturing firms with established domestic market operations in India, a developing country and by testing the association of export motivators and other firm characteristics with degree of export involvement. This could be of use for exporters in formulating their marketing plan and for non-exporters in identifying the obstacles to their firm's internationalisation.

Literature Review: Many researchers have classified export stimuli along the internal-external dimension (Wiedersheim-Paul et al. 1978; Cavusgil and Nevin, 1980; Welch and Wiedersheim-Paul, 1980) i.e whether the decision to initiate international involvement and maintain export commitment by the firm is influenced by factors internal to the firm or the external environment. Other authors have classified export stimuli into proactive-reactive categories (Piercy, 1981a; Johnston and Czinkota, 1982; Leonidou, 1988) wherein proactive stimuli are related to the firm's deliberate search for export opportunities (pull factors) and reactive stimuli are associated with firm's reaction (passive attitude) to changing conditions (push factors). Albaum et al argue that a proactive or reactive stimulus may originate from the internal or external environment of the firm and therefore categorise export stimuli into four different groups ie proactive/internal (e.g. unique products, managerial urge); proactive/external (e.g. foreign market opportunities, attractive export incentives); reactive/internal (e.g. excess production capacity, opportunity to reduce inventories); and reactive/external (e.g. unsolicited orders from abroad, saturated domestic markets). There is a consensus in export

marketing literature on the kinds of export stimuli (Dichtl et al, 1984a; Sullivan and Bauerschmidt, 1988), which influence firm's internationalisation. These can be classified as the decision maker's traits: firm characteristics: and factors in the external environment.

Managerial traits, which affect export performance, include: cognitive style (Nystrom, 1974; Dichtl et al, 1984b); international orientation (Wiedersheim-Paul et al. 1978; Cavusgil, 1980; Reid, 1981; Sullivan and Bauerschmidt, 1988); perceptions of profits, costs and risks in export markets (Roy and Simpson, 1981; Joynt, 1982; Ogram, 1982).

Awareness of export opportunity must be accompanied by managerial interest i.e. managerial beliefs about the importance of exporting and managerial export experience to be considered as potential export stimuli (Pavord and Bogart, 1975).

Firm specific characteristics that are believed to play a critical role in export motivation are differential firm advantages (Wiedersheim-Paul et al., 1978; Cavusgil et al, 1979; Cavusgil and Nevin, 1981; Cavusgil, 1984a); available production capacity (Wiedersheim-Paul et al. 1978; Johnston and Czinkota, 1982; Diamantopoulos et al., 1990) accumulated unsold inventory (Johnston and Czinkota, 1982; Leonidou, 1988; Sullivan and Bauerschmidt, 1988); and economies resulting from additional orders (Kaynak and Kothari, 1984; Sullivan and Bauerschmidt, 1988).

The characteristics related to the external environment, which stimulate and perpetuate internationalisation, are foreign country regulations (Bilkey and Tesar, 1977; Albaum, 1983; Kaynak and Kothari, 1984); availability of foreign market information (Albaum, 1983; Kaynak and Kothari, 1984; Sullivan and Bauerschmidt, 1988); increased domestic competition (Kaynak and Stevenson, 1982; Ursic and Czinkota, 1984; Kaynak and Erol, 1989; Diamantopoulos et al., 1990); export promotion programs (Bilkey, 1978; Karafakioglu, 1986; kanak and Erol, 1989); Profit and growth opportunities abroad (Johnston and Czinkota, 1982; Kaynak and Kothari, 1984; Sullivan and Bauershmidt, 1988); declining domestic markets (Karafakioglu, 1986; Kaynak and Erol, 1989; Diamantopoulos et al., 1990); and unsolicited orders received from abroad (Piercy, 1981b; Albaum, 1983; Cavusgil, 1984a; Sullivan and Bauerschmidt, 1988; Diamantopoulos et al., 1990). Thus, the hypothesis that managerial perceptions of certain environmental factors that stimulate export are significantly associated with the degree of export involvement of the firm is tested. The managerial perceptions about external environment i.e.

liberalised government policies, demand in domestic markets, enhanced profits from export markets, competition in domestic market, adequate information about foreign markets and business expansion strategy are considered in this study.

