EXPORT INITIATION BY INDIGENOUS MANUFACTURERS
IN A SMALL DEVELOPING ECONOMY

By
Dr LEONIDAS C. LEONIDOU
Marketing Analyst/Consultant
Middle East Marketing Research Bureau, Nicosia, Cyprus

ABSTRACT

The article examines the factors that influence indigenous manufacturers in a developing country to initiate exporting. Export stimuli were classified into proactive and reactive, representing a deliberate or opportunistic attitude towards exporting respectively. Thirty-four Cypriot firms belonging to five industry groups provided the research sample. The results showed that their export decision was motivated, overall, more by proactive rather than reactive factors exemplifying a rational approach to exporting. However, a further examination of the results in conjunction with the small size of the domestic market and certain geopolitical events occurred in the region questioned this rational export behaviour and, instead, concluded that their actual approach to exporting was casual, unsystematic, unplanned and non-organized.

INTRODUCTION

It is widely accepted that the promotion of manufactured exports by indigenous firms in a developing country is a prerequisite for its economic development and welfare.
A crucial point in this effort is the very initial stage in exporting which has been described as fragile due to the limited degree of pre-export preparation by most of the firms (Olson and Wiedersheim-Paul 1978). As a result, firms fail to progress along the export path or withdraw from exporting altogether. An export failure, however, does not only have negative effects on current exporters but would-be exporters are affected as well, in the sense that the latter develop more psychological barriers with regard to the export activity when they become aware of the failed experience of the former.

Another reason for the importance of the export initiation stage is connected with the fact that the firm's initial involvement in exporting, in most cases, determines the future course of its export behaviour. For instance, an ill-prepared and reactive approach to exporting at the initial stage can create a non-rational export behaviour and reduce the possibility of export success.

The aim, therefore, of this article is to throw some light on this critical stage. More specifically, it intends to investigate the factors that stimulate the decision of indigenous manufacturers in a small developing country to start exporting.

PREVIOUS WORK ON EXPORT INITIATION

Much of the published work on export marketing is limited to describing the firm's initial motives for engaging in exporting, which are perhaps the most dynamic elements in the decision to export.

Export stimuli are often classified into two broad categories: those arising within the firm, i.e. internal stimuli, and those exogenous to it, stemming from its environment, i.e. external stimuli (Aharoni 1966; Simpson and Kujawa 1974; Olson and Wiedersheim-Paul 1978; Wiedersheim-Paul, Olson and Welch 1978; Cavusgil and Nevin 1980; Cavusgil 1982a; Kaynak and Stevenson 1982; Brooks and Rosson 1982; Joynt 1982; Garnier 1982). Wiedersheim-Paul et al (1978) argue that the above typology for the initial export stimuli is important because it provides a framework for examining whether a firm's export start was stimulated mainly by the internal qualities of the firm or due to factors operative to its environment.

However, despite the merits of the external/internal typology, the definition of what is external and what is internal export stimulus has created a number of
conceptual problems in the field. For instance, while «competition» is considered by one study to be an external stimulus (Wiedersheim-Paul et al 1978) in other studies it is considered an internal one (Simpson and Kujawa 1974; Kaynak and Stevenson 1982). Some authors tried to depart from this confusion by employing the proactive/reactive typology, where proactive stimuli are associated with the firm's aggressive behaviour and deliberate search to initiate exporting, and reactive stimuli are associated with a behaviour of initiating exporting by accident (Piercy 1981; Johnston and Czinkota 1982; Cavusgil 1982a).

A significant number of studies have been conducted in order to find out the kind of stimuli which influence a firm's decision to initiate exporting (Simpson and Kujawa 1974; Tesar and Tarleton 1982; Kaynak and Stevenson 1982; Joynt 1982; Brooks and Rosson 1982). A summary of their findings indicates that the company's export initiation is stimulated by both groups of factors, which appear in a different rank order in each study. Of significance is, however, the fact that among the external or reactive stimuli the most popular was an unsolicited order from a foreign customer (Groke and Kreidle 1967; Simmonds and Smith 1968; Simpson and Kujawa 1974; Pavord and Bogart 1975; Welch and Wiedersheim-Paul 1980; Tesar and Tarleton 1982; Joynt 1982; Garnier 1982; Brooks and Rosson 1982; Albaum 1983; Kaynak and Kothari 1984).

