

Conference Paper

Organizational Capacity for Export Activities: How Important it is to Accomplish Positive Business Results?

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Abstract

In a diversified global business, there is presence of international competition and many hidden risks. Still, internationalization of business represents the only sustainable long-term strategic choice for a company. Since the organizational capacities are recognized as the only irreplaceable resource in a company, their relevance emerges in modern economy. However, business praxis is such that only one person is responsible for most business decisions in a company, especially smaller ones. Therefore, export often represents a secondary activity because the management is limited to leading the businesses on the local market. Consequently, the goal of this paper is to test the consistency of organizational capacities involved around export activities, as well as their influence on the export result. Survey, researched on a sample of export companies in Croatia, showed that organizational capacities for export activities have a two sided effect on business. In fact, the support of management in bringing different, risky decisions have a negative effect, while controlling standard procedures and encouraging creativity and efficiency of employers have a positive effect.

Keywords: Organizational capacity for export activities, export, business result

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1. Introduction

Formal social organizations and their relationships with the environment in which they operate provoke great interest in the modern economy. The complexity of the subject matter is reflected in the interconnection of the causes and consequences of the numerous business principles on the unique international market. Studies of leadership, organizational behaviour and management, industrial and organizational psychology, as well as organizational growth and human resource development, define business community and imply internationalization of business.

Organizational capacities represent the key resource of the knowledge-based economy [12]. Their personal characteristics contribute to the organization in a way that the company has the capacity and the ability to achieve established business objectives, assignments and goals. Employees possess the knowledge, skills, competencies, experience, creativity and creative capability that are necessary for growth and business development [13]. With their advancement and by raising their knowledge, skills and competences, the organization's ability to create new value increases. International market affirms the added value, which ultimately ensures long-term competitiveness

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[5]. Organizational capacities (human capital) represent the only irreplaceable resource in a company [3].

What poses a problem with the organizational capacity, when export is concerned, is the fact that business praxis is such that in companies, especially smaller ones, one person is responsible for most business decisions. Management, as a decisive organizational unit, has a crucial role in selecting the strategy and dynamics of export activities [1]. But, in the absence of time, managers are burdened with corporate operations solely on the domestic market. Therefore, export often represents secondary activity.

For that reason, it is essential to provide qualified organizational resources that will be engaged in export activities in order to utilize opportunities and benefits that foreign markets offer. The result is the achievement of a successful business on international market. Additionally, based on literature data, income from sales in foreign markets is much higher than the percentage of employees who are engaged in export activities [2].

Moreover, it has been proved that employees' commitment to a company is correlated with the given autonomy. Namely, the relationship between commitment to work and business results is stronger when indicators of efficiency are based on their own self-control, rather than when management supervises employees and directs them [10]. In terms of relations between organizational dedication and performance, many studies rely on the fact that the implementation of work contributes to the overall success of the company [7, 11, 14].

However, organizational capacity for export activities is an insufficiently researched determinant of export activities. Furthermore, in past studies there was an absence of identification of organizational capacity for export activities as an export determinant that enables better performance while appearing on any foreign market.

2. Research Methodology

Analysis of the impact of organizational capacity for export activities on export result was performed by using specially structured questionnaire which was composed of five subscales that measured: (i.) top management support, (ii.) work discretion/autonomy, (iii.) rewards/reinforcement, (iv.) time availability, and (v.) organizational boundaries [8]. The scale was consisted of 15 approved claims that measured the agreement of respondents with statements using a Likert scale (1-7). On the other hand, export result was measured as a share of exports in total revenue of the company (%).

The targeted population represented the Croatian export enterprises (companies that have exported goods and services based on records of the Croatian Customs Administration). Given the uneven distribution, due to the company size, systematically stratified random sample has been applied. The sample was based on the criteria of the Accounting Act: the number of employees and total income before taxation. The study was conducted on a sample of 200 small, 200 medium and 200 large export enterprises in Croatia. Although the response rate amounted 15% for small, 19% for

medium-sized and 31% for large companies, the representativeness of the sample has been provided [4].

The research was implemented in the period from February to May 2015 using the online questionnaire. The respondent was a company director, board member or person in charge of international business. Upon completion of the research, control of the collected responses has been made in the direction of the organizations that participated in the survey, as well as in the direction of the occupancy rate of survey research instrument. In addition, information that legitimizes the survey (Timestamp and identification number of each questionnaire) has been checked as well.

The study has attempted to examine how organizational capacity that is in charge of exports of Croatian companies affects their business performance. The initial assumption was that existence of organizational capacity for export activities has a positive impact on export result. Therefore, the hypothesis was:

H: Organizational capacity for export activities has a positive impact on the export result of Croatian companies.

