Strategic Export Orientation and Internationalization Barriers: Evidence from SMEs in a Developing Economy

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Abstract

This study examines strategic process and export entry choice of small and medium manufacturing firms in Nigeria. The data was collected from a survey of 72 small and medium-sized manufacturers in Nigeria. Data were analyzed using descriptive statistics, t-test, and Pearson's product moment correlation analysis. Results show that firms' strategic choice to enter the export market was associated with entrepreneurial orientation. Entrepreneurs with high export orientation were exporters and were more involved in the export market than entrepreneurs with low export orientation. Findings also revealed that the most common barriers hampering export development among the firms surveyed include resource constraints, knowledge barriers, corruption, lack of export assistance, and poor infrastructure.

Key words: Strategic decision, export orientation, entry choice, developing economy

Introduction

Internationalization process of many small and medium-sized (SMEs) firms in Nigeria is beset by numerous problems. Many nations have acknowledged the value of small and medium-sized enterprises (SMEs). The benefits of SMEs to any economy are easily noticeable, they include: creation of jobs at relatively low capital cost, a vehicle for reducing income disparities, and development of a pool of skilled and semi-skilled workers. Researchers have argued that promoting SMEs has been described as one of the best strategies for achieving national development goals such as economic and industrial growth (Kazem & Van der Heijden, 2006). Despite the importance of SMEs and export development in the economic development of sub-Saharan Africa (SSA), scholarly interest in SMEs and export development in the sub-region has not garnered the type of attention it deserves. Although a great deal of research on SMEs and export development has been conducted, these studies have been primarily conducted in the West. As a result, there has been paucity of research dealing with small enterprises and export development in Africa in general and in Nigeria in particular. Research on this topic has been disappointingly scarce. Since very little research has been done on this topic in Nigeria, there is a knowledge gap in our understanding of this issue with regard to the Nigerian environment; this study, is an attempt to bridge the gap. For SMEs in Nigeria, an awareness of barriers that hamper export involvement and how to deal with those barriers may encourage more SMEs participate in export market. Therefore, this study makes a significant contribution to both practitioners and researchers. This study provides insights to both exporters and non-exporters, as well as to decision makers, that may help to increase performance at the firm level and may be reflected in the nation's macro-economic environment. The purpose of this research, therefore, is to explore export orientation and decision-making processes of SMEs in Nigeria.

Literature Review

An extensive review of the literature reveals that there is substantial interest in the broad issue of business strategy and strategic decision making. Several researchers have asserted that strategic orientation has a powerful influence on both management expectations and organizational performance (Kohli & Jaworski, 1990). Strategic orientation has been described to include a many traits including managers'/owners' attitudes towards risk-taking, entrepreneurship, objectivity, assertiveness, and information use (Wood & Robertson, 1997). They argued that an emotional state of a manager's strategic orientation is believed to influence his/her strategy formulation and subsequent decisions. They argued that a manager's strategic orientation affects which specific strategies that he or she would use, value, and bring to fruition. Strategic orientation helps to determine future strategies other organizational strategies such as financial resources, product characteristics, and technological capabilities. In essence, the strategic orientation which managers adopt has a profound effect on what an organization can do and will do, and is associated with the ultimate level of an organization's success (Allison, 1971).

Entrepreneurial Orientation

Export-entrepreneurial orientation has been recognized to influence a firm's choice of internationalization and export involvement. For example, Ibeh & Young (2001) found that high export-entrepreneurial firms tend to be more innovative and proactive for exporting. They also found that export entrepreneurial firms are able to adapt and develop a higher penchant to initiate exporting. Kazem & Van der Heijden (2006) also found that there is a strong association between owners' degree of entrepreneurial orientation and the firm's competitive export performance. They concluded that exporters are likely to be proactive and to take risks in their business and operational decisions than nonexporters. Additionally, Francis and Collins-Dodd (2000) argued for the effectiveness of a proactive export orientation and caution against a traditional approach in the unstable environment. They also indicted that the most export-successful firms are those that use more proactive as well as less traditional approaches. They concluded that a stronger proactive orientation is associated with export success and that greater use of conservative strategies was associated with poor export performance. The negative association between conservative strategies and performance may be detrimental to export success (Francis & Collins-Dodd, 2000). In another study Wood and Robertson (1997) also found that, a proactive orientation was associated with export success. Several other studies have also concluded that a positive correlation exists between high entrepreneurial orientation and export performance (Ibeh, 2004; Marino & Weaver, 2002). The entrepreneurial orientation of the owner/manager has also been found to have a sustainable positive relationship with performance and competitiveness (Hult, Snow & Kandemir, 2003; Ibeh, 2004; Kickul & Gundry, 2002).

