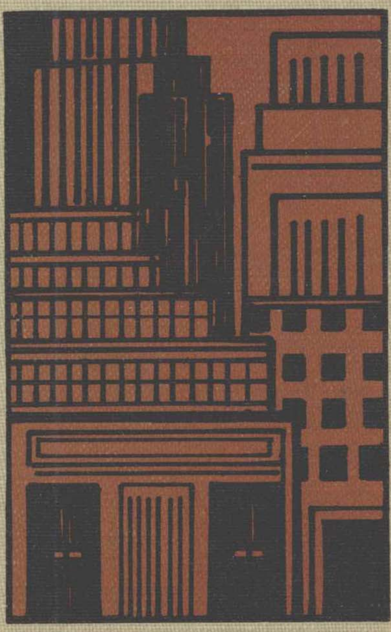
The Exporting Behavior of Manufacturing Firms

Somkid Jatusripitak



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1

Introduction

Export activities are important for the economic well-being of a nation as well as a critical factor in the economic development process. Exports not only increase the demand for domestic production but are also a major source of foreign exchanges to finance increased capital goods imported. In the long run, the balance of payments has to be maintained if a nation's wealth is to improve. Emphasis must be placed on the exploration of export development strategies in order to generate sufficient foreign currencies to compensate for the import bills. Otherwise, the consequences are likely to be the deterioration of economic growth and the decline of economic prosperity.

Statement of Problems

Concerned with the important role of exporting, many countries have recently undertaken export stimulation programs. In developing countries, export-led economic policy has been emphasized as a strategy for economic development. A large number of promotion and subsidy programs have been employed to stimulate export growth.

Export growth is important not only in developing countries but in highly developed countries such as the United States as well. Certainly export prowess is an important determinant of national economic growth. However, in recent years, the U.S. trade position has declined continuously. The domination of U.S. industries in world trade as well as in the domestic marketplace is facing formidable challenges. Industry after industry, market after market, is being invaded by other export-oriented countries. In the meantime, U.S. industry remains most actively oriented toward production for the domestic market without seriously exploiting foreign market opportunities. As a result, the U.S. global market shares have been eroded by competitors (see Table 1.1). The U.S. balance of payments has eroded continuously since the early 1960s as a result of deterioration in the trade balance (see Table 1.2). The U.S. balance of

Table 1.1

Shares of Free-World Exports

Period	United States		France	F.R. Germany	Italy	Nether-lands	United Kingdom	Japan	Canada
	Excl. exports to U.S.					Percent			
1970	18.0	15.4	6.4	12.1	4.7	4.2	7.0	6.9	5.9
1977	13.9	11.9	6.4	11.6	4.4	4.3	5.7	7.9	4.3
1978	14.4	12.2	6.8	12.1	4.8	4.3	5.8	8.4	4.1
1979	14.2	12.2	6.7	11.5	4.8	4.3	5.8	6.9	3.9
1980	13.9	12.1	6.3	10.5	4.2	4.0	6.0	7.1	3.7
1981	15.2	13.0	5.9	9.8	4.2	3.8	5.8	8.4	4.0
1982	^{r}15.0	^{r}12.8	^{r}5.8	^{r}10.6	^{r}4.4	4.0	^{r}5.8	^{r}8.3	4.3
1980:VI..	14.0	12.2	6.3	10.0	4.4	3.9	6.4	7.9	3.8
1981: I..	15.4	13.2	6.1	9.6	3.5	3.9	6.0	7.8	3.9
II..	15.6	13.3	6.0	9.4	4.2	3.7	5.5	8.3	4.3
III..	15.3	13.0	5.6	9.6	4.4	3.6	5.6	9.0	3.9
IV..	14.5	12.4	5.9	10.5	4.6	4.0	5.8	8.5	4.1
1982: I..	15.2	13.0	6.1	10.8	4.5	4.2	5.8	8.2	4.1
II..	15.7	13.5	6.0	10.8	4.6	4.0	5.8	8.4	4.5
III..	15.3	12.9	5.3	10.5	4.3	3.8	5.9	8.7	4.5
IV..	14.1	12.0	6.7	10.7	4.4	4.0	6.0	8.3	4.2
1983: I..	^{r}14.9	^{r}12.7	^{r}6.1	^{r}11.1	4.5	4.5	5.7	^{r}8.4	4.5
II..	14.6	12.3	6.0	10.4	4.5	4.0	5.6	8.8	4.9
III..									

