Facilitating Factors and Export Performance of SMEs in the Nigerian Leather Industry

Abubakar Sambo JUNAIDU  
Graduate School of Management  
Universiti Putra Malaysia, Serdang  
43400, Selangor, Malaysia  
Email: gidadawa56@yahoo.co.uk

ABSTRACT  
Despite the large amount of research that has been carried out to investigate the factors that affect export performance, very little research has been conducted for specific industries operating in developing countries like Nigeria. This present study therefore, is an investigation of the factors that affect export performance of SMEs in the Nigerian leather industry. Based on the contingency paradigm, this study posits that facilitating factors (Export support structures, exogenous barriers) are all strongly related to firm export performance. Standard survey questionnaires were used to collect data from respondents in seven states in north western Nigeria and multiple regression analysis was used for hypotheses testing. Findings from the data analysis provided support for the hypothesized relationships thus suggesting support for the theoretical model of the study.

KEY WORDS  
Export performance, export barriers, facilitating factors, SMEs in Nigeria

JEL CODES  
L25

1. Introduction

A significant proportion of businesses within any nation are small and medium sized enterprises (SMEs) and the important role they play in domestic development (Leonidou, 2004) as well as in international markets is well recognized (Okpara, 2009; Ibeh, 2004). Some of the benefits generated by SMEs include jobs and wealth creation and serving as an engine of growth for domestic economies (Okpara, 2009; Leonidou, 2004). However, SMEs are not well represented in international trade (Leonidou, 2004; Morgan & Katsikeas, 1997) and this is particular evident in Sub-Saharan African countries like Nigeria (Ibeh, 2004). This is the case despite the significant increase in international trade as a result of globalization, market liberalization and regional agreements to facilitate trade (Morgan & Katsikeas, 1997). Much research has thus been devoted to understanding the factors that hinder exporting activities of SMEs (Karelakis, Mattas & Chryssochoidis, 2008; Julian & Ahmed, 2005; Leonidou, 1995a) but most of the research has been done in developed countries, which raises serious implications with respect to generalizability (Tesfom & Lutz, 2006; Leonidou, 2004; Katsikeas & Morgan, 1994). There is a need therefore for more research to be conducted with particular reference to developing countries like Nigeria in order to understand the nature of export barriers as well as their impact on exporting activities, which incidentally is the objective of this study. More contextual research is important because in order to formulate good and sustainable solutions to export barriers, their characteristics and impact need to be understood, otherwise corrective measures may not serve their intended purpose of improving export performance. Similarly, the roles of moderating variables have been
virtually ignored in past research dealings with export barriers and their impact on export performance. This tendency also limits theory building (Cavusgil & Zou, 1994) and the understanding of the mechanisms of how export barriers affect export performance.

In this study, export barriers refer to all those factors that affect a firm’s ability to effectively initiate, develop and sustain exporting operations (Leonidou, 2004; Leonidou, 1995a). In other words export barriers or problems are those limiting factors or obstacles that prevent firms from engaging in the export of goods and services. Such barriers to exporting can be encountered by firms at all stages of the export development process even though the nature or severity may differ depending on whether the firm is in the pre-involvement or mature stages (Leonidou, 2004). In this work, two specific export barriers groups that constitute the facilitating factors (Grant, 1991, Barney, 1991) of the firm, synthesized from the literature on the basis of contingency paradigm are considered. The two factors or variables are (1) export support structures, (2) Exogenous barriers. This classification is anchored on the premise that the export performance of a firm is expected to be contingent on the fit, base on the argument that effect of export barriers on export performance is determine by the relationship between firm specific resources and environmental factor.

