Managerial Perceptions of
Main Export Performance Outcomes
in an European Context

ABSTRACT

With the exception of the work of Lages and colleagues, the international marketing literature has been examining performance exclusively as a dependent variable. This exploratory study, builds on this emerging body of literature to discuss the main outcomes of performance, as it is expressed through the perceptions of European export managers. According to the results of a cross-national study of Portuguese and British exporting firms, this paper indicates that the main consequences of previous performance results are: a) need to seek performance improvement as a result of bad performance, b) maintain strategy as a result of good performance, c) market diversification, d) more worry with macro factors, e) focus on competition, f) product diversification, g) more worry with micro factors, and h) quality. Future international marketing research is encouraged to investigate performance as an independent variable.

Keywords: **Export Performance Effects; Performance Independent Variable; Portugal; U.K.; Cross-National; Qualitative**

Exporting is now one of the fastest growing economic activities essential for both nations and firms. Despite the existence of four decades of research in the topic of export performance there is still no strong theoretical framework for researching this phenomenon (Leonidou, Katsikeas and Samiee, 2002). A possible explanation for this is that researchers live in a world that desires and rewards theories that look for factors to improve export performance. Consequently, they focus on the determinants of performance and tend to ignore firms' reactive behavior (Lages and Montgomery 2004; March and Sutton, 1997). With this exploratory this research we expect to identify the main consequences of past export performance results as perceived by exporters.

Recent studies in the fields of strategy and organizational behavior found that past performance is strongly associated with a manager's strategic orientation (Lant and Hurley, 1999; Lant, Milliken, and Batra, 1992; Lant and Montgomery, 1987). Their findings are consistent with a central assumption of the organizational behavior literature that suggests that organizations and individuals set goals and adjust their behavior in response to favorable and unfavorable feedback (Cyert and March, 1963; March and Simon, 1958).

Also in the real world it is not uncommon to hear in the business press of firms' reactive behavior to past results. For example, after its 1999 commercial financial disaster, British Airways publicly announced a rethinking of its branding, communication, and relationship marketing strategies. Similarly, immediately following the disclosure of poor results, Marks & Spencer decided to redefine its strategy and appoint a new board-level marketing director (Marketing Week, Aug 19, 1999). Many other examples may be cited to exemplify this type of short-term reactive behavior to past performance.

Despite the existing short term orientation in managers' reality, strategy formulation is historically viewed as an antecedent to performance outcomes. A recent review of the top journals in strategy and organizational behavior (March and Sutton, 1997) indicates that performance appeared in 71% of the articles as a dependent variable only, in 12% as an independent variable only, and in 11% of the studies as both a dependent and independent variable.[i] Also in the field of international marketing strategy formulation, performance is traditionally viewed as an antecedent to performance outcomes (Lages, 2000). Researchers prefer to regard performance as causally dependent even when the variables relate to the same period of time and it is unclear which particular variables should be treated as causally dependent. In the marketing field, there is lack of investigation examining performance as an antecedent of managers' behavior and marketing strategy definition. To our knowledge, the only exception to this trend of literature is the work of Lages and colleagues (Lages and Jap 2003; Lages and Melewar 2000, 2001; Lages and Montgomery 2004). However, as indicated by Lages and colleagues' work, due to the characteristics of the survey instrument (closed-ended questions) certain relevant variables might have been omitted. Their work is limited to analyzing exclusively the empirical link between past performance and management commitment to exporting and/or degree of marketing strategy adaptation in the current year. They argue that the basis of both managerial commitment to exporting and/or degree of current export marketing strategy adaptation lies in past accomplishments and any inability to achieve what was initially proposed. Another limitation of the work of Lages and colleagues is that their sample is based on firms from a single country. We follow their suggestion and develop a survey across different European countries.

In this study we argue that past export performance results would affect managers' subsequent behavior and actions in terms of the exporting operations at many different levels.

If the exporting activities have not been satisfactory in the previous year, it will be extremely difficult for managers to focus on the far future, as they will be under constant pressure. Export managers will have (dis)incentives according to their results, and in some cases their own position may came into risk if they have not achieved a satisfactory performance. Hence, the main objective of this research is to develop a better understanding of export performance as an independent variable. We expect to contribute toward bridging the gap between historical and current export operations by discussing past export performance and its implications for strategy at many different levels (i.e. by studying export performance as an independent variable only).