Note: "World exports" are defined as the sum of the exports from 15 major industrial countries. Exports to the United States are excluded.

Source: U.S. Department of Commerce, *International Economic Indicators*, IX, no. 4, December 1983.

payments, which showed a $1.5 billion deficit on average during the 1950s, increased to over $3 billion during the 1960s, and then rose to $22 billion in 1971. Meanwhile, U.S. exports, which amounted to one-quarter of the world total in 1948, had declined to 17% by 1958 and to 14% by 1970 (Hartland-Thunberg 1981, p. 20). Since the early 1970s, oil imports have placed a major burden on the U.S. economy and caused substantial trade deficits.

While the importance of export growth has been taken seriously by developing countries and some Western countries such as Germany, the opposite seems to be the case in the U.S. Even though the United States remains an active participant in world trade, her exports, especially manufactured products, have lagged behind those of other major trading countries. According to Carlson and Graham (1981, p. 42):

> The poor performance of U.S. exports compared to that of many other major Western industrialized countries is even more evident in trade in manufactured goods. World trade in manufactured goods has grown at a remarkable 7.8% per year since the

Table 1.2

Balance of Merchandise Trade Based on F.O.B. Values

Period	United States	France	F.R. Germany	Italy	Nether- lands	United Kingdom	Japan	Canada
		Value in billions of dollars						
1970	2.3	0.2	6.1	-0.6	-0.8	0.0	4.0	2.8
1977	-29.2	-2.3	20.0	0.6	0.4	-4.0	17.3	2.1
1978	-31.1	0.5	25.1	3.6	-0.2	-3.0	24.6	2.7
1979	-27.6	-3.2	17.6	-0.3	-0.2	-7.3	1.8	2.4
1980	-24.6	-14.7	10.6	-14.9	1.9	2.9	2.1	5.9
1981	-27.3	-11.0	17.9	-9.2	6.6	6.1	19.9	3.6
1982	-31.8	-14.2	25.7	-6.6	7.4	3.7	18.2	13.4
	Seasonally adjusted							
1980:IV..	-4.4	-3.2	2.1	-3.8	0.3	2.7	2.9	1.7
1981: I..	-5.6	-2.7	1.6	-3.2	0.8	3.8	3.6	1.0
II..	-7.1	-1.7	4.2	-3.2	0.9	2.3	5.0	0.8
III..	-6.8	-1.7	4.5	-2.3	1.4	-0.3	6.6	0.4
IV..	-8.1	-3.3	6.5	-0.5	2.5	0.8	4.8	1.7
1982: I..	-6.5	-3.0	6.3	-2.6	2.6	0.4	4.3	2.5
II..	-4.4	-4.0	6.7	-1.3	2.0	0.2	5.5	3.5
III..	-10.5	-3.8	6.4	-2.0	1.2	1.0	5.1	3.5
IV..	-10.2	-2.8	6.1	-0.7	1.6	2.0	4.0	3.9
1983: I..	-8.1	-3.4	6.3	-1.3	2.0	-0.3	6.4	3.1
II..	-13.7	-1.7	5.2	-0.1	2.2	-1.0	8.1	3.6
III..	-16.3	-0.4	4.8	-1.3		-0.6	9.2	2.4
			Change from preceding year and quarter					
1978	-1.9	2.8	5.1	3.0	-0.6	1.0	7.3	0.6
1979	3.5	-3.7	-7.5	-3.9	0.0	-4.3	-22.8	-0.3
1980	3.0	-11.5	-7.0	-14.6	2.2	10.2	0.3	3.5
1981	-2.7	3.7	7.3	5.7	4.7	3.2	17.8	-2.3
1982	-4.5	-3.2	7.8	2.6	0.5	-2.4	-1.7	9.8
1981:IV..	-1.4	-1.6	2.0	1.8	1.1	1.1	-1.8	1.3
1982: I..	1.6	0.3	-0.2	-2.1	0.1	-0.4	-0.5	0.8
II..	2.1	-1.0	0.4	1.3	-0.6	-0.2	1.2	1.0
III..	-6.1	0.2	-0.3	-0.7	-0.8	0.8	-0.4	0.0
IV..	0.3	1.0	-0.3	1.3	0.4	1.0	-1.1	0.4
1983: I..	2.1	-0.6	0.2	-0.6	0.4	-2.3	2.4	-0.8
II..	-5.6	1.7	-1.1	1.2	0.2	-0.7	1.7	0.5
III..	-2.6	1.3	-0.4	-1.2		0.4	1.1	-1.2

Source: U.S. Department of Commerce, *International Economic Indicators*, IX, no. 4, December 1983.

mid-1950s, while U.S. exports of manufactured goods have increased at only 5.1% per year.

