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Firm Internationalisation and Export Incentives from a Middle Eastern Perspective

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Abstract

This study explores the incentives to export that Lebanese entrepreneurs face when engaging in international business. The data gathered was based on a survey of 61 Lebanese manufacturing firms. Statistical analysis was carried out using frequency distribution, *T*-Test, one-way analysis of variance, and Tukey-Kramer multiple comparison procedure. With the exception of “Decline in the Value of Currency Relative to Foreign Markets” the results indicate no significant differences in the perceptions of exporters and non-exporters towards the various incentives to export. Results also indicate that seventeen of the twenty export incentives tested in this study were significantly important to Lebanese entrepreneurs. Only three export incentives tested in this study were deemed to be not significant to Lebanese entrepreneurs and they were the decline in the value of currency relative to foreign markets, entry of foreign competitors into Lebanon, and moves by Lebanese competitors to export.

Key Words: export incentives, export marketing, Lebanon, firm internationalisation

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ABSTRACT

This study explores the incentives to export that Lebanese entrepreneurs face when engaging in international business. The data gathered was based on a survey of 61 Lebanese manufacturing firms. Statistical analysis was carried out using frequency distribution, *T*-Test, one-way analysis of variance, and Tukey-Kramer multiple comparison procedure. With the exception of “Decline in the Value of Currency Relative to Foreign Markets” the results indicate no significant differences in the perceptions of exporters and non-exporters towards the various incentives to export. Results also indicate that seventeen of the twenty export incentives tested in this study were significantly important to Lebanese entrepreneurs. Only three export incentives tested in this study were deemed to be not significant to Lebanese entrepreneurs and they were the decline in the value of currency relative to foreign markets, entry of foreign competitors into Lebanon, and moves by Lebanese competitors to export.

INTRODUCTION

In general the expansion of a nation’s exports has positive effects on the growth of the economy as a whole as well as on individual firms (Cavusgil and Nevin, 1981). Exporting is of vital economic importance to trading nations and their firms. Exports boost profitability, improve capacity utilization, provide employment, and improve trade balances (Barker and Kaynak, 1992). According to Gripsrud (1990) the growing internationalization of the world economy and the widespread opinion that increased exports benefit society has stimulated research in this area. In the U.S., the growing trade deficit is the most immediate factor behind the interest in this topic. A common objective in most countries today is to find ways to

increase exports. This can be achieved either by encouraging exporting firms to export more or by inducing non-exporters to begin exporting. In 2000, Lebanese exports represented about five percent of GDP, which is considered a very low level (UNDP, 2002). According to Fadi Abboud, President of the Association of Lebanese Industrialists “In this globalized world, industries do not survive if they are not export oriented” (Tenbelian, 2003: 23).

One of the most important research questions in the international business literature is why some firms export and others do not? (Sharkey *et al.*, 1989). An explanation offered by previous research is that non-exporters perceive considerable barriers to exporting (Alexandrides, 1971; Torre, 1972; Simpson, 1973; Tesar, 1975; Bilkey and Tesar, 1977; Kedia and Chhokar, 1986). Thus, before non-exporters can export, a “threshold fear” must be overcome (Dichtl *et al.*, 1984). However, the findings are inconclusive. Doyle and Schommer (1978) found no difference in barrier perceptions between exporters and non-exporters whereas Bilkey’s (1970) findings indicate that exporters perceive more export barriers than do non-exporters. As such, it is important to ascertain what incentives non-exporters need to become export active and what incentives exporters need to continue to export and to be successful in doing so. This issue is the impetus behind this current study.

LITERATURE REVIEW

Exporting has been one of the fastest growing economic activities, consistently exceeding the rate of growth in world economic output over the past two decades (IMF, 1995). A common objective of most countries is to find ways to increase exports.

Gripsrud (1990) defined export intention as the motivation, attitude, beliefs, and expectancy about export contribution to the firm’s growth. According to Lim, Sharkey and Kim (1991)

non-exporters are those who have never exported. Non-exporters have very little knowledge about the process of exporting and have no experience with the incentives to export. Marginal exporters refer to those who are exploring exporting and may have filled some unsolicited orders. Marginal exporters have learned the basics of the export process, but their low level of commitment may also be coupled with frustration that lead to the perception of inadequate export incentives. Active exporters have mastered the technicalities of exporting and have learned that exporting is an important mechanism for achieving organizational goals. Active exporters have taken advantage of the various incentives to export that have been available.

