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Managing a Fit Between Strategic Orientation and Export Performance : An Exploratory Study on Textile Industry in North India

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Abstract

Export sales are increasingly seen as an important route to corporate growth. Exporting has traditionally been regarded as an interim stage in the development of a company. Consequently, much academic research on international trade has dealt with entire industries and not individual firms. Given that a majority of firms from emerging markets are still in the early stages of internationalization process, with exports being the dominant mode of their foreign market participation, an important research issue is what strategies these enterprises pursue as they compete in the global competitive landscape. The primary purpose of this research is to investigate the role of strategy of a firm in its export performance. Indian textile industry accounts for 4% of India's GDP with a growth rate of 20%. It accounts for 21% of Indian Gross Export Earning, and 1.2% of the total FDI inflows in the country. The textile industry alone provides employment to more than 35 million people (directly and indirectly) and contributes 14% to industrial production. 41 textile manufacturing and exporting firms having manufacturing units in Punjab were asked questions related to their export marketing strategy, the number of countries they exported to, level of product adaptation and the level of market segmentation. Findings reveal that a strategy that emphasizes on product adaptation, market segmentation and world orientation has positive association and has an impact on export performance.

Key Words

Strategic Orientation, Export Performance, marketing strategies

INTRODUCTION

The Globalization of the business environment in recent years has made it imperative for firms to look for foreign market opportunities in order to gain and sustain competitive advantage. Trade and market liberalization policies around the globe in the last decade and a half, especially in the erstwhile closed economies of Asia, East Europe and Latin America provide new market, investments and sourcing opportunities for multinational firms (Garten, 1997).

Many firms took to foreign markets because of increasing competition at home, maturing domestic markets or limited domestic market opportunities. Export sales are increasingly seen as one route to corporate growth for the firm. As a means of market expansion, exporting is appropriate for manufacturers of industrial goods where international cultural differences are not likely to deter foreign sales unlike consumer goods, firms with products possessing innovative advantages and firms where direct foreign investment is beyond their financial and managerial capabilities.

There is little theoretical and empirical literature in the field of export strategy. Mostly exporting has been merely regarded as an interim stage in the development of a company. Consequently, much academic research on international trade has dealt with entire industries and not individual firms, or the optimal timing for switching between these alternative market entry strategies and the relationship between exporting and Foreign Direct Investments.

Since the 1980s, the economic growth strategy of developing countries has changed in favour of export orientation and trade liberalization in order to overcome the inherent limitations and adverse effects of the import substitution strategy (Kreuger, 1998 ; Dedrick et al., 2001). Sharma (1999) opined that the manufacturing industries of emerging economies are able to compete on the world market, increase exports and thus increase the welfare of their societies.

Many less developed countries have turned to export stimulation as a major engine of growth. Reinforced by the success of firms from newly industrialized countries such as South Korea, Taiwan and Singapore, emerging economies are moving away from inward-oriented import substitution policies towards outward-oriented export led growth (Kotler et al., 1997). Thus, public policy instruments in emerging economics are increasingly geared to providing incentives for local firms to actively internationalize and compete in foreign markets.

Given that a majority of firms from emerging markets are still in the early stages of internationalization process, with exports being the dominant mode of their foreign market participation, an important research issue is what strategies these enterprises pursue as they compete in the global competitive landscape. The primary purpose of this research is to investigate the role of strategy of a firm in its export performance.

A CRITIQUE ON EXISTING LITERATURE

There have been few systematic studies of the export strategies pursued by firms from emerging economies and the performance implications of those strategies (Dominguez and Brenes, 1997). Several strategic typologies have been developed to identify successful and unsuccessful strategy types employed by firms. Most widely accepted are the Porter's generic strategies model (1980) and Mills & Snow's typology (1978).

Other studies have examined the internationalization process of developing country firms (e.g. Vernon & Wortzel, 1988). Otani & Villanueva in 1990 reported the links between macro policy initiatives, trade liberalization and economic development at the country level. The relationship between organization characteristics and export performance has been studied by Christensen et al. (1987) and Dominguez & Sequeira (1993). The diversity conceptualization of determinants of export performance and performance measures has led to inconsistent and contradictory findings and lack of a coherent theoretical framework for exporting firms (Aaby & Stanley, 1989).

