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   OBJECTIVES

   HYPOTHESES

   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

   FINDINGS

   RECOMMENDATIONS/SUGGESTIONS

   CONCLUSIONS

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# PERCEPTION OF EXPORT DIFFICULTY IN SMEs AND EXPORT PERFORMANCE: A STUDY OF NIGERIAN SMEs IN THE LEATHER INDUSTRY

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## ABSTRACT

*Antecedents of export performance have received a lot of focus in international business research, however little or no attention has been given to the effect of psychological barriers on export performance. This paper thus present a study of perception of export difficulty (PED) and its effect on affect export performance of SMEs in the Nigerian leather industry. In so doing, this study evaluates the relationship between perception of export difficulty and export performance wherein, PED is hypothesized to be negatively related to export performance. Data for the study was collected in Nigeria and the target sample was drawn from (1) Manufacturers Association of Nigeria (MAN), (2) the Nigerian Industrial Directory and (3) the Nigerian Exporters directory. Descriptive statistics was used to analyse the data and simple regression analysis was used for hypothesis testing. Findings from the data analysis provided support for the hypothesized relationship thus suggesting support for the theoretical model of the study.*

## KEYWORDS

Export Performance, Leather Industry, Perception of Export Difficulty, SMEs.

## 1.0 INTRODUCTION

Small and medium sized enterprises (SMEs) represent a significant proportion of businesses within any nation and they play an important role in domestic development (Leonidou, 2004) as well as in international markets (Okpara, 2009; Ibeh, 2004). However, even though SMEs make up a large chunk of enterprises in any given country, the field of international trade is largely dominated by big firms (Leonidou, 2004; Morgan & Katsikeas, 1997) and particular so in Sub-Saharan African countries like Nigeria (Ibeh, 2004). This is the case despite the significant increase in international trade as a result of globalization, market liberalization and regional agreements to facilitate trade (Morgan & Katsikeas, 1997). Naturally, much research has been devoted to understanding this phenomenon with heavy emphasis on export barriers such as tariffs, government regulations and financial capabilities but little or no attention has been given to the psychological barrier (Leonidou, Katsikeas & Samiee, 2002) that may be hindering the involvement of SMEs in international trade. This gap is the focus of this paper wherein the psychological barrier is conceptualized as perception of export difficulty that pervades within the management culture of an SME. Perception of export difficulty refers to the psychological fear or barrier that may prevent firms from engaging in exporting activities (Leonidou et al., 2002). It is the extent to which management of a firm may feel or think that engaging in exporting may lead to failure (Morgan & Katsikeas, 1997). The perception of export difficulty thus refers to imagined as opposed to existing difficulties that may affect the willingness of firms to be involved in exporting (Karelakis, Mattas & Chryssochoidis, 2008; Rose & Shoham, 2002; Leonidou, 1995a). Perception of export difficulty may prevent firms from initiating, sustaining and increasing export activities as such it is important to explore the effects of this variable in the general framework of SME export performance, which relates to the extent or degree to which firms are successful in their exporting activities or have been able to achieve their strategic goals with regards to exporting (Cavusgil and Zou, 1994).

Nigeria is located in West Africa and has the largest population in Africa with an estimate of about 162.47 million. The country has one of the largest economies in sub-Sahara Africa but it is heavily reliant on oil and gas exports, which makes it very unstable because growth is dependent on prevailing conditions in the global oil industry. The heavy dependency on the oil sector is reflected by the fact that the non-oil sector contributed only 6.5% of GDP in 2010 (Central Bank of Nigeria report, 2010). Hence, in order to improve the general condition of the Nigerian economy there is a clear need to boost the growth of the non-oil sector, one of which is the leather industry, which offers a huge potential for growth. For instance, export statistics show that it posted the strongest non-oil export in 2005 with exports in excess of $160 million (UNCTAD, 2009).

However, the industry is struggling to maintain export competitiveness, which is evidenced by the fact that the leather industry accounted for 36.84% of non-oil export in 2004 but only 20.4% in 2005 (UNCTAD, 2009; Amakom, 2006). This trend is happening despite promotional and support measures by the Nigerian government and favourable trade agreements like the United State African Growth and Opportunity Act (AGOA) and that Nigeria has the third largest livestock population in Africa (UNCTAD, 2009; Amakom, 2006). The export potential of the leather industry indicates that it could be used to spur growth in the non-oil sector of the Nigerian economy thereby helping to generate employment and wealth. Research to identify the constraints that are hindering the export growth of this sector is therefore necessary in order to help the industry fulfil its potential growth levels. This paper has contributed towards that by studying a representative sample of Nigerian SMEs operating in the leather industry.

