# Studying and Ranking the Factors Affecting Internationalization and Export Performance

## (Case Study: Detergent Industry in Tehran)

**Somayeh Najafi, Gashtasb Mozafari**[*]

*Department of management, Buinzahra Branch, Islamic Azad University, Buinzahra, Iran*

[*]Corresponding Author Email: gashtasb_mo@gmail.com

**ABSTRACT:** One of the ways to expand companies market share is export development which means, in order to expand their markets, companies should extend their exports to other countries. Although development through export is very difficult, considering the intense competition in the international level, but on the other hand it can lead to development of the companies in every aspect. Various factors have an effect on the export development and companies 'internationalization. In this research the variables include Laws and regulations, the banking system, variable standardization, training, and export program. In this research, factors affecting export development of detergents manufacture companies in Iran have been studied. For this purpose, in this study, analysis of structural equation was used as a research methodology. The information was gathered from 205 experts. The result indicates that the factors such as export laws and regulations, banking system for financial security of export companies, health licenses, and also training are effective.

**Keywords**: Market Expansion, Export Development, Internationalization, Export Performance, Ranking, Detergents Industry.

## INTRODUCTION

In the global trade system, export is of great importance and basically, is used by manufacturers to enter the external markets, especially companies which are in their early steps in the internationalization process. Therefore, the companies who intend to enter the global market should decide on their strategy for entering these markets. In global competition, creative methods for entering the markets, guarantee the long-term presence in the market. Choosing the best method to enter the external markets depend on the diverse factors which should be considered before entering the external markets. Some of these factors are internal and belong to a specific company or industry. Another set of factors which are irrelevant to the company and industry, can be names as the external factors, such as foreign countries' laws and the amount of risk. From international marketing perspective, the different methods of entering the market are indicating control levels, commitment, partnership, and risk. Therefore, the vital decision on this issue depends on how to procure the product, specially, whether to export or to manufacture locally. The second notable issue is the degree of involvement (Aaker, 1979).

Selection of entering method is to select institutional rules for organizing and implementing international business transactions (Bagozzi, 1977). In particular foreign market, choosing the method of entry is considered one of the most important decisions in international marketing. The preferred method determines the involvement of foreign companies in the development and deployment of applications in the external markets, the control of the marketing mix, and the success rate in the target markets. Managers, who are involved in export markets, first consider the decision on the choice of method of entry to the market, to develop their foreign relations. Many forms of entry to join external markets are available for the companies. The decision about selecting strategies for entering international markets is complicated, first because of the dynamic and complex nature of the entry methods, and second, because of the impact of different variables on the issue. Therefore, it is essential that the important strategic variables in the type and method of entry to international markets be identified. Small and medium enterprises have a major impact on the economy and mainly are the leaders of job opportunities, employment, and revenue. Small industries have played an important role in industrial development. New firms, and naturally small, in every industry changes the industry with its products and finally limits the market power of strong firms. This reality represents another important fact, and that is the need of an economy for small and medium[1] enterprise to grow and develop.

Over the past two decades, detergent industry, with its staggering growth and success to leave clothing and footwear industries behind, earned the first place in the world's light industry, and it is called an early return, growing, surging, with a high value added, and employment industry. Thus, the detergent industry has a significant share in world trade. As a result, Growth and development of the industry and providing meaningful presence in global markets can have a significant impact on increasing GDP (gross domestic product) and non-oil revenue for the country (Bollen,2014; Erdil, 2014). This industry now accounts for about 2 percent of global trade transactions and its rates increases every year. Unfortunately in recent years, due to structural problems in the production, marketing and export of Iranian products have seen a decline in Exports and upward in imports in detergent industry. Also, this industry hasn't been able to stabilize its strategic and crucial position in our country's industry. While developing countries such as China, Malaysia and Turkey have targeted domestic and export markets around Iran by providing global markets. Survey in the field of detergent companies in our country indicates that issues such as structural problems in the production, marketing and export exists (Bagozzi, 1988).While the achievement of economic internationalization has reduced trade and investment obstacles, in the meantime, SMEs still face a number of barriers for entering global markets and internationalization. Small and medium businesses still don't have a unified operating definition with the ability to generalize to different types of enterprises in diverse areas of businesses in different countries. In the overall vision SMEs in all sectors, refer to companies that are not larger than a normal size.

