Chapter 1
Introduction
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1. INTRODUCTION

This chapter gives a brief introduction to the research background, the research statement, its objectives and finally organization of the thesis.

1.1 Background to the study

India’s economy is currently booming and more and more Indian companies start to expand their activities into foreign markets. One of the most important trends for business leaders to recognize is the growth potential of the big emerging markets (BEMs) identified by the U.S. Department of Commerce as: Argentina, Brazil, China, India, Indonesia, Mexico, Poland, South Korea, and Turkey (Silvers, 1998). Furthermore, the Commerce Department's expectation that the big emerging markets will account for 27% of the world's total imports by 2010 implies that there may be a ray of hope and opportunity of growth for both the investors and the BEM countries. Today, firms are internationalizing in greater numbers than ever before and they also do it faster than before. According to current news paper articles and studies of international organizations, such as Goldman and Sachs and the World Bank, not only developed nations are players in the run of global presence but also developing countries, such as the BRIC Nations - Brazil, Russia, India, and China, want to get a slice of the cake. India is already fully integrated in the game as its foreign direct investment (FDI) outflows in 2008 were almost four times higher than those of 2007 (see figure 1).
Figure 1 - FDI Outflows 2007-2008 of South, East, and South-East Asia


Figure 2: FDI outflows are expected to double over the next 5 years with a CAGR of 16.7%

Source: Country data

- Projected figure
- Actual Figure
India is an interesting BEM country to study because it is at the same time a developing and a developed country. According to the Free Dictionary.com, developing nations are, in general, countries that have not achieved a significant degree of industrialization. In contrast, developed nations are those that have achieved (currently or historically) a high degree of industrialization. Along those same lines, World Factbook considers India to be a developing nation and inching towards developed nation. However, India presents a set of features, which altogether tend to make it a special place and the Asian exception (Richmond and Gestrin, 1998) that does not fit well into any International Monetary Fund's (IMF) development characterization (Hofmeyr et al., 1994). In fact, the IMF’s list of advanced economies does not consider India to be a developed nation. Keeping all of this in mind, India offers an attractive climate for foreign investors. It not only has a substantial market with significant growth potential but it also has an economy that
has moved steadily toward market orientation. In addition, India offers access to other markets in Asia, well-developed financial institutions and capital markets, excellent communication and transport links, liberal reparation of profits and other earnings, the availability of inexpensive electrical power and raw materials, and lower labor costs compared to Western industrialized countries and trend of FDI outflows next 5 years/last 5 years are also encouraging (see figure 2 & 3). Manufacturing has seen a consistent growth over the last five years. This has especially been driven by sectors such as automotive components and machine tools which are export oriented and acquire firms for access to technology and clients, especially in markets such as Europe where client contracts are long term and it is otherwise difficult to get access.

Clearly, foreign investors should investigate all aspects of India business climate. However, lower labor costs coupled with lower productivity is one aspect of the Indian business climate that may need more immediate investigation. In general, companies in more developing nations tend to increase productivity. Thus, when companies produce more goods and services with fewer hours of work, labor costs are also restrained (Hilsenrath, 2004). This seems to suggest that foreign investors should consider India low labor costs as one aspect of an attractive climate but the India business community may need to do more to increase productivity. According to an article in The Economist (2009), "there is a good chance that Europe could deliver some pleasant surprises, with faster growth in labor productivity as current structural reforms bear fruit." For example, some big German firms have won agreement from unions to work longer hours to reduce labor costs. In addition, Olivier Blanchard, an economist at the Massachusetts Institute of Technology, points to several industry-level studies, which show that European labor productivity growth has already picked up. For instance, labor productivity in the French car
industry rose from 55 percent of the American levels in 1990 to 85 percent in 2009, thanks, in part, to increased competition and better management. Productivity growth is not only an important indicator of an economy's health, but it also drives real incomes, inflation, interest rates, and profits (The Economist, 2009).

It seems that since productivity growth drives profits and good management has been identified as one factor that may be helpful in the growth of productivity, perhaps, foreign investors need to know more about India business behavior before they commit to invest.