## 2.0 LITERATURE REVIEW

Perception of export difficulty as a separate variable or construct has not received attention in past research even though some researchers have alluded to its impact on export performance of SMEs (e.g. Julian & Ahmed, 2005; Leonidou, 1995b; Katsikeas & Morgan, 1994). This seeming neglect of this variable is surprising as it has been reported that management's attitude towards exporting is a function of the extent to which they perceive exporting to be difficult (Shoham & Albaum, 1995). For instance, findings from Morgan and Katsikeas (1997) seem to indicate that inexperienced firms usually fall victim to perceived procedural complexity whilst Leonidou (1995a) found that small firms with little experience in international trade tend to overemphasize the export barriers that they face. Along this line, Tesfom and Lutz (2006) argued that the mere perception of difficulty to deal with documentation for example constitute an obstacle to exporting activities. Hence, even though exporting may be a viable international entry option for many SMEs, it is also viewed as more risky compared to domestic activities (Karelakis et al., 2008) and therefore if a firm perceives that export barriers are high there is a tendency to divert resources intended for exporting activities to domestic operations (Dean, Mengüç & Meyers, 2000).

Along the same line, Julian and Ahmed (2005), argued that because of the misperceptions with regards to the difficulties and risks involved in exporting activities as well as inaccurate ideas about the technicalities of exporting (laws, currencies, tax, finances and documentations), managers are deterred from engaging in market expansion even if the opportunities exist. According to Julian and Ahmed (2005), unrealistic fears or plain inertia as a result of misperception may act as a barrier to exporting. All this thus seem to indicate that managers' attitudes are associated with export barriers and their attitude influences export performance (Shoham & Albaum, 1995). So since the perception of dealing with the complexity of exporting activities can act as a barrier in itself (Moini, 1997), firms have to overcome a threshold of fear before they can initiate or sustain any exporting activities (Morgan & Katsikeas, 1997). In other words, export performance tends to suffer when the perception of export difficulty is very high in a firm. This is why many firms do not engage in exporting activities or simply abandon after starting (Arteaga-Ortiz & Fernández-Ortiz, 2010). Therefore, the perception of export difficulty could have a huge effect on the decision to initiate, maintain or increase commitment to exporting (Leonidou, 2004) and this is particularly significant for SMEs as their perception of the inhibiting weight or effect of these barriers are usually greater than larger firms (Katsikeas & Morgan, 1994).

Moreover, the willingness to engage in exporting activities relates with how a firm's management perceive export difficulties such that if export barriers are perceived to be less manageable (Karelakis et al., 2008. Katsikeas & Morgan 1994) management tend to shy away from exporting (Julian & Ahmed, 2005). For example, the time or amount of paperwork involved may be seen as not only confusing but also intimidating (Moini, 1997). Hence, the perception of export complexity could serve as a barrier and therefore limit firms from exploiting their full potential (Julian & Ahmed, 2005; Moini, 1997).
Furthermore, it has been reported that firms that perceive fewer risks and barriers to exporting usually display a positive attitude towards exporting and this attitude leads to better export performance (Lages, 2000). Hence, the opposite could also obtain wherein if firms perceive higher risks and barriers to exporting they will have a negative attitude towards exporting which will lead to poor export performance. However, Hise (2001) reported that managers can realize their export objectives if they have a positive belief about exporting irrespective of the difficulties created by export barriers. According to Hise (2001) firms achieve their export objectives by examining the barriers associated with exporting and then use export strategies to deal with them. Hence, perception of export difficulty could help explain how and why SMEs consistently underperform in international trade even though they may have the resources to be successful exporters. The above arguments thus lead to the following hypothesis.
**H1:** *Perception of export difficulty is negatively related to export performance.*

## 3.0 METHODOLOGY
The data for this study was collected in North-Western Nigeria and was obtained through the survey method using standard questionnaires. The items that were used to measure the variables in this study were based on theory and largely drawn from the literature. In the questionnaire, respondents were asked to indicate their perception of export difficulty with three items using a scale that ranged from 1 (strongly disagree) to 7 (strongly agree). Respondents were also asked to indicate the effect of perception of export difficulty on seven items of export performance using the same scale.
The SMEs that were contacted for participation in this research were obtained from the list of firms found in three separate sampling frames: (1) Manufacturers Association of Nigeria (MAN), (2) the Nigerian Industrial Directory and (3) the Nigerian Exporters directory. In addition, the list of members of the local tannery council in each of the study areas was used to obtain the names of SMEs to include in the sample. Since, multiple sampling frames were used caution was taken to avoid double counting and duplication of SMEs to be included in the target sample and wherever such cases were found the duplication was removed. The final list contained 623 SMEs and to maximize response rate all the SMEs in the list were invited to participate in the survey. After the target sample list was completed, several methods were utilized to distribute the questionnaires to the SMEs in the population of interest. Because of the relatively poor state of the infrastructure in the region where the research was conducted, the major distribution method was the drop off and pick up strategy (Ibeh, 2004) wherein 20 hired enumerators personally dropped off the questionnaires to the SMEs and collected them later. Questionnaires were also posted and emailed to participants in the study.

