EXPORT BEHAVIOR: WHAT DO WE KNOW NOW?

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Abstract

A review of the published literature on the behavior of exporting firms is presented, beginning with a literature review by Bilkey in 1978. His literature classification scheme is accepted and broadened so that it is able to include more recent research. Finally, implications for managerial and governmental action are discussed.

Introduction

In 1978, Warren J. Bilkey published an article in which he integrated the then existing literature on the export behavior of firms. The earliest reference that he used was published in 1961, and his list included a number of unpublished citations. Bilkey believed that the list of references that he provided was complete. Given 1961 as the earliest point of time of interest, the present writer has not been able to locate any significant source that Bilkey overlooked.

Bilkey placed each item or source into one or more of ten categories: export initiation; motivation for exporting; perceived obstacles to exporting; management of exporting; firm size effects on exporting; export destination; export risk; exporting to foreign affiliates; export models; and export profiles. The present paper will use a like plan, reviewing the literature since Bilkey's article appeared. But, as one would expect in an area of ongoing research, Bilkey's list of categories must be expanded. Further, there has not been research recently published in all of Bilkey's categories.

Literature Review

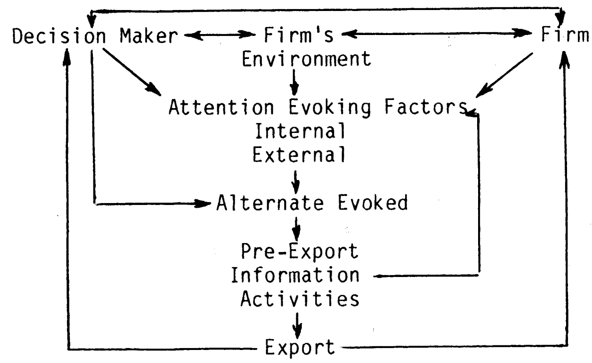
Export Initiation

Wiedersham-Paul, Olson, and Welch (1978) provide a model of pre-export activity, shown in Figure 1.

Decision Maker: As noted by the researchers, a complete "value profile" of the Decision Maker is difficult to describe and measure. A concentration of research into the Decision Maker's international outlook, tempered by his perceived risk and risk reduction values would be fruitful, is proposed.

Environment: This includes the orientation process of information flows. Physical location, such as one remote from other exporting firms, may inhibit the beginning of exporting by a subject firm.

Figure 1



Source: Wiedersheim-Paul, Finn, Hans C. Olson and Lawrence S. Welch (1978), "Pre Export Activity: The First Step in Internationalization," Journal of International Business Studies, 9 (Spring/Summer) 47-58, p. 49.

Firm: The firm's goals, especially that of growth, and their current realization are important factors. So, too, are the firm's product lines and corporate history.

Attention Evoking Factors: In order for the firm to begin exporting, "triggering cues" must be present. Such cues include, for instance, the existence of excess production capacity or the reception of unsolicited export orders.

Alternative Evoked: This is the course of action that the firm is taking or is proposing to take.

Pre-Export Information Activity: The effect of the presence of exporting information will have various effects, dependent on the firm's managerial biases.

Reid (1981) posits five stages of export adoption: Export Awareness; Export Intention; Export Trial; Export Evaluation; and Export Acceptance. He describes those states and compares them to Decision Maker and Firm variables as developed by Weidersham-Paul, et al (1978). Reid's resulting matrix outlines the activities that are likely to occur in each cell.

Motivation For Exporting

Brasch and Lee (1978) tried to determine if firms initiate exporting in response to a problem or as an innovative strategy. They also attempted to determine if the decision to export was made rationally, in the economic sense, or nonrationally.

They found that of the 35 exporting firms investigated, 24 had begun exporting as an innovative strategy rather than in response to some specific problem. Brasch and Lee's more surprising finding, however, is that only 11 of the 35 exporters made a rational decision to enter exporting; the balance entered the field on a decision based on other than profit maximizing criteria.

There was no overlap, other than that attributable to chance, of the 24 firms in the innovator group and the 24 firms using non-rational criteria.

Weidersham-Paul, et al (1978), mentioned above, speculated that the Alternative Evoked would be chosen by the Decision Maker, after he/she had received some "triggering cue." The Decision Maker's motivations would be actualized by the Pre-Export Information Activity appropriate to support the chosen alternative.

Perceived Obstacles To Exporting

Sternitzke (1979) cites prior researchers who implied that the decline of American exports may be due to the commodity structure or mix of American products. Using share analysis, he determined that the long-run decline of American exports is due mainly to the loss of competitiveness of American manufactured goods.

The Foreign Corrupt Practices Act (FCPA) prohibits the use of bribery by American corporations operating in other countries; the Act is generally accepted as an obstacle to exporting. Kaikati and Cabel (1980) investigated what strategies are used by American corporations to deal with FCPA.

The researchers isolated six strategies: Export through subsidiaries which are exempt from FCPA; Join with other American exporters in a Webb-Pomerene arrangement; Develop a product with sufficient uniqueness to make bribery unnecessary; Keep such a low profile that bribe solicitations are not made; Continue payments to low ranking officials as permitted by FCPA; and Conduit bribe money through off-shore companies headquartered in countries, such as Liechtenstein, which maintain strict confidentiality.

