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# GAINING PERSPECTIVE ON UZBEKISTAN VALUE ORIENTATIONS: IMPLICATIONS FOR EXPATRIATE MANAGERS

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## ABSTRACT

*After the collapse of the Soviet Union in 1991, Uzbekistan became an independent country. The decision to shift from a socialistic system to a free market economy made the Republic of Uzbekistan one of the business-attractive countries in the Central Asian region. The country's abundant human and natural resources gave rise to its abrupt development.*

*However, in spite of these successful developments, Uzbekistan still remains "terra incognita" for the "big foreign investments". Accordingly, the expansion of Western companies into Uzbekistan has not been as rapid as might be expected given the economic conditions in the country. The primary objectives of this paper are to answer abovementioned questions, to offer potential Western expatriate managers an accurate perspective of Uzbek national culture, to discuss its impact on business practices and to discredit the myths and stereotypes which they may have about Uzbekistan. This knowledge will assist Western expatriates gain a better understanding of Uzbek culture and values, which, in turn, will help their businesses be compatible with Uzbek culture.*

## INTRODUCTION

Uzbekistan is strategically located at the center of Central Asia, on the cross-roads of Asia and Europe, and it played an important role during the Great Silk Road period in ancient history. The total area of Uzbekistan is 447,400 sq. km. (slightly larger than California). It borders with all four countries of the former Soviet Union the names of which end with "*stan*" ("*land*"). They are Kazakhstan (to the west and to the north), Kyrgyzstan and Tajikistan (to the east), and Turkmenistan (to the south). It also shares a short border (93 mi) with Afghanistan to the south. Uzbekistan's population of over 28 million people makes up one-third of Central Asia's population. 88% are Muslim, and 60% are under the age of 25. The literacy rate is an impressive 99.3% (US Department of State, June 2011 and UNICEF statistics).

By virtue of its location and size, Uzbekistan is the center of regional geopolitics and trade. The transition to a free market economy as well as its liberalization has increased interaction between Uzbek nationals and managers from Europe and the US. In 2010, Uzbekistan received USD 2.98 billion of foreign investment. This includes USD 2.42 billion of FDI and USD 481.7 million in loans under government guarantees. The largest amount of foreign investment goes to the fuel and energy sector. The leading trading partners of Uzbekistan are Russia (29.2%), China (9.5%), Kazakhstan (8.3%), South Korea (7.4%), and Turkey (4.4%). Uzbekistan's economy declined during the first years of transition and then recovered after 1995, as the cumulative effect of policy reforms began to be felt. Since 1995 the country has shown robust growth with GDP rising by 7%–8% per year. According to the IMF estimates, the Uzbekistan's GDP doubled its value in 1995 (in constant prices) and grew 8.5% in 2010 ($85.85 billion, The World Factbook). The inflation rate decreased essentially (7.3% in 2010). Uzbekistan is the world's fourth-largest producer and second-largest exporter of cotton, as well as the seventh largest world producer of gold. It is also a regionally significant producer of natural gas, coal, copper, oil, silver and uranium.

Uzbekistan's abundant natural resources, combined with its transition to a free-market economy, have attracted the attention of many international investors who have increased their presence and operations. As an example, General Motors entered Uzbekistan when it signed a joint venture agreement with UzDaewoo to assemble Korean-manufactured cars for export and domestic sale. This plant now produces many lines of cars under the Chevrolet nameplate. GM has also signed a deal to begin producing power trains and engines in Uzbekistan. Boeing also has a longstanding relationship with the national airline of Uzbekistan, Uzbekistan Airways. Coca Cola, Baker Hughes, Nukem, Hewlett Packard, and other U.S. companies conduct small-scale operations in Uzbekistan as well.

The change in foreign investment patterns show that Uzbekistan is dealing with many countries (and their nationals) that were traditionally excluded when it was part of the Soviet bloc. These recent trends have resulted in greater level of interaction between foreign nationals and Uzbek citizens.

Cross-cultural management researchers have long documented the critical importance of understanding a country's values in order to avoid mistakes when dealing with host country nationals (Hofstede, 1980). To have successful business outcomes, it is important that managers from Western countries gain an understanding of traditional Uzbek culture and its impact on management practices. This knowledge will enable them to gain an understanding of key values that play an important role in shaping communication patterns, work ethic, religious influence, gender roles, leadership styles, etc.

## EVOLUTION OF UZBEK VALUES – THE PRESENCE OF DUALISM

*Dualism of values* is probably the best characterization of today's Uzbek society. There exists a set of Western secular values alongside the traditional Uzbek values. Secular values are a consequence of being introduced by the former Soviet system as well as the free-market economy vector of development chosen by the society. In turn, the traditional Uzbek values such as *conservatism* and *collectivism*, are mainly influenced by the country's deep history and traditions as well as Islamic culture.

Dualism is more conspicuous in urban areas where the population is over a million people. In cities such as Tashkent, Samarkand or Bukhara, like in any modern city of the world, a cosmopolitan atmosphere prevails. Lifestyles, shopping habits, fashion, and infrastructure in these big cities are relatively similar to those in Western countries. People there prefer to speak Russian among themselves and have a good command of foreign languages (mostly English).

