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## The effect of intangible resources and competitive strategies on the export performance of small and medium sized enterprises

Ömer Kumlu<sup>a</sup>

<sup>a</sup> *Yeditepe University, Istanbul, Turkey*

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### Abstract

This paper provides an explanation for export process and perceived export performance of Small and Medium Sized Enterprises (SMEs) from Resource-Based View (RBV) which is an important, emerging theory of firm heterogeneity. Following the philosophy of RBV, the author has developed a research model explaining how SMEs improve their Perceived Export Performance (PER) via the integrated application of firms' Intangible Resources (IR) and Competitive Export Strategies (CES) where both IR and CES are assumed to be most effective means of improving PER. To explore their effects on PER, a mail survey was conducted with 1415 companies from Metal, Textile, Chemical and Furniture industry from Turkey. And 271 responses have been received for further analysis. Regression and Correlation analysis were used to test the hypotheses and to reach the final relationship equation. The results indicated that there is a positive relationship between all IR, CES and PER. We found that combination of IR and CES make more contribution than individual IR and CES on PER. Also our results showed that combination of competitive export strategies makes more contribution than individual strategies on export performance. Additionally, it is found that the effect of IR makes more contribution than CES on PER. In the final model equation the biggest contributions on PER comes from "Export Committed Experience" and "Export Customer Orientation" variables. And the contribution of "Quality Focus" comes out to be negative in the final equation. This paper has important contributions to the literature as it brings an additional step for the theory development on the export process of SMEs. Additionally it is very helpful for the SMEs which are looking for better export results; they should pay particular attention on developing these intangible resources to reach desired export performance. Also, the results will provide useful hints for government export offices, which are encouraging their SMEs to involve in international business.

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### 1. Introduction

The world has been facing many dramatic changes within the last few decades. Previously closed foreign markets have opened, liberalization of trading systems has increased, much regional economic integration have been developed, due to the advances in transportation, information and communication technologies, the connectedness with customers and marketing partners has increased and improved (Keegan and Green 2005). Because of all these transformations many companies face with fierce global competition which in turn strongly affect all firms' activities and pressed them to compete in international markets. Despite these dramatic transformations in the international marketplace, a large number of Small and Medium Sized Enterprises (SMEs) are not yet represented in the international economy as much as large firms are (Fujita, 1998). However, the global competition is an inescapable reality for those SMEs who traditionally have a small financial base, a domestic focus and a limited geographic scope or stayed within their national boundaries (Barringer and Greening, 1998; Pleitner, 1997). Exporting has become an increasingly popular strategy for SMEs as spreading business risks across different markets, generating more revenues and providing a better profit base for shareholders (Keegan and Green 2005; Terpstra and Sarathy 2000). Therefore many studies have

\* Corresponding author. Tel. + 90-532-396-9427 fax. +90-352-322-1613

Email address: [omerkumlu@hotmail.com](mailto:omerkumlu@hotmail.com)

been conducted about export performances of SMEs. Gemunden (1991) noted that there are over 700 explanatory variables that have been advanced in the literature as determinants of export performance. Some examples to those variables are; firm characteristics (e.g. firm size, management characteristics and ideology), firm competencies (e.g. management skills, labour skills and production) and marketing strategy variables (e.g. market research, promotion and distribution). Some authors like Aaby and Slater (1989), Styles and Ambler (1994), Leonidou (1994) and etc. consolidated the growing body of those researches, and have come to a general agreement that firm resources and export marketing strategies are the most important two determinants of export performance. In this paper we studied the relationship between these three constructs.