Sullivan and Bauerschmidt (1990) concluded that firms who were exporting on a regular basis were firms that were actively involved in exporting and whose exports over the last three years have averaged at least 10 percent of its annual sales. A non-exporter being defined as a firm not currently engaged in exporting. This includes a company that has never exported or one that exported in a previous accounting period but for one reason or another has decided to phase out its export activity.

According to Czinkota, Rivoli and Ronkainen (1992) export development is highly regarded by both public and corporate policy-makers, due mainly to the substantial macroeconomic and microeconomic benefits derived from external trade. From a macroeconomic perspective, exporting can enable national economies to enrich their foreign exchange reserves, provide employment, create backward and forward linkages, and ultimately, lead to a higher standard of living. Terpstra and Sarathy (1994) clarified the benefit of exporting to an economy in terms of its microeconomic gains. Exporting can give individual firms a competitive advantage, improve their financial position, increase capacity utilisation, and raise technological standards (Terpstra and Sarathy, 1994). Therefore, the expansion of a nation's exports has positive

effects on the growth of the economy as a whole as well as on individual firms (Cavusgil and Nevin, 1981).

Close proximity to foreign markets, diminishing growth opportunities in the home market, expectation of economies resulting from added volume of trade, availability of unused productive capacity, managerial beliefs about the value of exporting, improvement in the growth potential of the product market and the chance to diversify into new markets are the major incentives for firms to engage in international business (Sullivan and Bauerschmidt, 1990). Additionally, Sullivan and Bauerschmidt (1990) identified other incentives to export that include: ability to easily modify products for foreign markets, adverse domestic market conditions, providing a hedge against an economic downturn, management expertise, export incentives offered by home country governments, opportunity to reduce inventories, favourable short term profit opportunities, reduction of tariffs in target countries, availability of profitable ways to ship products to foreign markets, decline in the value of currency relative to foreign markets, eased export regulations in foreign countries and the receipt of unsolicited orders from foreign buyers.

According to Mc Clelland (1987), the main reason for firms to engage in international business is to expand their business activities because their domestic markets are relatively saturated and international expansion might promote increased sales revenues over time. As a result of competition that emerges with trade liberalization, many firms (both exporters and non-exporters) consider exporting an easier option than continuing in the intensely competitive domestic market (Chetty, 1999). Even when there is ample scope for expansion within the domestic economy, international expansion might be the preferred strategy if the expected increase in profit on incremental sales abroad exceeds the expected increase in profit on additional domestic sales. Higher net selling prices might be attainable in certain foreign markets because of a weaker degree of competition in those markets. Entrepreneurial firms that

were surveyed about their reasons for expanding internationally also indicate that reducing costs is an important motive for international expansion, especially expansion taking the form of establishing subsidiaries abroad. The primary consideration in this regard usually is access to lower cost factors of production.

Bilkey (1978) and Bilkey and Tesar (1977) found that other motivators which have been found to be correlated with initial export involvement are receipt of unsolicited foreign orders, aspirations for higher profit, sales growth, the desire to spread research and development costs across a wider volume, the need to make use of excess manufacturing capacity and the desire to achieve stability through diversification. According to Globerman (1986) the rationale for any business to engage in international business is to improve net earnings or profit for the company. Undertaking international business activity may be beneficial to a firm's shareholders because it enhances the value of sales revenue and it contributes to lower costs.

According to Meredith (1984) international expansion may allow large firms to spread overhead costs over a large volume of output. Effectively, international business may allow the firm to fully exploit available economies of scale. Meredith (1984) also argued that the owners of a firm would benefit if that firm spreads its sources of income over a set of activities that are diversified internationally. The idea is that the firm's income stream will be less volatile by conducting business in a variety of countries rather than in a single country.

Exports cannot flourish on individual initiative alone. Efforts made through organizations pursuing combined interests could lead to more efficient long-term outcomes. Creating an export board, formed mainly by private sector representatives, could facilitate and encourage export activities through the promotion of an overall development and marketing plan for

Lebanese goods. An effective export board requires close collaboration of professional associations, chambers of commerce, and public institutions (UNDP, 2002).