In the rural areas of Uzbekistan, traditional social values are maintained. Traditional Uzbek values can be observed in a unique cultural institution called *Mahalla* (Arabic "country subdivision" or "neighborhood").*Mahallas* are built around familial ties and Islamic rituals. They fulfill local self-government functions connecting private sphere with public sphere. Religious rituals, life-cycle crisis ceremonies, resource management, conflict resolution, and many other community activities are all performed at *mahalla* level. An informal council of elders (*oqsoqol*, or *aksakal*) provides leadership. (McChesney, 1997)

According to Chris Seiple (2005), who mainly described elites, *mahallas* and Uzbek civil society: "… the *mahalla* is the place where religious and family values are instilled and group members look out for each other, collectively parenting their children, connecting friends and families to jobs, distributing funds to those in need, and submitting to the judgment of the elders. This environment is what most Uzbeks experienced in the Soviet period outside of school and work, where Soviet values prevailed. The *mahalla* has been a place where rich and poor; professional and laborer; Sunni, Shia, and Sufi can meet together. It represents a native neighborhood, … a civil society built on collective identities and the reciprocal relationships necessary to get things done. This is Uzbek civil society."

He emphasizes that "the tie that binds elites and *mahallas* is an eclectic, respectful, hospitable Islam. Uzbeks know the five pillars of Islam, but generally only practice a couple at a time." He also mentions the Uzbek's celebration of Nov Rus, which is a spring festival. Its origins predate the arrival of Islam which also shows the multicultural values of Uzbeks.

The facts above discredit the following myths, which basically oppose each other:

> *"Since Uzbekistan used to be the part of the former Soviet Union, then they probably have the same values as the Russians or Westerns do,"* and
> *"Since Uzbekistan has the same ending "stan" as Pakistan or Afghanistan does, then it is probably also an Islamic country."*

Although Uzbek, a family of Turkic languages, is the official language in Uzbekistan, almost everyone is conversant with Russian. They study Russian at schools and universities. Seventy years of Soviet domination definitely had a huge impact on the culture and values of the Uzbek people. Uzbeks are aware of and easily understand Western values. Nevertheless, Uzbekistan is an Asian country with its own national peculiarities. However, Uzbekistan is not typical Asian country like Japan or China. It is a country whose values and beliefs are historically impacted by Islam and other different religions and cultures (e.g., Christianity, Zoroastrianism, and Buddhism).

Although Muslims are a prevailing majority in the country, "freedom of conscience is guaranteed to all. Everyone shall have the right to profess or not to profess any religion. Any compulsory imposition of religion shall be impermissible." (The Constitution of the Republic of Uzbekistan, Part II, Chapter-7, Article 31, Dec. 08, 1992). The separation of mosque and state is clear. Therefore, today's emerging Uzbek society is secular and welcomes modernizations, but at the same time, it tries to safeguard its uniqueness infused with Islamic, Soviet, and Western values.

## UZBEK CULTURAL VALUES AND THEIR IMPACT ON MANAGEMENT PRACTICES

Since *collectivism* and *conservatism* are two main components of Uzbek culture, many organizations in Uzbekistan have centralized-decision making structures. A paternalistic yet personalized leadership style is perhaps the best combination for Western expatriates to be effective with Uzbek peers and subordinates. However, they should also demonstrate flexibility and comprehension. The majority of the population in Uzbekistan is made up of young people aged between 20 and 35. They are ambitious, well-qualified and schooled in Western thought. Delegating authority and giving more independence to these qualified subordinates will allow expatriate managers to achieve more efficiency.

*Additionally, hospitality*, *personalized relationships*, and *saving face* key elements of the Uzbek culture. There is an old Uzbek saying "Honor your guest as much as your own father." A father, as the head of the family, is highly respected and foreign guests are meant to be highly respected as well. Any expatriate manager is, first of all, viewed as a guest and it is no surprise if very soon he/she finds himself as such in some of his subordinate's or peer's house.

The proper *Greeting* is also an important element in social situations. While timing his meeting, an expatriate manager in Uzbekistan must be always aware of "greeting time". As it is typical for collectivistic culture, greetings among Uzbek people tend to be more extended. Every person must be personally greeted and their hand shaken (unless there are too many people in the room). Greetings should not be confined to just "Hello" or "How are you?" Asking short questions about his/her health and children or parents is considered to be a form of politeness. Not doing so may be considered as an insult or rudeness causing an individual to lose face.

As a result of a *high context culture*, verbal communication and face-to-face contact are preferred. However, written communication in business is frequently practiced as well, where more preference is currently given to the paper letters than to an electronic form. In communication, context is very important. Oftentimes, how something is said is even more important than what is said. People value the unspoken, and train each other to understand the implicit. In verbal as well as written communication among Uzbek people, the word "we" is used much than the word "I".

*Punctuality* and *keeping deadlines* especially in business settings have become more important in Uzbek culture. In urban areas, with well-developed transportation systems, time orientation is easier, whereas in rural areas slight deviation from punctuality might be excusable. Despite the growing importance of punctuality in business settings, managers of senior levels may allow themselves to be late, whereas subordinates may not. This could perhaps be viewed as one element of power (respect for authority).

Western methods of *performance evaluation* of employees, including self-assessment, may not be effective in Uzbek organizations. Employees tend to rate themselves considerably lower. In part, it is because boasting and indiscretion are viewed by society as one of the negative qualities. Therefore, during the interview, expatriate HR managers should take the above mentioned points into account while asking potential employees about their unique qualities and skills. It is more likely they will get modest answers.