In order to measure the size of a company, indicators such as profit, cash investment, the total balance sheet, income, total assets, market position, the amount of production and sales, number of employees and cash in circulation, is used. Because of the simplicity, adaptability and practicality, classification of these firms is based on four major indices performed as follows:

First- the number of the firm employees

Second- total net assets of the firm

Third- the amount of sales level

Fourth- the amount of firms' investment

Although these firms require fewer investments, they have higher productivity and job creation and play a significant role in creation of favorable environment for innovations, invention and the increase of countries' exports. In many countries, SMEs are the main providers of new occupations and the cradle of development and innovation and pioneers in invention of new technologies. On the other hand these industries, because of their unique properties, can have great attractions for the private sector. This subject, depending on local conditions, the economy, legislation and support policies in different countries, has been introduced as a successful model for scientific and industrial empowerment. The small companies are moving towards internationalization and it is reported that they are present in 25% to 35 % of the world's exports. Moreover, export, for small countries, is the most important method to participate in the global market but still, many of these companies in the developing countries are not exporters or even considering it. They overlook this reality that export doesn't require huge investments and there are fewer financial and commercial risks in the external market comparing to some of the direct investment types. Many of the previous studies on internationalization focus on multi-national or big companies. Moreover, survey on research in the field of export barriers which SMEs are facing in developing countries shows that there hasn't been much extensive research in this area. From the geographical perspective, the majority of research on issues related to Exports more have taken place in America and Europe. As a result, little research has been done on small business and export development in the Middle East (Charoensukmongkol, 2014; Kumlu, 2014).

Internationalization has caused SMEs to face numerous challenges and threats. Even in developed countries, a few SMEs are trying to achieve export competitiveness without government support. In Iran, Public policy makers and donor agencies to Exports should play an active role in raising export activities among local companies. This should be pointed out that if the exporting companies barriers are identified, then the authorities can have a more effective protection over these companies and overcome these problems.

**Literature review**

Ardil (2014) in a research on the role of relation quality of foreign intermediaries on the on the export performance, reviews the companies in Turkey. Foreign broker relationship is one of the most important issues in the analysis of export performance. This study examines the effects of the relation quality of foreign intermediaries on Exports performance. Relying on the literature of the subject, effects of cooperation, trust and commitment on Exports performance has been analyzed. Using survey data from 104 managers working in exports organization located in Istanbul, a conceptual model was tested, in which cooperation, trust and commitment was obtained as aspects of intermediaries with high quality structure. Using regression analysis, the results show that the commitment was positively related to Exports performance. This study was done to understand the role of the relationship on through Exports performance. Omer komló (2014), in an article, investigates the effects of intangible resources and competitive strategies on the performance of small and medium-sized Exports companies. This paper describes the process of Exports and export operations, understood from small, medium-sized and great companies. One of the Resource views is based on RBV, which provides companies incongruity theory. Following the philosophy of RBV, the author has developed this model. The research model explains the positive relationship between the perceived improvement in Exports performance (PER) and intangible resources (IR) and Exports competition strategies (CES). In addition, they have found that the effects of IR causes the achievement of a greater CES share in PER. In the final model equation, the largest share in PER is obtained from "exports committed to experience" and the "costumer orientation exports" variables. A survey through e-mail was performed from 1415 companies such as metal, textile, clothing, chemical and furniture industry in Turkey and 271 people voted for further analysis. Correlation analysis regression was used to test a hypothesis for obtaining ultimate relationship equation. The results showed a positive relationship between all CES, IR and PER. The results shows that a combination of IR and CES provides a larger share of individual IR and CES in PER. It also shows that a combination of exports competitive strategies will result in more shares from individual strategies on export performance. This paper is an important contribution to theory development based on the export performance of small and medium Exports firms. In addition, following the results of this paper, SMEs will gain better results in exports. They should pay special attention to the development of intangible resources to achieve the desired exports function. Also thanks to these results, government export agencies encourage SMEs to do international business. Nicholas et al (2010) in an article examined the relationship between internationalization and export operations. This study is the first to examine the relationship between internationalization and export operations conducted in a comprehensive model. According to the literature review, internationalization has been extracted as a gradual process in exports performance. We studied the connection of these important areas of research using structural equations model that includes international experience, international commitment, and international level on one hand, and on the other hand, two dimensions of export performance structure including strategic and economic aspect. This study also examines several specific research gaps which in the previous research, were among the structures distinguished from internationalization and pays special attention to the reflection of forming characteristics of relationship between key structures and the measurements. Magnusson et al (2013) in a paper examines the impact of cultural intelligence on the versatility of their marketing and export operations. In their article, they have exercised the subject of cultural intelligence as a critical factor in identifying the needs of target markets in order to export. Their research showed that cultural intelligence has an impact on Exports performance and versatility of the product. In their study, they benefited from data of 153 American export companies.