## 4.0 RESULTS AND DISCUSSION
A total of 623 questionnaires distributed, 458 were collected over a period of nine weeks for a response rate of about 74%. Out of the 458 collected questionnaires, seven were incomplete and two had been filled by very junior staff that had little knowledge about the exporting functions. Hence, nine questionnaires were excluded, leaving a total of 449 usable questionnaires, which were used for all subsequent data analysis.
In relation to respondent profile, about two-thirds (74%) of SMEs that participated in the survey were non-exporters as can be seen from Table 1. This disproportionate representation serves to highlight the poor state of exporting within the leather sector in Nigeria. In terms of firm size, minimum numbers of employees are the same for both exporters and non-exporters; however, the average and maximum number of employees in exporting firms are greater than non-exporting firms. This indicates that on average exporting firms are relatively larger than non-exporting firms and as such could have access to more resources that are required to involve in exporting activities. The average experience in the exporting business is nine years and the average number of markets abroad is five.

**TABLE 1: PROFILE OF RESPONDENTS**

| | | Exporters | Non-Exporters |
|---|---|---|---|
| Firms (No) | | 117 (26%) | 332 (74%) |
| Firm Size (No of employees) | Minimum | 10 | 10 |
| | Average | 27 | 18 |
| | Maximum | 120 | 73 |
| Exporting Experience (Years) | Minimum | 3 | |
| | Average | 9 | |
| | Maximum | 15 | |
| Overseas Market (Countries) | Minimum | 2 | |
| | Average | 5 | |
| | Maximum | 10 | |

Respondents were asked to indicate how much they agreed or disagreed with the statement that "generally exporting is a very difficult activity". The response pattern to this measure is displayed in Table 2. The trend in the response shows that all in all about 64% of the respondents think that exporting is a difficult activity, although only 7.8% of respondents think that they strongly agree to that perception. On the other hand only 6% strongly disagrees with this perception and the total amount of respondents that think exporting is not a difficult activity is about 25.4%, whereas 10.9% are undecided. This result seems to indicate that the majority of respondents are of the view that exporting is generally a difficult activity.

**TABLE 2: RESPONSE PATTERN FOR "GENERALLY, EXPORTING IS A VERY DIFFICULT ACTIVITY"**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Strongly Disagree | 27 | 6.0 | 6.0 | 6.0 |
| | Disagree | 35 | 7.8 | 7.8 | 13.8 |
| | Somewhat disagree | 52 | 11.6 | 11.6 | 25.4 |
| | Neutral | 49 | 10.9 | 10.9 | 36.3 |
| | Somewhat agree | 51 | 11.4 | 11.4 | 47.7 |
| | Agree | 200 | 44.5 | 44.5 | 92.2 |
| | Strongly agree | 35 | 7.8 | 7.8 | 100.0 |
| | Total | 449 | 100.0 | 100.0 | |

In the same way, respondents were asked if they agreed or not that export barriers are difficult to overcome for their firm and the response pattern to this measure is shown in Table 3. From the table it can be seen that many respondents agree (38.3%) and strongly agree (22.3%) with this statement, whilst only 8% of respondents tend to strongly disagree with the statement. This result seems to suggest that most of the respondents think that export barriers are difficult to overcome for their firms.

**TABLE 3: RESPONSE PATTERN FOR "EXPORT BARRIERS ARE DIFFICULT TO OVERCOME FOR OUR FIRM"**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Strongly Disagree | 36 | 8.0 | 8.0 | 8.0 |
| | Disagree | 14 | 3.1 | 3.1 | 11.1 |
| | Somewhat disagree | 30 | 6.7 | 6.7 | 17.8 |
| | Neutral | 44 | 9.8 | 9.8 | 27.6 |
| | Somewhat agree | 53 | 11.8 | 11.8 | 39.4 |
| | Agree | 172 | 38.3 | 38.3 | 77.7 |
| | Strongly agree | 100 | 22.3 | 22.3 | 100.0 |
| | Total | 449 | 100.0 | 100.0 | |

Similarly, the respondents were asked if fear of export barriers are discouraging them from exporting and the response pattern shown in Table 3 below seem to indicate that most of them think so, with about 62.8% in cumulative agreement, 20.7% in cumulative disagreement and 16.5% neutral. The trend in the response pattern seem to indicate that for the majority of the respondents, the fear of export barriers is hindering their participating in exporting activities.