Since elder people are highly respected by younger generation, it also has its effect on formation of the *conflict management styles* in workplaces. *The accommodative* method of conflict resolution prevails toward both the elder subordinates and superiors. Collectivism values of society are the main reasons for peers to *avoid* competition among themselves. For expatriate managers who deal with Uzbek nationals, sharp confrontations should be avoided. Managers should be more collaborative and cooperative, while taking into account the age and the work experience (i.e. their status in organization) of their subordinates. Accommodative and avoidance approaches of conflict resolution may not give the best outcomes, but it is very important in Uzbek business culture, where high priority is given to team and group harmony.

The *role of women* in Uzbek society differs from place to place. In big cities, such as Tashkent, women follow fashion, dress trousers, drive cars, run their own business, and actively participate in social life. But in general, especially in rural areas, women are more conservative. They wear national dresses and give more priority to the family rather than their carrier.

Last but not least, it is important for expatriate managers to earn respect from their subordinates. Earning a good name is a guarantee for future success. The best ways for expatriate managers to achieve a "good name" are: being able to greet and to thank in Uzbek language; being aware of some important national holidays (Nov Rus, Independence Day) and traditions (tea ceremony, nahor osh); and knowing some of the Uzbek national heroes (Tamerlane) and great persons (Navoy). Moreover, knowing and understanding some of the national sayings will give expatriates a deeper insight into true Uzbek values.

## CONCLUSION

Uzbekistan is a diverse country with majority of active devout Muslims who prefer to live in a secular country. While experiencing diversity, expatriate managers should always keep in mind the dualism of values in Uzbek society. The dualism is expressed in terms of Western secularity and Uzbek traditional values. Secular values were mainly shaped by the new concept of free market development, chosen by the society and partially inherited from the former Soviet period. Whereas traditional Uzbek values (collectivism and conservatism) have been formed by country's deep history, diverse culture and traditions, and in most part, influenced by the integral part of Uzbek society - *mahalla*. In order to apply an effective communication style and a conflict resolution style, expatriate managers must be able to differentiate these cultural differences among Uzbeks.

To have a successful business in Uzbekistan, cross-cultural awareness of country is probably as important, if not more so, than skills in the financial sphere. In general, expatriate managers are encouraged to use indirect, subtle, and face-saving communication techniques, while always taking into account the age and unofficial (as well as official) status of subordinates in the company. They are to avoid giving negative feedback in a direct manner, which may create conflict in an organization. Understanding and proper application of implicit methods of communication are the best way for effective management in high-context culture, like in Uzbekistan. It is hoped that the topics discussed above will help Western expatriates in their dealing with Uzbek nationals.

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# THE INFLUENCE OF CORPORATE BOARD CHARACTERISTICS ON FIRM PERFORMANCE OF PUBLICLY LISTED PROPERTY COMPANIES IN THE PHILIPPINES

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## ABSTRACT

*The need to intensify the corporate governance mechanism in the Philippines triggers this study to determine the influence of corporate boards on firm performance among publicly-listed property companies given the risks involved in this industry. Using financial and governance-related disclosure information from 29 listed property companies in the Philippines, the results revealed that managerial ownership positively influences firm performance. Moreover, firm size, leverage, and age influence the accounting-based measures of performance to a great extent than the market-based measures. Because of the limited focus of this study, further research should focus on the overall impact of corporate governance among all Philippine companies using different measures of performance as well as the introduction of other relevant governance-related parameters to better assist the decision making of the company's stakeholders.*

*Keywords: corporate governance, firm performance, disclosures, investors' decision making, board of directors*

# AN EMPIRICAL INVESTIGATION OF THE EFFECTS OF MERGER AND ACQUISITION ON FIRMS' PROFITABILITY

**Rodiel C Ferrer, De La Salle University, Manila, Philippines**

**ABSTRACT**

*Economic advantage and competitive edge is the name of the game. Business combination is one proven and tested method by companies wanting to grow and gobble up a larger market share. The emerging business scenario created an additional burden to the already struggling corporations' existence, in almost all types of industry, which is due to the ever increasing demand for innovative strategies. To survive the dog-eats-dog world of competitiveness, a number of these players engage in business combination – wherein two or more companies incorporate into a single accounting entity.*

*This study is considered a causal and correlational research, which aims to determine the relationship of the mergers and acquisitions to the firm's profitability. It is a quantitative study that measured the effects of mergers and acquisitions on return on assets and return on equity of the companies. Besides knowing the relationship, this study also obtained an estimate of the possible impact of the independent variable to the dependent variables. This study covered all the listed companies in the Philippines Stock Exchange for the years 2006 until 2010. This covered companies from the different sectors of the economy, which comprise of 30 companies in the financial sector, 75 firms in the industrial sector, 39 businesses classified as holding firms, 39 companies in the property sector, 54 businesses in the service sector and 22 companies in the mining and oil sector.*

*The research made use of two linear regressions to analyze the effect of having a merger or acquisition on the profitability of the companies. Two separate regressions are needed because profitability would be proxy by two different but widely used variables: the return on equity and the return on assets ratio. Since the study covered the entire publicly listed companies in the Philippines for the period 2006 until 2010, this essentially means that panel data was used in the study. Hence, the appropriate panel analysis was conducted.*

