

## **SMEs Export Orientation and Performance: Evidence from a Developing Economy**

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*A number of nations have recognized the importance of small and medium-sized enterprises (SMEs), and have developed policies to encourage, support, and fund the establishment of SME's. They have also recognized that one of the best strategies for achieving economic development is to encourage the growth of SMEs. Exporting has received considerable attention in the management literature; however, the majority of the studies dealing with export practices and performance in the literature studies have been predominately conducted in the West. Very little research has been done on export practices of SMEs in Nigerian. The purpose of this research is to investigate the impact of export orientation on performance of SMEs in Nigeria. A survey method was used to collect data from respondents. Results show that firms with higher export orientation are exporters and outperformed those with low export orientation. Implications of the results are discussed.*

Field of Research: International Business

### **1. Introduction**

Several nations have recognized the importance of small and medium-sized enterprises (SMEs), and have formulated policies to encourage, support, and fund there. The benefits of SME's to any economy are easily noticeable, they include: contribution to an economy in terms of creation of jobs, development of skilled and semi-skilled workers, and developing and adapting appropriate technological approaches. Promoting (SMEs) have been one of the best strategies for achieving economic development (Kazem and Van der Heijden, 2006; Hallberg, 2000).

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Although there have been a great deal of research on SMEs and export orientation and performance in the literature, these studies have been primarily conducted in other countries. Very little research has been conducted on SMEs export orientation and performance in Nigeria. Since very little research has been done on this topic in Nigeria, there is a knowledge gap in our understanding of this particular topic. This study is an attempt to bridge the gap. For SMEs in Nigeria, an awareness of the characteristics of export orientation that result in superior export performance might motivate more SMEs to the participate in export market. Therefore, this study makes a significant contribution to both practitioners and researchers.

### 2. Literature Review

A major development in the literature has been on the conceptual model of entrepreneurship as firm behavior. Miller (1983) described a firm's Entrepreneurial Orientation (EO) as a combination of risk taking, innovation, and proactiveness. Covin and Slevin (1991) linked Miller's dimensions to firm's performance. Lumpkin and Dess (1996, 1997) expanded the EO model by adding the dimensions of autonomy, and competitive aggressiveness. Although there is general agreement that EO has an impact on firm performance (Lyon, Lumpkin and Dess, 2000), the affect of each EO dimension on firm performance remains unclear.

Researchers have argued that proactiveness is a key component of EO. For example, Venkatraman (1989) argued that proactiveness was an important component of entrepreneurship. He defined proactiveness orientation as seeking new opportunities. He also suggested that firms can be proactive by: shaping the environment; introducing new products and brands ahead of competition, participating in emerging markets; and by anticipating and pursuing new opportunities. According to Venkatraman (1989), another key element of EO is competitive aggressiveness. The intensity of a firm's efforts to outperform industry rivals and taking them head on at every opportunity is defined as competitive aggressiveness. It is characterized by a strong defensive posture, which is directed at overcoming competitors (Lumpkin & Dess, 1997: 2). Venkatraman (1989) suggested that competitive aggressiveness is accomplished by setting ambitious market goals and taking bold steps to achieve them, such as cutting prices and sacrificing profitability.

The essential argument of this paper is that favorable export performance is more likely to be achieved by firms with higher levels of entrepreneurial orientation. Entrepreneurs with high levels of orientation are those that proactively and aggressively pursue export-related product-market innovations and opportunities, undeterred by disincentives/risks associated with their operating (Ibeh, 2004). Several studies have suggested that export orientation has a direct impact on SMEs' growth and profitability (Ibeh, 2004; Namiki, 1988; Roper, 1999; Storey, 1998). In turn, certain strategies, such as niche operations, and the combination of differentiation and cost leadership strategy (Porter, 1985) have been associated with higher levels of competitiveness and export orientation. These strategies are over and above a balanced set of functional strategies aligned with the

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firm's structure and performance (Dess and Davis, 1984; Sharma and Fisher, 1997; Storey, 1998).

