

Export Planning and Performance: An Organizational Culture Perspective on Small Firms

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Abstract

The purpose of this study is to examine hypothesized relationships among small firms' cultural values pertaining to formal planning, their practices implementing those values, and their export performance. Sample results include those which indicate that significant relationships exist between export planning values and practices, and between the planning practice of using advisors and export performance.

Introduction

Exporting is currently a frequently discussed topic within both public and private sectors. In the public sector, people tend to focus on exporting from an economic development and job creation point of view. In the private sector, leaders of firms often discuss it as a growth strategy. To observers of exporting, it is common knowledge that large firms export. Less well known, however, is the fact that small (and new) firms increasingly ship their products abroad. The focus of this study is on small business export planning and performance.

Past research on small business exporting is limited, but growing (e.g., Aaby & Slater, 1989; Bijmolt & Zwart, 1994; Kamath, Rosson, Patton & Brooks, 1987; Miesenbock, 1988). To increase our understanding of important issues and relationships in this area, research on the export planning-performance relationship would appear to be useful. Small business studies in this area are relatively scarce, at least those with an export start-up focus, because early export research found that unsolicited export orders were what triggered many firms to start exporting (Bilkey, 1978; Brasch & Lee, 1978). Consequently, many firms used a reactive export strategy in the past. But past practices are changing and additional research would be beneficial. For example, in newer industries where exporting is more common and in some cases expected, firms are more frequently preplanning or soliciting export sales (a proactive export strategy).

A number of issues need to be considered when examining the export planning-performance relationship. Examples include the ideas/views that organizational members have toward planning and performance coupled with the practices used to express those planning ideas/views. Along this line, possible questions of interest are: Is comprehensive planning valued by organizational members? Do members share the belief that better performance usually results from explicit rather than non-explicit planning? Is being thorough with planning expected of organizational members? What observable practices/behaviors are used by organizational members to exhibit/document the beliefs and values that are shared by its members? Such questions cover topics that are part of an organization's culture, an area of interest in recent years based on both popular texts (Deal & Kennedy, 1982; Peters & Waterman, 1982; Ouchi, 1981) and academic texts (Denison, 1990; Schein, 1985; Trice & Beyer, 1993).

The purpose of this study is to empirically examine small business export planning and performance using an organizational culture perspective. It is believed such an approach can shed additional light on our understanding of successful export practices.

Background

Strategic Management

Most strategic management studies on the planning-performance relationship have focused on large firms and their domestic rather than international operations. Central to this research has been the effect of planning methods on firm performance, with a significant issue being the impact of "formal" planning on firms' performance (Shrader, Taylor & Dalton, 1984). Formal is defined in different ways by researchers. Armstrong (1982) mentions the use of an explicit goal achievement process, while Fredrickson (1984) emphasizes the use of a comprehensive planning process.

In addition to differences in the definition of formal planning, there are also differences concerning how to operationalize this concept. One way to gauge the formality of planning is to measure the degree to which the planning process generates written documentation. Most small business researchers have continued the convention that was first established by large business researchers of using written documentation (the completeness of a business plan) to measure formal planning (Bracker, Keats & Pearson, 1988; Gilmore, 1971; Robinson & Pearce, 1983; Still, 1974). In these instances, planning is usually measured either as a dichotomy referring to the absence or presence of a written plan, or as a planning comprehensive continuum where such levels as no written plan, partial written plan, and complete written plan are included (Pearce, Freeman & Robinson, 1987). Some researchers, however, question whether this large firm prescription is relevant to small firms (Robinson, 1982).

In this vein, data exists which suggest that written business plans are not used as extensively by successful small businesses as business experts might believe (Parks, Olson & Bokor, 1991; Schuman, Shaw & Sussman, 1985). For example, Parks et al. (1991) found in a survey of 120 INC. 500 firms that only 17.5% had a complete written plan, 32.5% had a partial

plan, and 50% had no written plan at start-up. Furthermore, when the research from both large and small businesses on the impact of preparing written plans on performance is considered, the findings are mixed. That is, some studies have shown positive results (Fredrickson, 1984; Lyles, Baird, Orris & Kuratko, 1993) while others have not been able to demonstrate this relationship (Bresser & Bishop, 1983; Hand, Sineath & Howle, 1987).