This paper is organized as follows. First, the theoretical background supporting our research questions is discussed. Second, the results of a mail survey conducted next Portuguese and British managers responsible for the exporting activity are presented and their implications for theory are then discussed. After presenting implications for export business practice and public policy making, the paper ends with limitations of this research and suggestions for further research.

THEORETICAL PERSPECTIVES ON THE EFFECTS OF PRIOR PERFORMANCE

During the last four decades, quite a number of empirical studies have been developed concerning the determinants of export performance (see: Leonidou, Katsikeas and Samiee, 2002; Zou and Stan 1998). Surprisingly, and despite the extensive research into this topic, rare studies in the marketing field have analyzed the reverse relationship, i.e. the consequences of past performance results. Below we present a brief summary of the existing literature in this topic.

The Effects of Previous Positive Performance

The strategy and organizational behavior literature suggests that satisfaction with preceding performance is likely to be positively related to commitment in the next period. In an exporting context, Lages and Montgomery (2004) study revealed that past performance is very likely to shape the degree of commitment to exporting. This might occur because export commitment is a function of resource availability (Cavusgil and Nevin, 1981). When firms' commitment to the exporting venture increases, more resources are allocated to the exporting activity, and consequently the firm will be able to improve its planning procedures and implement more adaptive strategies (Lages and Jap, 2003). Moreover, when the firm performs well, internal publics (e.g. top managers, employees, union representatives) and external publics (e.g. clients/customers, suppliers, investors, and credit institutions) are more likely to react favorably (Isen and Baron, 1991) to the exporting activity. This suggests that as past performance improves, commitment increases, and this ultimately leads to an impact in terms of marketing strategy definition.

However, the strategy and organizational behavior literature suggests a conflicting rationale. If performance improves, the opportunities to increase performance may be viewed as discretionary possibilities. The firms may experience the “fat cat syndrome” (Dutton and Duncan, 1987, 290) which will lead to the option for much simpler marketing strategies involving less effort and consideration of environmental and internal forces. A good performance might promote more relaxed (Cyert and March, 1963) and effortless strategic decisions (Bourgeois, 1981; March and Simon, 1958; Litschert and Bonham, 1978) and a decline in adaptive behavior (Greve, 1998). These managers will become narrowly focused and overly preoccupied with the factors that have contributed to their firms’ good performance, so that they will tend to exploit the existing opportunities without searching for information and conducting an in-depth analysis of the environment (Cyert and March, 1963). Hence, managers of firms performing better might lose their ability to react to the various contingent forces (Miller, 1993). The consequence of this behavior is that the firm may begin to allocate its resources in a simpler way, reflecting a singular focus that does not correspond adequately to the complex environment that the firm is actually facing. In sum, based on this rationale, one might also question if past performance will lead to less sophisticate marketing strategies.

The Effects of Previous Negative Performance

The organizational and strategy literature suggests that managers of firms performing poorly are under considerable pressure (Fredrickson, 1985). Poor performance puts pressure on managers to take comprehensive, accurate and discriminating decisions (Cyert and March, 1963) and will make them much more likely to search widely for information and conduct an in-depth analysis of the surrounding environments (Audia, Locke and Smith, 2000). They are expected to do a better job, which naturally encourages them to develop more comprehensive and rational strategic decisions than managers with a better performance (Mintzberg, Raisinghani and Theoret, 1976). However, a when firm is performing badly, the reputations of the exporting operations and export managers are worsened and, consequently, they will likely have fewer resources available. The perception of unsuccess on the part of the different entities interacting with the company, enhanced by the firm's internal instability, might lead managers to become less motivated to the exporting operations. Nevertheless, one should also note some exceptions. For example, in certain situations firms might be prepared to accept consistent losses in order to learn and establish market share, and during this phase commitment might increase.

In sum, based on the previous hints from the literature some interesting research questions might be raised: When the export operations are performing well, are managers more likely to use simpler or complex strategies? And when firms perform poorly? Overall, which elements (e.g. in terms of strategy) are associated with past performance results? Since this is a research topic in a very early stage. It is not our objective to test the positive/negative impact of past performance on strategy or other issues. It is our objective to gather *only* preliminary managerial insights on this topic. Nevertheless, future empirical research is encouraged to build our exploratory results to develop much more complex empirical models, which test the positive and negative impact of past performance results on the different variables presented in here.