In this study, the two hypotheses have been statistically tested. The results of this test indicate the influence of the factors examined in this study. The results show that the motivated cultural intelligence moderates the relationship between local differences and marketing admission. Also, the meta-cognitive cultural intelligence moderates the relationship between marketing admission and export performance. Schilke et al (2009), in an article, have described standardization of international marketing programs for large companies as one of the most important issues which corporate managers are facing. This standardization improves performance in export promotion organizations. This matter has been proven with the help of research. In this study, they were looking for factors that moderate the relationship between standardization and corporate performance. In their study, they have surveyed 489 companies. Their research results show that the standardization-performance relationship for corporate

is significantly strong. It means that in large companies that have attempted to export, standardization of marketing programs has resulted in performance improvement. Structural equation model was used in their research. Navarro and his colleagues (2010) examined the influence of the companies' behavior in foreign markets. In their research, in fact, they reviewed the export commitments along with the products and the products' versatility. In their research 150 Spanish companies were included as samples. The results show that export companies which show higher commitment to their external markets are more willing to adapt their marketing programs' elements. These companies also have better performance in the external markets. This study also uses structural equation to investigate the relationship existing between the variables.

Charv and colleagues (2014) studied the impact of business intelligence of the business owners on the international performance of their companies. To address this matter, acquiring international knowledge and the ability to adapt were mentioned as middle factors. To collect data, in this study, a questionnaire was used and also the samples, in this study, included 129 SMEs in Thailand. To analyze the data, regression of min squares error was used. The results show a positive impact of cultural intelligence on companies' export performance.

Alhiary et al (2012) in a study, explore the obstacles of internationalization in Jordan. The results indicates that the economic/ political, legal and governmental, financial and information barriers are negatively associated with export SMEs in Jordan. Also, exporter and non-exporter companies are unanimous in their approach to various obstacles.

Padak et al (2010) in a research, study the issues related to SMEs in the internationalization process: evidence from Fiji and Samoa. The findings of this study attentively refer to assessment of the problems hidden in the issues related to internationalization of SMEs. The results also show that the performances of SMEs throughout Fiji and Samoa are identical.

Dejbari and Hiari (2009) in an article, study the barriers of exports and international production activities of SMEs in Jordan. In this paper, considering the vital importance of survival and growth of companies, focuses on the issue of export performance and its influencing factors among Jordanian companies. Studying the export barriers, which Jordanian manufacturers face while engaging in the international business, and acquiring the knowledge of dealing with these obstacles, can help the enrichment of manufacturing companies in developing countries. It also can be a guide in further studies.

Bagci (2013) has studied the nature and manner of internationalization. Exports' staffs are one of the major competitive advantages of companies thanks to their necessary expertise such as knowledge of foreign customers, effective systematic marketing design, and assessment and analysis of marketing opportunities and export methods, while lack of qualified staff weakens the export.