Previous studies have also indicated that there is a positive association between entrepreneurship and export performance. For instance, positive relationships have been found between export performance and technological innovativeness, management's attitude toward risk taking, and aggressive (Aaby and Slater, 1989; Zou and Stan, 1998). More recent research (Balabanis and Katsikea, 2003) has also reported a positive association between entrepreneurial orientation and export performance, though moderated by contextual variables such as organizational and environmental factors. Studies have shown that entrepreneurial orientation of the owner or manager has also been found to have a positive relationship with performance and competitiveness (Covin and Slevin, 1991; Entrialgo et al., 2001; Hult, Snow and Kandemir, 2003; Ibeh, 2004; Kickul and Gundry, 2002; Marino and Weaver, 2002; Wiklund, 1999). Kazem and van Der Heijden, (2006) have argued that a firm's ownership, regardless of size or structure, is characterized by a particular entrepreneurial orientation, certain decision-making style, and by a set of operational strategies.

An entrepreneur's attitude toward his or her employees is also considered to be a core competence of the firm, employees are important asset for organizations and their contributions may enhance the quality of a firm's decision-making (Kazem and van Der Heijden, 2006). Effective decision making process is therefore, an important element in developing competitive products, growth, and survival over time (Argenti, 1976; Carneiro, 2000; McDonough and Griffith, 2000). If an entrepreneur allows his or her management team to contribute to the process of establishing the firm's road map and operational strategies, it will inevitably result in a more growth-oriented firm. Kazem and van Der Heijden (2006) argue that team participation can lead to continuous development of synergies among employees' skills and strengths. Based on the foregoing analysis, we propose the following:

Hypothesis 1: Firms who use proactive approach in seeking export market information are likely to be exporters than firms who use conservative approach.

Hypothesis 2: Firms who use proactive approach in seeking export market information are likely to more competitive decision-making style than firms who use conservative approach to seek export market information.

Hypothesis 3: Firms who are actively involved in the export market are more likely to adopt competitive strategies than firms who are not involved in the export market.

Hypothesis 4: Firms who are actively involved in the export markets are likely to have higher performance than firms who are not engaged in the export markets.

Hypothesis 5: Firms with higher export involvement are likely to have higher growth rates than firms with low export involvement.

### 3. Methodology and Research Design

A survey research method was used to collect data from (SMEs) in Nigeria. The survey was conducted in August 2007. A survey methodology was considered appropriate as relevant published data were either not available in the country or did not capture the specific variables of interest. The sample consisted of firms listed in the Manufacturers Association of Nigeria (MAN). From this directory five industrial sectors which met our predetermined criteria were selected: (1) meet the definition of an SME defined by (Storey, 1994) as employing between 10 and 500 employees, (2) manufacture the following products, food and beverages, textile and clothing, plastic and chemicals, leather and shoes, and (3) have a minimum annual turnover of six million naira about (\$50, 000). Table 1 shows the number of firms selected for the study.

<b>Industrial Sector</b>	<b>Number of Firms</b>
Food and Beverages	33
Leather and Shoes	35
Plastics and Chemicals	25
Textile and Clothing	50
Total	143

A random sample of 143 firms from the MAN directory which agreed to take part in the study formed the research sample. A drop-off and pick-up method was used (Ibeh, et al; 2004; Yavas, 1987). Eight research assistants and three field supervisors were responsible for distribution and collection of the questionnaires. A total of 89 usable surveys were received, which provided a response rate of 62%. Of the 89 firms, 47 or (53%) are exporting firms and 42 or (47%) are nonexporting firms.

#### *Survey instrument*

The instruments used in this study was developed primarily on measures used previously in the literature (Kazem and van der Heijden, 2006; Ibeh 2004; Ibeh et al. 2004, Ibeh and Young, 2001; Entrialgo et al. 2001; Francis and Collins-Dodd, 2000; Wiklund 1999). The survey instrument asked questions about the firms' attitudes toward exporting, performance, and growth. Most questions were asked using five-point Likert-scale. Factor and reliability analyses were used to assure construct validity of the measures for the firms selected. All measures were also examined and verified for face validity by four industry executives experienced in exporting, and three academics experienced in international business and marketing.