1.2 Indian Business Environment

Small & Medium Enterprises (SMEs) play a major role in global economic growth in terms of their contribution to industrial employment, output, and exports. SMEs occupy a place of strategic importance in the Indian economy as well. However, since the early 1990s, Indian SMEs have been exposed to intense competition due to the accelerated process of globalization. Briefly, the theory to link economic growth and export growth emerged in the 1970s from a consensus of neoclassical economist. The theory soon evolved into a "new conventional wisdom" (Tyler, 1981). An important strand of export-led growth research, which was used to test the positive impact of export performance on economic growth, consisted of production-type models in which exports were included as an additional factor of production (Yaghmaian and Ghorashi, 1995). The importance of the export sector has been highlighted for several reasons. First, this sector serves as a vehicle for technology transfer through the importation of capital goods, as elucidated by Bardhan and Lewis (1970), Chen (1979), and Khang (1987). Second, by enhancing the capacity to service external debt and thus by improving creditworthiness,
the expansion of the export sector induces higher flows of foreign credit that makes an even higher rate of investment obtainable. Also, the transfer of efficient foreign technologies and the availability of foreign exchange have been featured prominently in recent experiences of economic development. Third, countries with superior export performance generally show superior growth performance, as documented by Balassa (1978), Krueger (1978), and Bhagwati and Srinivason (1979). In addition, the globalization of the business environment in recent years has made it imperative for firms to look for foreign market opportunities in order to gain and sustain competitive advantage (Aulakh et al., 2000).

Since the implementation of the open policy in 1991, India has been one of the largest economies around the world. In recent years, foreign trade has significantly increased in India, in which the manufacturing industry has played an important role. The national proportion of export of manufacturing products reached about 67 percent in 2009. Abilities of the manufacturing industry to export a high proportion of its sales abroad are an indication of competitiveness at a national as well as a regional level. With the increasing competition among local and foreign companies over the last decade, Indian manufacturing firms have to seek foreign markets. Additionally, many scholars, business experts, and governmental agencies in India enthusiastically advised the Indian manufacturing firms to go internationalization. Obviously, the internationalization process is a challenge for most Indian small and medium sized manufacturing firms. Some manufacturing firms that go internationalization have begun the process of adapting to the international marketing environment. As young firms venture into foreign markets, they have to face uncertainty and risks which entail a process of learning and adaptation.
Moreover, export marketing has become an area of growing interest in the field of international business. Firms in developed and emerging market countries find exporting an attractive way of entering foreign markets because not only is exporting a means to increase economic growth but also it is a less risky form of international involvement, which requires less commitment of company resources than joint ventures or direct investment. At the macro level, attracting more firms into exporting has been agreed to be one way to reduce unemployment faced by many countries. In this pursuit to increase employment, some governments have developed export promotion and assistance programs and are involved in the implementation of policies for the encouragement of exports.

1.3 Statement of the Problem

Though many Indian small and medium sized export oriented manufacturing firms have been actively exporting, it is recognized that there are still large numbers of export - capable firms that do not get involved in export marketing. Numerous corrective measures have been undertaken by the Indian government to encourage exports. In addition, academicians have also conducted many studies in an attempt to explain the stimuli for exporting. Thus the major problem faced by both managers and government policy makers involves a determination of the factors that have led to success in export market entry decision making.

The focus of one group of existing studies is the examination of the internal and external determinants of exporting within U.S. firms(e.g.,Cavusgil,1984b;Reid,1983). Various managerial and organizational influences on export market entry decision-making and characteristics of exporting firms were examined. According to Nguyen (2000), for example, Cavusgil and Nevin
(1981) studied the internal determinants of the firm's export marketing performance and they suggested that export marketing behavior is explainable by four groups of internal determinants: (1) differential firm advantage, (2) managerial aspirations, (3) management expectations about exporting, (4) resource allocation to export marketing. Whereas, other existing studies (e.g. Wiedersheim-Paul, Olson, & Welch, 1978) have concentrated on the elements and structure of the export decision in the form of complex decision-making models. In these studies, it is generally agreed that export marketing is a developmental process by which firms increase their involvement in international activities, particularly in export (Pak, 1991).

Dichtl et al. (1984) have addressed several issues in existing research studies conducting empirical research in the export market entry decision-making area. He commonly pointed out the limitations in research design, one of which is the problem of restricted sample size. Because of this limitation related to research design, previous conclusions can be regarded as tentative.