Aaby and Slater, 1988 in a review of empirical research on management determinants of export performance concluded that factors which influence export performance can be categorised into firm characteristics (ex. variables related to firm size, variables related to management export commitment and expectations, management attitudes and perceptions on important export related dimensions), firm competencies and strategy. Apparently management commitment and management perceptions and attitude towards export problems and incentives are good predictors of export success. Thus variables related to firm size (such as number of employees and age of the firm), degree of export involvement and exporting experience were considered in relation to export stimuli as there are likely to be significant differences in perceptions of current export stimuli between different groups of firms.

Firm Size: There have been mixed results regarding the impact of firm size on exporting activities. Cavusgil and Naor (1987) and Christensen et al. (1987) concluded that the larger the company the more likely it is to export. Reid (1983) found that size has a significant effect on the decision to enter new export markets, while Czinkota and Johnston (1983) suggested that company size does not affect export activities. Gripsrud (1990) found a negative relationship between firm size and the attitude towards future exports. Culpan (1989) established a positive relationship, Diamantopoulos and Inglis (1988) found no relationship, while Cooper and Kleinschmidt (1985) concluded a negative relationship between firm size and export intensity.

Exporting Experience: It has been found that a firm's exporting experience has a positive effect on export performance (Madsen, 1989), the degree of internationalization (Dominguez and Sequeira, 1993), and attitudes towards future exports (Gripsrud, 1990). Other empirical evidence is inconsistent with these findings (Cavusgil, 1984; Diamantopoulos and Inglis, 1988; Moon and Lee, 1990).

Export Involvement: In examining firm behaviour in export markets, researchers have proposed that firms follow an established chain ie stages in the process of internationalization. (Bilkey and Tesar, 1977;Cavusgil, 1980 and 1983; Czinkota and Johnston, 1981; Johanson and

Wiedersheim-Paul, 1975; Rao and Naidu, 1992). The degree of export involvement can thus be measured by Exports / Sales Ratio, of the firms and categorizing them in to various stages of the I-Model (Cavusgil, 1980) for purpose of analysis.

The hypothesis tested is that there is significant association between firm size (age of firm and number of employees), export experience of firm, degree of export involvement and management perceptions of external factors which stimulate export involvement of a firm. The hypothesis to be tested are therefore:

Working Hypothesis:

- 1.) Export stimuli (External factors) are significantly associated with the degree of export involvement of the firm.
- 2.) Export experience of the firms is significantly associated with the degree of export involvement of the firm.
- 3.) Age of the firms is significantly associated with the degree of export involvement of the firm.
- 4.) Number Of Employees in the firm is significantly associated with the degree of export involvement of the firm.

Methodology: The degree of export involvement of the firm was operationalised by measuring the 'Export Intensity' of the firms, that is, by measuring the Exports / Sales Ratio, of the firms and categorizing them in to various stages of the I-Model (Cavusgil, 1980). Beamish and

Munro, 1986 and Dominguez and Sequeira, 1993 in their research, have used the same measure.

To test the hypothesis, a questionnaire was prepared after systematic review of literature focusing mainly on export motivation to formulate effective operational measures of the variables under study.. The questionnaire was designed to provide the following kind of information a). Characteristics of the firm (Nature, Age of Company, and Number of Employees) b) export experience of the firm and C) rank data on importance of external factors in stimulating export. The questionnaire consisted of 12 questions and respondents were requested to rank the selected seven factors or reasons considered important by the top management to enter in to the international business (where the rank 1 meant the most important reason and rank 7 meant the least important reason).

The seven external factors that are incorporated in the questionnaire are derived from the academic literature.

