

A Model to Evaluate the Readiness of Iranian Enterprises to Gain Entry to International Market (The Most Locally Responsive Skills Required for Export Markets)

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Abstract: The purpose of this paper is to build a theoretical framework that identifies the important skills for successful export from different business areas and make an empirical ranking of their importance. A survey containing 72 practical export skills, selected from the existing literature, was sent to 153 Iran exporting companies in East Azarbayjan Province of Iran. With the factor analysis, six skill categories were identified and 49 skills were found more important. The findings show that skills in international finance and risk management, international trade regulations and international trade research were viewed as being more important.

Key words: International business • International marketing • Iran • Practical export skills

INTRODUCTION

Exporting positively affects levels of employment, foreign exchange revenues, industrial development and national prosperity, whilst also improving the performance of companies - profitability, sales volume and market share. Thus, with the expansion of globalization and economic integration among countries, exporting became an important internationalization strategy for companies and national economies.

To be competitive in overseas as well as domestic markets, company managers should understand the various practical Export skills and their effects on company export performance. Success of companies in international markets depends to a large extent on the level of knowledge and skill they bring into their international marketing activities.

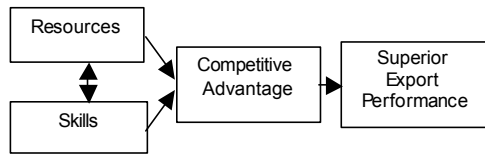
Although some researchers [1-8] have confirmed that the practical skills are important for successful export, the lack of export knowledge and market information was observed for firms in many countries as documented by Hendrych [9], Reid [10], Gancel [11] and Valos *et al.* [12].

Unfortunately, no research exists attempting to identify and rank fully the practical skill requirements of the Iran exporting firms. (The majority of the studies have taken place in the USA and Europe, with a very small number focusing on such developing countries as Brazil, Greece, Cyprus, Lebanon, China and Turkey. There is still

a need for studies from developing countries). Therefore, this study will address the question of “which practical skills are important to successful exporting of Iran companies?” This study firstly aims at building a theoretical framework that identifies the important skills for successful export from different business areas and making an empirical ranking of their importance. Second, it can serve as useful information for the exporting companies and government trade promotion agencies to improve their existing skill training programs. The skills importance rankings can also be used to guide the resource allocations.

Literature Review and Research Background: A significant and increasing body of literature addresses the importance of practical skills to successful exporting. Acquisition and utilization of export skills is a central capability of exporters to achieve long-term success [3], [13]. It is also a key source of sustainable competitive advantage [14]. Despite of the high awareness of its importance, the lack of export knowledge and market information was observed for firms in many countries [9], [14, 10, 12]. It was found that no matter how successful the firm was, it did not feel confident enough about the procedural expertise [15].

Piercy *et al.* [4] provide a more direct linkage between exporting skills and export performance. Their model of Sources of Superior Performance in Exporting is presented



Source: Piercy, Kaleka and Katsikeas [18]

as Figure 1. The model shows competitive skills in exporting to be a main contributor, along with competitive resources in exporting, to the firm's competitive advantage. It is this competitive advantage which, in turn, produces superior export performance. Moreover, Piercy *et al.* [4] found in their study of UK exporters that large gaps exist between high and low export performers in the possession of these critical competitive skills in exporting.

Although not specifically addressing the issue of practical export skill importance, Kaynak [2] did report on exporter perceptions of important cost differences The Importance of Practical Export Skills 11 between domestic and export markets as well as perceptions of major barriers to export marketing. Costs associated with selling, packing and handling, shipping, insurance, risk management and managerial time required to locate customers, negotiate sales and provide after-sales service were all ranked as being higher for exports than domestic sales. Likewise, credit limitations, price and quality limitations, delivery problems, freight costs, currency fluctuations and limited local market knowledge were ranked as important barriers to export marketing. The higher costs and greater perceived barriers associated with these practical skill areas suggest that these firms would view these practical skills as important to their exporting success.