## 2. Literature Review and Hypothesis

### 2.1. *The Resource Based View (RBV)*

The origins of the resource-based view (RBV) can be traced back to Penrose (1959) who points to the fact that a firm is a collection of physical, human and intangible resources, which are deployed by administrative decisions. RBV defines organization as a collection of unique resources and capabilities which provide the basis for its competitive strategies which in turn define about the performance of the firm. According to classical strategy models like Porter's (1980) Five Forces Model, it is argued that firm's performance depends critically on the characteristics of the industry environment in which it competes, on the contrary to this classical view, RBV adopts the [http://www.1000ventures.com/products/bec\\_mc\\_market\\_leaders.html](http://www.1000ventures.com/products/bec_mc_market_leaders.html) view that; differences in firms' performances are driven primarily by their unique resources and capabilities rather than by an industry's structural characteristics. Most of these classical strategy models do not attempt to look inside the company and do not consider the internal factors of the firms. These paradigms cannot answer the question of "why different firms in the same industry perform differently?" Many empirical researches found performance differences, between firms in the same industry (Cubbin 1988; Hansen and Wernerfelt 1989; Cool and Schendel 1988; Lewis and Thomas 1990). Further, it has been observed that some firms perform badly in attractive industries while other firms do well in declining industries. Notably, the RBV emerged very much as a critical response to these criticisms. It directed attention on firm-specific resources and its implications for firm performance (Conner, 1991; Rumelt, 1984). Management literature highlighted examples and cases of where companies with particular skills and capabilities were able to out-perform their rivals (Coyne 1986; Ghemawat 1986; Grant 1991; Hall 1989; and Williams 1992). Firm resources are the stocks of available tangible or intangible factors and they are inputs into a firm's production process, such as capital, equipment, the skills of individual employees, patents, finance, capabilities, organizational processes, firm attributes, knowledge, talented managers and etc that are controlled by the firm that enable the firm to design and apply value-enhancing strategies and improve its efficiency (Penrose, 1959; Daft, 1983). In practice the RBV pushes firm's management to deal with an important task of identifying, developing and deploying key resources to maximise returns.

### 2.2. *Intangible Resources and Exporting of SMEs*

Inadequacy of resources for exporting may become internal export barriers intrinsic to the firm (Collis, 1991; Tallman, 1991). For example; problems regarding to meeting export market quality standards and establishing the suitable design and image for the export market (Kaynak and Kothatri, 1984); insufficient information about export markets (Lefebvre and Lefebvre, 2001); poor organisation of export departments and non-qualified personnel to administer exporting activities (Yang et al., 1992); constitute internal issues that influence export performance. Possession of these resources enables an exporter to identify opportunities in the export market, develop appropriate export marketing strategy and execute it effectively to yield better export performance. Small and medium-sized enterprises (SMEs) are often constrained by scarce financial, managerial, and technological resources, lack of established brands and innovative products (Aulakh et al, 2000) lack of the experience, skills, and knowledge needed on international markets (Bell, Murray, and Madden, 1992; Dhanaraj, Beamish 2003). It is evident that these limited resources seem to frustrate the efforts of SMEs to export (Buckley, 1989; Fujita, 1998). There are many types of resources have appeared in the literature and small firms may face difficulties to identify the critical resources needed for exporting (Barney, 1991). For example Grant (1995) classified resources into three types, they are Financial Resources (e.g., firms borrowing capacity), Intangible Resources (e.g., brand names), and Tangible Resources (e.g., physical plant capacity). Elango (2000) expands it, to include: intangible, physical, financial, operational, and economic resources possessed by the firm. In many studies it is approved that; intangible resources and capabilities have the advantage creating characteristics (e.g. Hall, 1993; Barney and Wright, 1998; Smart and Wolfe, 2000). Similarly Clulow, Barry, Gerstman (2003), found that intangible assets (client trust, reputation, networks and intellectual property) and capabilities (knowledge, organizational culture, skills and experience) were very valuable as they are developed over time, unique to the company and so complex resources resulting in inimitability therefore it represents competitive advantage for a firm (Prahalad and Hamel, 1990). Due to the discussion above in this paper we selected Intangible Resources and Capabilities to analyse the export performance of SMEs. As the name implies

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