The firms, which don't have their operations in the international markets, were also requested to rank the factors or reasons considered important for not entering into the foreign markets (1 being the most important reason and 7 being the least important reason). The primary data was collected from 105 manufacturing and non-manufacturing firms located in the city of Delhi, India. 45 firms agreed to participate in the study and responded to the questionnaire. Out of these 45 firms, 53% i.e. 24 firms, are engaged in export activities, and are in various stages of the I- model. The remaining 47% i.e. 21 firms are non-exporting firms, and have established businesses in the domestic market. The respondents who

were contacted to fill up the questionnaire were the senior management executives of the firm.

Findings:

Managerial attitude and motivational factors significantly change with the internationalisation stages :

H₀ : There is no significant association between Motivational factors and Stages of Internationalisation

H₁ : There is a significant association between Motivational factors and Stages of Internationalisation.

The above Hypothesis is tested only for firms, which are already into the exports business but are at different stages i.e. Stage 2, Stage 3 and Stage 4. Non-Exporter or firms at Stage 1 are not included in this test.

The above Hypothesis is tested on seven different factors or reasons which motivates the management to internationalise their operations and enter into the foreign markets, these seven factors are as follow :-

1. Liberalised Government policies
2. Saturation or less demand in domestic markets
3. More money and premium profits from foreign markets
4. Excess competition in domestic markets
5. Full or adequate information about the foreign markets
6. Business expansion strategy

7. Support of Internet and Computers

Result of the Chi – Square Test [K Independent Variables], using SPSS

	Stage of Internationalisatio n.	N	Mean Rank
Librel. Govmnt. Policy	2	2	15.25
	3	7	11.00
	4	15	12.83
	Total	24	

Ranks

Test Statistics

	Liberalised Government Policy
Chi-Square	.705
df	2
Asymp. Sig.	.703

a Kruskal Wallis Test

b Grouping Variable: Stage of Internationalisation.

Based on the above computer generated output of the chi-square test statistic $p = 0.703$ at 95 % level of significance or $\alpha = .05$, the H_0 is accepted, that means there is no significant relationship between the stages and managements consideration about Liberalised Government policies. Similarly the test is preformed for every factor and the H_0 is accepted for each and every factor, this means that motivational factors and management perceptions remains same across exporting firms category (firms in Stage 3, Stage4 and Stage 5 of the I-model). The results of the test are provided in Appendix-III.

Note : This Hypothesis is tested on the sample size of 24 firms, which are exporting firms i.e. firms in stages Stage 3, Stage4 and Stage 5 of the I-Model.

Experience of the firms significantly varies with the stage of internationalisation.

**H₀ : There is no significant association between firms experience
and Stages of Internationalisation**

**H₁ : There is a significant association between firms experience
and Stages of Internationalisation.**

This Hypothesis is tested on the total sample size (45 firms). The exporting firms had experience ranging from 2-20 years. Experience of the firms was split in to 4 different categories labelled as 1,2,3 and 4, by using the SPSS statistical software.

**Cross Tabulation between Stage of Internationalisation and
Experience Category**

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	64.370	9	.000
Likelihood Ratio	73.792	9	.000
Linear-by-Linear Association	39.774	1	.000
N of Valid Cases	45		

12 cells (75.0%) have expected count less than 5. The minimum expected count is .04.

		Experience Category				Total
		1	2	3	4	
Stage of Internationalisation.	1	21				21
	2			2		2
	3		1	5	1	7
	4			4	11	15
Total		21	1	11	12	45

Based on the output of the chi-square test statistic (chi-square = 64.370; $p = 0.000$ at 95 % level of significance), H_0 is rejected, i.e. there is a significant association between the stages of Internationalisation and the experience of the firms. These results are in line with assumptions of the Uppsala Model of internationalization wherein the firms export involvement increases in stages depending on its experience with the export markets. The first stage indicates no market experience; the second stage sees the firm as having an information channel to the market and receiving fairly regular but superficial information about market conditions. The subsequent business activities being performed in the

market lead to more differentiated and wide market experience, which may even include factor markets. (Johanson and Vahlne, 1977). The Stage theory of Internationalization of firms may thus be relevant to Indian exporting firms and needs to be empirically tested.