Another way to operationalize the formality of planning is to measure the degree to which external and/or internal counsel is relied upon in the strategic planning process. Robinson (1982) has proposed that "outsider" involvement in planning indicates a serious commitment to a formal strategic planning orientation in small firms. Outsider involvement refers to both boards of directors and management consultants--people who would appear to be able to supplement a small firm leader's lack of skills in, and time for, formal planning. Limited empirical research exists on the impact of the use of advisors on performance. The results from one study in this area (Robinson, 1982) were that profitability and improvement in effectiveness were higher for small firms which engaged in outsider-based strategic planning than for firms which did not.

Overall, past researchers have found the impact of formal planning on performance unclear. Differences in definitions as well as ways of operationalizing formal planning have contributed to these findings. Moreover, Pearce, Freeman and Robinson (1987) have argued that authors of past studies have not considered or controlled for other relevant variables (both inside and outside an organization) which can influence the planning-performance relationship. Given this concern, it would be helpful to examine the planning-performance relationship from an organizational culture perspective.

Organizational Culture

Trice and Beyer (1993) define organizational cultures as collective phenomena that include two components: (1) substance, an organization's ideologies or the systems of beliefs, values and norms that are shared by its members, and (2) forms, the observable ways members of an organization express the organization's ideologies (i.e., the practices and behaviors of an organization's members).

Trice and Beyer (1993) state further that the ideologies, or substance of cultures, are shared interrelated sets of emotionally charged beliefs, values and norms that hold people in an organization together and help them cope with work uncertainties and ambiguities. These authors also define beliefs as expressed cause and effect relations (i.e., statements about which behaviors will lead to which outcomes), values as expressed desires or preferences for certain behaviors or outcomes, and norms as expressed behaviors that are expected by organizational members. While cultural substance issues (ideologies) are abstractions, cultural forms are concrete, observable entities through which members of a culture communicate substance to one another. Four categories of cultural forms are: symbols, language, narratives, and practices. Choices of a firm's ideologies and forms can be influenced by its founders and managers. In particular, founders of new and small firms have considerable control in creating the cultures of their organizations.

Applying the organizational culture perspective to the planning-performance relationship suggests that past planning-performance studies have focused on forms of planning cultures, not substance. That is, past research has concentrated on practices--use of written plan and advisors--and not on planning beliefs, values and norms. This recognition may be important because small business founders/leaders will likely differ on their planning ideologies. For example, some leaders will value formal planning, others will not. One distinguishing feature of using an organizational culture perspective is that both the substance and forms of planning culture are explored.

Model and Hypotheses

The proposed model of strategic planning culture and its relationship to organizational outcomes is contained in Figure 1. The model was developed based on Denison (1990, see, in particular, pp. 1-6), and Trice and Beyer (1993). Of interest in the current study is its application to export planning.

Insert Figure 1 about here.

The model recognizes that a planning culture has two related components or levels: 1) substance or an organization's ideologies about planning beliefs, values and norms; and 2) forms or observable planning practices and behaviors that are used to express these planning ideologies. The model also proposes that relationships exist between each of these planning culture components and performance. Note that only a few of the different possible planning beliefs, values, norms, practices, behaviors and performance outcomes are listed in Figure 1. In the current study only the starred items are tested.

The first two hypotheses (H1a and H1b) concern the relationship between export planning substance and forms:

H1: A greater proportion of small firms with leaders who support or value formal export planning when compared to those who do not:

H1a: Prepare written export plans, and

H1b: Use export planning advisors.

The next hypothesis focuses on the relationship between the substance of export planning cultures and export performance:

H2: Better export performance exists for small firms with leaders who support formal planning compared to those who do not.

The final two hypotheses (H3a and H3b) cover the relationship between the forms of export planning cultures and export performance:

H3: Better export performance exists for small firms that implement the following export planning practices when compared to those that do not:

H3a: Prepare written export plans, and

H3b: Use export planning advisors.