Nigeria is located in West Africa and has the largest population in Africa with an estimate of about 158.2 million. The country has one of the largest economies in sub-Sahara Africa but it is an economy that is heavily reliant on oil and gas exports, which makes it very unstable because growth is dependent on prevailing conditions in the global oil industry. The heavy dependency on the oil sector is reflected by the fact that the non-oil sector contributed only 6.5% of GDP in 2010 (Central Bank of Nigeria report, 2010). Hence, in order to improve the Nigerian economy as a whole, there is a clear need to boost the growth of the non-oil sector, one of which is the leather industry, which offers a huge potential for growth. For instance, export statistics show that it posted the strongest non-oil export in 2005 with exports in excess of $160 million (UNCTAD, 2009). However, the industry is struggling to maintain export competitiveness, which is evidenced by the fact that the leather industry accounted for 36.84% of non-oil export in 2004 but only 20.4% in 2005 (UNCTAD, 2009; Amakom, 2006). Research to identify the constraints that are hindering the export growth of this sector is therefore necessary in order to help the industry fulfill its potential growth levels.

2. Methodology of research

The data for this study was obtained through the survey method and was collected through standard mail questionnaires. The items that were used to measure the variables in this study are based on theory and largely drawn from the literature. Respondents were also asked to indicate whether they are non-exporters or active exporters and to rate the severity of the export barriers they encounter. In the questionnaire, respondents were asked to indicate their perception of the severity of the barriers on their export performance by using a scale that ranged from 1 (not at all severe) to 7 (very severe).

The names and address of SMEs that were contacted for participation in this research was obtained from the list of firms found in three separate sampling frames: (1) Manufacturers Association of Nigeria (MAN), (2) the Nigerian Industrial Directory and (3) the Nigerian Exporters directory. In addition, the list of members of the local tannery council in each of the study areas was used to obtain the names of SMEs to include in the sample. Since, multiple sampling frames were used caution was taken to avoid double counting and duplication of SMEs to be included in
the target sample. Wherever such cases were found the duplication was removed. The final list contained 623 SMEs and to maximize response rate all the SMEs in the list were invited to participate in the survey. After the target sample list was completed, several methods were utilized to distribute the questionnaires to the SMEs in the population of interest. Because of the relatively poor state of the infrastructure in the region where the research was conducted, a major distribution method was the drop off and pick up strategy (Ibeh, 2004) wherein 20 hired enumerators personally dropped off the questionnaires to the SMEs and collected them later. Questionnaires were also posted and emailed to participants in the study.

3. Literature Review

3.1. Facilitating Factors and Export Performance

In addition to internal resources and capabilities, the export barrier literature has also identified the external environmental as a factor upon which the export performance of a firm is contingent (Sousa et al., 2008; Cavusgil & Zou, 1994). This broad group of barriers, which are usually outside the control of the firm, have been termed in this study as facilitating factors and they include what is referred to as exogenous barriers (Yang et al., 1992) as well as export support structures. These types of barriers, which range from unfavorable exchange rates to tariff, and non-tariff barriers, poor infrastructure and corruption are particularly significant in developing countries (Tesfom & Lutz, 2006) as firms in such countries often lack the means to effectively deal with them.

One of the exogenous barriers that affect particularly SME export performance is the strong competition that may exist in foreign markets (Leonidou, 2004) because SMEs may not have the slack resources required to compete successfully. The competition in foreign markets might be different from what the firm is used to in its domestic market and as such it could have limited options on how to handle such competition. It is no surprise therefore that strong foreign competition has been identified as a barrier to exports in some studies (Arteaga-Ortiz & Fernández-Ortiz, 2010; Okpara & Koumbiadis, 2008; Suárez-Ortega, 2003; Moini, 1997; Morgan & Katsikeas, 1997; Leonidou, 1995b; Katsikeas & Morgan 1994).

Another exogenous barrier that could affect firm export performance is the unfavorable currency exchange rate that may exist between the host country and the target market (Tesfom & Lutz, 2006; Julian & Ahmed, 2005; Leonidou, 2004; Morgan & Katsikeas, 1997; Leonidou 1995b; Yang et al., 1992). Unstable exchange rates for example, could make it difficult to give reliable price quotations to prospective buyers, thus limiting the ability to engage in international trade. SMEs operating in countries with weak economies are particularly susceptible to this barrier (Opara, 2010; Okpara & Koumbiadis, 2008).