**Research Model**

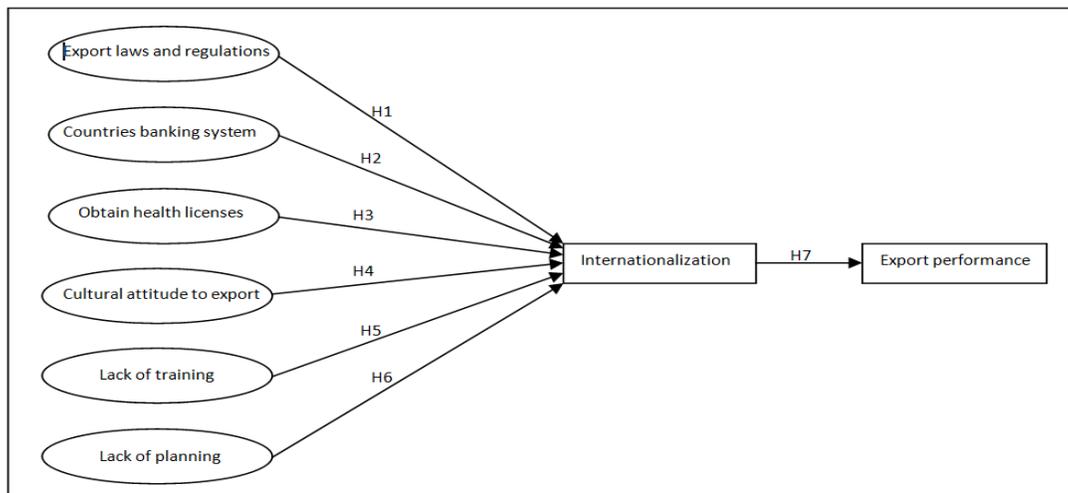The conceptual model used in this study is follows:



Figure 1. Research Model.
.

This model tries to evaluate and analyze the factors effecting export performance. Variables include the following:

Export laws and regulation which infect have the role of facilitators in export promotion. Generally, these are laws which define export bureaucracy.

The banking system: the banking system of the country which acts for financing and provision of credit in order to promote exports.

Health licenses: these are the licenses which based on the internal and targeted countries' standards, should be obtained. Especially in chemical industry, these standards are crucial to export promotion.

Cultural level towards export: cultural attitude and society's perspective towards export and export's behavior and culture in the community.

Education: education as a systematic approach to train the staff in the field of export.

Export marketing plan: a systematic plan for market expansion and marketing development to find new export markets in order to promote the export products.

Based on the above model, the below hypothesizes are presented:

H1: export laws and regulation have an impact on internationalization of detergent industry in Tehran.

H2: the country's banking system has an impact on internationalization of detergent industry in Tehran.

H3: obtaining health licenses has an impact on internationalization of detergent industry in Tehran.

H4: lack of specialized training in the field of exports has an impact on internationalization of detergent industry in Tehran.

H5: cultural attitude towards export has an impact on internationalization of detergent industry in Tehran.

H6: lack of export marketing plans has an impact on internationalization of detergent industry in Tehran.

H7: internationalization effect the performance of detergent industry in Tehran.

3. Research Methodology

This study from the functional objectives, implementation, and descriptive survey strategy perspective is a case study.

From the objective perspective, this research is practical. The research method is descriptive correlation and in terms of data collection is a survey. Since the objective of this study was to describe the conditions and analyzed phenomena in order to understand the situation better and assist the decision-making process, this research can be considered a descriptive research based on the condition of intended data. Because the data is gathered through sampling in the community for investigating the distribution of the statistical community features, this research is a branch of survey approach.

"The descriptive research includes a group of techniques which are used to identify, screen templates, or describe the phenomena that occur naturally without experimental manipulation" (Bollen, 1998).

The statistical community studied in this research is the Iranian detergent manufacturers. In fact, this community is very broad and in a way, encompasses a large population in Iran. It is impossible to collect data from the entire population, so the Cochran's formula was used to determine the size of the sample.