Bilkey (1978), made an attempt to integrate forty-three studies on the export behaviour of firms. A study on the analysis of variables associated with the profitability of exporting was done by him in 1982. It provides a means for evaluating difficult to measure export marketing analysis from the supply side.

On the basis of previous research Kleinschmidt (1985) summarized the factors tied to export performance into the following four categories :

1. Management expectations and perceptions, including perception of export risk, export expectations of top managements, export cost expectations of export profitability.
2. Market variables including size of foreign markets, extent of competition in foreign markets, domestic market share, trade barriers, and physical and psychological distance to foreign markets.
3. Differential advantages and resources of the firm including product advantage and product adaptation, technological advantages of distribution advantages.
4. Firm demographics including size of firm, firm ownership and years of export experience.

Clearly, there is a need to examine the different kinds of product/market strategies that firms adopt when exporting to foreign countries.

Indian textile industry accounts for 4% of India's GDP with a growth rate of 20%. It accounts for 21% of Indian Gross Export Earning, and 1.2% of the total FDI inflows in the country. The textile industry alone provides employment to more than 35 million people (directly and indirectly) and contributes 14% to industrial production.

India has become a major outsourcing hub for foreign manufacturers and retailers. Large and low cost labour, sizable supply of fabric and abundant supply of raw material with huge spindleage capacity give India a competitive advantage and boost exports of large variety of textile products.

Douglas and Narayan (1991) carried out a survey to study the relationship between textile manufacturers in India and United States. Findings were analyzed and discussed in relation to their implications for improving global marketing strategies, industrial competitiveness and international trade.

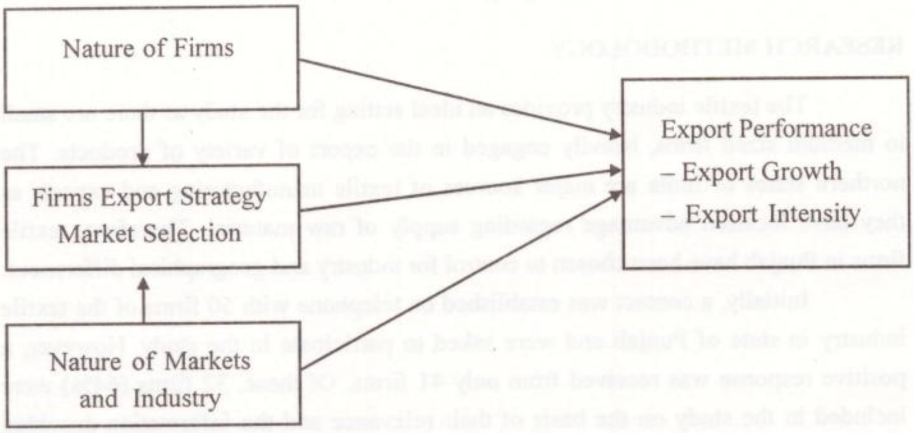
Significance of Indian textile industry in the national and international economy has been studied by Chellasamy & Sumathi (1992). Similar studies have been conducted by Forza & Vinelli (1997) to understand the importance of quick response strategy in the textile-apparel industry. Taplin & Winterton (2004) made a comprehensive study to understand the restructuring patterns in the textile as a consequence of import penetration. Globalization has been found to have profound effects on the textile industry (Oxenham, 2006).

Export from the country has been touching Euro 15 billion in the fiscal year ended 2006-07. Major destinations for textile exports from India are U.S. and E.U. which together account for over 75% of demand. Some of the major manufacturers actively involved in export of textiles are located in the states of Punjab, Haryana, Gujarat, Maharashtra and Tamil Nadu. Textile export is the highest foreign exchange earner for the state of Punjab which carries with it a rich cultural heritage in the manufacturing of yarn, fabric and garments. It was thought prudent to study the strategies of the firms located in Punjab and the impact of export strategy on the export performance of the firms.