Knowledge Barriers

Previous studies have shown that export barriers have a major influence on a firm's internationalization process. Aharoni's (1966) study was one of the first studies to explore export barriers. He found, among other things, that lack of knowledge is a major barrier for entry into a foreign market. In another landmark study by Bilkey & Tesar (1977), they found that firms starting export activity face difficulties in identifying opportunities in export markets, also Suarez-Ortega (2003) identified the following as knowledge barriers: lack of awareness of export assistance available to would be exporters, lack of awareness of economic and non-economic benefits of export markets, lack of knowledge of potential markets, lack of qualified staff for export markets, and overall lack of knowledge of how to enter the export market (Suarez-Ortega 2003, p.409). Also, a study of Saudi Arabian exporters of non-oil products by Crick, Al Obadidi, & Chaudhry (1998) indicated that lack of information and lack of export experience as barriers that hinder export development. In a study of non-exporters perceptions of export barriers in Cyprus, Leonidou (1995) also found that limited information to locate/analyze foreign markets and inadequate/untrained are staff are barriers to export (Leonidou, 1995, p.13).

Resource Barriers

According to Suarez-Ortega (2003), internal resource constraints refer to the need for a firm to possess resources in order for it to be able to commence export activity. The following factors have been recognized as internal resource barriers: lack of financial resources such as the difficulty in obtaining the necessary funds needed to start export operations (Bilkey, 1978; Keng & Jiuan, 1989; Suarez-Ortega 2003). For example, in a study of export barriers in Cyprus, Leonidou (1995) found that one of the barriers facing firms who want to export is how to get the necessary funding to finance export operations. Other researchers have also identified additional barriers as internal constraints that hamper export activity. These include how to obtain and use letters of credit for international transactions, (Barker & Kaynak, 1992; Rabino, 1980); the lack of experienced personnel to devote time to export activities (Rabino, 1980), and banks willing to support firms' international activities (Groke and Kriedle, 1967). A study by Crick et al, (1998) shows that resources factors such as lack of production capacity, high costs of labor, lack of suitable personnel with export knowledge and experience hinder firm's capability to enter the export market. In sum, this literature base leads to the hypothesis that an organization's strategic export choice is related to the export strategic orientations held by management and export barriers facing the organization. Specifically, this study investigates the following hypotheses:

Hypotheses

H1: Owners/managers of firms with high strategic (proactive) orientation are more likely to be exporters than owners/managers of firms with low strategic (conservative) orientation.

H2: Owners/managers of firms with high export orientation are likely to enter the export market than Owner/managers with low export orientation.

H3: Export knowledge barriers within a firm will negatively affect its decision to enter the export market.

H4: Internal resources constraints within a firm will be negatively affect its decisions to enter the export market.

Methodology

This study follows a quantitative research design using a survey method combined with a statistical treatment. A questionnaire was used to elicit responses from (SMEs) in Nigeria. The sample was composed of firms listed in the Manufacturers Association of Nigeria (MAN) export promotion group directory. A random selection of 106 firms from the list was successfully contacted through a letter and fax requesting their participation in the research. The firms identified from the list were personally visited or contacted by telephone for permission to participate in the study. The firms that agreed to take part in the study formed the research sample. To avoid loss and delay due to the weaknesses in the communication and postal system in Nigeria, a drop-off and pick-up method was adopted (Ibeh, 2004). This method ensured distribution and collection procedures were systematic and controlled by the investigator. A total of 72 usable surveys were received, which provided a response rate of 68%. Of the 72 firms, 38 or (53%) are exporting firms and 34 or (47%) are non-exporting firms.

Survey Instrument

The survey instrument was based on the studies by (Francis & Collins-Dodd, 2000; Ibeh 2004; Kazem and van der Heijden 2006). The survey instrument asked questions about the firms' exporting choices, and the firms' attitudes toward exporting. Most questions were asked using the five-point Likert scale. Factor and reliability analyses were used to assure construct validity of the measures for industries selected. All measures were also examined and verified for face validity by six industry executives experienced in exporting and international business, and six university professors who were published authors and have extensive experience teaching and consulting in the areas of international management and marketing.