In this formula, the maximum permissible error (d) equals 0.05, reliability Coefficient 0.95, t=1.96 and values of p and q are each equal to 0.5 and the population size = N are considered. According to the numbers entered in this formula sample size was calculated 205. To check the validity, opinion of experts and university professors was used. And reliability of the questionnaire was confirmed by Cronbach's alpha (about 0.75). The research questions were designed in the form of a Likert scale of 5 options. An example is presented in the following table:

Table1. Example is presented in the following.

| 5 | 4 | 3 | 2 | 1 |
|---|---|---|---|---|
| agree | Partly agree | Ni idea | Partly disagree | Disagree |

The questionnaires were distributed among the statistical community and all of the (205) were filled and returned. For the assessment and test of hypothesizes, the structural equation modeling in SPSS was used.
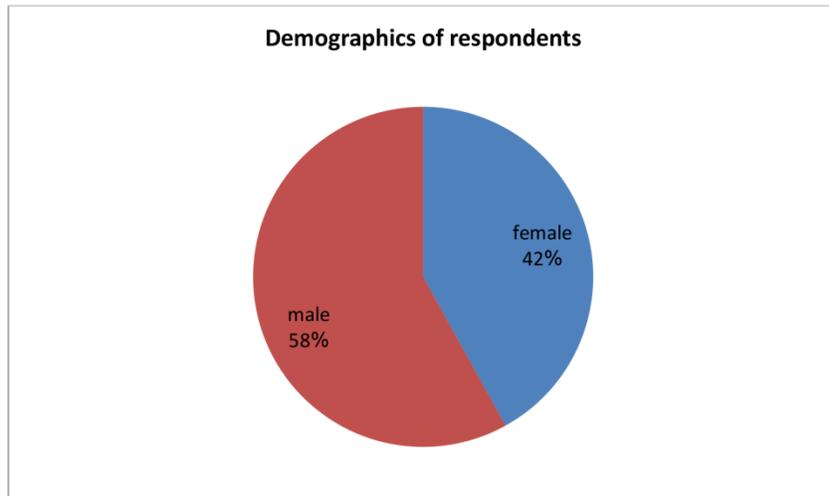
The analysis results

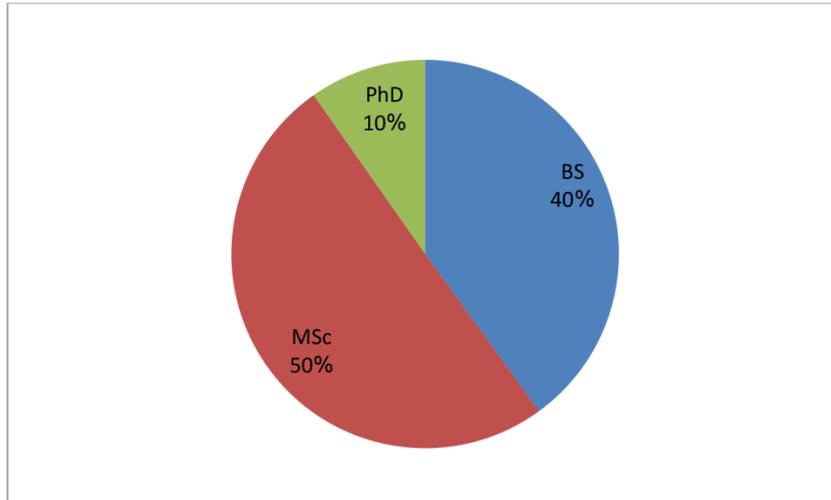Figure 2. Demographic feature of respondents is as follows.



Figure 3. Education level of respondents is as follows.

