

EXPORTING: DOES SALES VOLUME MAKE A DIFFERENCE? — REPLY

Michael R. Czinkota*
Georgetown University

Wesley J. Johnston**
The Ohio State University

INTRODUCTION

While it is intuitively logical that different types of firms need different types of export assistance, the difficulty comes in developing and testing various approaches to segmenting firms for export development purposes. To date, four types of possible segmentation schemes have been developed in the export assistance literature. One deals with grouping firms according to their size. The others segment firms by grouping them into various international stages according to their export experience, by attitudes of management within the firms, and by the degree to which firms are product or manufacturing oriented. In research reported earlier (Czinkota and Johnston 1981), we have empirically tested each of these approaches and found that the stages of internationalization best segment firms with respect to exporting. The size of a firm as an export determinant is a distant second in usefulness. Yet the effect of the structural variable of firms' size on exporting is worth continued research because current policy uses size as the criterion for export promotion assistance.

SIZE AS A SEGMENTATION VARIABLE OF FIRMS

Congressional hearings contain many statements indicating the belief that smaller-sized firms require different types of export assistance than larger firms. For instance, one report states that "a small firm's horizons are often very limited even when it has an excellent product. . . it has little knowledge of the market potential in other areas. Foreign markets seem distant, strange, risky. . . ." (Commerce and State Department 1977). Another witness testified for the need to design export promotion programs which "must have particular relevance to the needs, interests and

* Dr. Czinkota is the Chairman of the National Center for Export-Import Studies at Georgetown University where he also serves on the Faculty of Marketing and International Business in the School of Business and the Graduate School. His most recent book *Export Controls: Building Reasonable Commercial Ties with Political Adversaries* was published in 1984 by Praeger.

** Dr. Johnston is an Associate Professor of Marketing at The Ohio State University. His main research interest is in the area of industrial marketing. During the recent 75th anniversary of the Stockholm School of Economics, he gave an address on Export Strategies and Industrial Policy.

motivations of the small businesses" (Commerce and State Department 1977, p. 76).

At a Department of Commerce seminar the idea was presented that "small business manufacturers . . . lack the resources and time to explore overseas trade opportunities" (Tobin 1978). Former Assistant Secretary of Commerce Frank Weil stated to the U.S. Senate that "smaller firms generally need more help in exporting than larger firms. They are less aware of the potential of exporting and less confident about their ability to do it. They are also less knowledgeable about how to export and where to go for help" (Weil 1978). Similar conclusions are reached by a survey of the Department of Commerce where one major finding was that, "While ITA (International Trade Administration) services are clearly needed, particularly by smaller, less experienced firms, most services are not widely known or used" (U.S. Department of Commerce 1978).

An additional indication of perceived need for a differentiated export development approach for smaller firms is provided by government agencies. The U.S. Small Business Administration has formed its own office of international trade in order to provide for a focus on the "special" needs of small businesses in the export area. A study for the agency reported that "firm export behavior is largely dependent on firm size. The level of firm export activity, the impediments which limit this export activity, and the use of different types of export distribution systems, all appear to vary among firms of different sizes" (Economic Consulting Services 1982). In a similar fashion, the Export-Import Bank of the United States has, because of a congressional mandate, created a special set-aside for small businesses which in 1984 reached 19 percent of total bank loan activity (Kaiser 1985).

Besides the export promotion organizations, special status for the export needs of smaller-sized firms has also been suggested by others. Bilkey (1978) suggests a possible intercorrelation of firm size with the quality of management. He then proposes that firm size could vary directly with a firm's propensity to export. Similar conclusions are reached by Weinrauch et al. (1975) and Cavusgil and Nevin (1981).

All of the previous statements indicate beliefs concerning the possible effect that size of firms has on exporting attitudes, behaviors and needs. The difficulty, however, comes in operationalizing the concept of size and testing it as a determinant of export attitudes and activities. In spite of these difficulties, we are today in a situation where policy-making bodies and individuals are deciding based on their notions of a "size effect" on our national posture towards export development and promotion and the allocation of resources on a national level.

OPERATIONALIZING SIZE AS A DEPENDENT VARIABLE

Classifying firms according to size involved the use of judgment with the help of some objective criteria. Current policy does not treat size as a continuous variable. Instead, depending on the concentration ratio within a particular industry, size is determined at various cut-off levels.