Despite the importance of the export stimulus in the decision to initiate exporting, its existence or its emergence is a necessary but not sufficient condition for the firm's decision to look abroad (Aharoni 1966; Simpson and Kujawa 1974). According to Aharoni (1966), the decision to export also depends on various feelings and social as well as organisational structures, on previous events in the company's history and on other problem areas that the company faces at the time this stimulus has arisen. In other words, the decision maker's opinion and attitude towards initiating exporting is also influenced by a number of facilitating and inhibiting factors which make the «latent» stimuli become effective or not. These factors derive mainly from three major areas: the decision maker's characteristics, the firm's characteristics and the firm's environment characteristics (Wiedersheim-Paul et al 1978; Brooks Rosson 1982; Garnier 1982). These are summarized in Table I.
THE RESEARCH HYPOTHESIS

The previously mentioned export initiation studies have served to shed some light on the firm's behaviour just before its export debut. However, despite their merits, the relevance of these studies has been limited to the developed world. So far, few attempts have been made to conceptualize the initial export activity within a developing country context, this is an area worthwhile of investigation. Of particular interest is to determine whether indigenous manufacturers in developing countries initiate exporting of their products in response to proactive or reactive stimuli, which in turn exemplifies an aggressive or passive export behaviour respectively. (Tesar and Tarleton 1982; Johnston and Czinkota 1982). Cavusgil (1982b; 66
proposes that the firm’s initial participation in exporting can be best characterized as a reactive rather than proactive involvement: «The initial motivation of the export start is typically directed toward alleviating a problem faced by the company. This could be increased competition in the existing market, mature products, excess capacity or other... Only in a few cases firms initiate exporting as a result of comprehensive and deliberate search of opportunities in foreign markets». Cavusgil’s proposal that firms appear to initiate export marketing by «accident» (i.e., due to reactive stimuli) rather than as a result of careful and deliberate planning (i.e., due to proactive stimuli), seems, for a number of reasons to apply widely to indigenous manufacturing firms based in developing countries.

First, it was shown in the export marketing literature that export decisions have an incremental character which means that firms progress along the export path on a step-by-step basis (Johanson and Wiedersheim-Paul 1975; Bilkey and Tesar 1977; Cavusgil and Nevin 1980; Cavusgil 1982a). This is attributed to the fact that international business operations are characterized by uncertainty which is inversely related to the availability of information and «experiential knowledge» about foreign operations (Johanson and Vahlne 1977; Cavusgil and Nevin 1980; Cavusgil 1982a). However, developing country-based manufacturers have limited access to foreign market information sources and it is natural that their experiential knowledge in foreign activities would be very low immediately before their export debut (Abdel-Malek 1967; Colaiacovo 1982). As a result, they will assign high levels of uncertainty to the exporting function, which in turn implies that they will initiate exporting with the reactive attitude of taking and filling orders, and then, after a long process of learning about foreign markets and operations, will change to an international commitment (Colaiacovo 1982).

Second, successful initial involvement in exporting requires continuous interest and commitment by the management (Cavusgil 1982b). However, the fact that the majority of the indigenous firms in developing countries are characterized by conservative and antiquated management techniques, with the owner/managing director making practically all decisions in the firm, reduces the likelihood of management interest in and commitment to exporting (Badawy 1980; Negadhi 1984). As a result, initial export motivation is unlikely to be proactive to the firm. Often, the management’s unwillingness to initiate exports is fortified by the fact that either they do a good job domestically, so there is no reason to worry about exporting or they perceive exporting to be a very complicated and specialized subject in which they have no experience (Abdel-Malek 1969; Colaiacovo 1982). Therefore, an external «pull» factor should appear in order to make these firms start exporting.
Third, indigenous firm's management in developing countries is characterized by a short-term approach in doing business, aiming to make «quick» profits (Kaynak 1982; Negadhi 1984). On the other hand, the foreign transaction process concerns long periods of time compared to the domestic selling process which covers relatively shorter time periods. Consequently, their short-term philosophy in doing business, along with the long-term duration of the international transaction process, limits the confidence of these firms about the potential benefits of exporting to the fulfilment of their short-term objectives, which in turn reduces the likelihood for a proactive involvement to exporting.