The hypothesis was tested using regression analysis. Two regression models were set. The difference was in the independent variable of organizational capacity for export activities. In one model common variable was defined and in the second model individual variables were used. While, in order to examine the viable use of common variable, Cronbach's alpha indicator was calculated. Finally, variables that have a statistically significant effect on the dependent variable were selected with the usage of Stepwise regression analysis.

3. Results

Croatia, as a post-transition country, has an exceptional need to integrate into the world economy; but has been faced with a number of strategic issues that had failed to resolve for years. The narrow base in terms of the number of exporters, strict focus on a small number of close markets, unsatisfactory level of technology development, the unfavourable ratio and low added value of products and services, backed by a lack of economic and political support, led to the fact that in Croatia only 13% of companies are engaged in export activities (Ministry of Foreign and European Affairs); respectively, that every eighth entrepreneur generates revenue from foreign markets (Croatian Chamber of Economy). The respondents estimated that the share of exports in total revenue of the company is less than 20%. Thus, this study confirmed that Croatian companies are at a lower, unsatisfactory level of internationalization and still do not achieve significant business results on the international market where better competitors dominate.

Observing the organizational capacity for export activities, there is a persistence of organizational and hierarchical superiors' awareness. More precisely, managers are aware of the importance of courageous employees who are willing to embrace new challenges. Therefore, employees, according to the achieved results, enjoy greater autonomy and obtained more responsible tasks. However, their actions still largely remain under the control of their superiors. Also, they are deprived of discretion

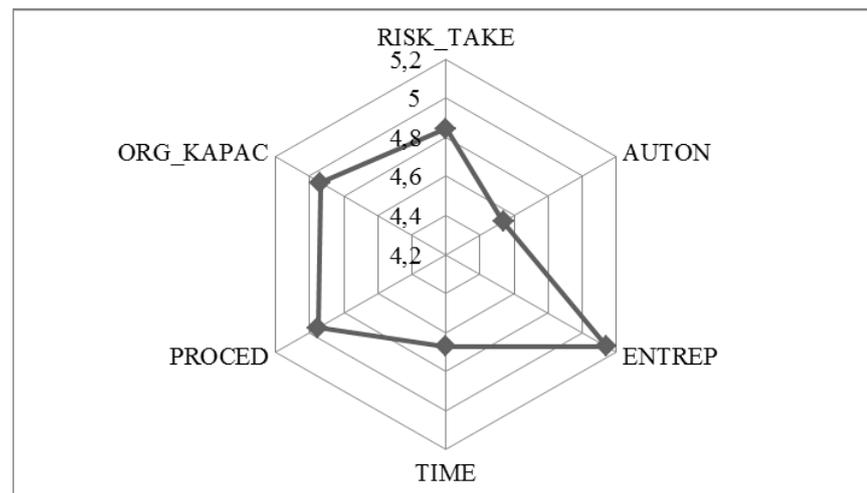


Figure 1: The average value of variable indicators of organizational capacity. Source: author's calculations.

to decide. Free decision making process is not the practice of business in Croatian companies. The problem lies in a deficiency of self-initiative employees who haven't expressed the interest in generating new ideas and functions in the company. Moreover, employees often act as passive observers who routinely and reluctantly perform tasks that are set. Such conduct triggers a distrust of superiors.

From a total of six dimensions, the highest average rating has Emphasis Initiative – rewards/reinforcement (ENTREP=5.142), while the lowest estimated was autonomy in decision-making (AUTON=4.538). Results can be seen in Figure 1.

Table 1 shows the Regression Model of correlation between the share of exports in total revenue of the company and organizational capacity of enterprises to export activities (common variables). It has been shown that *management support in making risky decisions* (variable RISK_TAKE) has a significantly negative effects on export, by the probability level of 5% ($p\text{-value}=0,03388$). On the other hand, *organizational arrangement of the company* (variable PROCED) has a significantly positive impact with the probability of 1% ($p\text{-value}=0.00209$).

Adjusted coefficient of determination shows that the Regression Model can explain 7.10% deviation of the dependent variable and VIF coefficients do not indicate a problem of multicollinearity since all are less than five.

Table 2 indicates that the assumption of heteroscedasticity of the Regression Model 1 can be rejected. Also, the hypothesis of normal distribution of residuals has been accepted.

Table 3 shows the Regression Model of correlation between the share of exports in total revenue and organizational capacity of enterprises to export activities.

It turned out that variables RISK_TAKE_1 and RISK_TAKE_6 significantly adversely affect the share of exports, with the probability level of 5% ($p\text{-value} = 0.03597$; $p\text{-value} = 0.01197$). The *tendency of employees to risk*, as well as *independent decision-making on new business and projects*, adversely affects the export performance of Croatian companies.