Export Barriers /Orientation Questionnaires

Export orientation was measured by the following criteria: (1) I actively look for export market information (2) I attend international fairs and export seminars,(3) management is not interested in exporting, and so forth. The reliability test based on Cronbach's alpha was 0.88 following Hair et al. (1998), and is acceptable for exploratory research. The export barrier was measured primarily based on (Ramaswami and Yang 1990) and (Suarez-Ortega 2003). In the questionnaire, the respondent was asked to indicate to what extent he/she considered various export barriers to be obstacles to the initiation or expansion of his/her firm's export activity. Five-point Likert scales were used for this purpose, with responses ranging from "not an obstacle" to "major obstacle". Export barriers were measured by the following criteria: (1) Lack of knowledge of best potential markets, (2) Lack of finances for market research, (3) Lack of staff for export planning, (4) Effect of strong foreign competition among others.

Findings

This hypothesis one was tested by comparing the mean scores of exporters and non-exporters on export entrepreneurial orientation questionnaire. To conduct the analysis, our sample was split into two exporters and non-exporters for the sole reason of comparison. The results of the t-test of the differences in group mean comparisons are shown in Table 1. The results indicate that the mean scores of owner/managers of firms with high strategic (proactive) orientation were high on strategic orientation of entrepreneurial orientation dimension and were indeed more involved in export than owner/managers of firms who scored low on the export orientation scale. H1 is supported. This result is consistent with previous studies on export literature (Crick, et al, 1998; Leonidou, 2004; Suarez-Ortega 2003). Hypothesis 2 speculates that owners/managers of firms with high export orientation are more likely to enter the export market than owners/managers with low export orientation. The results of the mean comparison are shown in Table 1. As shown in Table 2, results indicate that firms with owners/managers who have high entrepreneurial orientation (EO) are more proactive in seeking export markets information and are more likely to attend international trade fairs and export seminars than non-exporters. Results also indicate that proactive entrepreneurs are more likely to initiate export business than firms with owners/managers who have low EO. On the basis of this comparison, hypothesis 2 is confirmed. This finding is in line with previous studies in (Kazem and Van der Heijden, 2006).

Table 1: T-test of the differences in group means (N = 72)

Variables	N	Mean	SD	DF	t-value
Initiate changes to which our competitors react. Exporters Non-exporters	 38 34	 4.312 2.201	 .505 .441	 70	 0.42
First to introduce new products/services. Exporters Non-exporters	 38 34	 3.412 2.101	 .415 .331	 70	 0.38
We take a very competitive-oriented approach Exporters Non-exporters	 38 34	 4.222 2.301	 .423 .311	 70	 0.28
We consider new export markets to enter Exporters Non-exporters	 38 34	 4.412 1.501	 .305 .341	 70	 0.32
Exporting should not wait for domestic demand Exporters Non-exporters	 38 34	 1.420 4.641	 .430 .417	 70	 0.34
Looking for export market information Exporters Non-exporters	 38 34	 4.616 1.331	 .301 .320	 70	 0.42
The export market is risky business Exporters Non-exporters	 38 34	 4.451 4.454	 .332 .421	 70	 0.33
Opportunities are greater than the risks Exporters Non-exporters	 38 34	 4.563 1.401	 .306 .340	 70	 0.43
Accept temporary losses for long-term market share Exporters Non-exporters	 38 34	 4.631 1.510	 .362 .345	 70	 0.30
We attend export market seminars and trade fairs Exporters Non-exporters	 38 34	 4.642 1.749	 .316 .124	 70	 0.45
We develop new products for export markets Exporters Non-exporters	 38 34	 4.641 1.506	 .315 .203	 70	 0.35

To test hypothesis three, a total of 32 non-exporters were identified from the survey and were asked to rate on a five-point Likert scale (five being very important and one being not important at all) how lack of knowledge about export markets can affect their decision to enter the export market**.** Results of the data in Tables 2 and 3 indicate that the most important factors are export market knowledge, lack of finance, general lack of knowledge on how to export, lack of export assistance, lack of qualified personnel to plan for export market, and difficulty in handling export documentation requirements. This supports hypothesis two. It is interesting to observe that the least influential factors were corruption and poor infrastructure. One would expect that in a country ridden with corruption and crumbling infrastructure, that these should be ranked in the top five as major obstacles to exporting. However, these findings are consistent with similar results in the export literature (Crick, et al, 1998; Leonidou, 1994; Leonidou, 2004; Suarez-Ortega 2003).