**TABLE 4: RESPONSE PATTERN FOR "FEAR OF EXPORT BARRIERS DISCOURAGES US FROM ENGAGING IN EXPORTING"**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Strongly Disagree | 39 | 8.7 | 8.7 | 8.7 |
| | Disagree | 13 | 2.9 | 2.9 | 11.6 |
| | Somewhat disagree | 41 | 9.1 | 9.1 | 20.7 |
| | Neutral | 74 | 16.5 | 16.5 | 37.2 |
| | Somewhat agree | 64 | 14.3 | 14.3 | 51.4 |
| | Agree | 129 | 28.7 | 28.7 | 80.2 |
| | Strongly agree | 89 | 19.8 | 19.8 | 100.0 |
| | Total | 449 | 100.0 | 100.0 | |

The hypothesis testing was done through a simple regression analysis wherein perception of export difficulty is regressed against export performance and the result is shown in Table 5. Looking at the table, it can be seen that the coefficient of determination, R-square for the model one is 0.70, which suggest that about 70% of the variation in export performance can be explained by perception of export difficulty. It can also be seen from the table that perception of export difficulty is also significantly related with export performance (Beta = - 0.49, p < 0.001) thus suggesting that hypothesis H1 is supported by the data. The direction of the relationship suggests that as perception of export difficulty increases, export performance will suffer. This could mean that the willingness to engage in exporting activities relates with how a firm perceives export difficulties such that if export barriers are perceived to be less manageable (Karelakis et al., 2008. Katsikeas & Morgan 1994), the firm may shy away from exporting (Julian & Ahmed, 2005) but on the other hand if the is less psychological fear then, then the firm could overcome export barriers thereby improving its export performance.

**TABLE 5**

| Model | | Unstandardized Coefficients | | Standardized Coefficients |
|---|---|---|---|---|
| | | B | Std. Error | Beta |
| 1 | (Constant) | 52.186 | 1.362 | |
| | Perception of Export Difficulty | -1.276 | .107 | -.490*** |

a. Dependent Variable: Export performance, $R^2 = 0.70$. ***p < 0.001

## 5.0 CONCLUSION AND RECOMMENDATIONS

Hypothesis H1 claims that perception of export difficulty is negatively associated with export performance and the results indicate this hypothesis is supported by the data. The findings indicate that when perception of export difficulty is high export performance tends to suffer and vice versa. This is consistent with the view that the willingness of firms to engage in exporting activities relates with how a firm's management perceive export difficulties such that if export barriers are perceived to be less manageable (Karelakis et al., 2008. Katsikeas & Morgan 1994) they tend not to engage in exporting (Julian & Ahmed, 2005). For example, the amount of red tape or bureaucracy that may be involved could intimidate inexperienced exporters (Moini, 1997). The findings could encourage firms to implement strategies that would help them overcome this psychological barrier. Firms could employ experienced staff to handle exporting activities and they could also institute regular training schedules that would provide updates on current trends for employees that are involved with exporting duties.

The descriptive analysis also seem to indicate that SMEs operating in the leather industry in Nigeria perceive exporting to be a very difficult undertaking, which could explain why very few of them are engaged in exporting of leather products. One way to deal with this psychological barrier is through education and proper dissemination of relevant information to all stakeholders. Government or policy makers should conduct workshops and seminars for interested SMEs (Okpara & Koumbiadis, 2009) wherein participants will be trained on how to handle exporting activities in order to improve performance levels in their respective SMEs. A special body could be created that could disseminate information such as prevailing market conditions in both the local and designated target markets, latest prices and industry tips to SMEs as a way of remedying the difficulty for many SMEs to obtain relevant information on their own.

There is no doubt that export barriers are major issues for SMEs operating in the Nigerian leather industry as findings from this study have revealed that about two-third of SMEs that participated in the study are non-exporters. Given the potential that exists in international trade such as business expansion and increased revenue, this high number suggests that many of the SMEs have no incentive to or are unable to be involved in exporting. Given the benefits of trade to development and the potential of the leather industry in Nigeria (UNCTAD, 2009; Amakom, 2006), it would be important for policy makers to recognize the need to introduce steps that will encourage more SMEs to be involved in the exporting business.

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