To better face the challenges of the global village, Lebanese entrepreneurs need to get ready and target export markets and adopt a global vision of business development. Lebanese entrepreneurs should be aware of the limits of protection and the necessity to innovate and promote quality. This can be attained by developing an outward-oriented strategic vision and a so-called “export culture” (UNDP, 2002). According to Abboud (2002: 28), in order to increase Lebanese exports to neighbouring countries, such as Syria, Jordan, and the Gulf, the Lebanese have to “understand these markets in a better way. We have to enhance the export culture which currently isn’t part of our daily life”

Effort is needed to help promote and advertise Lebanese products and services in foreign markets. Some of the proposed solutions include the use of trade delegations and participation in fairs and exhibitions. Furthermore, the presence of a large expatriate community abroad and their entrepreneurial spirit is an advantage to benefit from (Boyadjian, 2001). A collective promotion strategy, based on partnerships and formal channels, would present increased chances to realize the complete potential of the Lebanese network (UNDP, 2002).

As such the research questions that drive this study include, firstly, what are the key incentives to export as perceived by the Lebanese manufacturers? Secondly, do exporters and non-exporters differ in their attitudes towards the different incentives to exporting? Thirdly, does the share of exports over total sales affect the attitudes towards the different incentives to export?

METHODOLOGY

The study was based on an empirical investigation of the incentives to export Lebanese firms face when engaging in international business. The sample of firms came from a wide cross section of industries including, food and beverage, jewellery, clothing and textiles, paints, plastics, paper, metallic, furniture, electronics, toiletries, ceramics, marble and granite, concrete and pharmaceuticals. The sampling frame was provided by the Lebanese Ministry of Industry. In order to obtain valid and reliable measures of the variables, previously validated scales were used for all of the constructs in this study. The questionnaire was developed and pre-tested using a small sample of exporters with the final instrument used to personally interview all respondents. All items measuring incentives to export were measured via five-point bipolar scales with scale poles ranging from strongly disagree (1) to strongly agree (5).

The instrument contained items identified by the literature as measuring incentives to export such as a reduction of tariffs in target countries, attractive export incentives provided by the home country government, presence of export-minded management, expectation of economies of scale resulting from added volume of trade, favourable sales and profit opportunities in foreign markets, the chance to diversify into new markets and the receipt of voluntary orders from foreign buyers (Sullivan and Bauerschmidt, 1990). Other incentives to export included in the research instrument were the gain of foreign expertise to improve domestic competitiveness, availability of profitable ways to ship to foreign markets, availability of unused productive capacity, adverse domestic market conditions, provide a hedge against an economic downturn in the domestic market, opportunity to better utilise management talent, eased product regulations in target countries, opportunity to reduce inventories, ability to easily modify products for foreign markets, close proximity to foreign markets, moves by domestic

competitors to export, decline in the value of currency relative to foreign markets and entry of foreign competitors into the domestic market (Sullivan and Bauerschmidt, 1990).

After the pilot test the questionnaire was used to personally interview respondents from 61 firms out of an original sample of 82 accounting for an effective response rate of 74.4 percent and considered to be more than adequate (Groves, 1990).

DATA ANALYSIS

Prior to analysing the data a description of the sample is provided. The sample consisted of 61 respondents of which 55 were males (90.2% of the sample) and 6 were females (9.8% of the sample). This was as expected given it reflects the results of the Industrial Survey conducted by the Ministry of Industry (1999) where 88% of the workforce were males with females representing only 12% of the workforce.

In relation to the respondent's age, 9.8% of the respondents were under 25 years of age, 32.8% were between 25 and 35 years of age, 24.6% were between 36 and 45 years of age and 32.8% were over 45 years of age. Regarding the firms in the sample, average annual increase in sales for the past three years saw 36.7% of firms experience a net drop in sales with 13.3% experiencing an average annual sales increase of between 0% and 4%. This meant that 50% of the companies experienced either very low sales growth or a net drop in sales.

As far as export activity was concerned approximately 83.6% of firms were engaged in export with 54.9% of these firms being involved in international business for the past 11 years or more. However, only 23.5% of these companies export to more than 9 countries. Furthermore, 72.5% of the exporters in the sample exported to Saudi Arabia. Saudi Arabia has the highest

percentage compared to all the other countries. This was expected, since Saudi Arabia was the top destination for Lebanese exports for the years 2000 and 2001 (Ministry of Economy and Trade, 2003).