Some researchers have developed frameworks to identify the relationship between strategy and performance. Our study is based on the framework and strategy typology given by Kleinschmidt (1985). It studies the relationship between nature of the firm, the nature of industry & markets and export strategy the firm elects as shown in Figure 1, as a function of export performance.

Most studies of exporters have found a strong relationship of export marketing to export performance like Ayal and Zif, 1979; Hirsch and Lev, 1971; Piercy, 1975; Tessler, 1980). Export marketing has been defined in terms of two dimensions; (1) Degree of adaptation of marketing mix, i.e., product, price, place, promotion, and (2) degree of worldwide orientation, i.e., exporting to nearest neighbouring countries or worldwide.

Figure 1 : A Conceptual Model of the Role of Export Strategy on Export Performance (As adapted from Kleinschmidt, 1985)



In the current research, export marketing strategy is defined in terms of three dimensions, viz. (1) Degree of product adaptation, (2) Level of market segmentation, and (3) Countries exported to (Neighbour / few Countries vs. World).

Splitting firms into two categories on each dimension yields a 2 x 2 x 2 cube that represents the 8 possible strategy combinations as given in Table 1. Similar findings have been reported by Kleinschmidt (1985).

Product adaptation includes the specific changes the firm brings, in the product features, packaging, labelling etc. in order to make the product more acceptable in different markets. The second aspect of market selection, segmentation strategy, portrays the degree of market segmentation that firms use within their export markets, i.e., does the firm sell to essentially one and the same market segment in its foreign markets, or does it cater to a multitude of different segments?

As for countries, export market selection ranges from a "nearest-neighbor" approach (exporting to a convenient and proximate country) to a world orientation, where a firm exports to different countries around the world. Other researchers have looked at the number of countries to which firms export, and contradictory results have been reported (e.g. Tessler, 1980; Piercy, 1975; Hirsch & Lev, 1971; Kleinschmidt, 1974). For the present research, "few countries" approach (few countries) and a "world" orientation (many countries) has been used to represent the number of countries a firm exports.

Export Performance has traditionally been measured as export intensity (export sales as percentage of total sales) and has been criticized in the past by various researchers like Reid (1982), Fenwick & Amine (1979), and Cunningham & Spigel (1971). Reid (1982) suggests that performance should be measured in a multidimensional way. In this research, therefore, both export intensity and export growth have been considered as gauges of export performance.

RESEARCH METHODOLOGY

The textile industry provides an ideal setting for the study as there are small to medium sized firms, heavily engaged in the export of variety of products. The northern states of India are major sources of textile manufacturing and exports as they have location advantage regarding supply of raw material. Therefore, textile firms in Punjab have been chosen to control for industry and geographical differences.

Initially, a contact was established on telephone with 50 firms of the textile industry in state of Punjab and were asked to participate in the study. However, a positive response was received from only 41 firms. Of these, 32 firms (64%) were included in the study on the basis of their relevance and the information provided by them.

Most of these firms were Export-oriented units with an average number of full time employees ranging from 20-200 and an exports experience of 2-40 years. These firms exported an average of 34%-80% of their output.

Personal interviews were conducted with a questionnaire administered to the managers involved in export marketing activities of a manufacturing unit. The respondents were asked questions related to their export marketing strategy, the number of countries they exported to, level of product adaptation and the level of market segmentation. The degree of adaptation of marketing mix, i.e., product adaptation and market segmentation were assessed on a 5-point scale with 1 being no adaptation to 5 being extensive adaptation. There have been responses ranging as some firms export basic products (fabric or raw material) and others high end products (garments etc.).

Firms which catered to more than two segments with product adaptation simultaneously were classified as "MARKETERS". Those which practiced either product adaptation or market segmentation were classified as- in the middle or "QUASI-MARKETERS" and those firms which neither segmented their markets nor adopted the product were termed as "SELLERS". The firms were then categorized into the 8 possible export strategies as shown in Table 1.