Fourth, the majority of indigenous manufacturers in developing countries are production-oriented rather than marketing-oriented. (Boyd, Frank, Massy and Zoheir 1964; Kaynak 1982). This company philosophy stems from the prevalence of seller's market conditions in developing countries which encourages firms, especially those with small and medium size, to emphasize production efficiency and technical superiority, while marketing receives little attention (Boyd et al 1964; Abdel-Malek 1969; Glade, Strang and Udell 1970; Odia 1979; Kaynak 1982). As a result of this production orientation in conducting business, there is a tendency by these firms to produce first and then wait for the marketing of the production. They are the optimists because they believe that sooner or later someone who has need for their products will come along to buy them (Kaynak 1982). Production orientation is not only restricted to the domestic operations of these firms, but it also characterizes their initial approach in international business as well (Lee 1981). Consequently, these firms do not actively seek to sell their products abroad, that is they are not motivated to initiate exporting by proactive stimuli.

Finally, there are arguments that developing country-based exporters depend on external agents or forces to initiate exporting due to the high marketing requirements of the products they sell. The latter demands the possession of high marketing skills on the part of the exporter. However, indigenous manufacturing firms in developing countries are characterized by a lack of marketing skills mainly due to their preoccupation with production problems and their heavy reliance on other agencies, such as wholesalers, to perform their marketing functions (de la Torre 1972; Kaynak 1982). According to de la Torre (1972) «if the local manufacturer or potential exporter (based in a developing country) is unable or unwilling for any of a variety of reasons to supply such skills, the initiation will have to come from outside the firm». This view is confirmed by Wortzel and Wortzel's (1981) study which found that many developing country-based manufacturers did not have a specific reason to seek export business. In-
stead, their export activity was initiated by an importer who was either searching for new sources of items presently in his line or for new items to add to that line.

These and other factors will hinder management efforts of indigenous manufacturing firms based in developing countries to actively search for opportunities to initiate exporting, leaving the firm to consider the exporting possibility only when certain problems arise. Therefore, we can hypothesize that these firms initiate exporting mainly in response to reactive rather than proactive stimuli.

RESEARCH METHODOLOGY

The fieldwork took place in Cyprus during the Winter of 1985 - 6. Cyprus is a representative example of a small developing country which is highly dependent on foreign trade. There are approximately another 60 developing countries which are more or less considered to be small in terms of population, such as Cyprus (United Nations, Department of Economic and Social Affairs 1985).

Personal interviews were carried out with 34 Cypriot exporters, belonging to one of the following industrial groups: alcoholic beverages and wine (3), canned food (4), clothing (17), footwear (6) and travel goods (4).

The interviews were based on a partially structured questionnaire and five-point Likert type scales were used with closed questions. The average interview time was approximately 1 hour and all but 2 interviews were tape recorded.

The reactive export stimuli group was operationalized based on the degree to which the decision to initiate exporting had been influenced by each of the following factors: unsolicited orders from foreign customers, unutilized production capacity, accumulation of unsold inventory, initiation of exports by domestic competitors, increase of domestic competition, stagnation or decline in domestic sales and saturation of the domestic market.

On the other hand, the proactive export stimuli group was operationalized based on the degree to which the decision to initiate exporting had been influenced by each of the following factors: Desire for more sales resulting from exporting, desire for more profits resulting from exporting, desire for long-term corporate growth resulting from exporting, identification of better opportunities for the company's products abroad and possession of exclusive information about foreign markets.
RESEARCH FINDINGS

Table II shows the rank order of the 12 reactive and proactive export stimuli according to their mean value received by the participant exporters.

The table shows clearly that the manufacturing firms of this study were motivated to initiate exporting primarily by the saturation of the domestic market, closely followed by their desire to achieve more sales and long-run corporate growth by engaging in export operations.

<table>
<thead>
<tr>
<th>Group</th>
<th>Type of export stimulus</th>
<th>Mean value*</th>
<th>Rank order</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reactive</td>
<td>Reception of an unsolicited order from abroad</td>
<td>1.909</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td>Unutilized production capacity</td>
<td>3.000</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td>Accumulation of unsold inventory</td>
<td>1.727</td>
<td>11</td>
</tr>
<tr>
<td></td>
<td>Initiation of exports by domestic competitors</td>
<td>1.454</td>
<td>12</td>
</tr>
<tr>
<td></td>
<td>Increase in domestic competition</td>
<td>2.208</td>
<td>9</td>
</tr>
<tr>
<td></td>
<td>Stagnation or decline in domestic sales</td>
<td>2.272</td>
<td>8</td>
</tr>
<tr>
<td></td>
<td>Saturation of the domestic market</td>
<td>4.529</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proactive</td>
<td>Desire for more sales resulting from exporting</td>
<td>4.466</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Desire for more profits resulting from exporting</td>
<td>3.400</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>Desire for long-run corporate growth resulting</td>
<td>4.068</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>from exporting</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Identification of better opportunities abroad</td>
<td>3.823</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>Possession of exclusive information about foreign</td>
<td>2.647</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td>markets</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Base on a five-point scale: Very low (1) to very high (5).