A check for non-response bias was also conducted. An 'extrapolation procedure' technique was used to assess non-response bias. This assumes that the groupings of actual respondents by an identified criterion are similar to the 'theoretical' non-respondents (Armstrong and Overton, 1977). Frequencies and independent *t*-tests were used to determine whether significant differences existed between the sample and the target population based on industry classification. No significant difference was identified between the sample and the target population for this classification variable. Therefore, as there appears to be no significant difference between respondents and non-respondents then the sample can be considered sufficient to draw conclusions about incentives to export for Lebanese firms.

A reliability analysis was conducted to evaluate the multi-item incentive scales. Cronbach's alpha was used for the reliability analysis. The results of the analysis revealed a Cronbach's alpha of 0.79 for the multi-item incentive scale indicating satisfactory internal reliability.

To test the Lebanese decision-makers' attitudes towards the different incentives to export, a one-sample *t*-test was conducted. Since we had a five-point scale, the null hypothesis was (H_0 : $\mu = 3$), which corresponds to the neutral point in the scale. The one-sample *t*-test was conducted using the 99% confidence interval. The findings when using a 99% confidence interval are summarized in Table I below.

“take in Table I”

From Table I it is concluded that Lebanese decision-makers are rather neutral concerning the following incentives to exporting, namely, decline in the value of currency relative to foreign markets, entry of foreign competitors into Lebanon, and moves by Lebanese competitors to export. In the abovementioned three incentives to export, the p -values were greater than α . Hence, concerning these three incentives to export, the null hypothesis could not be rejected because the true state was not significantly different than that assumed by H_0 .

As for the reduction of tariffs in target countries, the null hypothesis was rejected because the p -value (0.000) was less than α (0.01). Since the mean of the ratings attributed by our sample respondents to this incentive (4.20) was significantly higher than the scale mean (3), this means that Lebanese decision-makers perceive reduction of tariffs in target countries as a significantly important incentive to exporting. Using the same logic it was concluded that Lebanese decision makers perceive the remaining incentives to export as significantly important incentives.

Do Lebanese exporters and non-exporters perceive the same incentives to export to be important? In other words, does the share of exports over total sales affect the attitudes towards the importance of the different incentives to export? To answer this question, twenty one-way ANOVA tests were conducted to analyse the effect of share of exports over total sales (independent variable) on the twenty incentives to export (dependent variables). The objective being to determine whether the attitudes towards these 20 incentives to export differ according to the share of exports over total sales. The results are reported in Table II. From Table II, it is

evident that the p -values are greater than α (0.05) in 19 of the 20 items. Thus, it can be concluded that exporters and non-exporters largely agree in their views of these incentives to export.

“take in Table II”

After examining Table II, it is evident that share of exports over total sales does affect the attitudes towards one export incentive that incentive being “Decline in the Value of Currency Relative to Foreign Markets”. Thus, it is concluded that exporters and non-exporters do not agree in their views of this export incentive.

At this stage, all that is known is that there is sufficient evidence to state that the population means are not all the same. In other words, at least one combination of means is significantly different. To determine exactly which categories of exporters differ, all possible pairwise comparisons between them can be made by conducting multiple comparison tests. We calculated the means of the dependent variable “Decline in the Value of Currency Relative to Foreign Markets” in each of the various categories of the independent variable share of exports over total sales. The results are presented in Table III. Then we conducted multiple comparison tests to simultaneously examine comparisons between all pairs of groups. The results of the multiple comparisons test are displayed in Table IV.

“take in Tables III and IV”

From Tables III and IV, it is concluded that the means of the “Decline in the Value of Currency Relative to Foreign Markets” variable for those who export 11% to 40% of their total sales and those who export 41% or more of their total sales are significantly different from each other. Those who export between 11% and 40% of their total sales perceive “Decline in the value of currency relative to foreign markets” as a more important export incentive than those who export 41% or more of their total sales.