Table 1

A Matrix of Alternative International Business Strategies

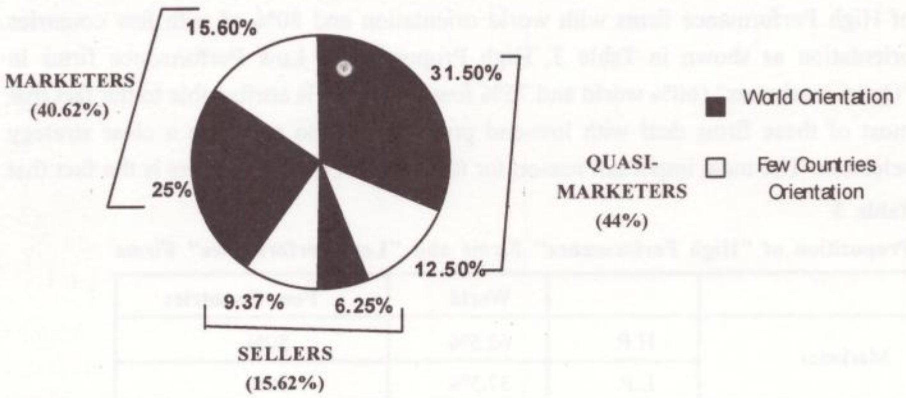
	Area of Operation	
	World	**Few Countries**
Marketer	Adapts products and segments markets and markets to the world.	Adapts products and segments markets and market to few countries.
Quasi-marketer	Either adapts product or segment markets, but not both export to the world.	Either adapts product or segments markets, but not both exports to few countries.
Seller	Neither adapts products nor segments markets. Sells to the world.	Neither adapts products nor segments markets. Sell to few countries

Source : Adapted from Kleinschmidt, 1985

RESULTS AND DISCUSSION

The frequency of firms in Figure 2 suggests that most of the textile firms operating in Punjab (31.50%) are, "Quasi-marketers", i.e., they either adopt product or segment markets, but not both and export to the world. 40.62% of firms have elected the "marketer" strategy out of which 25% are "World Marketers" and 15.60% are "Few Countries Marketers". Only the "Sellers" exporting to few countries (9.37%) are more than their counterparts selling to the world, i.e., 6.25% of firms.

Figure 2 : Firms Pursuing Alternative International Business Strategies



As we analyze firms on the basis of their world or few countries orientation it is seen that 62.75% of firms have world orientation and only 37.25% of firms export to few countries. Most of the firms elected "Quasi-marketer" strategy with world orientation.

The relationship of export strategies elected-marketed versus selling and world versus few countries and the export performance is shown in Table 2. The question is which strategies are associated with both high export growth & high export intensity simultaneously? These performance criteria, i.e., growth & intensity are independent gauges of export performance.

To overcome this, Kleinschmidt (1985) has classified firms as "HIGH PERFORMANCE" (H.P.) firms and "LOW PERFORMANCE" (L.P.) firms. Firms with high export intensity and high export growth were categorized as "H.P." and firms with both low export intensity and low export growth were categorized as "L.P." firms. For this study, the firms with high intensity but low growth were considered as "Low-Performers". Taking the fact that firms with low intensity but high growth were small in size, young and low in international and export experience, such firms were considered as "High Performers".

Table 2

Proportion of Firms with High Export Intensity and High Export Growth

Performance Orientation	**Export Intensity**		**Export Growth**	
	World	**Few Countries**	**World**	**Few Countries**
Marketer	62.5%	80%	37.5%	80%
Quasi-marketer	80%	100%	40%	20%
Seller	100%	66.6%	0%	0%

The "Marketers" clearly outperformed the other strategy groups with 62.5% of High Performance firms with world orientation and 80% of with few countries orientation as shown in Table 3. High Proportion of Low Performance firms in "Quasi-marketers" (60% world and 75% few countries) is attributable to the fact that most of these firms deal with low-end products and do not have a clear strategy selection. The most important reason for them to be Low-Performers is the fact that

