

Small firms in a small country: International experience of managers and export performance

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Abstract

International activities of small and medium enterprises (SMEs) constitute an important research area. To understand this phenomenon, researchers employ different theoretical perspectives. Among them, the resource-based theory (RBV) has been given much attention. In this study, international experience of managers is seen as example of the firm's intangible assets. The objective of this study is to examine the significance of the international experience of managers for SMEs' export performance. The study is based on a sample of 49 agro food Moroccan SMEs. According to the findings, international experience is positively and significantly related to the export performance. This study provides some insights into SMEs' export performance enhancement, particularly in developing countries.

Key words: Moroccan SMEs, RBV, International Experience of managers, export performance

Introduction

Global export trade contributes to about a quarter of world's gross domestic product (World Bank, 2003). Despite the surge of direct foreign investment in recent years, firms in many developing countries continue to rely on exports for venturing into foreign markets. There has been a renewed interest on the importance of exporting for international business researchers with an interest in developing countries (Peng & York, 2001). A study of the impact of international experience of managers and export performance in the context of a developing country is an important contribution to the literature given that our understanding of if the international experience influences the export performance of small firms.

In a review of more than 100 empirical studies on export performance, Katsikeas et al., 2000 conclude that most of the existing research suffers from serious conceptual, methodological and practical limitations. We argue that there are at least three ways in which we can extend this literature. First, there is a need to provide greater theoretical insights into the export performance relationships. Most studies simply investigate the relationship between the international experience of managers and the export performance, without relying on a comprehensive theoretical framework (for exception see Wilkinson & Brouthers, 2006). Without a proper theoretical framework, it is often difficult to decipher the reasons behind inconsistent findings. Second, export research suffers from serious methodological shortcomings (Salomon & Shaver, 2005) which limit integration of empirical findings. As Zou and Stan, 1998 point out, export research is known for uncoordinated and fragmented efforts, and scholars have not utilized the advances made in the research methods field in empirical modeling.

Finally, much of the empirical work is based on firms coming from developed economy contexts. In their review of 10 years of export research, Zou & Stan, 1998 found that more than 90% of the studies were conducted on firms based in developed economies. Likewise, in a review of export research published in top four international business journals, we found that majority of the work was based on firms from developed economies. Given the changing nature of global trade, and increasing reliance of developing economies on exporting to reach global markets, it is important to conduct investigation in developing countries.

This study aims to contribute to the resource-based theory (RBV) as it focuses on internal resources and their significance for the level of firm's internationalization.

Moreover, the relationship between the international experience and the export performance is examined. Therefore, a research question is addressed: Does international experience of managers influence the export performance of Moroccan SMEs?

The paper proceeds as follows. First, the background is presented, then the research context and the resulting hypotheses are presented. Second, the method and measures employed in the study are highlighted before discussing the results of the analysis. Finally, the paper concludes with a discussion and implications.

Background – Moroccan SME exporters

Morocco is bound by free trade agreements with several developed countries, and it is an established supplier of several products (e.g., textile-clothing, agricultural and chemical) to European and North American markets. Exportations contribute about 40.65% to the Moroccan GDP making Moroccan future economic growth vastly dependent on the results of the export activity. However, in recent years, Morocco's export performance has been lackluster (Walkenhorst et al., 2006, p. 4). As a result, the country has lost world market share in merchandise exports. This regression is partially due to the increase of competitive pressure from other countries (namely Turkey and China) and the rapid change in international context, but also because of the lack of international experiences of Moroccan managers. Thus, Moroccan exporters have to strengthen their export strategies to secure international competitiveness and have to be more experienced in international markets.

The Moroccan situation represents one of an emergent economy setting characterized by high SMEs density. SMEs represent more than 93% of Moroccan enterprises and play a leading role in export dynamics.

Export is the dominant mode of entry into the international market. Due to the lack of international experience of managers and the limited resources, SMEs are facing numerous problems in maintaining a competitive position.

In this context, study of export performance of SMEs appears both necessary and timely, for two main reasons. The first is the paucity of research upon the export performance in developing countries (Sousa et al., 2008). The second is to provide managers and policy makers with useful insights into the influence of international experience on the export performance of SMEs. The core purpose of the research is to shed light on this influence in the Moroccan context.

