

How empowering small and mid-cap firms develops national exports

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ABSTRACT

Having a sustainable growth in economy of developing countries requires appropriate infrastructures and part of it depends on gaining market share in international market. In this paper, we present an empirical investigation to find out the effects of various factors on helping export for small and mid-cap firms. The proposed study designs a questionnaire in Likert scale consists of 70 questions and distributes it among some randomly selected small and mid-cap firms. The study considers whether or not improving relationships between countries positively influences on empowering firms and export capabilities. In addition, the study also considers whether or not improving national strategies for developing exports positively influences on empowering firms and export capabilities. The study also tries to find out whether or not changes on rules and regulations harms export capabilities. Using structural equation modeling, the study confirms that empowering small and mid-cap firms contributes the whole economy through boosting export.

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1. Introduction

Export is believed to be a basis for development of economy in developing countries and many business firms try to find their revenues from international market. These days, when there is a survey on different factors influencing market entrance, there is also a glance on export potentials. For countries such as Iran, it is not possible to build a sustainable economic growth solely depending on the export of oil (Dike, 2013) and we need to build a diversified economy. During the past few decades, there have been different evidences to believe that small and mid-cap firms could contribute to economy, significantly. In order to develop small and mid-cap companies, we first need to find out more about the challenges for development of such economy and look for the impact of governments' rules and regulations (Pananond, 2013). Khodamoradi et al. (2013), for instance, performed a factor

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analysis to find important factors for market entrance where export was detected as an essential factor.

Any boost to economy starts from the rules and regulations posed by governments. Governments are responsible to setup rules and regulations to support export such as insuring goods to help business owners reduce the level of risk associated with their firms (Azad & Nasiri Savadkouhi, 2013). Nosouzi et al. (2013) presented an empirical study on important factors influencing medicinal plant for developing exports in Iran. They determined eight important factors including environmental issues, export supportive issues, potentials for export, business plan, export plan, structural barriers, competition capability and strategy. According to Azad et al. (2013), developing economy requires appropriate infrastructure in various areas including electronic banking. They detected important factors influencing electronic banking for developing exports in Iran. The most important sub-criteria in their survey included building required culture, customer awareness, the role of government, internet knowledge and compatibility with internet technology.

Many theoretical investigations have emphasized the role business units play in shaping laws and regulations through political activities. Yaşar (2013) studied whether import-competing firms and exporting firms possess differing levels of political impact by implementing firm-level data from 27 Eastern European and Central Asian countries. To control for endogeneity, they provided some estimate on a multivariate probit model using a simulated maximum-likelihood algorithm. They reported that exporting firms had stronger political impact than import-competing firms, implying that more free trade policies were the likely outcome of political-rent looking in these countries. The results had substantial implications for countries' economic growth and development.

Uner et al. (2013) performed an empirical study in the context of an emerging market, Turkey, providing trying to examine the stability of earlier findings for rapidly developing economies. They reported that perceived barriers differ mainly for firms in the domestic marketing stage, pre-export stage and for born global firms. Uner et al. (2013) quantified for the first time the European employment impacts of extra-EU exports and the correct number of jobs produced through the intra-EU trade (single market) associated with the production of such exports.

2. The proposed model

The proposed model of this paper investigates whether empowering firms could help export capabilities in small and mid-cap firms in Iran. Fig. 1 demonstrates the proposed study of this paper.

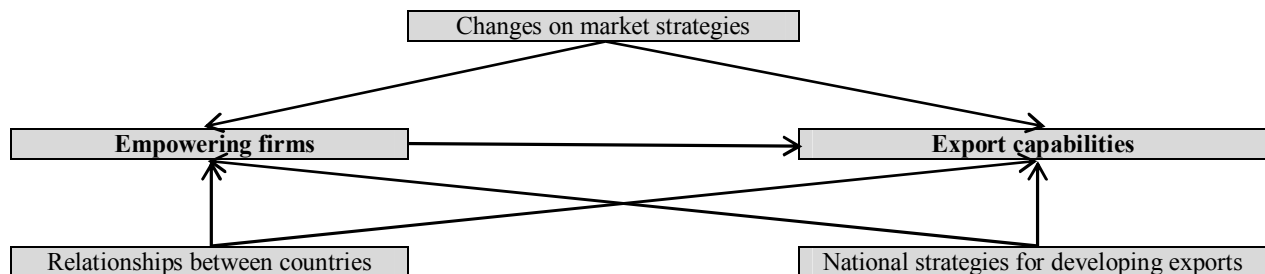


Fig. 1. The proposed study

According to Fig. 1, we consider the following seven sub-hypotheses,

1. Improving relationships between countries positively influences on empowering firms.
2. Improving relationships between countries positively influences on export capabilities.