The above results is believed to have been influenced to a large extent by two major factors: the small domestic market of Cyprus and certain events associated with the geopolitical environment of the island.
1. Small Domestic Market

The size of the Cyprus market is small whether this is measured in terms of population, wealth, purchasing power or geographical area (Kaminarides 1973). The small local market in the case of Cyprus proved to be a facilitator in the export development process of most of the indigenous firms, and it was responsible for 5 out of the first 6 ranked stimuli to receive high mean values.

For instance, in a small market which is being served by numerous small and few large firms, saturation can be achieved in a relatively short time. Consequently, most of the participant firms, especially the large ones, tried to overcome this problem by seeking to sell their products to foreign markets which are not saturated. In fact, the majority of the firms in all the investigated industries stated that the saturated domestic market was the major reason in their decision to start exporting. This finding gives credibility to Bognar’s (1969) argument that the lack of adequate demand in small developing countries, along with the insufficient marketability of the product in the home market forces indigenous firms to look abroad as the only way to overcome the problem.

Indigenous manufacturers operating in a small market face difficulties in increasing their corporate sales by depending solely on the local demand of their products. Thus, the alternative is to increase sales by selling to foreign market(s) as well. Of significance is the fact that some of the participant firms stated that from the outset, they almost completely ignored the domestic market and directed most of their efforts towards export operations (this phenomenon was found particularly among firms in the clothing industry).

There are arguments that the small local market favours the development of small firms which are more flexible in serving the needs of this market (Ellis 1964); this implies that long-run corporate growth is difficult to achieve by dealing solely with the home market. Rather, this can be achieved by expanding business operations to foreign markets as well.

The fifth ranked stimulus is also associated with the small size of the Cyprus market, in the sense that selling to the latter is less profitable compared to foreign sales. This can be explained by the fact that the small local market and its low market demand contributes to a less specialized production and, therefore, to diseconomies of scale. Large export markets, on the other hand, with their high market demand, result in more specialized production and the achievement of economies of scale.
The «unitilized production capacity» stimulus also owns largely its position (sixth) to the small market size of Cyprus. The latter, apart from the establishment of numerous small manufacturing concerns, has forced the small number of large indigenous manufacturers to concentrate their efforts mainly on export markets, in order to achieve a more efficient utilization of their production capacity.

2. Geopolitical considerations

These were mainly responsible for the mean values received by the fourth and eighth ranked stimuli.

«Identification of better opportunities for the company's products abroad» was a high influential stimulus mainly for firms which initiated exporting during the mid-1970s, and it is particularly applicable among clothing and footwear manufacturers which identified opportunities for their products in the nearby booming Middle East market. These opportunities arose because the civil war in Lebanon, which began in 1975, had as a result the destruction of the Lebanese clothing and footwear industry which until that time was the major supplier of the neighbouring Arab countries. The Cypriot manufacturers took advantage of the inability of the Lebanese to serve the growing needs of the lucrative Arab market and moved into it immediately.

The «stagnation or decline in domestic sales», a moderately influential stimulus, is also associated with geopolitical events, and specifically with the effects that the Turkish invasion in Cyprus in 1974 had on the island's economy. In the aftermath of the Turkish invasion, economic activity in Cyprus was brought to a standstill causing massive unemployment. Among other negative effects on the economy, there was a general drop in per capita incomes and local consumers were reluctant to spend their money in view of the prolonged political uncertainty. As a result, most of the indigenous manufacturers faced a stagnation or decline in their local sales and the manufacturing sector of the island's economy was virtually paralysed. The appearance of these unexpected problems forced many firms to look outwards and initiate exporting, in order to survive.
The above findings indicate that the decision to begin exporting is affected by both reactive and proactive stimuli, each of which has a different degree of importance. In the case of Cypriot manufacturers, the results showed that their export initiation decision was motivated overall more by proactive rather than reactive factors, thus rejecting the set hypothesis. Normally, the decision to export which has been stimulated by proactive stimuli is characterized as rational, whereas the stimulation of the export decision by reactive stimuli is considered as non-rational (Simpson and Kujawa 1974; Lee and Brasch 1978). However, this «rationality» of the initial export behaviour should not be seen in isolation, but rather in conjunction with other factors, problems and events specific to the firm’s internal and external environment.