In this section we review the results in the form of structural equation. These results help to draw conclusions in relation to hypothesize. IRSREL software was used in this section to perform calculation. The results are reported based on the same software. Calculations based on the covariance matrix and correlation matrix has been developed. Analysis of the course of rules and regulations variable is as follows: (values greater than 0.3 indicate the presence of strong load factor)
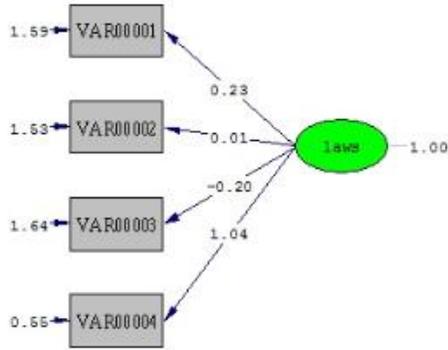
Figure 4. Path analysis of banking system variable is as follows.
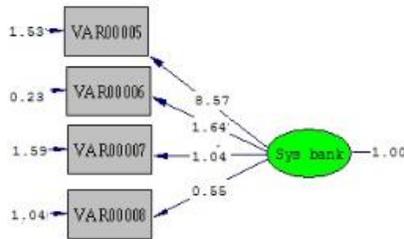


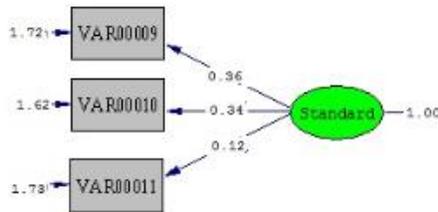Figure 5. Path analysis of standardization variable is as follows.



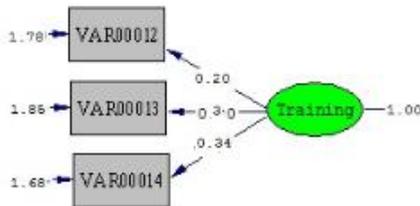Figure 6. Path analysis of training variable is as follows.



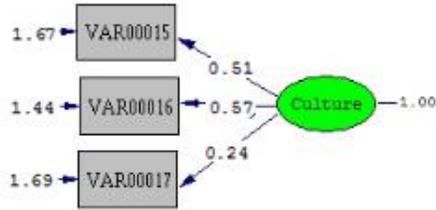Figure 7. Path analysis of culture variable is as follows.

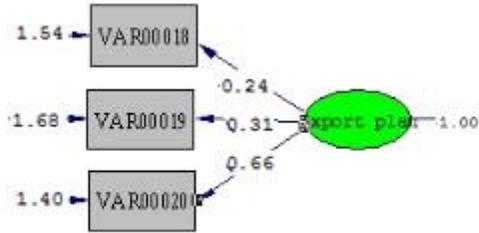Figure 8. Path analysis of the export plan variable is as follows.



Figure 9. The relationship between independent variables is as follows.
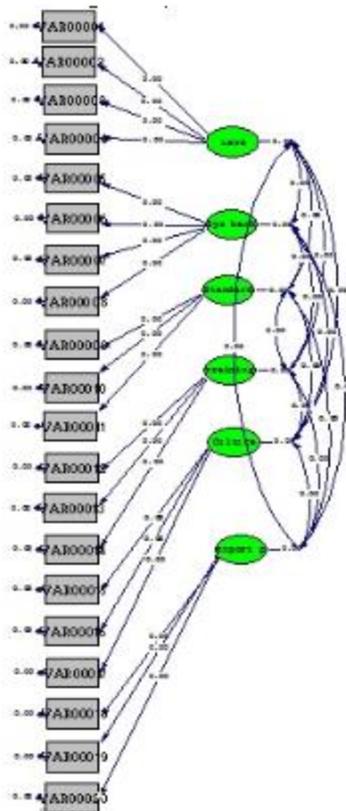


