Sentiment as a driver of perceived export barriers: An exploratory study

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Abstract

A noteworthy gap in export barrier literature lies in the absence of longitudinal studies examining temporal limitations. We address this gap using a two-point comparison of the influence of export barriers. We hypothesize an inverse relationship between changes in business confidence and the influence of export barriers, with export barriers increasing in influence as business confidence falls. On the basis of a comprehensive list of export constraints, our results show that 18 out of 42 export barriers increased in influence across the two-time periods. Not only do our results imply business sentiment is a plausible driver for perceived export barriers, they also open a new boulevard of enquiry regarding the theoretical underpinnings of the phenomena.

Keywords: Export barriers, affect, business confidence, longitudinal

Introduction

Exporting is motivated by an amalgamation of 'push' and 'pull' stimuli (Etemad, 2004). 'Push' stimuli is associated with adverse domestic market conditions such as, maturation or saturation, low demand, and intense competition (Bilkey, 1978) , while pull factors encompass incentives; for instance, reducing risk, diversification, utilizing excess capacity, achieving low-cost production and economies of scale, stronger sales, profit, and growth (Ball et al., 2004). Internationalizing firms also benefit from enabling circumstances including managerial capabilities, possession of inimitable resources, access to networks, differential firm advantages, adoption of Information and Communication Technology (I&CT), and policy-maker support (Leonidou, Katsikeas and Piercy, 1998). However, the path to internationalization is often brimming with export barriers which may act as a deterrent (Etemad, 2004).

Literature

Export barriers are *all those constraints that hinder a firm's ability to initiate, develop or sustain operations in overseas markets* (Leonidou, 2004, p.281). For non-exporting firms perceived export barriers are prohibitive and may be the primary reason for non internationalization (Bilkey, 1978). With adequate levels of pre-export preparation (in particular information and resource acquisition), firms can surmount some of the barriers and commence exporting. However, the overall effect of barriers does not dissipate entirely (Leonidou, 2004). Continuing exporters face multiple impediments as they attempt to gain market share, expand operations or achieve superior performance. Thus, for continuing exporters, barriers have an inhibitive effect (Morgan, 1997) because they severely limit the strategic choices available for a firm. Not only do persistent hindrances (Morgan and Katsikeas, 1998) adversely affect performance, they often induce *'managerial re-think'* (Benito and Welch, 1997). Indeed, export barriers are a plausible reason why some firms may discontinue exporting (Crick, 2002).

As such, there are three streams of literature on export barriers. The first stream investigates the prohibitive dimension by comparing non-exporters to exporting firms (Burton and Schlegelmilch, 1987; Katsikeas and Morgan, 1994; Kedia and Chhokar, 1986; Pinho and Martins, 2010; Rabino, 1980). The second major stream focuses on the incessant problems that plague continuing exporters (Da Silva and Da Rocha, 2001; Dean, Gan and Menguc, 2000; Leonidou, 2000; Shoham and Albaum, 1995) while the third and less developed stream, examines perceptions of de-internationalizing firms (Crick, 2002; Leonidou, 1995b). For continuing exporters, the literature identifies three major drivers of perceived export barriers namely; firm characteristics, internationalization pattern and managerial influences. Firstly export barriers are contextual and their impact co-varies with firm ownership (Peel and Eckart, 1996), firm size (Shaw and Darroch, 2004), firm age (Katsikeas and Morgan, 1994), export experience (Leonidou, 2000), and use of I&CT (Bennett, 1997). Secondly export barriers are dynamic (Dean, Gan and Myers, 1998) since they exhibit the evolution (Kedia and Chhokar, 1986) and learning (Sullivan and Bauerschmidt, 1990) that ensues as the firm's level of export involvement escalates along stages of development (Bilkey, 1978; Dean, Gan and Myers, 1998; Dichtl, Koeglmayr and Mueller, 1990; Sharkey, Kim and Lim, 1989; Suarez-Ortega, 2003). Thirdly, barriers are also influenced by managerial characteristics such as skill, knowledge, level of education, language proficiency (Leonidou, Katsikeas and Piercy, 1998), and behavioural elements including export orientation (Campbell, 1996), decision-making style (Shoham and Albaum, 1995), fear (Korth, 1991) and self-attribution (Da Silva and Da Rocha, 2001).