DISCUSSION

This study is concerned with an empirical investigation that explores the incentives to export that Lebanese entrepreneurs face when engaging in international business. The data gathered was based on a survey of 61 Lebanese manufacturing firms. Statistical analysis was carried out using frequency distribution, *T*-Test, one-way ANOVA and Tukey-Kramer multiple comparisons procedure. Statistical analysis of the gathered data has revealed several useful insights. First, seventeen of the twenty export incentives tested in this study were identified as being significantly important to Lebanese entrepreneurs when deciding to export or not to export. Only three export incentives tested in this study were deemed to be not significant to Lebanese entrepreneurs when deciding to export or not to export and those export incentives were identified as being the decline in the value of currency relative to foreign markets, entry of foreign competitors into Lebanon, and moves by Lebanese competitors to export.

Finally, do exporters and non-exporters perceive the same incentives to export to be important? From the findings presented in this study it was concluded that exporters and non-exporters largely agree in their views of the various incentives to exporting that were tested here. However, it was evident that exporters and non-exporters had different attitudes towards one export incentive that incentive being “Decline in the Value of Currency Relative to Foreign

Markets”. Thus, it was concluded that exporters and non-exporters do not agree in their views of this export incentive. Furthermore, from the multiple comparisons test conducted on this export incentive for those who export 11% to 40% of their total sales and those who export 41% or more of their total sales the attitudes towards this export incentive are significantly different from each other. Those who export between 11% and 40% of their total sales perceive “Decline in the Value of Currency Relative to Foreign Markets” as a more important incentive than those who export 41% or more of their total sales. This is not surprising given that firms that export a small percentage of their output to foreign markets will not be able to take advantage of economies of scale and a decline in the value of currency relative to foreign markets is likely to have a greater perceived impact on their financial performance than those firms that export a larger percentage of their output to foreign markets because they are more likely to be able take advantage of economies of scale and can spread their exchange risk across a number of different country markets. Furthermore, firms that export a smaller percentage of their output to foreign markets are likely to export to a smaller number of markets than firms that export a larger percentage of their output. Again, those firms that export a larger percentage of their output are able to spread their exchange risk across a number of different country markets. As such, this export incentive is not as important to those firms that export a larger percentage of their output to foreign markets as it is to those firms that export a smaller amount of their output to a smaller number of country markets.

CONCLUSION

In spite of the important findings, the study still has a number of limitations particularly related to sampling procedures and to sample size. Convenience sampling was the sampling technique used in this project. Although the abovementioned technique has many advantages, it also has serious limitations. Many sources of selection bias are present, including respondent self-

selection. Moreover, convenience samples are not representative of any definable population. Therefore, it would not be theoretically meaningful for us to generalize to any population from a convenience sample, and convenience samples are not suitable for marketing research projects involving population inferences. Concerning sample size, our sample was relatively small (61 companies). However, the sample size decision was guided by a consideration of resource constraints.

Although our study helped shed light on the current situation, the data available are those that have been disclosed by the senior managers of Lebanese manufacturing firms. Data include some typical errors that are usually encountered in surveys, as well as errors due to the prejudiced declarations of manufacturers who are, for many reasons, often unwilling to reveal their real numbers, attitudes and perceptions. Finally, the lack of transparency in both the private and the public sectors in Lebanon is a major limitation to this type of research.

Future research should attempt to employ a more sophisticated definition of export. While the relatively basic measure of export employed in this study served to highlight some important differences between exporting and non-exporting firms, more refined and multi-dimensional export measures could offer interesting insights. In fact, in this research project, no differentiation was made between the two different types of export, direct and indirect export, and the findings could have been quite different if such a distinction was made.

Although in this study we established that certain variables are positively related to each other what we still do not know is which variable is an antecedent of the other. The investigation of this issue is put forward as an agenda for future research. There is a need to empirically investigate which variable causes the other in order to properly guide Lebanese exporters and non-exporters. Finally, the measures used in this study should be replicated elsewhere to ensure

that the measures used in this study have cross-national reliability and validity and that the findings here are not just confined to Lebanon for country-specific reasons.