Table 3

Proposition of "High Performance" Firms and "Low Performance" Firms

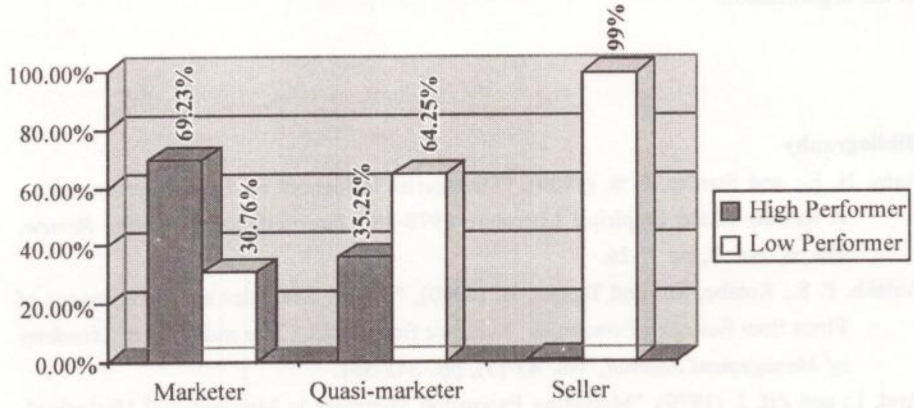
		World	**Few Countries**
Marketer	H.P.	62.5%	80%
	L.P.	37.5%	20%
Quasi-marketer	H.P.	40%	25%
	L.P.	60%	75%
Seller	H.P.	1%	0%
	L.P.	99%	100%

these include firms with high export intensity but low export growth. "Sellers" are clearly the poor performance firms. Most of the "Sellers" have high export-intensity but low or rather no export growth.

An important observation here is that 50% of the "Quasi-marketers" have high export intensity and low export growth, and therefore, the firms electing this strategy can be called "QUASI-PERFORMERS".

Regardless of whether firms were world or few countries-oriented, the "Marketers" outperformed consistently all other strategy groups (Figure 3). Similarly, whether firms were "Marketers" or "Sellers", the world-oriented firms performed better than their counterparts. Therefore, a strategy that emphasizes on product adaptation, market segmentation and world orientation has positive association and has an impact on export performance. For such firms export in terms of sales and growth were higher, i.e., high performance was obtained. Such a strategy befits the needs of firms from emerging markets in the global market place.

Figure 3 : Proportion of High Performers and Low Performers among Strategic Groups



STRATEGIC RECOMMENDATIONS FOR ENHANCING EXPORT OF TEXTILES FROM PUNJAB

Textile industry is alive to the fact that innovation is the key to survival in the globalized economy. After the dismantling of MFA in 2004 the industry stands as a gainer with infrastructural, technical and economic enhancement in the world market. An export-oriented development strategy will help the firms to build a vibrant and internationally competitive manufacturing sector. The most desirable and profitable destinations for textile exports are Europe and U.S.A. High end products like garments and home furnishing have a lucrative market in these countries. The upcoming economies like Sri Lanka, Bangladesh, Korea, Egypt and Turkey are markets for yarn and fabric. These countries are also the important competitors for India as the imports of yarn, fabric and semi-finished raw material have increased during the past 14 years. Such findings have strategic implications. The respondents were asked questions related to their export marketing strategy, the number of countries they exported to, level of product adaptation and the level of market segmentation. The firm has to adopt a market-friendly approach. This will help to create conditions for systemic competitiveness as functioning market is the key prerequisite for industrial dynamism. Thus, the most competitive strategy would include the best product-market fit.

The present study is limited only to North India. It would be worthwhile to extend this study to a national level such as to derive competitive advantage profile of textile industry of India. Further research should investigate the role of firm characteristics to identify the profiles of firms that were High Performers or Low Performers. The relative importance of the competitive strategies may vary across industries. It would also be interesting to further investigate whether the firm characteristics or the market characteristics are more closely related to the performance of an organization.

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