Theoretical framework

Literature suggests two perspectives of studying a firm's export performance- the industrial organization theory and the resource based view. This study is anchored on the resource based view of the firm (RBV). Contrary to the industrial organization theory that focuses on external factors and essentially portrays a fatalistic view of exporting (Zou & Stan, 1998; Suarez-Ortega & Ahamo-Vera, 2005), the RBV contends that managers are responsible for their exporting. The theory provides insights into why performance differences persist even in conditions of open competition (Fahy, 2000). Drawn on Penrose's (in Barney, 1991) definition of a firm as a collection of physical and human resources, this theory situates firm resources as a source of competitiveness so long as they valuable, rare, non-substitutable and difficult to imitate.

To the extent that the RBV emphasizes the business capability of the firm, it would appear that differences in export marketing strategy developed through the manager's international experience would lead to differential exporting outcomes. This suggests that a manager is able to earn above normal exporting returns when it implements a value creating strategy unique from either the current or past international experience.

Different terms have been used in explaining export performance. Among them are international performance (Cavusgil & Zou, 1994), export performance (Ural, 2009), international marketplace performance (O'Cass & Weerawardena, 2009), economic international performance (Blesa & Ripolle's, 2008), export performance improvement (Lages & Montgomery, 2005) and export success (Bijmolt & Zwart, 1994), among others.

The international experience of managers is particularly important in an international context and can be viewed as an intangible resource that enables a firm to implement strategies designed to improve its efficiency and effectiveness (Barney, 2002).

Compared to the managers without international experience, managers with international experience therefore have better understanding of target foreign customers' needs and wants, competitors' strategies and capabilities and external forces and can appropriately respond in a timely manner to the requirements of a changing environment and thereby enjoy a competitive advantage.

Research context

Morocco is bound by free trade agreements with several developed countries, and it is an established supplier of several products (e.g., textile-clothing, agricultural and chemical) to European and North American markets. Exportations contribute about 40.65% to the Moroccan GDP making Moroccan future economic growth vastly dependent on the results of the export activity. However, in recent years, Morocco's export performance has been lackluster (Walkenhors et al., 2006, p. 4). As a result, the country has lost world market share in merchandise exports. This regression is partially due to the increase of competitive pressure from other countries (namely Turkey

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Cultural distance is viewed as the degree to which a firm is uncertain about foreign markets (O'Grady & Lane, 1996). It causes difficulties related to direct communication with existing and potential customers or a lack of access to market information (Dow, 2000). Information is one of the most important factors for firms to minimize risks and uncertainty when deciding market selection (Erramilli, 1991). Generally, the costs and uncertainty associated with doing business in culturally distant market would be greater than those with culturally close ones. Without considering the international experience, managers are expected to enter a market which is culturally close to its home country first (O'Farrell & Wood, 1994) as the differences in language, education, social and business practices hinder information flow between firms and their international markets (Johanson & Wiedersheim-Paul, 1975).

A manager with international experience adopts a systematic and formalized approach to market selection and often possesses a large amount of knowledge and competency as well as ongoing access to, and systematic analysis of, market intelligence. He may exhibit more preference for a culturally distant market in return for more opportunities or better economic rents. International experience enables the manager to deal with differences and potential conflicts and to bear the risks associated with operating in the foreign market. International experience can also dispel the firm's concerns about uncertainty and offer it an advantage in making informed decisions.

On the other hand, a manager with low level of international experience may prefer entering a culturally close market that it can easily understand first, then a more distant market later.

Existing research has constructed that international experience of managers affects export performance directly.

We propose that the international experience of managers improve export performance.

This allows managers with international experience have a better capacity for evaluating different situations and can better respond and adapt to the complexity of international business and tap into local knowledge bases as a source of innovation, new business ideas and new practices to take actions in local market.

Methods

The study adopted a cross sectional survey design. Brayman, 2004 argues that a cross sectional research design is useful in studies involving collection of data (whether qualitative or quantitative) on more than one case and at a single point in time and entails two or more variables in order to examine any patterns of association. Drawing on the foregoing insights, we considered cross sectional research design a suitable research design for the extant study.

The participants in the study were 49 managers of Moroccan agro- food SMEs. Data were collected from CMPE (Centre Marocain de Promotion des Exportations).