Methodology

Sample

To examine this paper's hypotheses, a sample of US firms that export products from the state of Idaho was obtained. Each firm was sent a questionnaire designed and pre-tested by the current authors. The mail survey followed Dillman's (1978) total design methodology. This method consists of an initial mailing, a post card reminder in one week, and a second mailing two weeks after the post card reminder. Each mailing includes a questionnaire in booklet format and a self-addressed-stamped envelope.

The sample was obtained during the summer of 1995 from a list of 473 Idaho firms contained in the *Idaho International Trade Directory 1994-95*. This list included the name of a contact person to whom the questionnaire was mailed. Positions held by the contact person included CEO, owner, president, and marketing manager. Twenty-one of the questionnaires were returned as undeliverable. Of the remaining 452 firms, 78 completed and returned the questionnaire, which resulted in a 17% response rate. Follow-up contacts were made with two percent of the non-respondents in order to determine the reasons for non-response. The most frequent reason given was that the firm leaders did not have time to complete the survey. Other reasons were that the respondents did not believe they could contribute much to the study because exporting was a negligible part of their businesses, and that the people who knew the requested information were no longer with the firm.

The information needed from the surveyed firms dealt with their export start-up stage and their first year of exporting. This year was some year prior to 1995 for all the sampled firms. (The directory included all Idaho exporters regardless of their date of export initiation and the initial sample contained 78 of these firms.) Because the focus of this study is small firms, and because remembering facts about a firm's early export years becomes more difficult the longer a firm exports, those firms with 100 or more employees at export initiation and those whose first export pre-dated 1985 were eliminated from the analysis. In this process, 28 firms were excluded, reducing the sample to 50 firms. The average number of employees for these 50 firms during their first year of exporting was 20 and the standard deviation was 23. Additional descriptive information about the sample will be presented in the results section.

Measures

Four measures were used to gather data for this paper's hypotheses. Three of the four measures concerned a firm's pre-export period--the year preceding receipt of the first accepted export order. These questions were: 1) Did your firm's leaders support (value) a culture toward exporting which emphasized being explicit, comprehensive, or thorough with strategic export information? The responses were: a) yes, or b) no. 2) When planning for exports, did your firm use: a) no written export plans; b) written export plans that included objectives, strategies, and resource requirements; or c) written export plans that included objectives, strategies, and resource requirements as well as control procedures and data regarding factors outside the firm (e.g.,

competitors). 3) When planning for exports, did your firms use: a) no export advisors (e.g., boards of directors, consultants, etc.); b) advisors for support, experience and information regarding exporting; or c) advisors to actively shape strategic export decisions. A fourth survey question concerned post-export information: 4) State your firm's export intensity (export sales divided by total sales) at the end of the first export year. In the literature, export intensity is the most popular performance measure.

Since the sampled firms were not in their first year of exporting, the responses were retrospective in nature. To control for retrospective biases, questionnaires were directed to personnel who were either a member of the firm's leadership when it first began exporting or had knowledge about the firm's initial exporting efforts.

Results

Descriptive Sample Information

For the 50 firms in the sample, export intensity, the dependent variable, had the following characteristics: range of 1% to 100%, mean of 17.9%, median of 6.5%, and standard deviation of 25.2%. Given these statistics, the population distribution from which the sample was drawn may not be normally distributed. Further, given that the sample had to be split into sub-classes to test the study's hypotheses, small sample sizes became a concern. Due to these issues, nonparametric techniques were employed to test the hypotheses.

For the question concerning the preparation of a written export plan, the following responses were observed for the three categories: a) 44 firms stated that they had no written plans; b) 3 firms stated that had prepared written export plans that included objectives, strategies, and resource requirements; and c) 3 firms replied that they had prepared written plans that included objectives, strategies, and resource requirements as well as control procedures and data regarding factors outside the firm. Because the number of responses for categories b (partial written plan) and c (complete written plan) were small, they were combined when the question was used to test hypotheses. The question about use of export advisors had the following responses: a) 32 firms stated that no advisors were used; b) 17 firms replied that advisors were used for support, experience and information regarding exporting; and c) 1 firm stated that advisors were used to actively shape strategic export decisions. Again, similar to written plans, because only one firm listed category c, it was combined with category b for hypothesis testing.