Capella, Schanke, and Sekely (1981) quizzed executives of firms which didn't export. The executives offered 12 reasons why they did not export. The six reasons most cited were, in order: The lack of information about potential customers; The additional risk involved in dealing with foreign organizations; The lack of information about dealers or channels of distribution; The firm's dealing in products or services not appropriate for exporting; The lack of expertise of company personnel in exporting; and the fact that domestic sales use all of the productive capacity.

Management Of Exporting

Prior researchers, cited by Bilkey, found that firms which export tend to be better managed than firms that do not export. Sarathy and Edmunds (1983) found that a commitment to exporting was correlated with higher profits of the New England high-technology firms which they investigated. The researchers, however, were not able to isolate the firms' incremental benefits from exporting.

Using exports per employee as a measure of success, Ayal and Hirsch (1982) tried to determine if the PIMS/BCG factors, market share and market growth rate, were valid determinants of success for manufacturers located in small countries.

Ayal and Hirsch also extracted various factors from the literature to determine if those factors were valid.

The researchers, working in Israel, found that market share and market growth are important, although the latter is less important than it is for manufacturers located in the larger countries. Market size, scientific and technical skill, relative product quality, relative home market size, and product differentiability were the factors extracted from the literature and tested. Of these, only the first two were found to be significantly correlated with export success.

Piercy (1983) found that the number of countries to which a firm exports is meaningless as a measure of management skill or success in exporting because of the various strategies developed by various firms. Some firms purposely export to only selected countries while other firms, with equal success, export world-wide. Firms select disparate strategies because the firms differ in their perceptions of product export suitability, selected techniques of sales value maximization, and the desirability and suitability of various techniques of risk reduction.

Reid (1983) found that firms in the process of internationalizing do not all necessarily progress through the same stages of development as had been implied by earlier researchers. He found that each firm's changes in its organizational arrangements resulted from strategies, which may be peculiar to each organization, for handling transactions costs more efficiently.

Dohner (1984) notes that exporters' price adjustments precipitated by transitory currency moves would likely result in the loss of some of the market in the "other" country. He explains, within the framework of current economic theory, that exporters do not change their prices if the exporters have the expectation that the currency fluctuations are transitory.

Exporting To Foreign Affiliates

Fowler (1978), in attempting to determine the optimal price level at which a multinational should sell to its own subsidiaries, found that several factors were significant. The level of ownership of the subsidiary by the parent, the effective marginal tax rate in each country, tariffs on the goods transferred, and dividend payout ratios all have parts to play. These variables interact in such a way that different levels of transfer prices are optimal for different industries, firms, and countries.

Export Models

Coccari (1978) compares regression with time series analysis as techniques of forecasting the volume of American exports. Both techniques give good results and each may be used in different circumstances. If time series is selected, GNP should be lagged one or two quarters and trading partner business activity should be lagged three quarters for best results.

He points out the inadequacy of currently available data, which is tabulated in dollars. He suggests that tabulation in physical quantities would yield more meaningful results.

The Wiedersham-Paul, Olson and Welch (1978) model of pre-export activity was discussed in the Export Initiation section above.

Cavusgil, Bilkey, and Tesar (1979) gathered cross sectional data and analyzed it using Multiple Classification Analysis (MCA) and Automatic Interaction Detector (AID). The resulting AID tree suggests a behavioral viewpoint of Stimulus----> Organization----> Response.

Export Profiles

Buckley and Pearce (1979) investigated 156 of the world's largest enterprises. They isolated three factors that are major determinants of sourcing policies. First, the larger the firm, the more likely it is to service foreign markets with production in those markets.

Second, national characteristics are often stronger factors than industry groupings in the determination of sourcing policies. Third, they found that the likelihood of internal exporting is directly related to the intensity of research in the industry.

Cavusgil and Nevin (1981a), researching general exporting rather than internal exporting, found that four groups of internal determinants explain the exporting behavior of firms: the expectations of management about exporting's effect on the firm's growth; the level of commitment by management to exporting; differential firm advantages, including the firm's size, technology intensiveness, and possession of a unique product; and the strength of managerial aspirations for firm growth and market security.

Naor, Michie and Cavusgil (1981) compared management perceptions between exporters in Maine and New Mexico and between non-exporters in Maine and New Mexico. They found no significant differences in the managerial perceptions of their companies' strengths/weaknesses, perceptions of management's functional area strengths/weaknesses, or perceptions of exporting's risks, profits, and costs.

Although the research is only claimed to be exploratory, its implication is that location within the country is not a determining factor for managerial perceptions.

Information

Brasch and Lee (1978), discussed in the Motivation for Exporting section above, approached the initiation of exporting as a diffusion of innovation information. It was determined that exporting was more often initiated as an innovation than as a response to a problem.

Weidersham-Paul, Olson, and Welch (1978) discussed in the Export Initiation section above, categorized firms as domestic, passive exporters, and active exporters. Based on the category in which it is found, each firm's handling of information, acquisition and transmission, can be typed as shown in Figure 2.

