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Initiating exporting: The role of managerial motivation in small to medium enterprises

Andy Wood [a,*], Cyril M. Logar [b,1], William B. Riley Jr. [b,2]

[a] College of Business, James Madison University, MSC 0205, Zane Showker Hall, Room 535, Harrisonburg, VA 22807, United States
[b] West Virginia University, College of Business and Economics, P.O. Box 6025, Morgantown, WV 26506, United States

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ABSTRACT

The initiation and continuation of exporting activities of small to medium businesses continue to lag expectations. Assistance in the form of subsidies and financial resources does not seem to spur the initiation of exporting. Using observations of the exporting activities of small to medium companies as the dependent variable, this research examines managerial motivations behind initiating exporting activities. Using the theoretical lens of expectancy theory, this research examines and tests several antecedents to initiation of exporting in a structural equation model. Outcomes suggest that expectancy and valence influence the initiation of exporting. International market orientation, resource availability, and affinity to internationalization all influence the components of motivation.

1. Introduction

During the past five years, exports accounted for nearly 30% of the U.S. economic growth (Commerce, 2014). In 2011, exporting accounted for 13.8% of the nation's GDP and in 2013, 11.3 million U.S. jobs were supported by U.S. total exports (Commerce, 2014). A follow-up study by the same office found U.S. companies that export not only grow faster, but also are nearly 8.5% less likely to go out of business than non-exporting companies. Findings such as these have led to decades of effort by politicians, policy makers, and researchers in the United States to increase the number of exporting companies.

Despite governmental efforts and despite the potential financial rewards from exporting, less than one percent of America's companies export (Export.Gov, 2012). Of that one percent, small and medium-sized companies account for 98% of those companies and of that group 58% export to only one country. Therefore, attention is increasingly focusing on small and medium enterprises (SMEs). In 2002, a study of U.S. exporters found that 60% of small companies in the survey derived 20% of annual earnings from exports, while 44% of the medium-sized companies did (Commerce, 2011).

However, the following questions remain. Why are more companies not exporting? And why are more companies not exporting to more than one country?

Research spanning thirty years suggests that two key components to the successful initiation of exporting are sufficient resources and management engagement (Kenny, Kashy, & Cook, 2006). However, most of the academic literature and governmental efforts have concentrated on mitigating resource impediments. These efforts range from increasing familiarity with custom regulations, to promoting innovation of product differentials, to actively negotiating reductions in trade and tariff barriers. More recently, these stimulus efforts aimed at resource barrier reductions have been extended to include small and medium enterprises (SMEs) (Leonidou, 2004; Moini, 1998). In the United States, the Department of Commerce, the Small Business Administration and the EX-IM Bank have all introduced programs and plans to increase the involvement of SMEs in exporting (Export.Gov, 2012).

Despite the breadth of governmental efforts or the depth of research effort, the number of small or medium size companies exporting continues to lag expectations with several studies suggesting that only one percent of U.S. companies are actively engaged in exporting (Commerce, 2010; Staff CNN Wire, 2010). We suggest, as was expressed over 40 years ago, that in the absence of a motivated internal change agent or condition, the removal of internal and external barriers is not a sufficient approach to stimulating export activities (Becker, 1989). Rather the initiation of exporting is in line with research that supports managerial motivation as an essential element in organizational investment in new business behaviors and activities (Alessandri and Pattit, 2014). Encountering barriers or impediments does not begin until contemplation of the new set of actions associated with initiating exporting begins. In this lens of considering the start of exporting as new behavior that is different from the existent condition, it seems that a prominent impetus is the motivation of management.

* Corresponding author. Tel.: +1 540 568 2332.
E-mail addresses: wood3ja@jmu.edu (A. Wood), Cyril.Logar@mail.wvu.edu (C.M. Logar), William.Riley@mail.wvu.edu (W.B. Riley).
[1] Tel.: +1 304 293 7956.
[2] Tel.: +1 304 293 7885.

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In this paper, we expand on this suggestion that management's motivation to export is the force behind the initiation of these new exporting activities. We embrace the view of motivation as "the process of instigating and sustaining goal-directed behavior" (Schunk, 2000). Further, it is likely that the strength behind this effort relates to the value management attaches to initiating export activities. While there may be some minor disagreement about the conceptualization and measurement of management's export effort, the necessity of management's motivation to export as a precursor to export success seems clear.

However, the literature on managerial motivations to export seems to have a three-fold gap. First, there is ambiguity about the relationships between pre-exporting attitudes and the motivation to begin exporting. Second, there is not a clear theoretical foundation explaining why motivated management leads to improved performance in the export context. Finally, there is a paucity of empirical evidence showing that motivated managers actually move a non-exporting firm to an exporting firm.

This study provides some insight into closing these gaps. Using data gathered from over ten years of programmatic interaction with small to medium enterprises (SMEs) that initiated exporting, this research defines managerial motivation to export, positions motivation to export within expectancy theory, and examines the objective export performance of 188 observations of 47 small to medium companies that engaged in a program designed to increase export activity. The paper begins with the review of the literature on initiating exporting, followed by an examination of motivation theory and its application to exporting, and then a presentation of the outcomes. The study concludes with recommendations based on the findings and cautions based on the limitations of the study.