The sample contained firms from different industries. Of the 50 firms, eight were agricultural firms, eight were in the building or mining fields, one was a chemical firm, 14 were machinery firms, and 19 were providers of other manufactured goods (e.g., computer, gifts, medical, recreation, and textiles). Because of the multi-industry sample, industry effects may exist. That is, if the relationships being examined in the study differ by industry, then it may be necessary to control for industry effects. A Kruskal-Wallis one-way analysis of variance test was conducted to test for industry effects using export intensity as the dependent variable. The test

was not significant at less than the .10 level. This test provided support for treating the sample as one group in statistical analyses.

It is also important to note that the sample was obtained through two mailings. Of the 50 firms being examined, 31 returned their questionnaires after the first mailing. Three weeks after the first mailing, a second set of questionnaires was sent to those not responding to the first one. This activity resulted in another 19 useable questionnaires. Again, a test (Mann-Whitney U test) was conducted to test for any mailing effects with export intensity as the dependent variable. As with industry effects, no mail timing effects were found.

Hypotheses

The results for hypotheses H1a and H1b are presented in Table 1. The chi-square test (incorporating a correction for continuity) suggests that a greater proportion of small firms with leaders who support or value being formal with export planning when compared to small firms with leaders who are not of this position exhibit the following practices: prepare written export plans (H1a), and use export advisors (H1b).

Insert Table 1 about here.

The findings for hypotheses H2, H3a and H3b are summarized in Table 2. The Mann-Whitney U test was utilized in each case. For H2, results indicate that better export performance (higher export intensity) exists for small firms with leaders who support (value) being formal with export planning than for small firms with leaders who do not support this position.

Insert Table 2 about here.

The result for H3a suggests that better export performance does "not" exist for small firms that prepare written plans when compared to small firms that do not prepare written plans. Although the difference in export performance was in the hypothesized direction, it was not found to be statistically significant.

The final result concerns H3b. The finding here was that there is support for the position that better export performance exists for small firms that use export advisors when compared to small firms that do not use these advisors.

Discussion

Most empirical studies to date on the planning and performance relationship have examined hypothesis H3a (the relationship between business plan development and performance),

and the findings have been mixed. An evolving research interest, of course, is determining why this has occurred. Results from the current study can be used to provide suggestions in this area. The study's findings can also be used for two other discussion purposes: to make comparisons between the planning practices of developing a written plan and using export advisors since information on both is available from the study; and to provide directions for further research.

Consider issues surrounding the preparation of a written export plan. This practice fits with the export planning value of being formal because a greater proportion of firms with leaders who valued being formal prepared written plans compared to those who did not value this activity (5/20 versus 1/28). However, export intensity performance did not improve for firms that prepared written plans when compared with those that did not. It may be that the relationship between written plans and performance is blurred by other internal (organizational culture) factors as well as external (environmental) factors. Building on the organizational culture perspective developed in this study, further research could examine planning beliefs and norms. One planning belief that could be studied is: Do organizational leaders believe that superior performance results from formal rather than informal planning? Answering this question could be important because leaders of small firms may prepare written export plans based on the requirements of an external capital provider, not based on their own belief that superior export performance will result from the documentation. Another fertile direction for research includes testing the influence of wider environmental factors and industry dynamics on the relationship between formal planning and performance.

An additional discussion area compares the results of the two practices that were examined in the study: preparing a written plan, and using advisors. In a frequency sense, note that only six firms prepared a written (partial or complete) export plan while three times that number used advisors (18) to either support or actively shape export decisions.