Model 1: OLS, using observations 1-120 Dependent variable: IZVOZ_UDIO Heteroscedasticity-robust standard errors, variant HC1					
	Coefficient	Std. Error	t-ratio	p-value	VIF
Const.	14,6288	16,5242	0,8853	0,37786	
RISK_TAKE	-7,69999	3,58575	-2,1474	0,03388**	1,580
AUTON	4,09938	2,52843	1,6213	0,10771	1,660
ENTREP	0,696907	1,4537	0,4794	0,63257	1,207
TIME	-1,44753	2,20478	-0,6565	0,51280	1,174
PROCED	4,44101	1,41024	3,1491	0,00209***	1,082
R- squared	0,110062				
Adjusted R-squared	0,071030				

TABLE 1: Regression Model 1 (common variables). *** statistically significant at 1% probability, ** 5% probability, * 10% probability. Source: author's calculations.

Diagnostic test	Diagnostic testing	Conclusion
White test heteroscedasticity	Test statistic: LM = 23,6434 p-value = P(Chi-square(20) > 23,6434) = 0,258315	The null hypothesis: heteroscedasticity is not present.
Breusch-Pagan test heteroscedasticity	Test statistic: LM = 23,6439 p-value = P(Chi-square(5) > 23,6439) = 0,000254127	The null hypothesis: heteroscedasticity is not present.
Normal distribution of residuals test	Test statistic: Chi-square(2) = 174,61 p-value = 1,21347e-038	The null hypothesis: the residuals are normally distributed.

TABLE 2: Diagnostics of the Regression Model 1. Source: author's calculations.

On the other hand, it was shown that *providing employees the opportunity to be creative and trying out their own methods* to perform business tasks, as well as *the existence of standard procedures and compliance with customary business practices* have a significantly positive effect on the share of exports. Variable AUTON_2, with the probability of 10% (p-value=0.06272), and PROCED_1, with a probability level of 5% (p-value=0.02182) imply positive impact on business performance.

Model 2: OLS, using observations 1-120 Dependent variable: IZVOZ_UDIO Heteroscedasticity-robust standard errors, variant HC1					
	Coefficient	Std. Error	t-ratio	p-value	VIF
const	19,6325	15,3007	1,2831	0,20203	
RISK_TAKE_1	-3,85767	1,81775	-2,1222	0,03597**	1,032
RISK_TAKE_6	-3,98862	1,56192	-2,5537	0,01197**	1,106
AUTON_2	3,12097	1,6606	1,8794	0,06272*	1,135
PROCED_1	3,53948	1,52225	2,3252	0,02182**	1,009
R- squared	0,162281				
Adjusted R-squared	0,133143				

TABLE 3: Regression Model 2 – Stepwise regression analysis. *** statistically significant at 1% probability, ** 5% probability, * 10% probability. Source: author's calculations.

Diagnostic test	Diagnostic testing	Conclusion
White test heteroscedasticity	Test statistic: LM = 23,6434 p-value = P(Chi-square(20) > 23,6434) = 0,258315	The null hypothesis: heteroscedasticity is not present.
Breusch-Pagan test heteroscedasticity	Test statistic: LM = 23,6439 p-value = P(Chi-square(5) > 23,6439) = 0,000254127	The null hypothesis: heteroscedasticity is not present.
Normal distribution of residuals test	Test statistic: Chi-square(2) = 174,61 p-value = 1,21347e-038	The null hypothesis: the residuals are normally distributed.

TABLE 4: Diagnostics of the Regression Model 1. Source: author’s calculations.

Adjusted coefficient of determination shows that the Regression Model 2 can explain 13.31% deviation of the dependent variable and VIF coefficients do not indicate a problem of multicollinearity since all are less than five.

Table 4 indicates that the assumption of heteroscedasticity of the Regression Model 2 can be rejected. Also, the hypothesis of normal distribution of residuals has been accepted.

4. Concluding Remarks

Every company includes a variety of resources. These resources enable the company to perform successful business operations. Consequently, companies can establish sustainable competitive advantage on domestic and foreign market. As internationalization is a necessity, it is of great importance to maintain optimal combination of resources, especially qualified human capacities. An additional reason lies in the indisputable fact that employees represent a unique resource which cannot be easily substituted. Moreover, income from sales in foreign markets is much higher than the percentage of employees who are engaged in export activities.

Because of the recognition of the importance of export activities and organizational capacities, this paper examines a connection between business result and organizational capacity for export activities. Correlation is studied under the assumption that organizational capacity for export activities represents an export determinant that enables better export performance while appearing on any foreign market.

Regression Models, used to test the hypothesis, indicate that the organizational capacity for export activity in some segments have a negative impact (support management in making risky decisions) and in some segments (management standard procedures and encourage creativity and efficiency of employees) a positive impact on the export performance of Croatian companies, therefore, bringing the conclusion on partial acceptance of the hypothesis.

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