3. Improving national strategies for developing exports positively influences on empowering firms.
4. Improving national strategies for developing exports positively influences on export capabilities.
5. Any unwanted changes on strategies for developing exports negatively influence on empowering firms.
6. Any unwanted changes on strategies for developing exports negatively influence on export capabilities.
7. Empowering firms positively influences on firms' export performance.

The proposed study of this paper designs a questionnaire consists of 70 questions in Likert scale and it has been accomplished among a sample from 1201 different small and medium size Iranian business units affiliated with exporting goods to Asian countries during the years of 2010-2011. Therefore, the sample size is calculated as follows,

$$n = \frac{N \times z_{\alpha/2}^2 \times p \times q}{\varepsilon^2 \times (N-1) + z_{\alpha/2}^2 \times p \times q}, \quad (1)$$

where N is the population size, $p=1-q$ represents the yes/no categories, $z_{\alpha/2}$ is CDF of normal distribution and finally ε is the error term. Since we have $p=0.5$, $z_{\alpha/2}=1.96$ and $N=1201$, the number of sample size is calculated as $n=291$. The proposed study uses structural equation modeling to verify the relationship between different components of the survey. Cronach alphas have been calculated for different components of the survey and there were all well above the minimum desirable limit of 0.70. Table 1 shows details of statistical observations on the implementation of LISREL software.

Table 1

The summary of statistical observations

Factor	Chi-Square	Chi-Square/df	RSMEA	GFI	AGFI	CFI
National strategies for developing exports	5.69	1.36	0.012	0.92	0.94	0.95
Changes on strategies for developing exports	9.54	1.9	0.004	0.92	0.97	0.96
Empowering firms	11.69	1.68	0.049	0.97	0.93	0.96
Export performance	13.87	2.77	0.067	0.94	0.96	0.98

RMSEA: Root Mean Square Error of Approximation, GFI: Goodness of Fit Index, AGFI: Adjustment Goodness of Fit Index, CFI: Comparative Fit Index

The results of Table 1 indicate that all statistical observations are withing desirable values and we could use the results of our survey.

3. The results

In this section, we present details of our findings on testing seven hypotheses of this survey. Table 2 summarizes the results.

Table 2

The results of testing various hypotheses

Hypothesis (Path)	coefficient	t-value	Result
Relationships between countries → Empowering firms	0.79	10.6	√
Relationships between countries → Export performance	0.59	9.57	√
National strategies for developing exports → Empowering firms	0.56	11.02	√
National strategies for developing exports → Export performance	0.41	10.26	√
Changes on strategies for developing exports → Empowering firms	-0.59	-7.41	√
Changes on strategies for developing exports → Export performance	-0.47	-6.52	√
Empowering firms → Export performance	0.71	10.35	√

As we can confirm from the results of Table 1, all seven hypotheses of this survey have been confirmed, which means improving relationships between various countries as well as national strategies for developing exports could empower firms and improve the performance of firms' exports. On the other hand, the results of our survey indicate that changes on strategies for developing exports negatively influence on empowering firms and reduce the performance of firms' exports' capabilities. Finally, one obvious observation is that empowering firms definitely increases the capability to export more.

4. Conclusion

In this paper, we have presented an empirical investigation to study the effect of empowering firms on developing exports through investigating the effects of improving relationships between the country of origin and destinations, using appropriate national strategies and reducing uncertainties associated with rules and regulation in the country of origin. The results of our survey have indicated that applying sustainable long term rules and regulations as well as removing any uncertainties in rules and regulation could empower small cap and medium size Iranian firms and help them develop their capabilities on exporting goods and services.

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