*Findings suggest that there is significant negative relation of merger and return on equity, having a merger or acquisition to return on equity implies that most mergers and acquisitions do harm to the financial well-being of the companies, rather than good. Furthermore, merger and acquisition provide an insignificant relation to the return on total assets, as evidenced by the insignificant p-value. As a result, the finding of this variable provides empirical evidence that having a merger and acquisition does not affect the return on assets ratio of companies in the Philippines.*

Keywords: *Merger and Acquisition, Firms' Profitability, Panel Analysis, Return on Equity and Return on Asset.*

# BUSINESS AS A MISSION: BUILDING BUSINESSES IN THAILAND

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**Collin Rhoade, Indiana Wesleyan University**
**Austin Nevers, Indiana Wesleyan University**
**Jerod Miller, Indiana Wesleyan University**
**Shawn M. Carraher, Indiana Wesleyan University**

## ABSTRACT

*This paper reports on the effectiveness of a training program presented in several locations in Thailand during May of 2011. We found that American management techniques were able to be successfully used by SME owners in Thailand.*

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# ENTREPRENEURSHIP AS A TRADITION: A CROSS-COUNTRY COMPARISON

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## ABSTRACT

*Family businesses are an important part of most economies. In the United States, they account for 90% of all businesses (Small Business Association, 2011) and are said to generate approximately 64% of the nation's GDP (Laird Norton Tyee, 2007). Across Europe, 70-80% of businesses are family businesses, including both SMEs and large businesses (Mandl, 2008). Many people who grew up in family businesses or around family members who were self-employed eventually choose to start new businesses. In addition, more and more family businesses are now being passed to daughters, rather than to sons (Resources of Entrepreneurs, 2011). This study examines the proportions of men and women in a variety of countries whose motivation for starting a business was based on a family tradition for self-employment. The results show that, in several countries, more women than men state that this tradition was a motive for entrepreneurship.*

## INTRODUCTION

SMEs form a large part of the global economy, with a significant proportion of SMEs also being categorized as family-owned. According to the Small Business Association (2011), 90% of all businesses in the United States are family-owned. Approximately 64% of the US GDP is generated by family-owned businesses (Laird Norton Tyee, 2007), as are 78% of new jobs and 60% of overall employment (Resources for Entrepreneurs, 2011). A somewhat similar picture is seen in Europe, where 70-80% of companies are family businesses, mostly small and micro (fewer than 10 employees) in size. These family businesses provide almost half of European jobs (Mandl, 2008).

Family businesses are not just businesses in which the owners happen to be family. As Mandl (2008) states, there is a strong interrelationship between the family and business such that the family is at the center of the business. People who grow up with a self-employed parent or in a family business environment usually learn the advantages and disadvantages of being self-employed. In families whose businesses survive through more than one generation, joining the family business or starting one's own business may be viewed as a family tradition. This study examines this situation by comparing the proportions of men and women in a variety of European countries who stated that following a family tradition was a motivator in their decision to start a business. The following section provides a brief review of some issues in family businesses. The results of this study are then presented.

## FAMILY AND BUSINESS

The strong interrelationship between families and family businesses creates a situation in which the long-term health and survival of the business (including transition of ownership) is often given considerable importance. Transition to the next generation has become a problem for many family businesses. Only one-third successfully transfer the business to the next generation due to lack of interest in the business by the succeeding generation, problems that develop after initial transfer or other reasons (Resources for Entrepreneurs, 2011).

In addition to the transfer of business and market knowledge, social, cultural, and financial capital are frequently passed from one generation to the other over a long period of time (Longenecker & Schoen, 1978; Mandl, 2008). As stated by Fletcher, Helienek and Zafirova (2009, p. 369), "The real strength of the family embeddedness perspective of entrepreneurship…is the signaling of family transitions." These generational transfers include work values and attitudes as well as resources (financial, human, labor, information). Values passed from one generation to the next include honesty, credibility and respect, which are important for long-term success in dealing with customers, co-workers and communities (Aronoff & Ward, 2001; Koiranen, 2002; Mandl, 2008; Stewart, 2003). These values also often include a personal commitment to the long-term survival of the business rather than an emphasis on short-term profits. For example, family businesses in Cypress are thought to grow the talents of family members and strengthen the ties between them (Mandl, 2008). It is not suprising, then, that family businesses in that country tend to be older than other businesses (Duh & Tominic in Mandl, 2008; Emling, 2000).

Mothers, in particular, are said to play a vital role in the transfer of values from one generation to another, making women especially important to the process (Lambrecht, 2005; Lansberg, 1999; Poza & Messer, 2001). Women are also becoming more important in terms of ownership. Although old traditions passed family businesses to the oldest son, changes in concepts regarding gender equality is causing an evolution in family business transfer so that more and more women are taking over family businesses (Mandl, 2008; Resources for Entrepreneurs, 2011). In the past few years, the number of family businesses owned by women has increased 37%, and there are indicators that these women have higher success rates than businesses controlled by men (Resources for Entrepreneurs, 2011).