Political and economic instability in the destination country is also another exogenous factor that can severely inhibit export performance of firms (Arteaga-Ortiz & Fernández-Ortiz, 2010, Rutihinda, 2008; Leonidou, 2004) as a stable environment is needed for business to be sustainable. Political and social issues as barriers have thus been identified by some researchers as factors affecting the export performance of firms (e.g. Da Silva, 2001; Eshghi, 1992; Mayo, 1991). A related social problem that affects export performance is the pervasive official corruption that creates unnecessary bottlenecks for exporters every now then. The few studies conducted in Nigeria to determine factors affecting export performance seem to indicate that corruption has a negative influence on export performance (e.g. Okpara & Koumbiadis, 2009; Okpara & Koumbiadis, 2008; Amakom, 2006).
The relatively poor state of infrastructural development in countries like Nigeria is also another exogenous factor that past research has identified as a barrier that hampers export performance (Tefsm & Lutz, 2006; Ibeh, 2004; Lall, 1991). Lack of good roads, poor telecommunications systems and inconsistent electricity supply not only disrupts business operations but it also adds considerable costs which could limit the ability of firms to compete in the export market. For example, according to Amakom (2006) about 350 companies closed down in Kano, Northern Nigeria due to inadequate power supply bringing down the number of companies from 500 to 150 and at the same time increasing costs for those still operating. Okpara & Koumbiadis (2008) also reported that poor infrastructure was a major obstacle to Nigerian SMEs involved in the exporting business.

The imposition of regulations, tariffs and quotas by foreign governments as well as unfair trade practices is also an exogenous factor that hinders export development (Arteaga-Ortiz & Fernández-Ortiz, 2010; Tefsm & Lutz, 2006; Leonidou, 2004; Shoham & Albaum, 1995). Unfair trade practices like the European Union agricultural subsidy makes it next to impossible for farmers in Nigeria to export to European countries. As such, tariff and non-tariff barriers, strict foreign rules and regulations could all affect export performance in a negative way (Opara, 2010; Rutihinda et al, 2008; Karelakis et al., 2008; Amakom, 2006; Julian & Ahmed, 2005; Moini, 1997; Morgan & Katsikeas, 1997; Leonidou, 1995b; Yang et al., 1992; Eshghi, 1992). Hence, the influence of exogenous barriers on export means that consistent with the contingency paradigm, even when firms have the internal resources required to engage in exporting activities, the existence of exogenous barriers could lead to poor export performance.

Export support structures refers to the system that a host country puts in place to stimulate national export policy thereby encouraging firms to engage in exporting activities (Tefsm & Lutz, 2006; Ibeh, 2004) and the lack of these structures could hamper export performance. Among these support structures are the rules and regulations (Rutihinda, 2008) enacted in the home country to govern exporting activities. So in the case where home rules and regulations are unfavorable, wherein for instance, there are restrictions on the export of certain products or extensive bureaucracy and red tape exist, exporting is bound to suffer (Okpara & Koumbiadis, 2009; Karelakis et al, 2008; Moini, 1997, Morgan & Katsikeas, 1997; Leonidou, 1995b; Yang et al., 1992). Unfavorable home rules and unrealistic regulations have been especially a problem in Sub-Saharan African countries where the governments have created environments that have generally restricted export growth (Teal, 1999).

The lack of government export assistance programmes that are meant to help firms that are involved in exporting activities is another export support structure that could hamper positive export performance (Opara, 2010, Leonidou, 2004). Thus, past studies conducted in Nigeria and other countries have reported that lack of government assistance is an obstacle to export performance (e.g. Opara, 2010; Okpara & Koumbiadis, 2009; Rutihinda, 2008; Karelakis et al., 2008; Okpara & Koumbiadis, 2008; Julian & Ahmed, 2005; Leonidou, 2000; Morgan & Katsikeas, 1997; Shoham & Albaum, 1995; Kaleka & Katsikeas, 1995; Katsikeas & Morgan, 1994). Lack of financial institutions such as banks and insurance companies with sufficient expertise in dealing with exporting matters is also another export support structure that is expected to lead to poor export performance by firms (Arteaga-Ortiz & Fernández-Ortiz, 2010; Suárez-Ortega, 2003). This problem is much more acute in developing countries like Nigeria (Okpara & Koumbiadis, 2008) where credible financial institutions are few. Other researchers who have reported this barrier as an obstacle to export performance include Da Silva (2001) and Yang et al.,
(1992). Hence, when the home country does not have adequate export support structures, it could be very difficult for firms to be successful exporters. In other words, firm export performance is contingent on the availability of national export support structures and based on the above arguments hypothesis H8 and its sub-hypotheses therefore state that:

**H1:** *facilitating factors have strong relationship with export performance*

**H1a:** *exogenous barriers have strong relationship with export performance*

**H1b:** *export support structures have strong relationship with export performance*

![Figure 1. Facilitating Factors and Export Performance](image)

The results of the regression analysis of facilitating factors and export performance is displayed in Table 1 which shows that R-square is 0.70 indicating that 70% of the variance of export performance can be attributed to the independent variables; export support structures and exogenous barriers. The ANOVA table shows that the fit of the model is acceptable with a p-value that is less than 0.001 and the VIFs of the independent variables reveal that multicollinearity is not a major issue.

<table>
<thead>
<tr>
<th>Model Summary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model</td>
</tr>
<tr>
<td>-------</td>
</tr>
<tr>
<td>1</td>
</tr>
<tr>
<td>ANOVA&lt;sup&gt;b&lt;/sup&gt;</td>
</tr>
<tr>
<td>Model</td>
</tr>
<tr>
<td>-------</td>
</tr>
<tr>
<td>Regression</td>
</tr>
<tr>
<td>Residual</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Coefficients&lt;sup&gt;c&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model</td>
</tr>
<tr>
<td>-------</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>1 (Constant)</td>
</tr>
<tr>
<td>Export Support Structures</td>
</tr>
<tr>
<td>Exogenous Barriers</td>
</tr>
</tbody>
</table>

---

<sup>a</sup> Predictors: (Constant), Exogenous Barriers, Export Support Structures

<sup>b</sup> Dependent Variable: Export Performance

<sup>c</sup> Dependent Variable: Export Performance

---

www.hrmars.com/journals 158
Hence, the model can be said to demonstrate an acceptable level of fit. The coefficient table in Table 1 shows that both independent variables, exogenous barriers (p<0.001) and export support structures (p<0.001) are significant in explaining and predicting the dependent variable export performance. The magnitudes of the independent variables indicate that exogenous barriers (0.56) have a relatively stronger relationship with export performance when compared to export support structures (0.39). The direction of the relationships seem to support the claim of this study that lack of export support structures and the presence of contingent factors like exogenous barriers affect export performance negatively. Hypotheses H8a and H8b which claim that export performance has a strong relationship with exogenous barriers and export support structures thus seem to be supported by the data. Hence, the data seems to support hypothesis H8 which suggests that facilitating factors are strongly associated with export performance. The relationship between facilitating factors and export performance is represented by the following equation where ESS represents export support structures and EB represents exogenous barriers.

$$\text{Export performance} = 67.04 + (0.39\text{ESS}) - (0.56\text{EB})$$

4. Results and Discussion

All in 623 questionnaires were distributed and 458 were collected over a period of nine weeks for a response rate of about 74%. Out of the 458 collected questionnaires, seven were incomplete and two had been filled by very junior staff that had little knowledge about the exporting functions. Hence, nine questionnaires were excluded, leaving a total of 449 usable questionnaires, which were used for all subsequent data analysis.

With regards to respondent profile, about two-thirds (74%) of SMEs that participated in the survey are non-exporters as can be seen from Table 1. This disproportionate representation serves to highlight the poor state of exporting within the leather sector in Nigeria. In terms of firm size, minimum numbers of employees are the same for both exporters and non-exporters; however, the average and maximum number of employees in exporting firms are greater than non-exporting firms. This indicates that on average exporting firms are relatively larger than non-exporting firms and as such could have access to more resources that are required to involve in exporting activities. The average experience in the exporting business is nine years and the average number of markets abroad is five.

