

**TOP MANAGEMENT INTERNATIONAL ORIENTATION AND
SMALL BUSINESS EXPORTING PERFORMANCE:
THE MODERATING ROLES OF EXPORT MARKET & INDUSTRY FACTORS**

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ABSTRACT

This study examined the relationship between top management team international orientation and small business export performance. Results generally supported the hypotheses that market and industry factors moderate this relationship. Employing a sample of U.S. small business exporters, the study found that top management team international orientation had a greater positive relationship with export performance for firms exporting to countries culturally different and geographically distant from their home country than those exporting to countries culturally similar and geographically proximate to their home countries. In addition, international orientation had a greater positive relationship with export performance for firms competing in multidomestic industries than those competing in global industries.

INTRODUCTION

Recent advances in technology and transportation have allowed even the smallest firms to expand abroad. Although these small businesses have limited resources, many have been able to successfully increase sales overseas through exporting (Rose & Quintanilla, 1996). This trend has prompted increased interest in key success factors influencing small business export performance (e.g., Bilkey, 1982; Reuber & Fischer, 1997).

One such key success factor is the effect a small firm's top management has on export performance. As the individuals who scan a firm's environment and make critical decisions for the firm based on their interpretation of this information, a firm's top management team (TMT) can play an important role in a small firm's performance (Aaby & Slater, 1989). One major stream of this research has examined the relationship between a TMT's "international orientation" (developed through managers' experiences such as learning foreign languages or living overseas) and export performance (Dichtl, Koeglmayr, & Mueller, 1990; Lim, Sharkey, & Kim, 1993). These studies have generally posited that this orientation improves a TMT's ability to collect and interpret key foreign market information, which should lead to improved export performance (Reid, 1983).

Findings to date, however, have been mixed. For example, studies investigating the relationship between top management language proficiency and export performance have found strong (Nakos, Brouthers, & Johannesson, 1994), marginal (Holzmuller & Kaspar, 1991), and no evidence of a relationship (Cavusgil & Naor, 1987). One explanation for these results may be that the relationship between a TMT's characteristics and performance varies based on a firm's environmental factors (Haleblian & Finkelstein, 1993). For example, one might expect a TMT's foreign language skills to provide greater benefit to a small firm's exporting efforts in countries having a different language than the firm's home country (e.g., a U.S. firm exporting to France) than in those having the same language (e.g., a U.S. firm exporting to Great Britain).

Thus, the purpose of this paper is to investigate whether the relationship between TMT international orientation and export performance varies based on different environmental factors. First, the paper reviews previous studies examining the relationship between TMT international orientation and small business export performance. Next, it develops and tests hypotheses examining the impact environmental factors have on this relationship. Although a firm's environment can be characterized along several dimensions, the paper focuses on two key international contingencies, export market and industry characteristics. Finally, it discusses the results in terms of managerial and future research implications.

TMT INTERNATIONAL ORIENTATION AND EXPORT PERFORMANCE

TMT issues constitute a major research stream in small business literature because of the critical impact that TMT decisions can have on firm performance (Hambrick, 1989). Studies employing this "strategic leadership" perspective generally hypothesize that different backgrounds and experiences provide managers with different skills, attitudes, and biases that they then use to interpret their firm's environment and make key decisions (Cannella & Monroe, 1997; Gunz & Jallard, 1996; Hambrick & Mason, 1984). In addition, studies have generally found that the better a TMT's background provides it the skills to handle a firm's situation, the better the firm performs (e.g., Haleblian & Finkelstein, 1993; Michel & Hambrick, 1992). For example, a firm competing in rapidly changing environments may perform better if its TMT has the experience necessary to process, interpret, and employ key information from its turbulent environment (Bantel & Finkelstein, 1995).

Studies in the small business export literature have examined the TMT characteristic "international orientation," measured as the percentage of a firm's managers having experiences such as living overseas, studying foreign languages, or having previous involvement in international business (e.g., Axinn, 1988; Dichtl et al., 1990). Several studies have found this orientation to be related to export performance. For example, research has found that a TMT's previous international work experience is positively related to a firm's export performance (e.g., Axinn, 1988). Other studies have found that TMT's international orientation discriminates among firms having different levels of export involvement (e.g., Denis & Depelteau, 1985; Lim et al., 1993). These studies have generally concluded that an international orientation provides a TMT with a greater ability to collect and interpret key environmental information about export markets, which the TMT can then use to make critical decisions about serving these markets (Reid, 1983).