Women tend to have a higher proportion of family members in their networks, and such networks have been found to be significantly smaller (Greve & Salaff, 2003; Moore, 1990; Renzulli, Aldrich & Moody, 2000). In a study of successful business owners across Europe, family and friends were women's top source for advice, followed by professional acquaintances, while the reverse was true for men (Robinson & Stubberud, 2010). Similarly, Watson (2011) found that Australian women SME owners used family and friends more than men did; men used more formal networks such as banks and business consultants. Greve and Salaff (2003) determined that women with one or both self-employed parents have been found to have 28% family members in their networks, compared to 16% for men. This is consistent with Hisrich and Brush (1986), who found that men claimed advisors such as lawyers and accountants among their most important supporters, with spouses second, while women reported spouses to be their most important supporters, followed by close friends. A French study by Orhan (2001) reached the same conclusion. Cromie and Birley (1992) likewise concluded that family members were the most important people in women business owners' networks in Northern Ireland. In Greece, mentoring was found to be a "serious support mechanism" for women starting businesses (Apergis & Pekka-Economou, 2010, p. 384).

Even outside of family business, people who grew up with self-employed family members are more likely to become self-employed themselves. According to a European study by the Gallop Organization (2010), people whose family is/was entrepreneurial were more likely to express a preference for being self-employed. Specifically, 56% of people whose parents were/had been entrepreneurs wanted to be self-employed themselves compared to 42% of people with a different family background.

Given the prevalence of family businesses and the influence of self-employed parents on their children, it is important to examine this phenomenon. This study examines the influence of family connections on self-employment. It specifically compared the proportions of women and men who stated that family tradition was a motive for starting a business.

## METHODOLOGY, RESULTS AND ANALYSIS

The data for this study were gathered from Eurostat's metadata database (Eurostat, 2011). The sample frame for this extensive 2005-2006 survey consisted of people who had started businesses in 2002 and were still personally managing them in 2005. The data examined for this study pertained to the proportions of European men and women who stated that a tradition for self-employment in the family was a major motive in their decision to start a business.

As shown in Table 1, the motivation to start a business based on family tradition varies by country, and in some instances, by gender. There was a large difference between the percentages of men and women who stated that family tradition was a motive for business start-up, ranging from a high of 42% for Danish men to a low of 8.7% for Estonian men. Swedish women were the most likely to state that family tradition was a motive (38.3%) with Czech women being the least likely (10.1%) to say this.

**Table 1: Family Tradition as a Motive for Business Start-up**

| Country | Men | Rank (Men) | Women | Rank (Women) | Chi Square | P< |
|---|---|---|---|---|---|---|
| European aggregate | 22.5% | --- | 22.4% | --- | 0.1 | .842 |
| Denmark | 42.0 | 1 | 35.9 | 4 | 5.8 | .016¤ |
| Luxembourg | 38.5 | 2 | 37.2 | 2 | 0.1 | .920 |
| Portugal | 33.3 | 3 | 37.0 | 3 | 1.7 | .187 |
| Sweden | 30.4 | 4 | 38.3 | 1 | 11.6 | .001¤¤ |
| Italy | 26.0 | 5 | 27.6 | 6 | 5.5 | .019¤ |
| Bulgaria | 25.3 | 6 | 29.7 | 5 | 7.0 | .008¤¤ |
| Romania | 24.0 | 7 | 21.0 | 8 | 7.5 | .006¤¤ |
| Austria | 21.4 | 8 | 22.2 | 7 | 0.2 | .689 |
| Lithuania | 17.1 | 9 | 19.5 | 9 | 0.2 | .689 |
| Slovenia | 13.8 | 10 | 13.0 | 11 | 0.1 | .888 |
| Latvia | 13.3 | 11 | 17.7 | 10 | 0.5 | .480 |

| Table 1: Family Tradition as a Motive for Business Start-up | | | | | | |
|---|---|---|---|---|---|---|
| Country | Men | Rank (Men) | Women | Rank (Women) | Chi Square | P< |
| Czech Republic | 11.5 | 12 | 10.1 | 14 | 1.4 | .233 |
| Slovakia | 11.1 | 13 | 10.7 | 13 | 0.1 | .842 |
| Estonia | 8.7 | 14 | 12.0 | 12 | 0.2 | .663 |
| ¤ statistically significant at the .05 level ¤¤ statistically significant at the .01 level | | | | | | |

Although the percentages for men and women overall were very close, analysis by country revealed five countries in which there was a statistically significant difference between the proportions of men and women who were motivated by family tradition. In three of these cases (Sweden, Italy and Bulgaria), women were more likely to state that family tradition motivated them to start a business. In Sweden, which ranked first for women but fourth for men, there was a 7.9% difference between women and men. The difference between Italian women (27.6%) and men (26.0%) was only 1.6%, but was nonetheless statistically significant due to the very large number of respondents in Italy. The difference in Bulgaria was slightly larger at 4.4%. In contrast, the 4.4% gap between Latvian women (17.7%) and men (13.3%) was not statistically significant in this less populated country. Romania and Denmark both showed a statistically significant difference between men and women with men being higher. In fact, Denmark's men were the most likely (42.0%) to report this motive with a 6.1% gap between the percentages of men and women affirming this motivation. However, in comparing ranks, there was only a total of 2.4% difference between women in Sweden (ranked 1) and Denmark (ranked 4), while there was 11.0% total difference between men in Denmark (ranked 1) and Sweden (ranked 4).

The six countries with the lowest percentages of people stating that family tradition was a motive were formerly Eastern Bloc countries. Austria was the only country not in the Eastern Bloc that was below the European average, but Austria's percentages were close (22.2% for women and 21.4% for men). Romania men (24.0%) were about the European average, but women were below (21.0%). Estonia had the lower percentage of men (8.1%) while the Czech Republic had the lowest percentage of women (10.1%). There were no statistically significant differences between men and women in those six countries or Austria.