METHOD

The Research Setting

Our research setting is in two developed countries, member countries of the EU (Portugal and the U.K.). Research within this arena is particularly pertinent as the EU is the world's largest exporter of goods, maintaining a stable share of approximately one fifth of total world exports (intra-EU trade excluded) since 1990 (European Commission 2000). The main similarities between both countries, is that the majority of trade is with other EU countries and both Portuguese and British economic growth depends heavily on the exporting success of national firms. The main differences across both countries are the language, cultural roots and values.

Data Collection Procedure

Portugal

A sample of 2,500 firms was randomly generated from a government agency database of ICEP-Portugal (1997). This database of 4,765 Portuguese exporters was the most comprehensive and up-to-date database available in the Portuguese market at the time of data collection (1999). The pretest results indicated a strong need for an incentive to motivate the respondents to participate. In the cover letter it was stated that in return for a completed survey respondents would be provided with, along with a report of the final results, a list of contacts for potential overseas importers or clients.[1] Additionally, confidentiality was assured.

In the first mailing, a cover letter, a questionnaire, and an international postage-paid business reply envelope were sent to the person responsible for exporting in each of the 2,500 Portuguese firms. This missive was followed by a second mailing that included a reminder letter and a reply envelope. Of the sample of 2,500 Portuguese managers, 29 stated that they no longer exported and 119 questionnaires were returned by the postal service. These firms had either closed down or moved without leaving a forwarding address. Thus, the sample size was reduced to 2,352. Of the 593 returned questionnaires, 225 managers have answered the open-ended question which is the focus of this paper, corresponding to a 10% response rate (225/2,352).

United Kingdom

A sample of 1,564 British enterprises was randomly generated from a database of the British Chamber of Commerce on “British Exports 2000” (Reed Business Information 2000). An incentive was stated in the cover letter: in return for a completed questionnaire, the findings would be available after the completion of the study. Confidentiality was also assured.

As with the Portuguese survey, a cover letter, a questionnaire and a postage-paid business reply envelope were sent to the person responsible for exporting in each of the British firms under study. Unfortunately, in contrast to the Portuguese survey, it was not possible to obtain governmental funding to conduct the research. Consequently, due to lack of financial resources, it was not possible to send a reminder mailing.

The data collection was conducted in 2002. Out of the 1,564 exporters we received valid 62 replies to the open-ended question, which represents a law raw response rate of 4% (62/1,564). In order to identify the problems associated with this low raw response rate, we used Menon et al.’s (1999) method. Similarly to Menon et al. (1999), we contacted 100 randomly chosen respondents to determine nondeliverable and noncompliance rates, and then assessed final response rates. We determined that 34% of the mailings were nondeliverable because of incorrect address; an additional 40% did not reach the person responsible for the export operations in the firm; and 4% of the respondents reported a corporate policy of not responding to academic surveys. In line with Menon et al.’s (1999) method, the total of 62 usable returned questionnaires represents a 18% (62/344) effective response rate, which is

[1] This list is generated using on-line information, mainly information available on websites of several

quite satisfactory, given that average top management survey response rates are in the range of 15%-20% (Menon, Bharadwaj, and Howell 1996).

The research question and unit of analysis

The unit of analysis employed in this research is a single *export venture*, as this approach of a single product or product line exported to a single foreign market will allow future researchers using these measures to associate export performance more precisely with its consequences. Export venture means the export of a single product or product line to a single foreign market. This unit of analysis is chosen because if firm's overall performance is analyzed as a whole, it is extremely difficult to isolate the effects of specific actions (Cavusgil and Kirpalani, 1993). If more than one export venture from the same firm were used, this would increase the likelihood of bias. This follows the emphasis of a large number of previous empirical studies (e.g. Bilkey, 1982; Madsen, 1989; Cavusgil and Kirpalani, 1993; Cavusgil and Zou, 1994).