Some work has directly attempted to identify the particular skill set required to implement export strategies. Kedia *et al.* [1] surveyed 96 small and medium-sized firms—both exporters and non-exporters drawn from a broad cross section of unrelated industries—and asked them to rank 20 export-related skills. Each skill was scored in terms of perceived importance and perceived difficulty in overcoming. As they defined their export skills in broad terms such as “complying with government regulations,” “knowing how to market overseas,” and “minimizing foreign exchange risk,” the question of just what specific skills were being measured arises. However, their results indicated significant differences in the perceived importance and abilities between exporters and non-exporters—a finding consistent with the Kotabe *et al.* [15] view that export training needs vary among exporters in different stages of export development.

To support the export performance of Canadian firms, the Forum for International Trade Training (FITT) was established in 1992 with public funding and trade, labor and industry association sponsorship to provide practical export skills training. The FITTskills Certificate Program covers the following areas:

- Global Entrepreneurship: awareness of the international business environment including the role of GATT/WTO and other multilateral institutions, trade rules, bilateral trading relationships, tariff treatments and international business planning.
- International Marketing: export marketing principles, market research, market entry strategies, promotional strategies and pricing.
- International Finance: risk analysis, export costing, processing international payments, financing trade, exchange rate management and cash flow planning.
- International Trade Logistics: trade documentation, transportation, health and environmental issues and customs procedures.

Ross *et al.* [3] Compares the practical export skills needed by Canadian Agribusiness for sales to the U.S. with those for overseas markets. Seventy skills in global entrepreneurship, international marketing, international finance and international trade logistics were ranked and used to gauge the influence of export market on practical international trade skills. They found that practical export skill requirements vary substantially by firm and export market and basic management, marketing, finance and shipping skills are most important to successful agri-product exporting. Instead of Advanced skills in strategic management, export marketing and export finance are not important to most exporters [3].

Ting *et al.* [8] compare the important export skills in different export stages. They surveyed 800 Chinese exporting companies and asked that to rank 88 export-related skills. They identified eight skill categories and found 56 skills more important with the factor analysis. Three results showed that international trade policy and regulations, international payment terms and international trade research were the most important area skills for the Chinese exporters. Likewise, they found that in the higher export stage, skills in international marketing and international trade logistics were viewed as being more important. However, a firm in an early export stage showed more concerns on international trade policy and regulations, international finance and international trade

research. Firms with rich export experience viewed strategic management in international trade as being more important than those with less export experience. International payment terms were considered to be very important by firms across all export stages [8].

MATERIALS AND METHODS

The Sample and Data Collection: The research sample consists of manufacturing companies in the East Azarbayjan Province, Iran. This region is Iran's First-most important in terms of the export volume. In 2008, East Azarbayjan Province generates 18 percent of the country's total non-oil exports and 16 percent of its manufacturing exports.

The questionnaire was prepared after a detailed study of the literature and also discussions with five company export managers, following which it was reviewed by four academics in the field of export marketing to evaluate the measures used in the study. After making modifications based on the feedback received, a personalized letter and accompanying questionnaire were sent to export managers and/or firm owners in the 153 companies (Total of exporting manufacturers). 112 of which agreed to participate in the research; therefore, the study achieved a 73 percent response rate.

The Instrument: The survey instrument used for this study was developed through a comprehensive review of the export-related literature. It takes the form of a structured questionnaire consisting of two major parts. The first part collected information on the company's characteristics. The second part referred to the importance evaluation of 72 export skills to successful exporting activities. Five point scales, anchored by 1 = Not Important to 5 = Very Important, were used to measure export skills importance. Among the 72 skills, 52 skills were drawn from Ross *et al.* [3], 14 skills were taken from the Canadian Forum of International Trade Training (FITT) skills presented on the FITT website and the remaining 6 skills were selected from other resource. All the skills were initially grouped into five focus areas covering: international trade logistics, international finance and risk management, international marketing, international strategic management and International trade regulations. Prior to the commencement of the fullscale study, the questionnaire was administered to ten exporting companies in Iran. This step of pilot test ensured that the ambiguity of wording was minimized.