However, a constant criticism of export marketing literature is the general lack of strong theoretical grounding (Leonidou, Katsikeas and Piercy, 1998). With respect to export barriers, several scholars have attributed this to the absence of longitudinal studies designed to uncover temporal limitations (Gripsrud, 1990; Leonidou, 2004; Pinho and Martins, 2010; Suarez-Ortega, 2003). We identified only two such studies that adopt a longitudinal research design to investigate the effect of export barriers (Da Rocha, Freitas and Da Silva, 2008; Tesar and Moini, 1998). We address this gap by examining the influence of perceived export barriers across two time periods, 1995 and 2010. The comparison is based on relationships hypothesized using affect theory.

Affect and Sentiment

Affect comprises moods, feelings, emotions and evaluations that determine perception of stimuli (Tyszka and Przybyszewski, 2006). Affectively-oriented elements evoke a mood or feeling, and as such, affect can be described as being either positive or negative (Flint, Hernandez-Marrero and Wielemaker, 2005). In management literature, a variable that captures the essence of an affective dimension is business confidence. Business confidence is a sentiment measure through which firms can communicate information about current and future business prospects (Santero and Westerlund, 1996). Business confidence data can be collected speedily and tend to be more reliable than hard data since there are free of the vagaries of trends, seasonality, work stoppages or inclement weather (Santero and Westerlund, 1996). Business confidence can thus be used to predict economic growth and sudden shifts in business economic cycles (Holmes and Silverstone, 2010: Santero and Westerlund, 1996). In New Zealand, business confidence is a well-publicized economic indicator (Holmes and Silverstone, 2010) and attracts media, forecaster, industry and policymaker attention (Holmes and Silverstone, 2007). Despite this level of exposure (Holmes and Silverstone, 2007) the explanatory power of business confidence is largely unexplored in the realm of export marketing. In this study we utilize changes in business confidence as a predictor of the influence of perceived export barriers.

The leading business confidence indicators in New Zealand are the National Bank's Business Outlook (NBBO) and the New Zealand Institute of Economic Research's Quarterly Survey of Business Opinion (QSBO). To improve the predictive accuracy using sentiment measures, it is fundamental to focus on the variable of direct interest to the particular study (Silverstone and Mitchell, 2005). As a subset of the overall survey, both the QSBO and the NBBO report sector specific figures that also cover *exporter expectations*. We generate predictions using exporter sentiment during actual times of fieldwork (March, 1995) for t_0 and (March, 2010) for t_1.

According to the QSBO survey, only 16% of New Zealand manufacturing exporters expected export growth in 2010 compared to 24% in 1995. The NBBO survey indicates 25% of exporters expected growth in 2010 down from 35% in 1995. Although the NBBO survey reported a higher level of positive sentiment, both surveys illustrated a greater sense of pessimism in 2010 than in 1995. Da Rocha, Freitas and Da Silva (2008) observed that barriers appear more influential (less influential) when there is a general sense of pessimism (optimism) in the operating environment. On the basis of this premise, we predict that perceived export barriers will have a greater influence at t_1 than at t_0. We propose this exploratory hypothesis with respect to all 42 constraints in this study.

H_1. Affectively, all constraints should be more influential at t_1 than at $t_{0.}$

Data & Methods

We drew two random probability samples, using the same instrument, from the same working population of continuing exporters affiliated with New Zealand Manufacturing and Exporters Association (NZMEA). The initial study (see Myers, 1996) used a mail survey but the second study utilized an electronic survey. The switch from a postal to an electronic approach may lower response rate but does not introduce any systematic bias to the data (Bradley, 2007). Sample sizes of 95 and 129 were obtained for the two periods representing response rates of 34 and 25%, respectively. These response rates are comparable to recent studies involving SME exporters in New Zealand (Dean, Gan and Myers, 1998; Shaw and Darroch, 2004) and elsewhere (Morgan and Katsikeas, 1998; Leonidou, 2000; Patterson, 2004).Analysis to establish whether the influence of all export constraints, had risen in line with the prevailing negative sentiment, was conducted using *independent samples t-test*. Although lacking the rigour of other multivariate techniques, *independent samples t-test* is adequate in an exploratory setting (Hair, *et al*., 2006). For those constraints whose influence increased we also conducted factor analysis to uncover the underlying dimensions.

Results and Discussion

Our findings show that 27 of the 42 constraints investigated in this study increased in influence from t_0 to t_1. Of these barriers, 18 increased substantially as measured by the *t statistic* using *independent samples t test*. In fact, 13 of these barriers had an extremely significant p-value ($p<0.001$) suggesting an exceedingly low probability of obtaining such differences by chance alone. The results of this analysis support our hypothesis that the perceived influence of export barriers would increase in response to negative sentiment. It is also important to note that only six of the barriers decreased substantially in influence.