The second hypothesis tested is that age of the firm is significantly associated with the stage of internationalisation. This Hypothesis is tested on the total sample size (45 firms). The age of the firms is categorized in to 2 different categories i.e. 1 and 2, the categorization is done automatically by the computer using the SPSS software.

Result of the Chi – Square Test for Cross Tabulated Data, using SPSS

Stage of Internationalisation * Category of firms ages Cross Tabulation

Count		Classification of Age		Total
Stages	1	1	2	
		14	7	21
	2	2		2
	3	3	4	7
Total	4	3	12	15
		22	23	45

Chi-Square Tests

Value	df	Asymp. Sig. (2-
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			sided)
Pearson Chi-Square	9.859	3	.020
Likelihood Ratio	11.055	3	.011
Linear-by-Linear Association	7.816	1	.005
N of Valid Cases	45		

a. 4 cells (50.0%) have expected count less than 5. The minimum expected count is .98.

Based on the output of the chi-square test statistic (chi-square = 9.85; $P = 0.005$ at 95 % level of significance), the H_0 is rejected that means the variables are significantly associated, and there is significant relationship between the stages of Internationalisation and the age of the firms. This result supports the fact, that firms tend to grow over time, as with the passage of time firms look for opportunities for expanding their business and enter into new markets, such as entering foreign markets via exports.

No. Of Employees significantly varies with the Stages of Internationalisation

H_0 : There is no significant association between the No. of Employees

and Stages of Internationalisation

H_1 : There is a significant association between the No. of Employees

and Stages of Internationalisation.

This Hypothesis is tested on the total sample size (45 firms). The No. of Employees of the firms is categorized into 2 different categories i.e. 1

and 2, the categorization is done automatically by the computer using the SPSS software.

Result of the Chi – Square Test for Cross Tabulated Data, using SPSS

Category of No. of Employees * Stage of Internationalisation. Cross Tabulation

Count Internationalisation		Stages of				Total
		0	1	2	3	
Category of No. of Employees	1	11	2	4	9	26
	2	10		3	6	19
Total		21	2	7	15	45

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	1.744	3	.627
Likelihood Ratio	2.474	3	.480
Linear-by-Linear	.150	1	.698

Association

N of Valid Cases 45

a 4 cells (50.0%) have expected count less than 5. The minimum expected count is .84.

Based on the output of the chi-square test statistic (chi-square = 1.744; P = 0.698 at 95 % level of significance), the H_0 is accepted, that means

there no is significant relationship between the stages of Internationalisation and the No. of Employees.

No. of Employees significantly varies with the age of the Firms

H₀ : There is no significant association between the No. of Employees

and age of the firms.

H₁ : There is a significant association between the No. of Employees and age of the firms.

This Hypothesis is tested on the total sample size (45 firms). The No. of Employees of the firms is categorized in to two different categories i.e. 1 and 2, and age of the firms is also categorised into two category i.e.: 1 and 2, the categorization is done automatically by the computer using the SPSS software.

Result of the Chi – Square Test for Cross Tabulated Data, using SPSS

Category of firms Ages * Category of No. of Employees Cross Tabulation

Count Employees		Category of No. of		
		1	2	Total
Category of firms ages	1	19	4	23
	2	7	15	22
Total		26	19	45

Chi-Square Tests

	Value	df	Asymp. Sig. (2- sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	11.891	1	.001		
Continuity Correction	9.900	1	.002		
Likelihood Ratio	12.515	1	.000		
Fisher's Exact Test				.001	.001
Linear-by-Linear Association	11.626	1	.001		
N of Valid Cases	45				

Based on the output of the chi-square test statistic (chi-square = 11.891; $P = 0.001$ at 95 % level of significance), the H_0 is rejected, that means there is a significant relationship between the No. of Employees and age of the firms, higher the age of the firms more the human resources required.