Corrected item-total correlations were examined for each set of items. Items not having a corrected item-total correlation more than 0.50 were removed [14]. The remaining measurement items were subjected to exploratory factor Analyses with Varimax rotation to reduce the items to a smaller set of variables with items exhibiting low-factor loadings less than 0.50 eliminated. Confirmatory factor analysis CFA is then used to confirm and where necessary to modify, this factor structure using AMOS 16.0. Reliability of factors were examined using Cronbach's alphas, item Reliabilities, composite reliabilities and average variance extracted (AVE) to assess the internal consistency of multiple indicators for each construct [14, 16, 17, 18].

RESULTS

Profile of Companies in the Sample: Table 1 presents the general profile of the respondent companies. Almost 37.5 percent of the companies in the sample include companies with 50 employees or fewer and 22.3 percent are companies with 101-200 employees. Almost 65.2 percent of manufacturing companies are in Food and tobacco products and Textile, leather and leather products sectors. The majority of the companies (84 percent) have ten years or less than ten years of export experience and almost 83.9 percent of manufacturing companies export to Less than five countries.

Determining the Relative Importance of Export Skills: As stated earlier, the 72 items assessing the importance of export skills were divided into five separate categories. Corrected item-total correlations were examined for each set of items with the results suggesting that fifteen items be deleted because they were less than 0.50. For the factor analysis, Varimax rotation was performed on the remaining 57 items. Following Hair *et al.* [17] and Ryu *et al.* [19], eigenvalues and variance explained were used to discover the number of factors to extract. Based upon the first exploratory factor analysis, eight items with low-factor loadings (less than 0.50) were eliminated. A second exploratory factor analysis was performed with the results shown in Table 2. Eigenvalues were all greater than 1.0.

As illustrated in Table 2, The factor analysis extracted six factors from all the 49 variables. These six factors extracted together account for 69.1 per cent of the total variance. These six extracted factors were described as: international finance and risk management, international marketing, international strategic management, international trade logistics, international trade research,

Table 1: Profile of exporting manufacturing companies

	F	P
<i>Firm size (employees)</i>		
50 employees or fewer	32	28.6
51-100 employees	22	19.6
101-200 employees	25	22.3
201-500 employees	22	19.6
501 employees or more	11	9.8
<i>Years in business</i>		
Five years or less	12	10.7
6-10 years	34	30.4
11-15 years	25	22.3
16-20 years	20	17.9
20 years or more	21	18.7
<i>Years in exporting</i>		
Five years or less	63	56.3
6-10 years	31	27.7
11-15 years	12	10.7
16-20 years	4	3.5
20 years and more	2	1.8
<i>Sectors</i>		
Food and tobacco products	35	31.3
Textile, leather and leather products	38	33.9
Fabricated metal products, machinery and equipment	11	9.8
Chemicals, petroleum, plastics and rubber	9	8.0
Other industries	19	17.0
<i>Number of countries exported to</i>		
five countries or Less	94	83.90
6-10 countries	14	12.50
11-15 countries	3	2.70
16-20 countries	1	0.09
More than 21 countries	0	0.00
Total companies in sample	112	100.00

international trade regulations. It appeared that the initial classification of export skills into five broad-skill areas was not exactly consistent with the concerns of the Iran exporters. Consequently, one additional area was defined. It was international trade research that included a subset of four skills originally derived from international marketing in Ross *et al.* [3].

The factor loadings ranged from 0.51 to 0.81 for the 49-items indicating good correlation and the Cronbach alpha ranged from 0.79 to 0.93, suggesting good internal consistency of items.

The ten important export skills for Iran's exporting companies are:

- Can determine best payment terms for an export sale (*finance skills*).
- Can find foreign market needs for Iran products (*research skills*).
- Know how to document the letter of credit (*finance skills*).

- Know Iran regulations affecting exporters (*regulations skills*).
- Can gather and use credit information on foreign buyers (*finance skills*).
- Know impact of various tariff treatments on my firm's exports (*regulations skills*).
- Can get information to profile potential export customers (*research skills*).
- Can get country profile information for export target markets (*marketing skills*).
- Can access export opportunities with Iran government (*strategic management skills*).
- Know methods to speed up international cash flow (*finance skills*).