## DISCUSSION AND CONCLUSIONS

Social capital and advice networks may offer some insight into the role family tradition plays in motivating people to start businesses. People who own and work in family businesses tend to prefer to obtain advice from family and friends and are often reluctant to obtain business advice from external sources such as business consultants (Emling, 2000). In a study on advice networks (Robinson & Stubberud, 2010), Bulgarian business owners were the most likely to consult family and friends for advice when starting a business, with approximately 62% of Bulgarian men and 72% of Bulgarian women citing family and friends and 34% and 32% respectively citing professional acquaintances.

In three out of the five instances in which there were statistically significant differences between the numbers of men and women who said that family tradition was a motive for start-up, women were more likely to claim that family influence. In the small country of Luxembourg, the proportions of women (38.5%) and men (37.2%) who claimed family tradition as a motive were similar, and ranked Luxembourg second for both men and women. One reason for these high proportions could be that 45% of self-employed people are professionals (European Commission, 2010). In many families, heredity and up-bringing seem to work together to create professional "dynasties" of doctors, dentists, lawyers, clergy, etc., which could logically account for this situation in Luxembourg.

In families where members are self-employed, the next generation tends to learn about the business and entrepreneurship while growing up. Given the gender differences in networks that can influence business success (Robinson & Stubberud, 2010), family members with business-specific knowledge could be a great assistance to women entrepreneurs (Nebus, 2006). Future research should further examine this issue by investigating the ways women benefit from the family and friends in their networks, and how family upbringing can influence their choices.

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# INDUSTRY SECTOR AND EXPORT PERFORMANCE OF SMALL, LOCALLY-OWNED FIRMS

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## ABSTRACT

*This paper reports on the findings of an empirical investigation into the relationship between industry sector and the export performance of small, locally-owned firms in the Jamaican economy. Given the small size of the Jamaican economy, it is expected that all firms would be engaged in exporting but clearly this is not the case. It appears that the industry sector does impact on the ability to export. To investigate this issue, the paper uses survey data of 92 exporters and non-exporters to estimate a logistical regression model of the firm's export behaviour. The results revealed that industry sector, firm size and the nature of the firm's product are all important factors that influence its export behaviour. The novelty of the findings is also seen in the directionality of the relationship between industry sector and the firm's export performance.*

Key words: Export, Industry Sector, Small, locally-owned firms.

## INTRODUCTION

The international business literature, especially the burgeoning area of international entrepreneurship, is replete with works on the export behaviour of the firm, moreso; the small and medium-sized firm (e.g. Coviello & Jones, 2004; Jones & Coviello, 2005; Dana, 2004; Dimitratos & Jones, 2005; Rialp et al., 2005; Miesenbock, 1988; Oviatt & McDougall, 1994; Zou & Stan, 1998; Williams, 2009; 2011). These works have focused on different aspect of the firm's export performance such as: firm and managerial characteristics that impact on export performance (e.g. Leonidou et al., 1998), the impact of firm size and age (Zou & Stan, 1998; Miesenbock, 1988; Williams, 2011); factors that stimulate the decision to initiate export (Williams, 2009; Bilkey, 1978), among other issues. Still, the majority of works in this area focus on the managerial characteristics which influence export performance. Indeed, Aaby & Slater (1989: p.16) after reviewing 55 studies which focused on the firm's export behaviour concluded that: "it appears as if it is the managements' commitment, perception and attitude towards export problems and incentives that are good predictors of export success. Further, Miesenbock, (1988) in a comprehensive review of the literature which look at studies that focus on the firm's export behaviour also shared the view that it is the persuasion of the decision maker that will determine whether or not the firm exports. This may help to explain the heavy bias towards looking at managerial factors in the quest to understand the firm's export behavior.

Despite the heavy bias in research on small firms export performance towards studying managerial factors, other researcher have pointed out the importance of external variables that may influence performance (Zou & Stan, 1998; Cavusgil and Zou, 1994). Most studies focus on government polices (Avarez, 2004); Wilkinson, 2006) and, market characteristics (Katsikeas et al. 1996; Cavusgil and Zou, 1994). Although some efforts have been made in looking at external factors, it appears that there is still some way to go in order to better understand the impact of external factors on export performance. Indeed, in their review of literature on the export performance of the firm, Zou & Stan, (1998) argued that the research on the environmental factors that influence export performance was the lowest. According to Madsen (1987) it seems that the lack of emphasis on the environment, is still characterizing the export performance studies in the last decade. This observation made over two decades ago is still relevant today. Although there is a growing literature on the export performance of the firm (Leonidou & Katsikeas, 1996) very little attention is paid to the role of external factors such as the industry sector in which the firm operates, in influencing the export performance of the firm. This is even more so when the research is analysed from a geographical perspective. The role of industry sectors in small, open economies has not been studied to determine their impact on the export performance of the firm. For small, open economies, it is assumed that all firms will export if they are to grow and survive because the small size of the economic sector will make it infeasible for firms to concentrate their activities solely on the local market [1]. However, with this expectation in mind, no studies have focused exclusively on the role of industry sector on the export performance of the firm, especially the small, locally-owned firms[2]. It is this gap that has motivated this study. The study therefore aims to understand whether or nor the industry sector has any impact on the export performance of the firm. The guiding question will be: what is the impact of industry sector on the export performance of small, locally-owned firms in a small, open economy?