The small size of the domestic market was found to be a critical factor affecting the Cypriot manufacturer’s export decision. This factor is, of course, not significant for the large economies of the west or even for some of the big developing countries, simply because there is an opportunity for the indigenous manufacturers to first undergo an «extraregional» expansion and then engage in export operations. However, this is not the case with small developing countries, such as Cyprus, where exports are crucial for the growth and, sometimes, the survival of indigenous manufacturing concerns. One could say that Cypriot exporters have undergone a «crash course» in international business and found themselves at the more developed stages of the export path from the very beginning of their export activity, without moving gradually from one stage to the next.

An in-depth examination of the participant firms revealed that this sudden transformation from non-exporters into big exporters brought a shock to their corporate culture and created a lot problems inside their organisations such as those relating to production, personnel, financial and marketing. Production problems arose, because most of the firms had to increase their production capacity within a very short space of time, in order to cope with the large orders which they began to receive from abroad. The high standard of work required by foreign customers, especially Europeans, caused various personnel problems because of the limited availability of skilled labour in the island and the difficulty involved in training the company's existing workforce. Financial problems related mainly to the strains associated with financing the initial export activity. More specifically, indigenous firms were finding it difficult to raise the required capital.
for purchasing their raw materials, hiring new personnel, purchasing additional production equipment and so forth. However, these problems were partially alleviated through the financial assistance provided to these firms by the Government. Finally, marketing problems were mainly attributed to the non-existence of a proper export department in the organisation, the lack of experience in conducting foreign business and the difficulties involved in handling export documentation.

As mentioned before, a number of geopolitical events were also responsible for the initial export activity of a many of Cypriot manufacturers which otherwise would not have thought of starting exporting at all. For instance, the paralysis of the economic activity in the island as a result of the Turkish invasion of 1974 and the inability of the Lebanese neighbours to serve the rising needs of the Arab market, due to the destruction of the local industry by the Civil War of 1975, were two events which marked the export initiation decision of some Cypriot firms.

The special circumstances under which most of the participants initiated their first exports and the problems that arose immediately after their export debut, questions the rational behaviour of these firms with regard to exporting. Their behaviour was rational in view of the given environmental, organisational and informational constraints under which they had to operate. However, their actual behaviour in approaching export business was very casual, unsystematic, not organised and aimed principally at making a «quick killing» in the foreign market(s). For instance, few firms had an export department as such in their organisations, often there was no specific export marketing plan or systematic export marketing research and so forth. In this respect, their initial export behaviour can be described as non-methodical and non-rational.

CONCLUSIONS AND IMPLICATIONS

The aim of this article was to shed some light on the export initiation stage of indigenous firms based in a developing country. The Cypriot exporters in this study were found to be motivated overall more by proactive rather than reactive stimuli in their decision to initiate exporting, although the opposite was hypothesized. It was argued, however, that although the study findings seem to be associated with a rational approach to exporting, in reality this was not true in the
majority of cases, as an in-depth examination of the individual firms revealed. Instead, the initial export behaviour of these firms was described as casual, un-systematic, not organised and opportunistic.

A number of factors identified in the internal and external environment of the indigenous manufacturing concerns were responsible for this «abnormal» export behaviour. Of particular importance was the small size of the domestic market as well as a number of specific events associated with the geopolitical environment of the island. Therefore, it is safer and more correct to draw conclusions about certain phenomena in conjunction with the situation specific characteristics within which they take place, rather than to make absolute generalisations.

The study revealed that an unplanned and non-methodic approach to exporting can create a number of organisational and other problems for developing country-based manufacturers at the initial stage of the internationalization process. These problems can be worse in the case of exporters from small developing states who initiate exporting as a result of the variety of limitations imposed on them by the small size of the domestic market, rather than considering exporting a natural and incremental extension of their domestic business. This, in turn, can increase the possibility of failure at the very initial stage of the export involvement due to an inability to cope with unexpected problems and lack of experience of dealing with foreign customers. It can also create psychological barriers and possible negative implications for further export activity.
REFERENCES