In contrast, some studies have found marginal or no relationship between international orientation and export performance (Cavusgil & Naor, 1987; Holzmuller & Kaspar, 1991). One reason for

these mixed results may be that research has yet to examine the effect of environmental factors on this relationship. As noted, however, as these factors vary, the skills needed by a firm's TMT to collect and interpret information can change (e.g., Haleblan & Finkelstein, 1993; Michel & Hambrick, 1992). Thus, a clearer understanding of international orientation-export performance relationship may be obtained by directly examining these environmental factors.

Two factors that can affect the amount and complexity of international information that a TMT needs to process are export market and industry characteristics. First, export markets can vary along several dimensions including cultural difference, geographic distance, and economic development (Gripsrud, 1990). When a firm exports to a country that differs from its home country along these dimensions, the amount of information needed by a TMT as well as the difficulty in obtaining this information can increase (Johanson & Vahlne, 1977). For example, when a firm exports to a country having a significantly different culture from its home country, its TMT may face increased uncertainty about important factors such as consumer attitudes. Moreover, differences in language may complicate gathering this critical information. Similarly, when a firm exports to a country that is geographically distant from its home country, its TMT may face increasing difficulty in gathering key information about the market. In addition, when a firm exports to a country having a different level of economic development, its TMT may face increased uncertainty about important factors such as local business practices. In contrast, when a firm exports to a country similar to its home country in terms of culture, geography, and economic development, its TMT may face less difficulty in gathering market information and should be able to obtain any needed information with limited obstacles.

Thus, the information processing benefits provided by a TMT's international orientation should become more important to export performance as the firm increasingly targets markets culturally, geographically, or economically different from its home country. In countries similar to the firm's home country, these benefits should be less pronounced. This suggests the following hypotheses:

- H1: TMT international orientation will be more positively associated with export performance for firms exporting to culturally different countries than those exporting to culturally similar countries.*
- H2: TMT international orientation will be more positively associated with export performance for firms exporting to geographically distant countries than those exporting to geographically proximate countries.*
- H3: TMT international orientation will be more positively associated with export performance for firms exporting to economically different countries than those exporting to economically similar countries.*

Second, industries vary along several dimensions including the degree to which customer needs change across countries (Porter, 1986). When a firm competes in an industry characterized by different customer needs across countries (i.e., a "multidomestic" industry), a TMT needs to collect and process increased information to adapt the firm's product to local consumer needs. In contrast, when a firm competes in an industry characterized by similar customer needs across countries (i.e., a "global" industry), a TMT would require less information because the firm can sell a standardized product to all markets.

Thus, the information processing benefits provided by a TMT's international orientation should become more important to export performance when a firm competes in an industry where different customer needs exist across markets. In industries with standardized customer needs, these benefits should be less pronounced. This suggests the following hypothesis:

H4: *TMT international orientation will be more positively associated with export performance for firms competing in multidomestic industries than those competing in global industries.*

METHODOLOGY

Sample and Data

Data for this study were collected employing a mail questionnaire sent to 1000 firms randomly selected from a Dun & Bradstreet database of U.S. small business exporters. The questionnaire was pretested with several university faculty members familiar with small business research to ensure content validity.

Following the survey method prescribed by Dillman (1978), a questionnaire was sent to the top manager of each firm followed by a postcard and then a second questionnaire in the case of non-respondents. From the initial sample, 70 surveys were returned as undeliverable. Of the remaining sample, 156 surveys were returned yielding an effective response rate of 17 percent. This response rate falls well within the 10 to 20 percent expected responses for national surveys of top managers (cf. Hambrick, Geletkanycz, & Fredrickson, 1993). Forty respondents indicated that their firms no longer exported, and, thus, they were excluded from the sample.

Because late respondents have been shown to resemble non-respondents more than they resemble early respondents (Kanuk & Berenson, 1975), the correlation between response order and several survey items such as firm size and export involvement was examined. No significant correlations were found thus reducing concerns of non-response bias.

Each firm's TMT was defined by the top manager who responded to the survey (Bantel & Jackson, 1989). The survey focused on three TMT characteristics that have been used to define international orientation: (1) international work experience, (2) experience living abroad, and (3) foreign language proficiency. Respondents indicated the number of top managers in their firm who had each characteristic.