<table>
<thead>
<tr>
<th>Table 2. Profile of respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Firms (No)</strong></td>
</tr>
<tr>
<td>Minimum</td>
</tr>
<tr>
<td>Average</td>
</tr>
<tr>
<td>Maximum</td>
</tr>
<tr>
<td>Minimum</td>
</tr>
<tr>
<td>Average</td>
</tr>
<tr>
<td>Maximum</td>
</tr>
<tr>
<td>Minimum</td>
</tr>
<tr>
<td>Average</td>
</tr>
<tr>
<td>Maximum</td>
</tr>
</tbody>
</table>
Hypothesis H1 and its sub-hypotheses H1a and H1b, which claim that facilitating factors in the form of export support structures and exogenous barriers are strongly associated with export performance, are supported by the data. These findings seem to suggest that when export support structures are lacking and exogenous barriers are high export performance will be poor. For example, unstable exchange rates could make it difficult to give reliable price quotations to prospective buyers, thus limiting the ability to engage in international trade. Also, a stable environment is needed for business to flourish and the presence of political and economic instability in the destination country is an exogenous factor that can severely inhibit export performance of firms (Arteaga-Ortiz & Fernández-Ortiz, 2010, Rutihinda, 2008; Leonidou, 2004). Similarly, corruption in high places creates unnecessary bottlenecks for exporters, which in the end raises the cost of exporting leading to a negative influence on export performance (e.g. Okpara & Koumbiadis, 2009; Okpara & Koumbiadis, 2008; Amakom, 2006). Furthermore, unfavorable home rules and unrealistic regulations that have been a bane in Sub-Saharan African countries (Teal, 199) severely restrict the ability of SMEs to participate in international trade. In the same vein, lack of government export assistance programmes that are meant to help firms that are involved in exporting activities could limit the ability of SMEs particularly the upstarts to engage in exporting activities (Opara, 2010, Leonidou, 2004). Thus consistent with contingency theory, the presence of exogenous factors and the absence of export support structures could pose major challenges for SMEs.

5. Conclusions
From the regression analysis, examination of the model fit measures showed that they were all within the conventionally accepted values and the regression estimates showed that all of the hypothesized relationships were not only significant but in the expected directions. All of the hypotheses posited in the research framework were supported by the data, thus suggesting that the theoretical framework fits the data. There is no doubt that export barriers are major issues for SMEs operating in the Nigerian leather industry as findings from this study have revealed that about two-third of SMEs that participated in the study are non-exporters. Given the potential that exists in international trade such as business expansion and increased revenue, this high number suggests that many of the SMEs have no incentive to or are unable to be involved in exporting. Given the benefits of trade to development and the potential of the leather industry in Nigeria (UNCTAD, 2009; Amakom, 2006), it would be important for policy makers to recognize the need to introduce steps that will encourage more SMEs to be involved in the exporting business.

A number of steps could be taking to ease the effect of export barriers on SMEs. For example to deal with lack of financial resources, government should create a fund that is controlled by an exporting agency or authority that will give soft loans to any SME that wants to export as long the SME satisfy some basic criteria. Government could also encourage private financial institutions to support SMEs in their exporting ventures. Regulation should be enacted that would facilitate the creation of financial institutions such as banks and insurance companies that are devoted to exporting activities. Policy makers should also be ready to provide tax incentives as well as ease restrictive regulations that hamper exporting activities. In terms of barriers related to human resources, universities and institutions of higher learning could introduce curricular that is geared towards training professionals in the exporting field. Also, the benefits of exporting should be communicated to SMEs as a way of influencing the commitment of managers to engage in exporting. Similarly, investments in infrastructure such as roads and communications facilities will
have to be made in order to improve the business atmosphere in general and exporting in particular.

In conclusion therefore, government and other stakeholders including the SMEs operating in the leather sector should seek out innovative ways to equip the SMEs with the resources required to overcome the challenges that are involved within the exporting business.

References