Skills related to international finance and risk management are viewed as the most important skills for Iranian firms' successful export. Four of such skills are in the top 10 skills list, including "can determine best payment terms", "know how to document the letter of credit", "Can gather and use credit information on foreign buyers and" and "Know methods to speed up international cash flow". It suggests that the Iran firms are extremely concerned about the safety of their export proceeds and financial issues are critical to export success. This result may be due to the Iran companies are in early export stage, small (56.3 percent of studied companies have less than five years exporting experience and 83.9 percent of them are exported to less than five countries) and have no sufficient resources to support export activities. So, Iran companies have more attention to international finance and risk management skills. This conclusion is consistent with the result of Kotabe *et al.* [15], Batten *et al.* [20] and Ting *et al.* [8].

Movement toward a higher level of financial expertise-such as knowing more elaborate foreign exchange risk management techniques, understanding specialized country risk reports and repatriating blocked funds-was considered to be of very low importance. The low mean scores assigned to these advanced skills by the Iranian companies are consistent with the Ross *et al.* [3] and Batten *et al.* [20] findings that larger firms were more likely to use these techniques.

Likewise, Iran exporters placed the more importance of international trade research skills for their export success. This finding is consistent with result of Li [5] that state knowledge about foreign markets is of great importance to the Chinese exporters and, is also consistent with the findings by Ross *et al.* [3] for Canadian Agribusiness exporters and Ting *et al.* [8] for Chinese exporting companies.

Table 2: Exploratory factor analysis of practical export skills items

Practical export skills factor (alpha)	Factor loading	Eigen value	Variance explained	General ranking	Mean value
<i>1. international finance and risk management skills (alpha = 0.912)</i>					
		11.77	20.65		
Can determine foreign exchange risk for exports	0.674			40	3.43
Can gather and use credit information on foreign buyers	0.713			5	4.05
Can use forward contracts in foreign exchange management	0.629			46	3.21
Can manage blocked funds	0.652			38	3.48
Know constraints on international pricing	0.721			36	3.54
Can prepare a cash budget for an export sale	0.662			42	3.39
Can use country risk reports	0.650			53	3.01
Know how to manage international assets and risk	0.668			32	3.61
Know how to document the letter of credit	0.705			3	4.12
Can determine best payment terms for an export sale	0.711			1	4.15
Know methods to speed up international cash flow	0.691			10	3.92
<i>2. international marketing skills (alpha = 0.934)</i>					
		9.16	16.07		
Can assess my product's suitability for export market	0.717			15	3.81
Can develop a comprehensive export marketing plan	0.599			22	3.72
Can tailor promotional strategies to foreign market needs	0.605			31	3.63
Can get information on target regulations	0.691			14	3.88
Can get information to prepare competitive profile for exports	0.715			21	3.74
Can get information to profile potential export customers	0.761			7	3.98
Can quantify additional costs related to export markets	0.618			28	3.35
Can get information to prepare market penetration plan	0.713			41	3.41
Can get country profile information for export target markets	0.694			11	3.91
Know when product adaptation necessary for export markets	0.714			47	3.27
Know various export pricing options and approaches	0.694			13	3.88
Know how to use foreign agents to enter export markets	0.614			27	3.67
Can use a trading company to enter an export market	0.609			30	3.64
<i>3. international trade logistics skills (alpha = 0.874)</i>					
		6.72	11.79		
Can arrange warehousing for exports	0.778			33	3.57
Know how to arrange shipping insurance for exports	0.592			50	3.13
Can arrange shipments for exports	0.689			35	3.56
Understand use of export declaration form	0.618			26	3.68
Understand the use of certificates of origin	0.811			20	3.74
Know how to pack goods for export	0.672			12	3.89
Know how to label goods for export	0.646			24	3.68
<i>4. international trade regulations skills (alpha = 0.851)</i>					
		5.23	9.17		
Know Iran regulations affecting exporters	0.589			4	4.07
Know impact of trade rules, e.g. countervail and anti-dumping	0.695			37	3.52
Know the effect of free trade areas and customs unions	0.812			43	3.37
Know impact and regulations of World Trade Organization (WTO)	0.714			16	3.79
Know INCOTERMS (e.g., CIF, FAS)	0.712			18	3.78
Know environmental regulations for exports	0.626			48	3.22
Know health and safety regulations for exports	0.599			45	3.31
Know impact of various tariff treatments on my firm's exports	0.707			6	3.99
<i>5. international strategic management skills (alpha = 0.832)</i>					
		4.96	8.7		
Know how to manage the competitive advantages	0.668			19	3.75
Can develop the export strategic plans	0.711			59	2.79
Can define my firm's international objectives	0.603			52	3.111
Know how to work effectively with foreign cultures	0.615			23	3.7
Know how to manage strategic alliances	0.591			56	2.89
Can access export opportunities with Iran government	0.701			9	3.96
<i>6. international trade research skills (alpha = 0.795)</i>					
		1.55	2.72		
Can do primary market research in export target markets	0.624			25	2.79
Can find foreign market needs for Iran products	0.801			2	4.13
Can identify our competitive advantages in the export market	0.675			8	3.97
Can use of internet	0.741			17	3.78