Respondents also provided information about market and industry factors. For market factors, managers were asked to indicate their firms' largest export market. First, firms were then classified dichotomously (i.e., 0 or 1) according to whether or not they listed an "Anglo" country as their largest export market (Ronen & Shenkar, 1986). Because countries within this group (e.g., Canada, Great Britain, and Australia) are culturally similar to the U.S., this distinction provides a means for testing the relationship between international orientation and export performance under different cultural conditions. Anglo cultures and non-Anglo cultures were coded as 0 and 1, respectively. Second, firms were classified dichotomously (i.e., 0 or 1) according to whether or not they listed a North American country as their largest export market. Because countries within this group (e.g., Canada, Mexico, and countries in the Caribbean) are geographically proximate to the U.S., this distinction provides a means for testing the relationship

between international orientation and export performance under different geographic proximity conditions. North American and non-North American countries were coded as 0 and 1, respectively. Third, firms were classified dichotomously according to whether or not they listed a developed country as their largest export market. Because these countries are more economically similar than less developed countries are to the U.S., this classification provided a means for testing the relationship between international orientation and export performance under different economic conditions. Developed and less developed countries were coded as 0 and 1, respectively.

The degree to which each firm's industry exhibited characteristics of a global industry was measured employing a scale developed by Carpano, Chrisman, and Roth (1994). Using a 5-point scale, managers were asked to rate how characteristic (1=not at all characteristic, 5=extremely characteristic) each of five factors (e.g., buyer/customer needs are standardized worldwide, companies market a standardized product worldwide) was for competing in their industries. Cronbach's alpha for this industry measure was .81. Responses for each firm were summed to determine an overall "global industry" score with low and high scores indicating multidomestic and global industries, respectively.

Because export performance is a multiple dimensional construct, it was measured in three ways: (1) export percentage (i.e., export sales/total sales), (2) three-year average export growth, and (3) three-year average export profitability. The survey prompted each respondent to report the firm's growth and profitability relative to competitors on a 5-point scale (1=much lower to 5=much higher). This industry-relative scale was used for two reasons. First, given that the study employed a multi-industry sample, profitability measures could contain industry effects that could confound results (Dess, Ireland, & Hitt, 1990). Second, measuring performance relative to competitors provides an indication of how successful a firm's strategy is, given the demands of the firm's particular industry environment (Carpano et al., 1994).

Data Analysis

After classifying firms according to environmental (i.e., market and industry) factors, moderated regression analysis was employed to test the hypothesized relationships. This type of regression was appropriate because the study's hypotheses are relational (Arnold, 1982; Haleblan & Finkelstein, 1993). Specifically, by employing moderated regression, the study can examine whether the relationship between the dependent variable, export performance, and the independent variable, TMT international orientation, changes across different environments.

Moderated regression involves a two-step data analysis process illustrated by the following:

- (1) Export performance = Control variables + TMT international orientation + Environmental variable
- (2) Export performance = Control variables + TMT international orientation + Environmental variable + (TMT international orientation x Environmental variable)

In the context of the present study, a significant increase in the amount of variance explained, measured as change in R^2 in Equation (2) relative to Equation (1), would indicate that the relationship between TMT international orientation and export performance varies in different environments.

Two control variables, TMT size and firm export experience (i.e., number of years the firm has exported), were entered first into the equation. TMT size was controlled for because larger TMTs may be able to process more information (Haleblian & Finkelstein, 1993), regardless of the TMT's international orientation. Export experience was controlled for because it may be related to export performance (e.g., firms that have exported longer may have overcome initial start-up costs). Next, international orientation and environmental variables were entered. Finally, the interactions between international orientation and environmental variables were entered.

RESULTS

Table 1 summarizes the regression results for Hypothesis 1. As shown in the table, the interaction between international orientation and cultural difference is significant (changes in $R^2 = .05$ and $.03$, $F_{7,73} = 4.50$ and $F_{7,74} = 3.28$, $p < .05$ and $p < .10$, respectively). Specifically, the interaction between percentage of managers who have international work experience and cultural difference has a significant positive relationship with both export growth and export percentage. Thus, TMT international work experience has a greater effect on export performance for firms exporting to culturally different countries than those exporting to culturally similar countries. These results support Hypothesis 1.