As a result of this slow expansion of U.S. manufactured exports, the preeminence of the U.S. in world trade has been steadily declining. The U.S. share of world exports of manufactures declined from 25% in 1955 to about 13.6% in 1977 before improving slightly to 15.5% in 1979. While the growth rate of U.S. manufactured exports is forecast to accelerate over the next 10 years, it is likely that the U.S. will experience a continuing decline in its market share of world exports in the next decade.

The expansion of exports cannot be accomplished by depending solely on private sector initiative or on U.S. governmental authorities alone because U.S. export weakness has stemmed at least as much from previous public policy as it has from private institutions.

Because the vast U.S. market provides great opportunities for exploitation by domestic producers at relatively low risk when compared to the foreign markets, the private sector has directed its marketing efforts toward this huge domestic market. The U.S. government has not given serious attention to export stimulation until recently. Only in 1978 did export stimulation become listed in the U.S. national goals. What is more, public policies have frequently obstructed instead of facilitated exports (Hartland-Thunberg, 1981, pp. 1–35). As a result, export growth will not be accomplished until the private and public sector join forces to create an effective export stimulation program.

Research Objective

Given these alarming problems, some key questions must be addressed. What has caused the failure of previous public policy toward export stimulation? What approaches can government and industry take to revitalize the export drive?

Much effort has been devoted by government to accelerate export expansion: export subsidies, export financing, insurance, tax incentives, and information supply. However, these measures have only had limited success. They have been applied without sufficient information or understanding of company export behavior. Governments have failed to analyze the nature of the export decision, the most influential determinants, and the productivity of different incentives and services. Lacking this information, export promotion efforts have had only limited success (Weil, 1978).

In order to develop an effective export promotion program, governments need to understand the factors that influence export operations and how these factors interact. Policy makers in particular have to understand the role of managerial motivation in export decisions as well as the problems that discourage or prevent them from entering or increasing their export operations. In addition, company managers need to learn how successful export operations are managed in order to assist in their decision to export or to improve their own export performance.

Researchers in the past have tended to ignore *behavioral factors* in explaining international trade behavior.

Product life-cycle theory, for example, was an early attempt to turn analytical attention to the firm level as the unit of analysis (Wells, 1972).

According to Reid, most of these studies have concentrated almost exclusively on identifying industry and other structural and contextual variables as determinants of export activities. These efforts have only been able to conclusively identify technology and product variables as important structural factors contributing to export entry into new foreign markets (Reid, 1980b).

These studies, however, have failed to provide explanations of why, at a point in time when all the criteria required for successful exporting are met, some firms will be exporting and others in the same industry will not. This failure stems from the tendency of conventional economic theory to ignore the behavioral dimensions of the firm, especially the role of the decision maker within the firm. Conventional economic theory assumes perfect rationality on the part of the decision maker (entrepreneur, firm). The firm will behave in a predictable way when confronted with specific environmental forces. It will act to optimize its position. When all the economic criteria required for exporting are met, firms will export.

However, observations of a dynamic market suggest that firms faced with the same set of market and environmental conditions nevertheless react differently. This is due to the principle Simon calls *bounded rationality* (Simon, 1974).

According to Simon, "Real behavior cannot be objectively rational (except perhaps by chance). Behavior in reality is affected by personal, social, and external factors. Man doesn't have the complete knowledge of all the alternative courses of action open to him or the outcomes of his decisions. . . . Uncertainty, therefore, affects his decision and blemishes his perceptions."

Because of bounded rationality, firms will react differently even though they face the same set of market and environmental conditions. Research has shown that although export stimuli play an important role forcing many firms to export, other firms in the same industry who are capable of exporting do not though they receive the same set of export stimuli (Simpson, 1973). This leads to the following critical question: Why do firms respond differently in their exporting behavior when faced with the same export stimuli?