The questionnaire was initially developed in English and then translated into Portuguese. In order to avoid translation errors, the questionnaire was back-translated into English by a different researcher. In order to define clearly the unit of the analysis, the following text was included at the beginning of the questionnaire:

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Insert Picture 1 about here

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For this specific paper we are particularly concerned with the answers to a single open-ended question associated with our research question, as follows:

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Insert Picture 2 about here

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Chambers of Commerce, where a list of importers is normally listed by sector.

This question was answered through a cross-national survey to British and Portuguese exporters.

Coding Procedure and Data Analysis

First, all received answers to this open-ended question were entered “ipsis verbis” into a Word Processor. When more than one word or expression was proposed as explanation, because no preference ranking could be inferred, all were recorded “ipsis verbis” and considered as having equal weights.

Second, all answers were coded independently by two researchers (one marketing professor and one research assistant) and verified by one independent judge (marketing professor). Overall, no significant differences of meaning were identified; and when disagreements arose, the independent expert judge, together with the two researchers, determined the final coding. Ultimately, the best way to protect against interpretive bias is to be constantly aware that the respondent’s voice should be heard above that of the researcher and that the respondent’s perspective should guide interpretation.

Third, an interactive process of open coding of data with constant comparative analysis was used. Analysis of the open-ended answers relied on the process of meaning-based abstraction and conceptual labelling. With the reading of each new answer, the analytic strategy shifted gradually from open coding of data to comparison of new data elements with previously coded incidents that shared similar conceptual properties. Coding of subsequent data was based on themes and patterns that emerged across answers. Qualitative researchers describe this interactive process of back-and-forth analysis in which new data are compared to concepts in use and new concepts are compared to previously coded data as constant comparative analysis.

Fourth, this interactive process lead to a list of keywords. We define *keywords* as manifest indicators with a critical meaning. Finally, using the two judges many of these keywords were eventually collapsed, renamed, and reorganized under the research question, evolving into the format laid out in a final list (see Table 1). It was determined that saturation had been achieved when each relevant data bit had been successfully grouped into one thematic categories, and when the leftover data bits were determined to be irrelevant to the research questions at hand.

Respondents and Data Profile

In this paper we separate the analysis of Portuguese and British data because: 1) data collection occurred in two different years, and 2) there is a high possibility that managerial perceptions of performance and its consequences might be different in the two countries. The open-ended question being analyzed was exactly the same for both English and Portuguese questionnaires.

Two judges analyzed each answer. From the 225 valid Portuguese answers emerged 250 keywords, i.e. explanations for the impact of previous exporting ventures' performance (an average of 1.1 keywords per respondent) on current strategy definition. From the 62 usable British questionnaires emerged 75 keywords (an average of 1.2 keywords per respondent).

The samples represent all size range of firms. Both Portuguese and British exporting industries are primarily composed of SMEs. Of the exporting firms represented in the sample, 6% of Portuguese firms and 5 % of British companies have more than 500 employees. With regard to the Portuguese sample, the average annual export sales of these firms ranged from USD $1.5 - $3.5M. With regard to the British sample, the average annual export sales of these firms ranged from USD $470,000 - $1.6 M.

Both surveys were directed to individuals who were primarily responsible for exporting operations and activities. The job title of these individuals included president, marketing director, managing director, and exporting director. Respondents in both countries were asked to indicate their degree of experience in exporting on a scale where 1=none and 5=substantial. The mean response for Portugal was 3.74 (sd=.82, range 1 to 5) and for the U.K. was 3.95 (sd=.88, range 1 to 5). Collectively, this indicates that although the title of the respondents' positions may be wide-ranging, the individuals are experienced with exporting in general and appear to have considerable knowledge in the specific exporting activities of the firm.

DISCUSSION OF MAIN FINDINGS

The aim of this paper is to look into main outcomes of firms export market ventures' performance. A summary of the top findings for Portuguese and British exporters is presented below.

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Insert Table 1 about here

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Exporters perceptions of the “need to seek performance improvement as a result of bad performance of the exporting venture” (i.e. the selected exported product or groups of products to an importer in a single country) was considered to be the top reason for strategy change at the export venture level. Indeed, this was considered to be the reason #1 for both Portuguese and British samples. Within this line, another top justification presented by the exporters of both samples was the “maintenance of strategy as a result of good performance of the exporting venture” (#1 for the British and #6 for both Portuguese samples).