Data collected in a specific regional area or a specific industry area encounter problems of representatives of the whole population. Firms in a different location and/or industry may differ in terms of their export activities and management's international orientation, aspirations expectations, and perception of the business environment (Barrett and Wilkinson, 1986). Therefore, in order to better understand the export behavior of firms, more empirical research on a national or even international survey level is required. This study uses the alternative framework of many International market entry mode particularly in export sector adopted by various researchers and to incorporate environmental factors as well as internal factors in investigating the export behavior of existing exporting firms. Existing research study
combined the key variables involved in the export decision process by including (1) Managerial characteristics (2) Organizational characteristics, and (3) Environmental factors. While the study provides some guidance in the research into the interactive effects of the firm's internal and external environment, it fails to consider the methodological problem of restricted sample size addressed earlier. Nguyen's study responded to the problem of generalizability by expanding the framework to another nation on another continent. This study further builds on the literature by researching Indian export-oriented manufacturing firms to better understand the export behavior of the firms.

The work of existing research is not only limited because it overlooks the importance of environmental factors but also because it is limited in geographical scope. The environmental factors are important because they describe the general situational circumstances underlying the export market entry decision, and hence deal with uncertainty, dynamism, and competitive intensity in both the domestic and foreign markets. The failure to include all possible influences on the export decision provides either piecemeal or a partial analysis of export behavior. Relating to the limited geographical scope, it seems that most of the existing studies are based on U.S. firms. Even though Nguyen (2000), for example, conducted a study based on the small and medium-sized exporting firms in Germany, there has not been any extensive study of export oriented manufacturing firms in India. Thus, it suggests that the conclusions of some existing studies could be regarded as tentative. If the effect of the firm's internal and external factors is important to both corporate planners and government officers, then a more comprehensive model of export market entry decision making of existing exporting firms along with appropriate methodologies needs to be examined. Closely related to this,
another issue of increasing interest has lately emerged in the international business literature, and has yet received very little attention: the potential influence of certain dimensions of export performance on other export performance dimensions. Scholars have argued that no attempt has been made to examine the relationship between objective and subjective export performance measures (Katsikeas et al., 2000) and have recently highlighted that future research should consider the possibility that some dimensions of export performance may act as determinants for some other export performance dimensions (Diamantopoulos & Kakkos, 2007). Subsequently, there is a clear need for a comprehensive framework within which different factors can be placed and relationships between them analyzed.

1.4 Objectives of the Study

The general objective of this study is to understand how small and medium sized manufacturing firms in India decide to expand exporting activities. It is designed to develop an integrated framework to examine the influence of internal and external factors on the ongoing export market entry decision process of Indian small and medium sized firms. As its main focus, the study seeks empirical identification of factors underlying the successful export market entry decision process in India. It considers export marketing behavior and condenses this process into a set of factors that represent the export market entry decision making behavior of existing exporting firms. In developing this area in more depth, the following research questions are adapted as follows:
1. What is the nature of the situation relative to export market entry decision process within the India firm? Can this decision-making process be divided into developmental processes?

2. What managerial characteristics are associated with the attractiveness of exporting in India? What types of personal characteristics are important in determining whether to continue or expand the export market entry decision making activities?

3. How do organizational characteristics affect a firm's ongoing export market entry decision in India? Especially, which of the comparative advantages that a firm possesses over competitors are critical in ongoing export market entry behavior?

4. How do the environmental factors affect the export market entry decision process of existing Indian small and medium sized exporting firms? How strongly do domestic and foreign market environment factors impede or accelerate the export market entry decision making process?

In line with above Research questions, the Research objectives stated as follows:

1. To study the impact of decision maker characteristics on export market entry decision making process.

2. To study the impact of differential firm advantage on export market entry decision making process.

3. To study the impact of domestic market environment on export market entry decision making process.

4. To study the impact of foreign market environment on export market entry decision making process.

5. To study the impact of export attractiveness, organizational commitment on export market entry decision making process.
1.5 Contributions of the Study

This study seeks to add to the growing body of empirical research that focuses on the export market entry decision making activity of export-oriented small and medium sized manufacturing firms. The literature on this subject has grown over the past five decades and would be important for both the research on and practice of exporting. Tesar and Tarleton (1982) point out, however, that a great deal of additional empirical research is needed before small and medium sized manufacturing firms can be effectively stimulated through both government and private sector policy measures, to become more actively involved in exporting.

Most studies investigate export marketing from the perspective of the U.S. without much consideration for the impact that such exports have on other countries. Nguyen's (2000) study of firms in Germany was one example of a departure from that perspective. This study further makes a departure from that perspective and views export marketing as seen by persons from Indian decision making firm’s, because of the different methods in which India, the U.S., and Germany operate. In this respect, some of the economic relationships found in the U.S. or Germany may not hold true in India. Thus studies conducted in the U.S. or Germany may not accurately reflect the environmental factors faced by firms in India.