Figure 10. Lead factor model is as follows: the following output is obtained using LISREL. This model is based on the conceptual model.
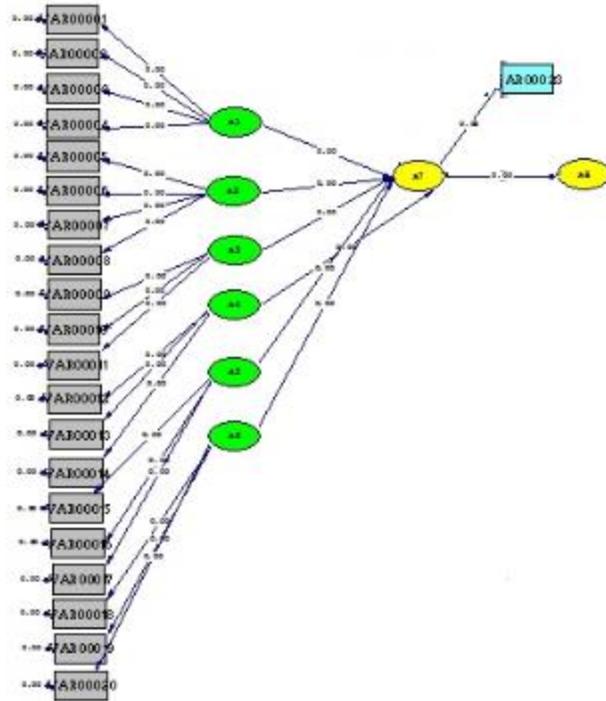
Figure 11. The result of hypothesizes test obtained from LISREL is as follows.
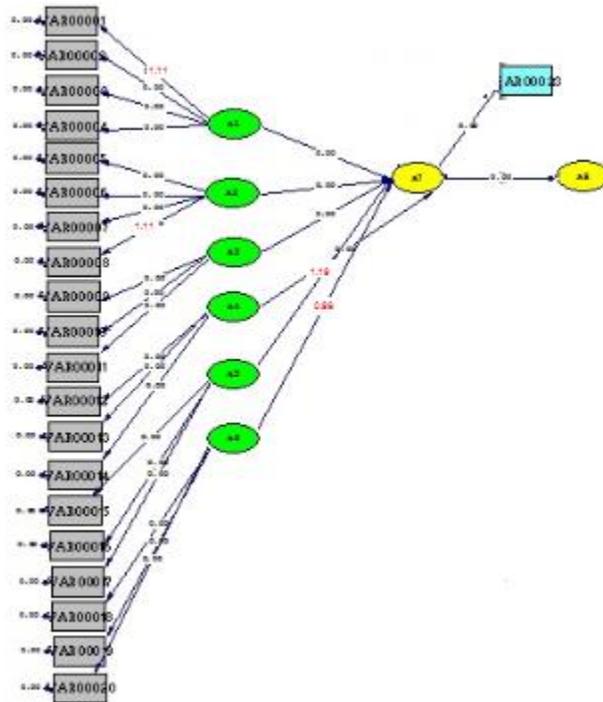
Table 2. The parts shown in black represent the hypothesis test confirmation. Results of hypothesizes test is as follows.

| hypothesis | Value of t | result |
|---|---|---|
| H1: export laws and regulation have an impact on internationalization of detergent industry in Tehran. | 4062 | accepted |
| 2: the country's banking system has an impact on internationalization of detergent industry in Tehran. | 9053 | accepted |
| H3: obtaining health licenses has an impact on internationalization of detergent industry in Tehran. | 6027 | accepted |
| H4: lack of specialized training in the field of exports has an impact on internationalization of detergent industry in Tehran. | 5069 | accepted |
| H5: cultural attitude towards export has an impact on internationalization of detergent industry in Tehran. | 1036 | denied |
| H6: lack of export marketing plans has an impact on internationalization of detergent industry in Tehran. | 0.99 | denied |
| H7: internationalization effect the performance of detergent industry in Tehran | 5.98 | accepted |

## CONCLUSION

In this study, the factors affecting internationalization and export performance were studied. Analysis of data showed that factors such as export laws and regulations, banking system to finance export companies, health licenses, and also education in the field of export, can help export development and internationalization of detergent manufacturers in Iran.

The first hypothesis examines the effects law and regulations on the export performance. Export law and regulations have impact on the internationalization and export performance of detergent industry in Tehran. The hypothesis is accepted. In fact, it is safe to say that in the matter of export promotion, law and regulations can lead to increase of export performance and overcoming the flaws and problems in this field. Laws and regulations can have an essential role in facilitating access to international markets. The more lax export laws increase the ability to export.