## VARIABLES IN THE STUDY

### Industry Sector

From the rich literature on export behaviour of the firm, it appears that the least studied aspect of this behavior is the influence of external uncontrollable factors on the export performance of the firm. Indeed, Zou & Stan (1998) after a comprehensive review of the literature in this area, found that of the 50 studies reviewed, only 18 looked at the external environment and its impact on the firm's export performance. Other researchers have also recognized the gap in looking at the influence of the external environment on export performance by noting that the majority of studies focus on managerial and firm characteristics in determining export performance without look at the external environment (Leonidou et al., 1998, Aaby & Slater, 1989).

The handful of studies which looked at the influence of external factors on the firm's export performance also shows some inconclusive results. In terms of the external environment, the works generally look at the industry characteristics, the domestic market characteristics and, the characteristics of the export market. The results relation to the impact of these different aspects of the environment on the export performance of the firm varies. As it relates to the characteristics of the industry, some studies found that firms in more complex industries such as high technology or complex manufacturing have a greater proclivity towards exporting than those in industries with lower levels of complexity and low levels of technological intensity. In other words, when the industry is characterized by high level of technological intensity and complexity in its operations, the influence on export performance is positive (Cavusgil & Zou, 1994).

**Firm Size**

Besides the industry sector, firm size is seen as another important determinant of the export performance of the firm. The extensive literature on this aspect of the firm's behaviour has yielded mixed results. Size as a explanatory variable, has received quite a lot of attention in the literature on the firm's export behaviour (e.g. Andersson et al., 2004, Mittelstaedt et al., 2003, Hall & Tú, 2004, Pope, 2002, Bilkey & Tesar, 1977). The general finding however seems to be biased towards a positive relationship between firm size and export propensity (Miesenbock, 1988). Indeed, some studies have even tried to determine the appropriate size for successful export performance. Mittelstaedt et al., (2003) for example, have suggested that there is a critical minimum size in order for exporting to take place. The recommendation is that below 20 employees, exporting becomes infeasible. This argument finds support with that of Bilkey, (1978) who discovered that beyond a certain point, exporting is positively correlated with firm size, but below a minimum point, there is no correlation. Because size reflects the productive capacity of the firm, below a critical minimum, the firm will not have sufficient capacity to at least initiate exporting (Mittelstaedt et al., 2003). This argument however, is weakened if the only measure is the number of employees. Firms with less than five employees are observed operating in the export market (e.g. Bilkey & Tesar, 1977, Philp, 1998, Moen & Servias, 2002 etc.) whereas, the proxy for sufficient productive capacity is suggested as 20 employees minimum. Size as a surrogate for productive capacity seems to be an argument which better suits continued export development than export propensity.

**Firm Age**

Similar to firm size, the age of the firm has also received a reasonable amount of attention in the extant literature. Andersson et al., (2004) in the study on Swedish firms show that age of the firm is not a significant factor in determining the level of internationalization[3] Further, Keng & Jiuan, (1989) found that there is no statistically significant difference between younger and older firms' interest in exporting. They concluded that this finding does not give support to the contention that younger firms are more interested in exporting than older ones.

From the theoretical lens of organization theory, the literature provides arguments to suggest that younger firms are more interested in exporting than older ones (Rhee, 2002; Autio et al., 2000). This theoretical lens points to structural inertia as a result of age. It posits that structural inertia in a firm increases with the age of the firm. This therefore, results in older firms being slower in responding to change compared to younger firms. Since exporting calls for important changes to be made in a firm's operational activities, it is expected that older firms will respond less quickly than younger ones.

**Nature of the Firm's Product**

Like size and age, the nature of the product which the firm offers seems to have some influence on its export performance. This factor has also received some attention in the extant literature. The characteristics of the firm's product take into account, degree of standardization, quality, uniqueness, usage:- consumer or industrial (Cavusgil & Nevin, 1981, Christensen et al. 1987, Aaby & Slater, 1989, Wiedershiem- Paul et al. 1978, Leonodou & Katsikeas, 1996).

The interpretation from the extant literature is that firms which possess products that do not have to adapt to conditions in the export market in order to be, are more likely to be engaged in exporting (Christensen et al., 1987, Vernon, 1966, Tookey, 1964). That is, firms with products that can be sold both in the domestic market and the international market with just minor variation, will get involved in exporting easier than those firms that have to make monumental changes to the product before it can be sold overseas.

## THE RESEARCH METHOD

To motivate this study, the logit model was used. The dependent variable is dichotomous in nature as such, to determine how the independent variables relate to it, a model from the qualitative genre of econometric models have to be used. The logit model was chosen as the tool to carry out the analysis. Further, because the sample frame for small, locally owned firms in Jamaica is not known, it is difficult to estimate the true population mean and variance. As such, one cannot be sure about the normality of the population from which the sample was drawn. Using the logit model to analyse data from this population helps to overcome the problems identified. The logit model is less sensitive to violation of the normality assumption (Gujarati, 2003).