When analyzing the relationship between past and current performance we might find two streams of strategy and organizational behavior literatures. One stream of the literature suggests that preceding year’s export performance is likely to be related to export performance improvement in the next period because performance levels tend to reinforce one another from period to period, because when the firm performs well, internal publics and external publics are more likely to react favorably to the firm, thus facilitating continued performance improvement (Isen and Baron 1991). On the other hand, poor export performance may negatively influence performance in the next period, as the reputation of both the firm and top management is spoiled by poor performance (Sutton and Callahan 1987). The perception of failure on the part of the different entities interacting with the company, enhanced by the firm's internal instability, will lead the organization into vicious cycles of “unsuccess” (Masuch 1985). This explains why it is extremely difficult to change the direction of a “downward spiral,” or consecutive decreases in performance (Hackman 1990).

The second stream of research suggests that past performance is strongly associated with a manager’s strategic orientation. For example, the findings of Lant and colleagues (Lant and Hurley 1999; Lant, Milliken, and Batra 1992; Lant and Montgomery 1987) suggest that organizations and individuals set goals and adjust their behavior in response to favorable and unfavorable feedback (cf. Cyert and March 1963; March and Simon 1958). Greve (1998) reveals that if performance increases, adaptive behavior declines. This decline occurs because organizations exhibit political resistance to change, and managers face uncertainty regarding the opportunities that exist in the environment (Hannan and Freeman 1977). Furthermore, when the firm performs well, it may experience “fat cat syndrome” (Dutton and Duncan 1987, 290)-- the firm becomes complacent and tends to implement simpler strategies. In well-performing firms, the opportunities to increase performance may be viewed as discretionary rather than vital possibilities (Cyert and March 1963). Miller (1993) argues that successful organizations tend to become narrow in focus and overly preoccupied with the specific factors that contributed to its success, instead of looking to other internal and external forces that may contribute. Thus, the firm reduces its tendency to identify and react to various contingent forces. Consequently, the firm may begin to allocate its resources in a simpler way, reflecting a singular focus that does not correspond adequately to the complex environment that the firm is actually facing. In contrast, when a firm is not performing well, managers do not have the privilege of choosing to do nothing. In these circumstances, when management is not satisfied with the performance levels, strategic decision processes will tend to be more comprehensive than in firms that are performing well (Fredrickson 1985). The firm is motivated to implement precise and discriminating decisions and to expend the effort to make proper choices. It is more willing to explore different opportunities and to adapt to the environment. Hence, in an exporting context, we expect that the firm will rely less on standardized strategies and instead begin to adapt more to the specifics of the foreign market in hopes that performance will improve. In a similar manner, we expect that the firm may be more likely to take a standardized approach to its marketing strategy in an export context when its past export performance has been particularly strong and when managers are satisfied with it. A standardized approach is simpler, involving less effort and consideration of environmental and management forces. This last research stream of literature provides a possible explanation of why both Portuguese and British exporters "need to seek performance improvement as a result of bad performance of the exporting venture" and aim for the "maintenance of strategy as a result of good performance of the exporting venture". Furthermore, it supports the view that that past performance levels are also associated with the degree of marketing strategy adaptation to the foreign market (reason #2 for Portuguese exporters).

CONCLUSION

Our validation across the Portuguese and British samples indicates that despite the fact of being a qualitative study it was possible to find eight common justifications across both samples: a) need to seek performance improvement as a result of bad performance, b) maintain strategy as a result of good performance, c) market diversification, d) more worry with macro factors, e) focus on competition, f) product diversification, g) more worry with micro factors, and h) quality.