Table 1 - Regression Estimates of the Effects of Culture on the Relationship between International Orientation and Firm Performance

| Variables | Export Growth | | Export Percentage | |
|----------------------------------|-------------------|-------------------|-------------------|--------------------|
| | 1 | 2 | 1 | 2 |
| Intercept | 2.09*** | 2.31*** | 4.62 | 7.53 |
| Export Years | .01 | .01 | .25 [†] | .28 [†] |
| TMT Size | .18** | .16** | 1.29 | 1.06 |
| Non-Anglo Culture | .28 | -.08 | 10.53** | 5.43 |
| %Lived Overseas | .11 | .20 | 4.49 | 5.77 |
| %Speak Foreign Language | .10 | -.27 | 2.77 | -1.64 |
| %Int'l Work Experience | .28 | -.43 | 5.60 | -7.14 |
| Non-Anglo x %Lived Overseas | | | | |
| Non-Anglo x %Speak For. language | | | | |
| Non-Anglo x %Int'l Work Exp. | | 1.45 [†] | | 22.67 [†] |
| Df | (6, 74) | (7, 73) | (6, 75) | (7, 74) |
| R ² | .16 | .21 | .20 | .23 |
| F | 2.30 [†] | 2.71** | 3.17** | 3.28** |
| Change in R ² | | .05 | | .03 |
| F | | 4.50 [†] | | 3.37 [†] |

[†] $p < .10$, * $p < .05$, ** $p < .01$, *** $p < .001$

Note: Only significant interactions are shown.

Table 2 summarizes the regression results for Hypothesis 2. As shown in the table, the interaction between international orientation and geographic distance is significant (change in $R^2 = .08$, $F_{8, 73} = 3.95$, $p < .05$). Specifically, the interaction between percentage of managers who have international work experience and geographic distance has a significant positive relationship with export percentage. Thus, TMT international work experience has a greater effect on export performance for firms exporting to geographically distant countries than those exporting to geographically proximate countries. This result supports Hypothesis 2. In contrast, the interaction between percentage of managers with foreign language proficiency and geographic proximity has a significant negative relationship with export percentage. Thus, contrary to Hypothesis 2, TMT foreign language proficiency has a greater effect on export performance for firms exporting to geographically proximate countries than those exporting to geographically distant countries.

Table 2 - Regression Estimates Of Effects Of Geography On Relationship Between International Orientation & Firm Performance

| Variables | Export Percentage | |
|---|---------------------|----------------------|
| | 1 | 2 |
| Intercept | 2.24 | 4.43 |
| Export Years | .26 [†] | .32 [*] |
| TMT Size | 1.18 | .73 |
| Non-North American Country | 11.24 ^{**} | 8.58 [†] |
| %Lived Overseas | 7.26 | 4.54 |
| %Speak Foreign Language | 3.37 | 20.60 |
| %Int'l Work Experience | 6.97 | -9.27 |
| Non-North American x %Lived Overseas | | |
| Non-North American x %Speak For. Language | | -.38.20 [*] |
| Non-North American x %Int'l Work Experience | | 33.62 [*] |
| Df | (6, 75) | (8, 73) |
| R ² | .21 | .29 |
| F | 3.41 ^{**} | 3.74 ^{***} |
| Change in R ² | | .08 |
| F | | 3.95 [*] |

[†] $p < .10$, ^{*} $p < .05$, ^{**} $p < .01$, ^{***} $p < .001$ Note: Only significant interactions are shown.

Table 3 summarizes the regression results for Hypothesis 3. As shown in the table, none of the interactions between international orientation and economic differences is significant. Thus, the main effects, international orientation and economic difference, explain the variance in export performance. These results do not support Hypothesis 3. Interestingly, however, these results

indicate that firms in this sample that exported to less developed countries performed better than those that exported to developed countries.

Table 3 - Regression Estimates of the Effects of Economic Development on the Relationship between International Orientation and Firm Performance

| Variables | Export Profit | Export Growth | Export Percentage |
|-------------------------------|-------------------|-------------------|-------------------|
| | β | β | β |
| Intercept | 2.38*** | 2.13*** | 5.66 |
| Export Years | .01 | .00 | .23 [†] |
| TMT Size | .04 | .19** | 1.44 |
| LDC | .65** | .27 | 13.11** |
| %Lived Overseas | .26 | .22 | 7.02 |
| %Speak Foreign Language | -.80 [†] | .16 | 5.84 |
| %Int'l Work Experience | .76 [†] | .27 | 7.03 |
| LDC x %Lived Overseas | | | |
| LDC x %Speak Foreign Language | | | |
| LDC x %Int'l Work Experience | | | |
| Df | (6, 71) | (6, 74) | (6, 75) |
| R ² | .20 | .15 | .23 |
| F | 3.04** | 2.23 [†] | 3.71** |
| Change in R ² | | | |
| F | | | |

[†] $p < .10$, * $p < .05$, ** $p < .01$, *** $p < .001$

Note: Only significant interactions are shown.

