Export Performance:  
A Framework For Comparison Of Regional And Metropolitan Sme Exporters  

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Abstract  

A major concern for the Federal government is increasing the economic viability of regional Australia. Export has been identified as a key means of improving economic viability, however regional Australia face different challenges to metropolitan areas. This paper develops a model to measure the differences between the export performance of regional and metropolitan exporters building on previous research by Cavusgil & Zou (1994) and Styles (1998) to isolate differences between these two groups. The model will refine existing export performance measures and provide a benchmark for export performance theory development.  

Introduction and Background  

Many developed, newly industrialised and developing country governments have identified exporting as a priority (Morgan, 1997) as it contributes to the development of foreign exchange reserves and increasing the level of imports a country can afford (Lages & Montgomery, 2004; Diamantopoulos, 1999). Exporting also provides a vehicle for job creation, improves employment opportunities, contributes to improved standards of living, and encourages better working conditions and more efficient business (Lages & Montgomery, 2004; Department of Foreign Affairs and Trade, 2002a). At a micro level exporting helps firms reduce their dependence on their domestic market and enjoy faster sales, employment growth, and a higher rate of success and long-term viability (Australian Bureau of Statistics, 2000; Lages & Lages, 2004). It has also been argued that export market development is becoming “more a matter of survival rather than a matter of choice for Australian exporters” (O’Cass & Julian, 2003).  

The Australian Government has committed itself to doubling the number of Australian exporters by 2006 (Department of Foreign Affairs and Trade, 2002b). From a regional perspective the Government has recognised that much of our current economic success has come from rural and regional areas of Australia but the benefits of this economic growth have not flowed evenly across Australia (Department of Foreign Affairs and Trade, 2002a). Exporting is fundamental to sustaining Australia’s regional districts as exporting provides jobs, income, infrastructure and production facilities that in turn provide benefits for regional areas (Department of Foreign Affairs and Trade, 2002a). It has become increasingly important to the Australian Government to identify strategies that assist regional exporters to succeed in the international market as it has been suggested that regional exports account for approximately one in four jobs and generates approximately 27 per cent of income in regional Australia (Department of Foreign Affairs and Trade, 2002a). As both the Federal and State Governments have increased their focus on regional and rural issues over the past five years, it would be beneficial to isolate the factors that impact on export performance in regional economies to better equip decision makers to allocate resources and provide a base from which to anticipate future economic policy decisions. Recent research suggests that Australian regional exporters experience distinct disadvantages or barriers compared to their metropolitan counterparts due to transport infrastructure, freight costs and difficulties in attracting professional and experienced staff (Department of Foreign Affairs and Trade,
2002a). Furthermore, Rundh (2001) found that a major barrier for SMEs to exporting is the economic distance to the market.

For the purpose of this research small business as defined by The Australian Bureau of Statistics (2000) are those that employ less than 20 people and medium business as those that employ 20 or more people but not more than 200. Metropolitan exporters will be defined as an exporting firm residing in the greater metropolitan regions of Australia. Regional exporters are those exporters that operate from areas outside the six State capitals, Canberra and the four large urban centers located close to large State capitals being Newcastle, Wollongong, Geelong and the Gold Coast. SMEs are increasingly important in many economies as they play a critical role in the economic development and security of a country’s growth (Hill, 2001; Lages & Montgomery, 2004). Exporting is now the preferred mode of internationalisation for these firms (Lages & Montgomery, 2004). Studies have consistently reported SMEs display the operational flexibility to pursue export ventures (Morgan, 1997). In order to improve Australia’s export performance it is important to better understand and appreciate the determinants of export performance and thus export development of SME Australian exporters (O’Cass & Julian, 2003).

Styles (1998) argues that significant advances in developing export specific theory are hindered unless researchers undertake a more collaborative approach. As a result, this research develops an export performance model that builds on existing export performance research to facilitate the analysis across regional and metropolitan exporting environments. Current empirical research of export performance has lacked the comparative evidence that this research poses. Are there in fact different challenges faced by regional and metropolitan exporters? If so, what are these challenges? This paper represents the initial stage of theory development for answering these questions by developing a framework incorporating previous research that will include additional variables to measure the Internal Factors impacting on export performance.