One measure which could have been employed is the number of employees of the firm. For small firms, a value of 100 or less employees, similar to the value utilized by the U.S. Department of Commerce, could have been used. For medium-sized firms, cut-off values of 100 to 150 employees could have been applied, as was done by Kilpatrick and Miller (1978). Such a classification using the number of employees would, however, have conflicted with the findings of Bilkey and Tesar (1977), who measured the size of the firm by the number of employees and concluded that it was an insignificant determinant of a firm's export activities.

Another approach frequently used is the grouping of firms according to their annual sales volume. A review of the literature revealed many references to small- and medium-sized firms based on sales volume but no provision of clear cut-off values. Only one authoritative source (Shaw 1977) provided such values at \$1 million or less for small-sized firms and at \$50 million or less for medium-sized firms. For purposes of this research, \$50 million was used as the maximum sales volume for a firm in order to be classified as medium-sized. Based on other testimony in congressional hearings (Commerce and State Department 1977), information in the literature (Woo-Young and Brasch 1978) and personal interviews with company executives the cut-off value for small-sized firms was set at \$5 million in annual sales and below.

What we therefore had arrived at in our research, was the best "straw man" the literature, policy activities, and the business community could provide. Our underlying intentions were to test the usefulness of size categories as predictors for export attitudes and activities. The hypotheses we established were all developed in a null variety in which no differences between groups were expected. Our basic belief was that while the size of a firm may have some effects on the exporting efforts, behavior, and needs of a firm, they are not as clear-cut as policy-making organizations have made them out to be. We postulated that small- and medium-sized firms, however one cares to define them, are more similar than different from each other with respect to their export attitudes and activities. In essence, our work was driven by precisely the same criticisms that are directed at the operationalization of size as a segmentation variable which we had expressed repeatedly (Czinkota and Johnston 1981, 1983). The message conveyed in our empirical findings and Reid (1985), is that size as currently developed in the literature is not useful as an indicator of export attitudes or needs, and activities. Thus it should not serve as a policy instrument for export development purposes. However, it is insufficient to simply shift variables as Reid suggests. Although sales volume may be only a mediocre proxy for evaluating export behavior, export sales seem unlikely to be an initial determinant of export behavior and activities, but rather a function of them.

Nevertheless, Reid does raise an issue on which we could have been clearer. Our attitudinal measures were reported for those small- and medium-sized firms which actually did export. Contrary to his statement, however, all the questions posed are relevant to exporters, since, in our belief, there is merit to finding out whether a firm is planning *for* exporting (as opposed

to planning to export as Reid seems to have understood it) or whether a firm is *actively* exploring export possibilities versus passively expecting unsolicited orders.

THE CRISIS IN EXPORT RESEARCH

We have stated consistently, that "it appears that at this time it would be inappropriate to speak of the existence of a coherent export management theory" (Czinkota 1982). It is a field of underdeveloped knowledge which only now is beginning to attract attention. In order to further knowledge, what is required is initial exploratory research to identify relevant building blocks for a general research foundation. Once these building blocks are found, it becomes possible to carry out research which, based on this foundation, can have a general focus. Subsequently, a clearly defined framework of knowledge is built which in turn permits the conduct of very tightly focused research.

The research presented in our article, like most of the research on export behavior, falls in the second stage of research development. Reid's critique demands that very tightly and narrowly focused research approaches should be conducted. If one starts out with the last category of research before the others are fully developed, which Reid seems to be advocating, one runs the risk of putting the cart before the horse with the result that researchers develop very precise analyses of totally irrelevant issues. That truly would be a crisis in export research.

We believe that it is necessary at this stage of theoretical export knowledge to discuss alternative hypotheses as we have done in our section entitled "Another Perspective." Also, open discussions of research can be a positive factor in moving the discipline ahead. We encourage such discussion but would like to see it provide some specific alternative(s) and possibly additional empirical evidence. Without such content, criticism runs the risk of being arbitrary and working purely with "ad hoc" arguments.

In addition, we believe that it is important to focus research on issues which are meaningful and relevant to the business and policy community. Such a focus is important in furthering knowledge and in providing answers to the "so what" question.

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