Knowledge of those characteristics of decision makers which account for differences in the way firms react to export stimuli is critical to understanding the exporting process. This suggests the existence of decision maker's characteristics at the level of the firm contextual characteristics in export decision making. Stanley Reid (1980a) has suggested that although structural and contextual characteristics influence the potential for entering foreign trade, the actual response depends on several characteristics of the decision maker. According to his suggestion, "Irrespective of the number of individuals involved in the export decision process, the choice of a foreign market entry strategy is still dependent on the decision maker's perception of foreign markets, expectations concerning these markets, and perception of the firm's capability of entering these markets."

Despite the important role of the decision maker, the behavioral aspects which count most have still not been identified. Empirical studies have not systematically and exhaustively examined the internal factors that contribute to the motivation of individual firms to get involved in export operations. It is these internal factors that represent the driving forces and major source of international business activities.

The purpose of this research, therefore, is to identify and analyze the factors that influence decision makers in making export decisions. The research will emphasize the role of managerial motivation in the export decision process.

First, a conceptual model is presented to show how the firm and management's characteristics affect export decision behavior. Here, certain types of decision makers' behavioral variables are treated as mediating variables between those background variables and the export decision. This model represents an effort to identify and statistically test a number of managerial and firm characteristics which seem to influence a firm's export decision process. The focus is on the explanatory factors found within the firm level, rather than on the external determinants of export such as foreign exchange rates, inflation, stage of economic development, and so on.

The first part of this research attempts to explain why a firm decides to export, as a means of helping policy makers develop better export promotional programs. The second part of this study investigates the export operations of firms so that appropriate assistance can be provided to facilitate their export performances.

Research Justification

The contributions of this research will be twofold:

1. An improved understanding and insight into export decision behavior of the firm that will help the U.S. government adopt a more effective program to encourage export activities.

2. Improved knowledge of the practical export operations of firms, their problems, and the types of assistance needed.

It is hoped the findings will be useful to policy makers who need to develop effective export promotion programs and to firms that need to initiate export activities. Such findings can be applied to both developing and developed countries since the framework concentrates on micro-behavioral factors and avoids macro-level structural factors that are pertinent only to a particular country.

Organization of the Study

This chapter provides the background information explaining the importance of the problem and the research purpose and approach. Chapter 2 provides a comprehensive review and assessment of existing literature in an attempt to develop a conceptual model. Chapter 3 presents several hypotheses drawn from the conceptual model. Chapter 4 describes the research design and methodology. Data analysis is done in chapter 5. Chapter 6 is devoted to the investigation of export strategies undertaken by current U.S. exporters, and policy implication and recommendations are presented in chapter 7.

2

Literature Review

Most previous studies have tended to compare the characteristics of firms that export with those that do not in explaining exporting behavior of the firm. Yet, very few theoretical models have been developed that utilize the previous empirical findings to explain the exporting behavior of the firm (Bilkey, 1978).

The literature review in this chapter will focus only on the "behavioral" side of international trade theory, namely the firm's decision to export. These studies are organized into categories of research findings.

Export Stimuli

Earlier studies of export stimuli suggested a variety of potential internal and external stimuli which influence a firm's decision to export. Simpson (1973), in his study of small- and medium-sized manufacturing firms in Tennessee, examined these internal and external stimuli. The most important export stimulus was the export order from foreign customers. He also found significant differences between exporting and nonexporting firms in terms of management attitudes toward exporting. Management in exporting firms has more favorable attitudes toward export activities and more interest in foreign market opportunities.

Within the set of external stimuli, the firm's environment has been found to be an important factor stimulating export (Pinney, 1970; Tesar, 1975; Pavord and Bogart, 1975; Joynt, 1979; Naor, 1980). Tesar studied small- and medium-sized manufacturing firms in Wisconsin and reported that export performances of competing firms played an important role in stimulating a firm to engage in export activities. In addition, unsolicited export orders from foreign firms or foreign exporters also had a positive effect on a firm's decision to export. The importance of export stimuli, especially unsolicited export orders from foreign customers, has been confirmed in other studies as well (Simmonds and Smith, 1968; Simpson and Kujawa, 1974; Pavord and Bogart, 1975). Reid (1980b), however,