**Existing Theoretical Frameworks**

Cavusgil & Zou (1994) analysed export performance by evaluating internal forces to the firm (firm characteristics and product characteristics) and external forces (industry characteristics and export market characteristics). Export performance is determined both economically and strategically and therefore reflects the extent to which the firm’s strategic and economic objectives are attained. The authors proposed a set of potential determinants of export market performance with the unit of analysis the individual product-market export venture as opposed to previous research that identified the firm or a business division as the unit of analysis. However, the sample population was extracted from United States (predominantly large organisations). Valos & Baker (1996) compared and contrasted the Australian and international literature that examined the determinants of export performance and developed a model to establish why Australian exporters performed poorly compared to other countries. The model examined both tangible (distribution, product, customer contact, control, R&D, technology, supplier and finance) and intangible (attitudinal, skill, and knowledge) export performance determinants. The authors suggested that future research should consider information and long-term versus short-term orientation as specific variables that impact on export performance. Styles (1998) refined the model developed by Cavusgil & Zou (1994) and tested the cross-cultural validity of the export performance model across Australia and UK exporters. In line with Cavusgil & Zou (1994) the unit of analysis was an export venture
but the focus was on SMEs and not large organisations (Styles, 1998). This model has yet to be further tested across cultures to include non-English speaking countries to validate measures of export performance. Zou, Taylor & Osland (1998) attempted to develop a generalised export performance measure, (EXPERF) that can be applied to multiple countries utilising three key dimensions for measuring export performance: financial, strategic and satisfaction. The study of US and Japanese exporters found support for the EXPERF scale but further testing needs to be conducted to develop a uniform export performance theoretical framework (Zou, Taylor & Osland, 1998). Ogunmokum & Ng (2004) explored the different factors (motivation to export, firm characteristics, marketing expertise, managers attitudes, managers personal characteristics, marketing strategies, exporting specific problems) encountered between SMEs with a high level of export performance compared to SMEs with a low level of export performance. This study did not incorporate a comprehensive analysis of the external forces that may impact on a firm’s export performance. Leonidou (2004) analysed previous empirical studies conducted from 1960-2000 to establish the barriers that impeded the export development of small business including variables such as internal barriers (informational barriers, functional barriers and, marketing barriers) and external barriers (procedural barriers and environmental barriers).

Export performance has long been a construct of central interest in the international marketing literature. While the above developments are undoubtedly important in terms of improving theoretical soundness of export performance research there is little evidence, in relation to understanding the measurement of export performance across metropolitan and regional exporters. This paper proposes to further refine the EXPERF scale and test it on both metropolitan and regional exporters as shown in Figure 1. The EXPERF scale is considered the most comprehensive export performance scale (Styles 1998). The EXPERF scale previously known as the C & Z scale as it was first developed by Cavusgil & Zou (1994) is a conceptual framework for measuring export market performance. The framework hypothesizes that export marketing strategy is determined by both internal and external forces. Building on this concept, export performance is thus determined by the export marketing strategy implemented by the firm along with internal characteristics of the firm (size, commitment, capability, experience) and the external environment of the export market (government, foreign competitors, technology intensiveness) (Cavusgil & Zou, 1994).

**Figure 1: Proposed Theoretical Framework**

*ITALICS/BOLD INDICATE MODIFICATIONS*
The new internal factors incorporated into the EXPERF scale and depicted in Figure 1 are Procedural Skills, Long Term versus Short Term Orientation, Global versus Regional Focus, Information Access and Logistics.

**Procedural Skills:** Procedural skills focus on the operational aspects of export transactions. Three key issues are unfamiliarity with export procedures and documentation, poor communication with international customers and payment methods or managing the collection of payments (Leonidou, 2004; Valos & Baker, 1996). Previous research has identified that a lack of procedural skills has a high obstructive effect on export performance (Leonidou, 2004; McAdam, McConvery & Armstrong, 2004; Westhead, Ucbasaran & Binks, 2004) and more importantly, firm specific resources can be an important source of competitive advantage (Katsikeas, 1994).

P1: The level of procedural skills will impact on the level of export performance.