To get a deeper understanding of the type and nature of constraints whose influence increased between the time periods, we conducted exploratory factor analysis. Firstly, we tested the data to establish suitability for factorial analysis. The *Kaiser-Meyer-Olkin* measure of sampling adequacy was acceptable at .887 and *Bartlett's Test of Sphericity* confirmed that the correlation matrix for the data was distinguishable from the identify matrix (Hair, et al., 2006). The analysis yielded four factors each with an *Eigen value* > 1 and explaining 78% of the variability in the data. Further, we named these factors focusing on the variables with the highest loadings and also referring to barrier clusters found in the literature.

	Component			
Factor	**1**	**2**	**3**	**4**
Internal Resource Constraints				
Insufficient productive capacity	**.784**	.127	.068	.016
Financing exports (working capital)	**.705**	.303	.300	-.085
Lack of skilled and flexible labour	**.697**	.188	.093	.206
Labour cost	**.691**	.054	-.212	.213
Interest rates and inflation	**.538**	-.090	.335	.228
Legal & Political Obstacles				
Foreign tariff barriers	.086	**.853**	-.017	.017
Foreign non tariff barriers	.185	**.803**	.026	.074
Unfamiliarity with foreign laws	.150	**.781**	.068	.101
Inconsistent policy	.373	**.534**	.390	-.065
Foreign government restrictions	.213	**.405**	.341	.128
Foreign Market Factors				
Competing with NZ firms abroad	-.042	-.023	**.767**	.124
Product usage differences	.319	.101	**.668**	.189
Language and cultural barriers	.017	.397	**.509**	.441
Handling export documentation	.108	.294	**.500**	.314
Management Considerations				
Lack of export commitment	.092	.055	.217	**.786**
Low perception of profitability	.416	-.073	.092	**.717**
Lack of management aspirations	-.048	.413	.248	**.418**
Perceived risk of selling abroad	.403	.283	.010	**.403**

Table 1

The results show that the perceived influence of *internal resource constraints*, *legal and political obstacles, foreign market factors* and *management considerations* has increased across the two time-periods. At first glance the emergence of the factor labelled '*internal resource constraints'* appears counter-intuitive. If expectations for growth are poor, then firms should have slack in terms of production capacity, free cash flow and under-utilized skilled personnel. Thus *internal resource constraints* should indeed be less influential. However, the increased influence of *internal resource constraints* may suggest that during times of poor prospects, firms are introspective (and probably more realistic) with respect to resource and capability deficiencies. Moreover, internal resource constraints are a proxy for *liability of smallness* (Hannan and Freeman, 1984), an enduring challenge for SMEs regardless of circumstances. The perceived increase in the influence of *legal and political obstacles* and *foreign market factors* coincides with results in other studies. For example exporters display a self-attribution propensity (Da Silva and Da Rocha, 2001) which preconditions them to ascribe all export woes on perceived unfavourable external circumstances (Barrett and Wilkinson, 1985). The increased influence of *management considerations* may signal how managers engage in increased pessimism and self-scrutiny in the face of challenges.

Conclusion

The premise implicit in the literature, is the assumption that barriers have a cognitive dimension. For example, new and inexperienced exporters should consider *knowledge and procedural* barriers influential due to their '*newness*'. Alternatively, firms operating in environments where export incentives are scarce should also perceive the *lack of export assistance* as an important barrier. While we do not dispute this theoretically compelling argument, our results with respect to *internal resource constraints* illustrate some inconsistency. It is against such findings that our study makes two unique contributions. Firstly we improve on the two previous longitudinal studies on export barriers by utilizing theory to generate predictions. We also employ an exhaustive list of export barriers to test our proposal. Secondly, support for our hypotheses for 18 barriers, suggests that affect may also be a relevant theoretical perspective with which to view the influence of perceived export barriers.

However, caution should be exercised in interpreting and generalizing our results. Firstly the use of a tracking approach in which we drew two random samples from the same working population instead of utilizing a cohort or panel, may have introduced methodological rivals. Secondly, as the literature illustrates, other drivers of perceived export barriers, such as firm factors, path of internationalization and managerial characteristics may also have influenced these results. Thus overall, future studies adopting a longitudinal approach could generate more parsimonious results through the use of a cohort approach and also by adopting more rigorous statistical analytical tools. However, even in the face of these shortcomings, this longitudinal study probably opens a broader dialogue on the drivers and theoretical underpinnings of perceived export barriers.

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