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Table 2: Reasons for not Exporting (n = 32)

Variables	Mean	Rank
Lack of export market knowledge	4.60	1
Lack of export finance	4.55	2
General lack of knowledge of how to export	4.51	3
Lack of knowledge export assistance	4.49	4
Lack of qualified personnel to plan for export market	4.47	5
Difficulty in handling export documentation requirement	4.45	6
Intense foreign competition	4.36	7
Limited managerial time to deal with exports	4.20	8
Transportation and insurance costs	3.94	9
Language differences (verbal/nonverbal)	3.92	10
Lack of government incentives	3.79	11
Lack of knowledge on how exchange rates work	3.77	12
Corruption	3.76	13
Poor infrastructure	3.74	14

Regarding resource barriers within a firm and how these affect the firm's decisions to enter the export market. Person's correlation method was used to test hypothesis four. The results of the correlations between the four most important variables identified discussed in the literature (lack of support from banks, lack of finance, lack of production capability, and lack suitable staff with export knowledge) and exporters and non-exporters are presented in Table 4. These results indicate that resource constraints, are negatively correlated to non-exporters orientation. This supports hypothesis 4 indicating that resource barriers are obstacles to export development and may influence a firm's decision to not enter the export market. The results are consistent with previous studies (Crick, et al, 1998; Leonidou, 1994; Leonardo, 2004; Suarez-Ortega 2003).

Table 3: Correlation Analysis of Resource Barriers

Resources Barriers	Lack of Support from Banks	Lack of capital to finance export operations	Lack of production capacity	Lack of suitable staff with export knowledge	P
Exporters	.38**	.34**	.32**	.35**	.001
Non-exporters	-.58**	-.54**	-.52**	-.56**	.000

*p < .01 **p < .05 (The correlations are all significantly greater than zero at the .01 and .05 levels).

Discussion

The purpose of this exploratory study is to explore strategic decision processes and export entry choices of SMEs in Nigeria. The results support our hypotheses that entrepreneurs with high export orientation are more likely to enter the export market than entrepreneurs with low export orientation and the decision to enter the export market is negatively associated with the firm's resource constraints and knowledge barriers. The findings suggest that differences exist between low and high involvement exporters. Although the internal and knowledge resource barriers facing these businesses appear to present common problems regardless of the firm's characteristics, significant differences exist in terms of a firm's decision to enter the export market given its insight of the export barriers. The most common barriers facing all the firms include lack of export knowledge, lack of finance, lack of export assistance, lack of qualified staff, and difficulty in handling export documentation among others. It is surprising to observe that corruption and poor infrastructure were ranked low among thirteen obstacles for not exporting (see Table 2). Nigeria has been identified by Transparency International (2005) as one of the most corrupt countries in the world. One would therefore expect that corruption would be ranked among the top barriers to exporting. Corruption has been identified as a hindrance to small business growth in Nigeria. With regard to poor infrastructure, services such as electricity, telecommunications, roads, and bridges play a critical role in a country's development and are directly and indirectly linked to export success. Poor infrastructure affects export development. Power failures affect production of both export and domestic goods, and slow down services. Poor condition of roads and bridges, which causes areas to be inaccessible, affects distribution of goods and increases transportation and logistics costs, thus increasing the cost of the products in the international market, making those products relatively expensive and unattractive to the international customers.

Conclusions and Implications

This preceding analysis has demonstrated sufficiently that Nigerian small business owners'/managers' decisions to enter the export market is not hitch free, but is plagued by many obstacles of differing severity and significance. This is an issue of paramount importance in the exporting business, since the way these obstacles are perceived by SMEs often determines their future involvement in international business activities. Results show that owners' or managers' export orientation influences a firm's decision to pursue export development strategy. Several factors were identified as barriers that hinder export development in Nigeria; among them, lack of finance, lack of export knowledge, lack of qualified personnel, and Intense foreign competition play a major role in a firm's decision to enter the export market. Various implications derived from the findings of this study concern policy makers, practitioners, and researchers. With regard to policy makers, certain policy measures should be taken in order to improve the perceived inhibiting impact of barriers on non-exporters. Particular emphasis should be given, to the competitiveness of small businesses, the supply of information for the location/analysis of foreign markets and the provision of various tax and other financial incentives. Also, the training and information support services available through the export promotion organizations (EPOs) and organized private sector (OPS) institutions can play a critical role in providing the export knowledge, training, and education needed to SMEs through workshops and seminars.

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