The results of this study would also be important for activities related to the actual practice of exporting, especially to exporters themselves and to agencies that have a role in increasing the export market entry decision making activity of firms. Both actual and would be exporters could benefit from an improved awareness of factors that act to facilitate export entry decision making. Change agents interested in increasing the level of exporting would also find the results to be
useful. If more were known about the export market entry decision-making process, then governmental export expansion policies might be better focused.

This study is based on Resource based view (RBV) aimed at improving our knowledge about the Indian small and medium sized manufacturing firm’s export market entry decision making process. Therefore theory would be of value to government change agents. Private change agents would also be interested since their livelihood depends on being able to improve their clients' decisions. One of the dominant theoretical perspectives in the business strategy literature, the Resource Based View (RBV), is lately gaining momentum in international business (Fahy, 2002), becoming a burgeoning approach, with contributions from a wide variety of authors and institutions around the world (Peng, 2001). The pivotal role played by the RBV in explaining international business activities has been also highlighted by Eclectic Paradigm (Dunning, 2000). The appropriateness and explanatory power of the RBV for the study of the export performance of the firm as well as its increasing employment in international business research have been confirmed by numerous scholars (Dhanaraj & Beamish, 2003; Ibeh & Wheeler, 2005).

According to the RBV, firm resources are sources of competitive advantage. Competitive advantage is defined by Barney (1991, p. 102), as occurring when a firm “is implementing a value creating strategy not simultaneously being implemented by any current or potential competitors”. This author also highlights that sources of sustained competitive advantage are firm’s resources which are valuable, rare, imperfectly imitable and non-substitutable. In this sense, an important implication of the RBV is that a broad range of individual, social and organisational phenomena within the firms might be sources of sustained competitive advantage.
These advantages are expected to originate from, or create barriers to entry for factor, or intermediate, product markets by enterprises not possessing them (Dunning, 2000). Firms can be conceptualised under the RBV as “unique bundles of accumulated tangible and intangible resources stocks” (Roth, 1995, p. 200). Bloodgood, Sapienza, and Almeida (1996) further build on this idea arguing that those firms which present unique bundles and combinations of resource stocks might have a higher proclivity towards internationalisation. Similarly, Hitt, Bierman, Uhlenbruck, and Shimizu (2006) suggest that in order to be successful, businesses ought to have the appropriate resources for international expansion. It is noteworthy mentioning that although the RBV suggests that the main determinants of firm’s export performance are the organisational resources, this does not imply the lack of regard to the external environment as access to market and relational resources constitute a key complement of the RBV approach (Ibeh & Wheeler, 2005).

Nevertheless, it is of high relevance to acknowledge that firm’s resources need to be managed effectively for obtaining a competitive advantage (Chandler & Hanks, 1994; Sirmon, Hitt, & Ireland, 2007), especially as smaller firms face specific resource constraints (e.g., Bell, Crick, & Young, 2004; Bonaccorsi, 1992; Etemad, 1999). The role played by the manager(s) in the typical SME becomes of utmost importance, as decision making and consequently firm’s activities and commitment to exporting are likely to be determined by one individual or a small management team (Boter & Holmquist, 1996). On the other hand, human capital or personal factors may help overcome inadequacies in resources stocks, and therefore, constitute a potential source of differential advantage for the internationalised small firm. Furthermore, managers can play a crucial role in creating a fit between the firm and its environment (Chandler & Hanks, 1994). The achievement of an appropriate match between environment and firm strategy has a positive
impact on performance (Venkatraman & Prescott, 1990). Thus, drawing on the RBV insight, company managers may represent some of the most valuable, unique and difficult to imitate resources (Peng, 2001).

In summary, in light of the above mentioned, the present study relies on the RBV for providing theoretical underpinning in order to explain the export market entry decision making performance phenomenon in Indian SMEs.
1.6 Organization of the Study

The organization of this study is as follows.

Chapter 1 describes the general research area, familiarizes the reader with the main problem, gives a description of the objectives and potential contributions of the study.

Chapter 2 consists of a review of the specific literature on the internal and external determinants of export marketing behavior and export decision-making process models.

Chapter 3, the export decision model for this study is proposed, a number of testable hypotheses and the rationales behind their development are also provided.

The research methods are developed in Chapter 4 and the data collection procedures, and statistical testing of the hypotheses are presented.

Chapter 5 discusses the results, the managerial and public policy implications, and the potential future research areas.