Nevertheless, we also found some dissimilarities: a) marketing strategy adaptation, b) technology investment, and c) reanalysis of marketing objectives present in the Portuguese sample, and a) promotion/creation of awareness, b) distribution changes, and c) need for expertise in the British sample. The first possibility for these dissimilarities might rely on the fact of data being collected in two different years and the use of different types of incentives administered in the two countries, which might influence respondents' willingness to answer the questionnaire. The second explanation might be associated with the possibility of existing answer inequivalence due to language differences between Portuguese and British managers. Nevertheless, this situation was minimized by the relative straightforward nature of the question (Styles 1998). Another possible explanation is associated with the interpretation of the contextual variables (Douglas and Craig 1983; Craig and Douglas 2000). It might be possible that, as consequence of the different contexts, when Portuguese and British respondents were answering the question associated with the selected export venture, they elected different types of products and exporting markets. For example, while Portuguese exporters might rely more on traditional (e.g., textiles and shoes) and less on Hi-Tech products, this situation is much less likely to occur with British exporters. Similarly, while British firms are typically international firms, Portuguese exporting firms are typically dependent on a neighboring country (Spain). Styles (1998) also suggests that different levels of familiarity and experience with export operations might be another problem. However, this does not seem to be a concern with this study. As previously discussed, when managers rated their degree of experience in exporting, the mean response for Portugal (mean=3.74; sd=.82, range 1 to 5) and for the U.K. (mean=3.95; sd=.88, range 1 to 5) were very similar.

RESEARCH LIMITATIONS

Nevertheless, this research presents some limitations. The first limitation of this research is that, as is the case with other studies in international business, our findings may be biased as a result of using self-report and perceptual data (Skarmeas, Katsikeas and Schlegelmilch 2002), particularly if we consider that aspirations and goals may be conflicting inside the firm, and data were collected in two different years with different types of incentives administered in the two countries. Another limitation is related to the small number of qualitative answers of both Portuguese (225) and British (62) exporters. Consequently, these results should be regarded as suggestive rather than conclusive.

DIRECTIONS FOR FUTURE RESEARCH

When assessing export performance, future research should be concerned with exploring the short-time horizon frequently used by managers and public policy makers to assess performance (Madsen 1998). If one considers the long-term failures and successes of the firm as a function of its short-term actions, it is clear that future research that looks into understanding short-term performance, as well as its antecedents and effects, can yield valuable insights into improving long-term performance. Organizations and individuals constantly set goals and adjust their behavior in response to favorable and unfavorable feedback (Cyert and March 1963; March and Simon 1958). International marketing researchers should simultaneously consider how past strategy impacts on short-term performance, as well as how short-term performance impacts on strategy, as strategic decisions are motivated by a combination of short-term proactive and reactive behaviors (March and Sutton 1997). By better understanding the one-year relationship between past performance and strategy researchers might help managers to avoid being caught in a vicious cycle of successive unsatisfactory results.

Picture 1

A) In order to define the EXPORTING VENTURE (*), which will be the focus of this questionnaire, please select:

a) an exported product or group of exported products ______________________________
(please indicate just <u>one</u> product or group of products)

b) an importer in a foreign market for the export mentioned above _________________
(please indicate just <u>one</u> firm in <u>one</u> country)

IMPORTANT: You have just defined the EXPORTING VENTURE (*) of your company which this questionnaire is about.

Picture 2

B) Is last year's exporting venture's (*) performance affecting the definition of the exporting venture's strategy for the current year? Why? ____

**<u>Definition of export venture</u>:*
The selected exported product (or group of products) to an importer in a single country

Table 1 – TOP 10 Consequences of Past Performance

Portuguese Exporters			*British Exporters*		
Top	***Justifications***	***Nr. of mentions out of 225***	***Top***	***Justifications***	***Nr. of mentions out of 62***
1.	Need to seek performance improvement as a result of bad performance	60	1.	Need to seek performance improvement as a result of bad performance	17
2.	Marketing strategy adaptation	38	2.	Maintain strategy as a result of good performance	12
3.	Market diversification	30	3.	More worry with micro factors	11
4.	More worry with macro factors	27	4.	Focus on competition	5
5.	Focus on competition	26	5.	Product diversification	4
6.	Maintain strategy as a result of good performance	21		Promotion/ creation of awareness	4
7.	Product diversification	15		Distribution changes	4
8.	More worry with micro factors	12	8.	More worry with macro factors	3
9.	Quality	9	9.	Quality	2
10.	Technology investment	6		Need for expertise	2
	Reanalysis of marketing objectives	6		Market diversification	2

Cut off point:
Portugal = at least 6/225 (2.7%) people mentioned;
UK = at least 2/62(3.2%) people mentioned

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[i] Percentages do not add up to 100% because in 6% of the reviewed studies, performance appears in some other capacity.