Three instruments were used to gather data: Export entrepreneurial orientation, strategic decision-making process, and firms' level of performance. The Export Entrepreneurial Orientation (EEO) questionnaire consisted of 20 items related to attitudes towards exporting based on the literature. The statements were phrased with a

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possible response continuum based on a five point Likert-style (1 = strongly agree to 5 = strongly disagree). The strategic decision-making process questionnaire was adopted from items developed by (Argent 1976; McDonough and Griffin, 2000; Kaziem and van der Heijden, 2006). Firms' level of performance was measured by asking respondents to provide the following information: (1) revenue, (2) profit, and (3) growth.

### 4. Findings

We tested hypothesis one by comparing the mean scores of exporters and nonexporters in the EEO questionnaire. The sample was split into two, exporters and nonexporters for the sole reason of comparison. Table 3 shows that exporters are more proactive in seeking export information than nonexporters. This means that there are more export oriented than nonexporter. H1 is supported. Table 4 shows that exporting firms have higher mean scores than nonexporting firms on items that were used to measure export decision-making style. This result confirms H2. Tables 3 and 4 combined reveal that exporting firms have higher levels of export orientation and use more competitive decision-making style than nonexporters. This also supports H3.

**Table 3: T-Test of the Differences in Group Means (N = 89)**

Variables	N	Mean	SD	DF	T-Value
Considering new export markets to enter, Exporters Nonexporters	47 42	4.723 1.309	.452 .467	87	.56
Exporting should not wait for domestic demand Exporters Nonexporters	47 42	1.234 4.666	.427 .477	87	.49
Looking for export market information Exporters Nonexporters	47 42	4.595 1.833	.496 .659	87	.57
Export market is risky business Exporters Nonexporters	47 42	4.210 3.404	.431 .496	87	.44
Opportunities is greater than the risks Exporters Nonexporters	47 42	4.553 1.238	.502 .670	87	.50
Accept temporary losses for long-term market share Exporters Nonexporters	47 42	4.829 1.238	.379 .431	87	.72
Attend export market seminars, and trade fair Exporters Nonexporters	47 42	4.361 1.849	.456 .104	87	.49

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Developing new products for export markets					
Exporters	47	4.361	.485	87	.64
Nonexporters	42	1.547	.503		

**Table 4: Mean Comparison of Strategic Decision Making**

**(N = 89)**

Variables	N	Mean	SD	DF	T-Value
Set strategic goals with management team					
Exporters	47	4.234	.427	87	.66
Nonexporters	42	1.785	.415		
Depend on management team to achieve strategic goals					
Exporters	47	4.140	.412	87	.55
Nonexporters	42	1.762	.405		
Decision making quicker than competitors					.62
Exporters	47	4.132	.423	87	
Nonexporters	42	1.659	.411		
Delegate major responsibilities to subordinates					.42
Exporters	47	4.251	.429	87	
Nonexporters	42	1.703	.420		
Use focus strategy					.49
Exporters	47	4.575	.463	87	
Nonexporters	42	1.309	.452		
Use differentiation strategy					.74
Exporters	47	4.922	.446	87	
Nonexporters	42	1.410	.421		
Use low cost strategy					.53
Exporters	47	4.426	.478	87	
Nonexporters	42	1.533	.450		

Three items were used to measure performance, growth rates, revenue, and profits. Table 5 shows that exporters outperformed no exporters in terms of profit, revenue, and growth. Table 5 also shows that exporters reported to have made on average, a profit of N1-3 million (US\$20,000 - \$30,000), while non-exporters made an average of profit of N100, 000 (US\$60, 000.00).With regard to revenue, exporters reported an average of N7 million (\$60,000), while nonexporters reported an average profit of N3.5 million (\$30,000). The majority of the exporters over 90% agreed that their firms grew as a result of export involvement, while over 80% of nonexporters indicated that exports did not contribute to their growth, thus, H4 and H5 are supported.