A questionnaire was developed on the basis of items used in previous RBV research in order to increase the validity and reliability of examined constructs' measures. The included questions were pretested on a small sample of Moroccan managers in one of the targeted industries to check their clarity.

Many Moroccan managers are reluctant to participate in surveys due to fear of leaking proprietary information and frequent request by researchers (Zou et al., 2003). The final data set comprises 49 agro food SMEs. A firm in this study was considered an SME if its number of full time employees is less than 200 (Finance Law 2011 of Morocco).

The questionnaire was carefully developed, reviewed by nine experts and pre-tested with nine Moroccan managers of SMEs. Like these types of questions: "Who" and "Where" (or their derivatives – "how many" and "how much"), for our research question "Which managerial factors have a strong positive impact on export success?" it is more likely to favor survey method (Yin, 2009). This method is advantageous when the research is to describe the incidence or prevalence of a phenomenon. The survey method allows for a systematic determination of estimates of the population parameters through sampling that will allow the generation of rigorous, valid, reliable, and replicable results (Zikmund, 2003), and it offers an acceptable way to test the preliminary propositions advanced in this study (Czaja & Blair, 2005). Moreover, the purpose of this research is to demonstrate that international experience influences export success. It is therefore an explanatory question as it seeks to describe and explain a link between two variables. It does not require control of behavioral events and it focuses on contemporary events (Yin, 2009). It

permits more strict and more precise statistical studies. It centers thoroughly with the positivist paradigm we adopted in the present work. Moreover, the quantitative design was found particularly suitable, because of time and financial limitations that hindered the researcher to undertake the longitudinal survey.

Measures

Export performance is measured using financial export performance, strategic export performance and satisfaction with the export venture.

We used satisfaction as a measure of export performance in this study. This variable is, according to Katsikeas et al., 2000, by far the most widely employed indicator in empirical research. Export performance was also measured subjectively by using a set of ten items. More precisely, respondents were asked to self-evaluate, on a five-point Likert scale (“very unsatisfied” = 1; “very satisfied” = 5), their satisfaction with the following items: i) achieving the established objectives of the export activity, ii) the results on the main markets as compared with the main competitors (local and international), iii-iv) the growth of the overseas sales in total/on the main markets, v)-vi) the total market share overseas/on the main markets, vii)-viii) the results of the main products in total/on the main markets, ix) the profitability of the overseas activities, x) the expansion to new geographical markets.

Manager’s international experience was measured by the total number of years being involved in international business, the number of projects / customers involved the complexity of the challenges / efforts, the diversity of contexts and the impact on the know-how abroad.

The respondents were asked to indicate the importance, on a five-point Likert scale (“Very limited” = 1; “Very high” = 5) of the items.

Analysis and results

The model was tested by using multiple regression approaches. We used SPSS13.0 to run the regression analysis and all variables were forced to enter the regression.

Test of Reliability

As indicated by the results, the value of coefficient alpha for international experience was high (0.806) exceeding the original alpha value of 0.7 as proposed by Slater & Narver, 1994 and also exceeded the modified value of 0.5.

Satisfaction had an alpha value of 0.765 which though is below the original value yet it is above the modified cut-off of 0.5. The results of the Cronbach’s alpha for all the constructs in the table indicates that all the constructs are reliable and can be used in other studies in the Moroccan context.

Variables	Cronbach alpha
International experience	.806
Satisfaction with export	.765

Factor Analysis Factor analysis was employed in testing for categories of construct validity. Principal component extraction method was adopted with varimax rotation method. The varimax method was adopted since it minimizes the number of variables that have high loadings on each factor and simplifies the interpretation of the factors.

Construct Validity of international experience Scale Before applying the factor analysis to examine the construct validity of the market orientation scale, the Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy and Bartlett test of sphericity were performed to assess the appropriateness of using factor analysis. The test provided results that were enough for factor analysis to be used with KMO of 0.768 and significant level ($p < 0.001$) for the Bartlett test. Using an Eigenvalue greater than 1 as the cut-off and suppressing all coefficient less than 0.45, a factor solution was produced with clean loadings confirming theory that international experience should be disintegrated into its component and not be used as a uni-dimensional construct. The coefficients for the factors ranged from 0.652 to 0.859 which are well above the desirable α value recommended by Hair et al., 2006.