The form the logit model takes for this analysis is captured in equation 1 below

$$\text{Logit (Y)} = \ln (P/1\text{-}P) = \alpha + \beta_1\varphi + \beta_2\lambda + \beta_3\mu + \beta_4\theta + \varepsilon \qquad (1)$$

Where

$\varphi =$ industry sector

$\lambda =$ firm size

$\mu =$ firm age

$\theta =$ nature of the firm's products

The dependent variable Y captures the firms export performance, that is, whether it is an exporter or not. If it is an exporter, it gets a 1 and if not a 0.

## RESULTS

This section of the paper reports on the results from the analysis of the data. Table 2 below highlights the results derived from the estimation of the logit model which focused on likelihood of the firm becoming an exporter given its industry sector and also its age, size and product.

| **Table 2. Logistic Regression- model with a constant (N=92)** | | | | |
|---|---|---|---|---|
| *Independent variables* | $\beta$ | *Wald* | *Sig.* | Exp( $\beta$ ) |
| Constant | -1.231 | 2.059 | .151 | .292 |
| Industry sector | -.230 | 3.978 | .046* | .795 |
| Firms Size | .044 | 11.564 | .001* | 1.045 |
| Firm Age | .034 | .064 | .800 | 1.035 |
| Nature of the product | 1.900 | 12.295 | .000* | 6.687 |
| 2LL(Initial Model) | 127.4 | | | |
| -2LL(Final Model) | 99.9 | | | |
| $\chi^2$ (df) (Final Model) | 27.4** | | | |
| $\chi^2$ (df) Hosmer & Lemeshow test | 13.02*** | | | |
| Nagelkerke $R^2$ | .34 | | | |
| $R^2_L$ | .22 | | | |
| % Correct Prediction | 67.4 | | | |

* Variables are significant at the 0.05 level of significance
** Statistic is significant at the 0.05 level of significance (p=0.00)
*** Test is non-significant at the 0.05 level of significance (p=.11)
$R^2_L$ = 1- (Final model -2LL/ Initial model -2LL)
Dependent variable is export performance (1= exporter, 0 = non-exporter)

According to the model, the likelihood of a small, locally-owned firm in Jamaica becoming an exporter is related to the size of the firm, the nature of the firm's product and the sector that the firm operates in but not its age. In other word, to answer the research issue that this paper has under investigation, the results suggest that the industry sector significantly impact on the likelihood of the small firm becoming an exporter. Given the negative sign on the co-efficient, the interpretation is that as the complexity of the sector increases, the likelihood of the firm becoming on exporter is lower. This is so because sectors with lower levels of complexity were labeled with lower numbers and those with higher complexity were labeled with higher numbers.

Interestingly, the original model found that the constant term was insignificant statistically. This suggests that the model can be estimated without the inclusion of the constant term. Table 3 below shows the results from this analysis.

Indeed, this further sensitivity analysis of the model suggests that the results are robust. All the variables that were significant from the estimated model with the constant remain significant under the model without the constant. Industry sector which is the critical variable of choice is seen as significant in both models. The Nagelkerke $R^2$ and the model $R^2$ remain stable as well as the other goodness of fit of the model such as the Hosmer and Lemeshow statistic. The Hosmer & Lemeshow statistic remains non-significant at the 5 percent level of significance ($p> 0.05$) which suggests that the predicted model is not different from the theoretical or observed model

**Table 3: Model without constant**

| *Independent variables* | $\beta$ | *Wald* | *Sig.* | Exp( $\beta$ ) |
|---|---|---|---|---|
| Industry sector | -.305 | 8.764 | .003* | .737 |
| Firms Size | .035 | 10.763 | .001* | 1.036 |
| Firm Age | -.112 | 1.557 | .212 | .894 |
| Nature of the product | 1.697 | 10.691 | .001* | 5.455 |
| 2LL(Initial Model) | 127.6 | | | |
| -2LL(Final Model) | 102.1 | | | |
| $\chi^2$ (df) (Final Model) | 25.5** | | | |
| $\chi^2$ (df) Hosmer & Lemeshow test | 9.9*** | | | |
| Nagelkerke $R^2$ | .32 | | | |
| $R^2_L$ | 0.20 | | | |
| % Correct Prediction | 70.7 | | | |

* Variables are significant at the 0.05 level of significance
** Statistic is significant at the 0.05 level of significance (p=0.00)
*** Test is non-significant at the 0.05 level of significance (p=.27)
$R^2_L$ = 1- (Final model -2LL/ Initial model -2LL)
Dependent variable is export performance ( 1= exporter, 0 = non-exporter)

## CONCLUDING REMARKS

This study has demonstrated that industry sector does influence the export performance of Jamaican firms. It showed that similar to other studies in the extant literature, there is indeed a statistically significant relationship between industry sector and export performance. However, the directionality of the impact seems to different in this particular study. The results revealed an inverse relationship between industry sector and export performance. Firms in less complex and technologically intensive sectors are more likely to export than those in complex and more technologically intensive sectors. This novelty in the findings reveals the importance of context specific studies in this area of work.

While the results are robust, one of the limitations of the study is that a more nuanced treatment of industry sector could have been done. Further researchers could look at the characteristics of the industry to better determine issues of complexity and technological sophistication. This would help to provide stronger argument about the directionality of the results.

## ENDNOTES

1 [1]Small, open economies are generally referred to as those with a population of less than 10 million and with trade to GDP ratio of more 100 percent.

2 These are firms with 100 or less employees and are not apart of any larger establishments. Their headquarters are located in the domestic economy

3 Internationalization here was measured as export performance; that is, both export intensity and export propensity

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