The second hypothesis studies the influence of banking system on internationalization and export development. The country's banking system has impact on internationalization and export performance of detergent industry in Tehran. This hypothesis is accepted and country's banking system has a direct positive influence on the export performance and internationalization of the companies. In Iran, the most important way to finance is through the banks. Banking system, through the provision of appropriate financial services, can always contribute to development of exports in the country. These helps can be in the forms of loans or in the form of LC and letters of credit.

The third hypothesis is related to obtaining health licenses. Obtaining health licenses has impact on internationalization and export promotion of detergent industry in Tehran. In many countries the permission of distributing products in the market will not be granted unless the necessary licenses are obtained. That is why, according to the experts of this field, these licenses are effective not only as an factor but as a requirement of detergent products exports.

The fourth hypothesis is related to training. Specialized training in the field of export effects the internationalization and export performance of detergent industry in Tehran. In the competitive world of trade, human resources are the most important asset of companies. In fact, companies can expand their markets with efficient staff and proper planning. This hypothesis is accepted in this study. As a result training the staff leads to efficiency improvement and development of export.

The next hypothesis is related to cultural level. The cultural attitude towards the export effects the internationalization and export performance of detergent industry in Tehran. This hypothesis is rejected and in fact, cultural level has no impact on internationalization and export performance.

The next hypothesis is related to marketing plan. Export marketing plan effect internationalization and export performance of detergent industry in Tehran. Marketing plan definitely affects the sale in the targeted countries but it has little impact on internationalization and therefore export performance.

The last hypothesis is the most crucial one. Internationalization affects the export performance of detergent industry in Tehran. This hypothesis is accepted and in fact, internationalization is the most vital factor of export promotion and export performance. The higher internationalization of a company leads to higher ability to compete in international markets and therefore exports will be more developed.

In this research, some of the factors were overlooked which are recommended for upcoming studies. Thus these subjects can be recommended:

-Study of influences of factors such as export encouragements on internationalization and export performance.

-study of sanction effects on internationalization and export performance

- Evaluation of the impact of organizational culture on export performance and internationalization

**Conflict of interest**

The authors declare no conflict of interest

## REFERENCES

Aaker DA, Bagozzi RP, 1979. Unobservable variables in structural equation models with an application in industrial selling. Journal of Marketing Research: 147-158.

Bagozzi RP, 1977. Structural equation models in experimental research. Journal of Marketing Research: 209-226.

Bagozzi RP, Yi Y, 1988. On the evaluation of structural equation models. Journal of the academy of marketing science. 16(1): 74-94.

Bollen KA, 1998. Structural equation models. Encyclopedia of biostatistics.

Bollen KA, 2014. Structural equations with latent variables. John Wiley & Sons.

CharoensukmongkolP, 2014. Cultural intelligence and export performance of small and medium enterprises in Thailand: Mediating roles of organizational capabilities. International Small Business Journal. 0266242614539364.

Erdil TS, 2014. The Role of Foreign Intermediary Relationship Quality on Export Performance: A Survey on Turkish Firms. Procedia-Social and Behavioral Sciences. 150: 600-608.

Kumlu Ö, 2014. The Effect of Intangible Resources and Competitive Strategies on the Export Performance of Small and Medium Sized Enterprises. Procedia-Social and Behavioral Sciences. 150: 24-34.

Magnusson P, Westjohn SA, Semenov AV, Randrianasolo AA, Zdravkovic S, 2013. The role of cultural intelligence in marketing adaptation and export performance. Journal of Marketing Research. 21(4): 44-61.

Navarro A, Losada F, Ruzo E, Díez JA, 2010. Implications of perceived competitive advantages, adaptation of marketing tactics and export commitment on export performance. Journal of world business. 45(1): 49-58.

Schilke O, Reimann M, Thomas JS, 2009. When does international marketing standardization matter to firm performance?. Journal of International Marketing. 17(4): 24-46.