Figure 2

Dimensions / Group	Willing to Start Export	Info Collect Activity	Info Trans. Activity
Domestic	None to Low	None to Low	None to Low
Passive	Low to Med	Low to Med	Low
Active	Med to High	Med to High	Low to High

Source: Adapted from Finn Wiedershiem-Paul, Hans C. Olson, and Lawrence S. Welch (1978), "Pre Export Activity: The First Step in Internationalization," Journal of International Business Studies, 9 (Spring/Summer) 47-58, p. 51.

Capella, Schnake and Sekely (1981), listed a number of reasons given by executives for not exporting. Of those reasons, four of the top five reasons deal directly with availability and correctness of information. The fifth reason is a conclusion based on information available.

Walters (1983) investigated information sources and uses in a Georgia industrial sample. He found that the utility of information is perceived to vary directly with the degree of possible interaction and dialogue with the source of the information, and the extent of experience-based knowledge that the source has.

Two variables, firm size and level of exporting activit , are strongly correlated with the determination of the exporting firms' information acquisition pattern and the perceived utility of information.

Channels Of Distribution

Rosson and Ford (1982), using 21 matched dyads of Ontario manufacturers and UK distributors, found that the less standardization, the more reciprocity, the more contact, the more resources involved, and the less conflict that there was in the channel, the better the channel performed.

The degree of formalization in the channel was not found to be significant.

Brady and Bearden (1979) compared the attitudes of non-exporters, exporters using direct channels, and exporters using indirect channels. Along the dimensions measured, little difference was found between non-exporters and indirect channel users.

Direct channels were more likely to be used if management held that it was important to control distribution channels, foreign market information is essential, foreign channel members provide more information than domestic channel members, selling costs need to be minimized, and that documentation and paperwork are not obstacles.

Brasch (1978), debunking some "common knowledge," found that Export Management Companies (EMC's) often have three or fewer employees, typically have some years experience (but new ones enter the field all the time), and will often accept title, possession and credit risk.

EMC's are not used only by small inept firms. Barsch suggests that no single EMC should be used for worldwide distribution.

Tsurumi (1981), in an expositional work, outlines the strengths and vulnerabilities of Japanese trading companies. He explains that, in order to develop long range trading markets, the companies have operated as a source of risk capital for small and medium size businesses in Japan and elsewhere. They are also deeply involved in investment in natural resource development.

The nature of a trading company's business demands that the firm take a long-run view. By careful selection of the clients they service, by maintaining a rigid code of honorable dealing, and by careful selection of the projects they support as investors, the companies themselves have contributed very heavily to the bias of Japanese industry towards the long run and, as a result, to the long-run success of Japanese industry.

Literature Reviews

Bilkey (1978) provides a review of the literature specifically bearing on behavioral aspects of exporting; Cavusgil and Nevin (1981b) provide an overview and categorization of the literature on all aspects of international marketing.

Implications

In his review of the export literature, Bilkey (1978) noted that the research reported on by him represented a radical departure from mainstream economic studies of the subject, studies of exporting based on considerations of rational profit maximization. The body of work reported on by him was based on behavioral consistency.

The present review continues within and expands the behavioral framework noted by Bilkey. The relatively small number of studies reported yield some useful implications.

Governmental Implications

Brasch and Lee's (1978) finding of non-rational decisions to enter exporting, the acceptance of non-empirical "triggering cues" by Weidersham--Paul, Olson, and Welch (1978), the importance of commitment found by Capella, Schanke, and Sekely (1981) and by Bilkey (1982), the importance of expectations noted by Cavusgil, Bilkey and Tesar (1979), and the importance of perceptions of profitability found by Bilkey (1982) all point in the same direction - the attitudes of a firm's senior executives, relative to exporting, is an extremely important determinant of whether a firm will enter exporting and, once entered, is strongly correlated with the firm's success at exporting.

The importance of information to firms is highlighted by Capella, Schnake, and Sekely's listing of why firms do not export (1981) and Brasch and Lee's exporting-as-innovation viewpoint (1978).

The strongest implication for a government desiring to encourage exporting is that the government must provide information to firms. It appears that if executives can be made aware that their firms can successfully export, then they will be much more likely to enter the field. And, in the aggregate, the more committed they are to exporting, then the more likely it is that they will be successful.

The information provided can and should include information designed to encourage rational decisions; however, it should not be limited to that type of information. It has been shown that executives will decide to export for all sorts of reasons. Research should be directed to attempt to discover what those other reasons are so that information to support those other reasons can be provided to the firms.

Managerial Implications

Saranthy and Edmonds (1983), Cavusgil and Nevin (1981a), and Capella, Schanke, and Sekely (1981) all found that commitment to exporting is highly correlated with success in exporting. Commitment lies within the attitudes of the responsible executives and is evidenced by the level of dedication of resources to the exporting effort. For instance, having a separate export division within the firm, rather than using an external agent, was found to be correlated to profits (Bilkey 1982).

It appears to be well established that the more committed to exporting a firm is and the more of the firm's resources, including managerial attention, invested in exporting, then the more likely the firm is to be successful in exporting.

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