Table 4 summarizes the regression results for Hypothesis 4. As shown in the table, the interaction between international orientation and industry type is significant (changes in $R^2 = .09$ and $.08$, $F_{8, 73} = 4.74$ and $F_{8, 72} = 3.91$, $p < .001$ and $p < .05$, respectively). Specifically, the interaction between percentage of managers who have overseas work experience and degree of industry globalization has a significant negative relationship with both export percentage and export growth. Thus, TMT international work experience has a greater effect on export performance for firms competing in multidomestic industries than those competing in global industries. These results support Hypothesis 4. In contrast, the interaction between percentage of managers who have lived overseas and degree of industry globalization has a significant positive relationship with export percentage. Thus, contrary to Hypothesis 4, TMT experience living overseas has a greater effect on export performance for firms competing in global than those competing in multidomestic industries.

Table 4 - Regression Estimates of the Effects of Industry Type on the Relationship between International Orientation and Firm Performance

| Variables | Export Percentage | | Export Growth | |
|----------------------------------|-------------------|----------|---------------|---------|
| | 1 | 2 | 1 | 2 |
| Intercept | -8.11 | -7.74 | 2.30*** | 1.80** |
| Export Years | .15 | .15 | .01 | .00 |
| TMT Size | 1.65 | 1.42 | .19** | .19** |
| Global | 1.21* | 1.15† | -.01 | .03 |
| %Lived Overseas | 9.12 | -88.00** | .25 | .18 |
| %Speak Foreign Language | 2.38 | -2.41 | .15 | -3.46* |
| %Int'l Work Experience | 7.41 | 86.86** | .31 | 5.13** |
| Global x %Lived Overseas | | 6.28** | | |
| Global x %Speak Foreign Language | | | | .21* |
| Global x %Int'l Work Experience | | -4.66* | | -.30** |
| Df | (6, 75) | (8, 73) | (6, 74) | (8, 72) |
| R ² | .19 | .28 | .14 | .22 |
| F | 2.94** | 3.61*** | 2.03 | 2.62* |
| Change in R ² | | .09 | | .08 |
| F | | 4.74*** | | 3.91* |

† $p < .10$, * $p < .05$, ** $p < .01$, *** $p < .001$

Note: Only significant interactions are shown.

DISCUSSION AND CONCLUSION

Prompted by increased small business exporting, research has examined key success factors related to small business export performance. This study provides insight into one important factor by showing that a relationship exists between TMT international orientation and a firm's export performance. In particular, the results support the study's general hypothesis that this relationship will vary based on a firm's export market and industry characteristics.

These findings, of course, should be interpreted in light of the study's limitations. Most importantly, the survey provides a cross-sectional snapshot of the relationship between TMT international orientation and export performance. The study, however, mitigates this limitation somewhat by including three-year average performance measures as well as controlling for the number of years a firm has exported.

Moreover, these findings should not be interpreted to mean that TMT international orientation has no value for firms exporting to markets similar to a firm's home country or competing in global industries. Indeed, one study has shown that this orientation is positively related to export

performance in a global (e.g., machine tool) industry (Axinn, 1988). Based on the results in this study, however, one could expect that the positive effect of a TMT's international orientation would be greater for firms exporting to markets dissimilar to the firm's home country or competing in multidomestic industries.

For researchers, these results illustrate the importance of including environmental variables when examining a TMT's role in small business export performance. Because firms face myriad environmental variables (Summer et al, 1990), future studies should examine other possible contingencies. For example, studies could examine the impact of variables such as political or economic risk on the international orientation-performance relationship.

Future research should also further investigate the "international orientation" concept further. The results from this study illustrate the important link that this concept has with export performance, but some results were counter to those hypothesized. In addition, none of the results included all three international orientation/environment interactions. Thus, continued research to further develop this concept would be useful.

In addition, future research should also investigate other TMT variables besides international orientation. For example, previous research has shown that TMT size can affect a TMT's processing routines (Haleblian & Finkelstein, 1993; Sanders & Carpenter, 1998). Thus, future research could also investigate whether successful exporters adapt to increasing environmental complexity by expanding their TMT.

Consultants also need be cognizant of the different impact that environmental characteristics may have on the relationship between TMT characteristics and export performance. These results show that recommendations such as hiring new managers with significant international work experience are likely to have greater impact on firms exporting to countries that differ from their home country. Moreover, the impact can vary systematically by industry.

Increased small business exporting has prompted growing research into key success factors related to a firm's performance. This study's results provide a better understanding of top management's role as one of these critical success factors.

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