The two practices can also be contrasted using the results of the cultural value question and the export intensity question. A comparison of the value question and each of the practices did not generate any distinctions. That is, for both of the two practices there was a significant relationship with the value of being formal. This did not occur for the export intensity question. Although the difference in export intensity for those who did and those who did not prepare a written plan was not significant, the difference was significant for those who did and those who did not use advisors (i.e., mean export intensity was higher, as hypothesized, for those using advisors).

These comparisons suggest that more emphasis be given to the use of advisors, as both a recommendation for entrepreneurs and an area for further research. Future studies on the use of advisors could focus on gathering additional information about these people and their roles. Survey questions might ask: types of advisors used (e.g., internal board members versus external consultants), and the extent to which advisors were used.

Limitations of the current study include sample and measurement issues. Ideally, it would be best to obtain information about a firm's first year of exporting on a real time basis--during the time it is occurring. It is difficult, however, to obtain a large list of small firms that are currently

in their first export year. Regarding measurement concerns, although the use of retrospective measures is often perceived as introducing biases into research results, when the event being studied is a significant one, such as export initiation, retrospective recall is considered to be more accurate than otherwise might be expected (Auriat, 1993). In conclusion, the authors do not believe that these limitations seriously cloud the important relationships found in this study between export planning values, practices and performance.

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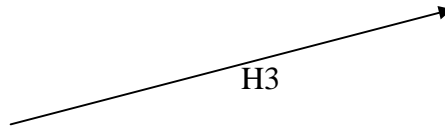
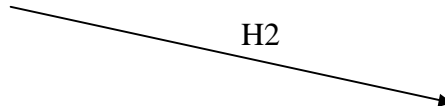
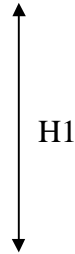
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Figure 1

Strategic Planning Culture Model

Strategic Planning Substance (Beliefs, Values, Norms)

- Do leaders believe formal planning improves performance
- *Do leaders value formal planning
- Do leaders expect organizational members to be formal planners



Performance
*Sales
Profit

Strategic Planning Forms (Practices, Behaviors)

- *Are written plans prepared
- *Are planning advisors used
- Are customers frequently contacted

Note: Only some of the different possible planning beliefs, values, norms, practices, behaviors and performance outcomes are listed. Starred items are tested in the current study.

Table 1

Relationships Between Substance and Forms of Strategic Export Planning Culture

H1a--Formal export planning as a value and preparation of written export plans.*

<u>Value Formal Planning</u>		<u>Preparation of Written Plans</u>		
		None	Partial/Complete	Total
No		27 (24.5)	1 (3.6)	28
Yes		15 (17.5)	5 (2.6)	20
Total		42	6	48**
Chi-Square	DF	Significance		
4.89796	1	.0383		

H1b--Formal export planning as a value and use of export planning advisors.*

<u>Value Formal Planning</u>		<u>Use of Planning Advisors</u>		
		None	Moderate/Substantial	Total
No		22 (18.1)	6 (9.9)	28
Yes		9 (12.9)	11 (7.1)	20
Total		31	17	48**
Chi-Square	DF	Significance		
5.74855	1	.0182		

*Actual and (expected) frequencies are presented in the table cells.

**Two firms did not answer the question on the value of formal planning.

Table 2

Relationships Between Strategic Export Planning Culture and First Year Export Performance

H2--Formal export planning as a value and export intensity.

<u>Value Formal Planning</u>	<u>Mean Ranking of Export Intensity</u>	<u>n</u>
No	20.36	28
Yes	30.30	20
		48*
U	Z	Significance
164.0	-2.4374	.0074

*Two firms did not answer the question on the value of formal planning.

H3a--Preparation of written export plans and export intensity.

<u>Export Plan Preparation</u>	<u>Mean Ranking of Export Intensity</u>	<u>n</u>
None	25.11	44
Partial/Complete	28.33	6
		50
U	Z	Significance
115.0	-.5097	.3051

H3b--Use of export planning advisors and export intensity.

<u>Export Advisor Use</u>	<u>Mean Ranking of Export Intensity</u>	<u>n</u>
None	22.09	32
Moderate/Substantial	31.56	18
		50
U	Z	Significance
179.0	-2.2127	.0134