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**Table 5: Firms Growth Rates  
(N = 89)**

Variable		N	Percent	
My annual revenue for (2005) was between	Exporters	N5-6 Million	18	38.3
		N7-8 Million	29	61.7
		<b>Total</b>	<b>47</b>	<b>100.0</b>
	NonExporters	N1-2 Million	23	54.8
		N3-4 Million	19	45.2
		<b>Total</b>	<b>42</b>	<b>100.0</b>
My profit for (2005) was between	Exporters	Over 1 Million Naira	47	100.0
	NonExporters	N100,000-250,000	26	61.9
		N260,000-1 Million	16	38.1
		<b>Total</b>	<b>42</b>	<b>100.0</b>
	Achieve growth with export	Exporters	Agree	31
Strongly Agree			16	34.0
<b>Total</b>			<b>47</b>	<b>100.0</b>
NonExporters		Strongly Disagree	10	23.8
		Disagree	20	47.6
		Neutral	12	28.6
		<b>Total</b>	<b>42</b>	<b>100.0</b>

### 4.1 Discussion

Based on our findings, the most successful firms are those who use proactive orientation. Results show that a stronger proactive orientation is associated with export success. The reason for this could be that the exporting firms aggressively seek export market information by attending trade seminars and fairs. They may also see opportunities offered in export market and are willing to accept short-term losses in order to build long-term market share. Findings also indicated that firms with proactive export orientation adopted more competitive decision-making style. The reason might be that the decision-making of export firms may be faster than their counterparts. Non-exporting firms are more conservative in terms of export involvement. The reason could be that nonexport firms are not interested in exporting, because their main focus is on domestic market. They may also view unstable economic and political environments at home and abroad as obstacles to export markets, and thus, may be discouraged to engage in it.

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Results show that there is a significant difference in decision-making style between exporters and non-exporters. Exporters, by virtue of the fast-paced environment, tended to make decisions faster than their competitors. This is partly because they are more inclined to delegate responsibilities to their subordinates. They may also give them authority to make some decisions in the absence of the firm's decision-makers. The lack of quick decision making on the part of nonexporters may be that they could not rely on the competence of their subordinates to make effective decision. It may be that subordinates may lack education and skills necessary to make informed decisions. It might also be that the salary structure of SMEs simply attracts less-competent personnel compared with bigger firms. We found that exporters seemed to perceive the export markets as hostile and unstable, so they adopted more aggressive marketing strategies in terms of opening new export markets, gathering export information, developing new products, and improving existing product lines. They were also keener on developing a knowledge base that helped them refine their market forecasts.

### 5. Conclusion and Implications

In this study we have explored export orientation and its impact on export growth and performance of SMEs in Nigeria. It has focused upon identifying trends in terms of entrepreneurial orientation, decision-making style, growth, and performance. Results suggest that export orientation impacts SMEs growth and performance. Proactive export orientation firms were more proactive in exporting and adopted more competitive decision-making style and strategy than those with conservation orientation. In terms of growth and performance, exporters showed evidence of growth and outperformed nonexporters. Based on the findings, it can be concluded that entrepreneurial orientation is an important topic to be considered when developing an export market. Important policy implications for SMEs in Nigerian include: (1) accepting short-term losses to penetrate the export market can be an excellent strategy, (2) SMEs should be encouraged to develop new products for export markets, this should help them to achieve sustainable competitive advantage, (3) firms should adopt strategies that will allow them to be flexible when making decisions because it is essential to respond quickly to market conditions in today's hypercompetitive global business environment, and (4) the success of SMEs in this era of globalization will largely depend on their ability to internationalize their operations and respond quickly to market conditions.

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