**Long-term versus short-term orientation:** Research has concluded that Australian exporters should place more emphasis on a long-term focus rather than just short-term as this could have an impact on developing future export opportunities and increasing revenue (Roberts & Styles, 2001; Valos & Baker, 1996; Lages & Lages, 2004). A short-term focus means that little attention is given to developing future export opportunities and revenue growth for the exporter (Roberts & Styles, 2001). McAdam, McConvery & Armstrong (2004) argue that SMEs specifically in peripheral areas need to take a long-term approach rather than a short-term “fix” initiative.

P2: Long-term verses short-term orientation will impact export performance.

**Global versus Regional Approach:** Internationalisation is the process whereby firms increase their involvement in international business (Chetty & Campbell-Hunt, 2003). Studies on Internationalisation of SMEs shows that, because of the lack of knowledge about foreign countries and an inclination to shun uncertainty, the exporting firm starts exporting to neighbouring or regional countries that are comparatively well-known and similar with regard to business practices and processes explanation (Fillis, 2001; Rundh, 2001). Firms therefore tend to export initially to those markets that are familiar and/or similar in terms of “history, culture, and industrial economic development”, where barriers to information retrieval are low and where resource commitment can proceed incrementally (Albaum, Duerr & Strandskov, 2005). Katsikeas (1996) also argues that the level of internationalisation of an SME may depend on whether exporting firms are regular or sporadic participants in overseas market activities. This research will assess and compare the extent to which sample firms have internationalised their overseas activities.

P3: Regional exporters tend to limit export activities to regional locations compared to Metropolitan exporters.

**Information Access:** Information barriers refer to problems identifying, selecting and contacting international markets due to inadequate and/or insufficient market information. In many instances exporting firms face challenges in identifying export opportunities and conducting research into foreign markets (Leonidou, 2004; Valos & Baker, 1996). The extent to which and how information is used can therefore play a significant role in a firm’s level of export performance (Diamantopoulos, Souchon, Durden, Azinn, & Holzmuller, 2003). More importantly, exporters often cite lack of information as a major barrier to entering new markets (Souchon & Diamantopoulos, 1999). Information has long been acknowledged as a key factor that influences a firm’s export performance as it reduces uncertainty to which exporters are exposed (Toften & Rustad, 2004).
P4: The export performance of firms is positively related to information access.

Logistics: Developing distribution strategies incorporating the additional logistical elements (transportation delays, adequate warehousing facilities and insurance costs) for physical distribution activities are relatively more complex when exporting. This is due to the passage of goods across national boundaries, shipment by ocean going vessels or international airlines and the time and distance required to complete the transaction (Albaum, Duerr & Strandskov 2005; Leonidou, 2004). These elements may give rise to a number of disadvantages for regional exporters due to lost sales and profits from both potential and existing customers and extra costs associated with using faster transportation to send goods offshore (Leonidou, 2004).

P5: Logistic challenges faced by exporters will affect export performance.

The newly proposed internal factors being Procedural Skills, Long Term versus Short Term Orientation, Global versus Regional Focus, Information Access and Logistics will be tested to verify if in fact regional exporters are placed at a disadvantage compared to metropolitan exporters.

P6: P1-P5 together will impact on the level of export performance of exporters.

Export Performance: The unit of analysis for this research will be one product and one market. This overcomes the potential issues that may arise from attempting to measure the firm level of export performance (Cavusgil & Zou, 1994). For example the firm level export performance does not take into account the variability of performance in which some export ventures within the firm are more successful than others (Zou, Taylor & Osland, 1998; Sousa, 2004). Export performance will be measured on three dimensions across regional and metropolitan exporters. They include financial export performance, strategic export performance and satisfaction with the export venture (Zou, Taylor & Osland, 1998). By measuring satisfaction with performance Lages & Montgomery (2004) argue that the analysis will encapsulate the degree to which performance has matched the goals of the firm. Including various performance measures also helps overcome the complexity of measuring export success (Lages & Lages, 2004).

Conclusion

Understanding the challenges faced by exporters is of ongoing interest to policy makers, potential and practitioners. This research will attempt to fill a gap in the current literature by comparing regional and metropolitan exporters. Additionally, this comparative data will provide researchers with basis for future research. Zou, Taylor & Osland (1998) argue that the adoption of the EXPERF scale by future researchers across the world will lead to the advancement of theoretical knowledge. Finally, this research will assist in developing a broader export performance measurement scale to specifically look at the validation of export performance across different export locations within a nation that has not previously been developed and tested in the literature.