2. Conceptual background

Exporting companies grow more quickly than non-exporting companies, have higher profit margins than non-exporting companies, pay higher wages than non-exporting companies and are more stable than purely domestic companies (Riker and Thurner 2011; Slaughter, 2013). Expanding exports is simply a matter of survival for many small companies. However, with over 95% of the world market outside the United States, many purely domestic companies are reaching the saturation point in sales. Leading many to believe increasing sales from whatever source is essential to growth and survival.

From a macro-economic perspective, exports create jobs and job creation through exports has been a major policy initiative of recent administrations (Commerce, 2014). Six thousand two hundred fifty (6250) jobs are created for every billion dollar of exports (Export.Gov, 2012). This initiative involves removing barriers to trade and creating an environment that is conducive to international trade, i.e., helping small companies overcome real or perceived obstacles to exporting.

Historically, the initiation of exporting has been conceptualized as an outcome of a phased process where the firm's incremental exposure, participation, and success in idiosyncratic exporting develop managerial motivation to initiate planned exporting activities (Johanson & Vahlne, 1977). In this framework, managerial motivation to export is not an antecedent construct but rather an intermediate variable or an outcome influenced by internal and external factors specific to that firm (Kenny et al., 2006; Reid, 1981). These conceptualizations contribute to the extensive research on structural organizational factors that promote or hinder exporting for large, medium, and small firms (Bailey, 1975; Leonidou, 1998). The managerial implication of this paradigm suggests that creating an appropriate internal and external environment that is rich in resources will move the firm to being receptive to exporting. Then when a prompt such as an unsolicited foreign order or a valued domestic customer making an international move (Chetty & Cambpell-Hunt, 2003; Leonidou, 1995) occurs, the organization initiates exporting and if successful the firm will begin a cycle that leads management to initiate planned exporting. This framework does little to explain managerial decision-making prior to selecting exporting as an organizational goal. Nor does the low participation of U.S. based firms in exporting seem to provide much support for the framework.

Based on these mixed results, this research on identifying and developing a positive environment for exporting has branched into investigations of external macro-economic barriers to exporting and studies about internal obstacles firms encounter when contemplating exporting (Cavusgil & Yeoh, 1994; Morgan & Katsikeas, 1998). This line of research also reaches the conclusion that internal factors related to exporting are resource based. Assessments of the resources available have helped to determine export readiness of the firm (Freeman & Cavusgil, 2007). Hindrances to the export readiness of SME firms have included informational barriers and functional barriers such a limited human, production, and/or financial resources (Bailey, 1975). Overcoming or alleviating these obstacles is a suggested strategy for increasing export intentions and success (Morgan & Katsikeas, 1997, 1998).

However, even if possible, removing all structural barriers, as previously noted, does not seem sufficient to induce organizations to export. The findings that productive environments do not highly correlate with the initiation of exporting have led some researchers to add managerial resources such as time, knowledge, and skills to the assessment of organizational readiness to export (Jaffe & Pasternak, 1994). These authors also suggest that positive managerial attitudes toward exporting play a role in initiation and success in exporting (Morgan & Katsikeas, 1997). However, others note that the link toward positive attitudes toward exporting and actual export behavior is tenuous at best (Eshghi, 1992). This inconsistency between attitude and behavior could be, as pointed out by Tan, Brewer, and Liesch (2007), the result of the circular conceptualization of the phased internationalization models, which posit that successful exporting needs motivated management and success in exporting motivates management.

A more fundamental conceptual reason may underlie the inconsistent results between export initiation and managerial export motivation. We suggest that while commitment to exporting once a company has engaged in the activity may be a salient construct in ongoing exporting, that expectancy theory (Atkinson, 1957; Atkinson & Birch, 1978; Vroom, 1964) with its focus on explaining risk-taking, embracement of new behaviors, and specific goal setting can provide important insights into motivation to initiate exporting. Recent research about Chinese SMEs suggests that managements proactive orientation toward initiating exporting is strongly correlated with the speed of initial exporting behaviors and the subsequent number of international markets (Ciravegna, Majano, and Zhan, 2014). These results align the expectancy paradigm that motivation is a force to propel people and organizations to action (Behling, Dillard, and Gifford 1979).

Expectancy theory is particularly relevant when individuals or organizations are learning about new behaviors needed to achieve goals. The theory encapsulates both the decision-makers' processes in assessing the attainability of the goal and the behaviors associated with goal attainment (Schunk, 2000). Framed within expectancy theory, the motivation to act on the export goal would be a function of expectancy, instrumentality, and valence. The theory suggests that management's decision to export needs a positive managerial attitude that the efforts of the firm will influence exporting outcomes (expectancy), management must think that initiating exporting will enhance organizational goals (instrumentality), and management must prefer the increased performance outcomes obtained by exporting (valence). It seems likely that some of the inconsistencies reported in previous research between managerial motivation and export performance may have resulted from a lack of one or more of these components of motivation.

It appears that it is common to find one of the components of motivation missing across a variety of research contexts. A 1996 meta-analysis found that out of the 77 studies reviewed less than 10% (7) included all three components and no study incorporated them simultaneously and independently into a model of behavior (Van Eerde & Thierry, 1996). Examining all three components of the expectancy theory of motivation helps fill the critical gap in the