Construct Validity of satisfaction Scale The appropriateness of applying factor analysis was confirmed by both the KMO index (0.704) and Bartlett’s test ($p < 0.001$).

The result shows that all five items converged on one common construct as only one component was extracted. The factor loadings of the items ranged from 0.691 to 0.888 suggesting high convergent validity. The finding was however different from what the theory says about firm performance.

Variables	Eigenvalue	KMO index	Bartlett test
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International experience	3.299	0.832	.000
Satisfaction with export	4.457	0.907	.000

Data Screening

We tested for multicollinearity by calculating the variance inflation factors (VIF). Multicollinearity between formative indicators results in problematic assessment of the indicator validity that can be assessed by each indicator coefficient. All the VIF were below 10. Thus, the magnitude of the correlations and the analysis of the VIF showed no support for the existence of multicollinearity.

Only those indicators that have significant correlation with the variable of interest were retained. No values in the bivariate correlation matrix were higher than the threshold of 0.7 (Elango & Pattnaik, 2007). No constructs or items were excluded from further processing. An examination of error terms confirmed the regression assumptions had been met.

Variables	Variance inflation factors (VIF)
International experience	2.087
Satisfaction with export	2.013

Hypothesis testing

The hypothesis tested stated that international experience of managers have a positive and significant influence on export performance. This hypothesis was tested through multiple linear regressions.

After the verification of these processes, we test the hypotheses using the multiple regression analysis.

In line with the present study's objectives, multiple linear regression is regarded as the most effective analytical instrument to examine the relationship between international experience and satisfaction with export.

To test the hypotheses, data were processed through ANOVA. The assumption of interval variable being normal was tested and approved, as with the assumption of homogeneity of variances in the sample groups. Based on the significance level, the variances are homogeneous; thus the assumption for using ANOVA is met.

The results of ANOVA show that the mean of export performance is significant among different levels of customer and competitor orientations toward export performance and the linearity is evident.

Model Fit

Independent variables	Satisfaction with export β coefficient (t-value)
International Experience	.142* (2.002)
Model statistics	
R ²	.789
F	29.889***
Sig	<.001

* $p < .05$; ** $p < .01$; and *** $p < .001$

The resulting regression model was statistically significant ($F=29.889$, $R^2= .789$, $p < .001$), suggesting that international experience is a significant predictor of export performance when measured by satisfaction with export.

The implication is that an increase in international experience would result in an increase in satisfaction with export.

Discussion

Drawing on the organization capabilities theory, the goal of this study was to examine the effect of international experience of managers on export performance of SMEs in Morocco.

From an academic point of view, the present study intended to provide further insights into the topic concerned with the influence of international experience of managers on SMEs' export performance when measured by satisfaction with export. In order to accomplish that, we aimed to fill in existent gaps in the literature by: choosing as

geographical context Morocco, a developing country where the topics related to SMEs export performance have not yet been as widely investigated.

International experience of managers is considered as an important factor the company's asset for the positive satisfaction of manager with exporting.

The research reveals relevant policy implications. The policy initiatives should aim to develop the international orientation of the decision maker in the firm as a precursor of the formulation and afterwards implementation of successful export strategies. Government organisms should also stimulate SMEs managers to start exporting as soon as possible after start-up, thus, being able to accumulate export experience faster and obtain higher performance levels.

The study also provides some contribution to practitioners. As the empirical findings show, Companies can improve their export by using results of this study and considering the positive and significant influence of the international experience of managers on the export performance. Managers and economic actors are better at making decisions and its policy is considered to international experience as a factor influencing on the export performance and decisions that will lead to increased exports.

The present empirical analysis also has some limitations. First, the SMEs included in the sample are all located in Morocco, and therefore, the results may solely be representative the whole Maghreb context. Second, the date used for this research is a cross sectional, no longitudinal analysis being performed. As future research directions we believe it would be fruitful to test similar export performance model in other geographical settings within Morocco and Maghreb region.

A longitudinal approach of the topic would also be highly recommended. Alternatively, we consider that other determinants of export performance should be taken into consideration (e.g. export commitment, foreign language proficiency and additional performance measures).

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