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Tables

Table I - Decision-Makers' Attitudes toward Different Incentives to Exporting ($\alpha=0.01$)

Incentives to Exporting	Mean	t-value	p-value	Decision at 0.01 Level
Reduction of tariffs in target countries	4.20	10.489	0.000	Significantly Important
Attractive export incentives provided by the home country government	4.18	8.137	0.000	Significantly Important
Presence of export-minded management	4.03	9.219	0.000	Significantly Important
Expectation of economies of scale resulting from added volume of trade	4.02	10.707	0.000	Significantly Important
Favourable sales and profit opportunities in foreign markets	3.98	11.053	0.000	Significantly Important
Chance to diversify into new markets	3.97	10.695	0.000	Significantly Important
Receipt of voluntary orders from foreign buyers	3.95	8.589	0.000	Significantly Important
Gain of foreign expertise to improve domestic competitiveness	3.92	6.519	0.000	Significantly Important
Availability of profitable ways to ship to foreign markets	3.90	7.922	0.000	Significantly Important
Availability of unused productive capacity	3.87	7.84	0.000	Significantly Important
Adverse domestic market conditions	3.80	5.378	0.000	Significantly Important
Provide a hedge against an economic downturn in the domestic market	3.80	6.898	0.000	Significantly Important
Opportunity to better utilize management talent	3.67	6.475	0.000	Significantly Important
Eased product regulations in target countries	3.66	4.892	0.000	Significantly Important
Opportunity to reduce inventories	3.64	4.759	0.000	Significantly Important
Ability to easily modify products for foreign markets	3.59	4.658	0.000	Significantly Important
Close proximity to foreign markets	3.46	3.551	0.001	Significantly Important
Moves by domestic competitors to export	3.31	2.452	0.017	Not Significant
Decline in the value of currency relative to foreign markets	3.26	2.163	0.035	Not Significant
Entry of foreign competitors into the domestic market	3.11	0.723	0.472	Not Significant

Table II - Effect of “Share of Exports over Total Sales” on Attitudes towards Incentives

Incentives to Exporting	Independent Variable	F-Value	p-value	Decision at 0.05 Level
Reduction of tariffs in target countries	Export*	0.794	0.457	No Support
Attractive export incentives provided by the home country government	Export*	1.247	0.295	No Support
Presence of export-minded management	Export*	1.893	0.160	No Support
Expectation of economies of scale resulting from added volume of trade	Export*	1.122	0.333	No Support
Favourable sales and profit opportunities in foreign markets	Export*	2.814	0.069	No Support
Chance to diversify into new markets	Export*	0.696	0.503	No Support
Receipt of voluntary orders from foreign buyers	Export*	0.448	0.641	No Support
Gain of foreign expertise to improve domestic competitiveness	Export*	0.672	0.515	No Support
Availability of profitable ways to ship to foreign markets	Export*	0.931	0.400	No Support
Availability of unused productive capacity	Export*	2.498	0.092	No Support
Adverse domestic market conditions	Export*	1.105	0.338	No Support
Provide a hedge against an economic downturn in the domestic market	Export*	0.432	0.651	No Support
Opportunity to better utilize management talent	Export*	0.321	0.727	No Support
Eased product regulations in target countries	Export*	0.599	0.553	No Support
Opportunity to reduce inventories	Export*	1.624	0.207	No Support
Ability to easily modify products for foreign markets	Export*	1.609	0.209	No Support
Close proximity to foreign markets	Export*	2.389	0.101	No Support
Moves by domestic competitors to export	Export*	0.862	0.428	No Support
Decline in value of currency relative to foreign markets	Export*	4.364	0.017	Support
Entry of foreign competitors into the domestic market	Export*	0.716	0.493	No Support

* The term export is operationalized as the “share of exports over total sales”

Table III. Means of “Decline in the Value of Currency Relative to those in Foreign Markets” Across Categories of “Share of Exports over Total Sales”

“Share of Exports Over Total Sales”	Mean of “Decline in the Value of Currency Relative to those in Foreign Markets”
10% or less	3.23
11%-40%	3.65
41% or more	2.75

Table IV. Multiple Comparisons Test Results (C)

Group 1 (I)	Group 2 (J)	Mean Differences (I-J)	p-value
10% or less	11%-40%	-0.42	0.296
	41% or more	0.48	0.255
11%-40%	10% or less	0.42	0.296
	41% or more	0.90*	0.013
41% or more	10% or less	-0.48	0.255
	11%-40%	-0.90*	0.013

* The mean difference is significant at the 0.05 level