Furthermore, skills related to international trade regulations are viewed as one of the most important skills for Iran companies' successful export. Companies in the early stage of exporting regarded this kind skill of great importance. This result is consistent with the finding of Ting *et al.* [8].

Confirmatory Factor Analysis: Confirmatory factor analysis using the 49 items was performed to verify the factor structure in the proposed scale [18, 19]. A number of widely used goodness-of-fit statistics consistently indicated that the confirmatory factor model satisfactorily reflected a good fit to the data (NFI = 0.91; TLI = 0.93; CFI = 0.94; RMSEA = 0.065). In addition, measurement equations showed acceptable levels of item squared multiple correlations for each of the 49 items, ranging from 0.56 to 0.94, indicating acceptable levels of reliabilities [17].

According to the confirmatory factor analysis, the measures indicated unidimensionality as the indicators shared only a single primary construct and were loaded as expected with minimal cross-loadings [21, 22].

Cronbach's alpha estimates, ranging from 0.79 to 0.91, were acceptable [18] and the standardized factor loadings, ranging from 0.40 to 0.83, met the minimum criterion of 0.40 [18]. The composite reliabilities of constructs ranged from 0.81 to 0.94.

Conclusions and Limitations: It is imperative the exporting company understands the practical export skills that matter most to success in export activities. This allows management to put their resources to obtain important skills.

The major purpose of this study was to identify the important export skills for Iran companies' successful export. This identification will help export companies and government trade promotion agencies to improve their export skills training programs and strengthen their competitive advantages in the foreign markets.

This study with the principal components analysis, six focus areas for 49 skills were identified. The six focus areas were:

- International finance and risk management;
- International marketing;
- International Strategic management;
- International trade logistics;

- International trade research; and
- International trade regulations;

In general, it was found that International finance and risk management, international trade regulations and international trade research were the most important area skills for the Iran exporters.

Iranian exporters must ability to determine best payment terms for an export sale as well as ability to find foreign market needs for Iran products and know how to document the letter of credit and Know Iran regulations affecting exporters. Key skills also include the ability to gather and use credit information on foreign buyers, know impact of various tariff treatments on my firm's exports, ability to get information to profile potential export customers and ability to get country profile information for export target markets.

However, Iran exporters in this study paid less attentions on the skills related to international Strategic management, international marketing and international trade logistics. This finding is consistent with small and medium-sized exporters generally focusing their effort on the actual production and supply of their products.

Iranian companies in the study are still at an early stages, thier size are small and medium and have no sufficient resources to support export activities, so they need to government aid to promote level of their export skills and to Growth their exports.

This research is an early attempt to address the important export skills in successful export of Iranian companies. It can be beneficial to exporting managers, academicians, training institutions and governments in developing countries. However, there still exist some limitations. The data used in this study are derived from companies in East Azarbayjan Province of Iran which may not be generalized to fit the broader universe of all exporting companies. Anational or multinational sample would undoubtedly enhance the applicability of the findings. In addition, the majority of Iranian exporting companies are still in the initial stages of export expansion, so The results may is not very useful for firms that are in the higher export stage and with rich export experience. In addition, future study may focus on "best practice" of Iranian firms that developed export performance in terms of acquiring export skills. Finally, the effects of practical export skills on firms' export performance should be measured with advanced statistical techniques in the future studies.

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