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Interdependence of managerial capabilities and business internationalization

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ABSTRACT

Internationalization has become an inevitable fact in the business world since the 1970s, when a strong liberalization of the market started to take place and the technology came to a level which enabled companies to expand their businesses outside the boundaries of their countries. Businesses use range of different modalities entering foreign markets but this research is focused on exporting companies as one of the most commonly used strategy in foreign market exploitation. Research conducted on the basis of 113 exporting companies examines the role of managerial capabilities regarding their international performance. Managerial capabilities are associated with key organizational requirements necessary for entering these foreign markets, along with the methodical building of a competitive product portfolio and achieving sustainable competitive advantage. Managerial capabilities are measured by the level of their general education, skills and experience, as well as knowledge about international markets.

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1. INTRODUCTION

In order for the companies to survive and sustain in the long run, it is necessary to expand their markets and potentially start the internationalization process. Integrating worldwide financial system, lowering entry barriers, deregulation and cultural convergence have enabled higher volumes of international operations (Chang, 2012). Last decade has witnessed an accelerated growth of international activities but open market does not only imply opportunities rather it also brings new strategic challenges. Concerning international presence many companies do not make the most of their potential. Lack of motivation, capabilities, human or financial resources may result in serious underperformance regarding these opportunities (Freixanet, 2011). Furthermore, accompanying continuously intensifying global competition, recession (Hausman i Johnston, 2014) has additionally emphasized the need for understanding companies' key competitive advantages and ways of employing those into successful international strategies (Damanpour, 2010).

2. LITERATURE REVIEW

Processes of internationalization have been examined in various research papers over the last 30 years (Caughey and Chetty, 1994; Morgan and Katsikeas, 1997; Knudsen and Madsen, 2000; Leonidou, 2004; Leonidou, Katsikeas, Palihawadana and Spyropoulou, 2007; Tan, Brewer and Liesch, 2007; Uner, Kocak, Cavusgil and Cavusgil, 2013; Kahiya and Dean, 2014). Exporting is considered to be one of the most common foreign market entry modalities (Albaum et al., 2008), which consequently may serves as a platform for further international expansion and strategy formation (Wild, Wild and Han, 2014). As quick access to international markets, exporting requires less capital investment (unlike direct investments) leaving management more resource to focus on consumers, partners and market regulation (Knudsen and Madsen, 2000; Cavusgil et al., 2014).

Nevertheless, exports are dependent on tariff systems and exchange rate fluctuations which may potentially undermine firm's efforts to exploit foreign markets (Piercy, 2014; Kahiya and Dean, 2015). Governments threatening to raise tariff barriers may prompt export inefficiency and make the strategy a high risk venture. Other non-exporting scenarios are associated with high transportation costs which may eliminate firm's profit (Daniels, Radebaugh and Sullivan, 2009) or achieving lower costs of production abroad. This may often be the case in the presence of global standardization or transnational strategy, when it is more efficient to move production facilities into a location with most favourable conditions and consequently export to the rest of the world.

Managerial capabilities, their education, skills, previous experience and knowledge of the foreign market have been considered essential in the process of internationalization (Kyvik et al., 2013). Managers need to make decisions regarding products, services, employees and logistics which have the potential to satisfy customer needs and achieve global competition (Morgan, Katsikeas and Vorhies, 2012). Implementation of the exporting activities, its execution, continual monitoring and strategy adjustments associated with varying market conditions are all parts of implementation and monitoring, and the final stage of the export strategy development (Seringhaus and Rosson, 2012). Depending on specific knowledge, manager's capabilities may increase the speed of internationalization and probability of success. If managers possess more capabilities, exporting activities could be performed more efficiently (Felicio et al., 2015). Therefore the role of managers regarding internationalization has become an important focus of managerial research (Singla & George, 2013).

Managerial capabilities are considered an important source of companies extra profits. They are essential for the organizational resources allocation, communication and implementation of strategies, maintaining internal and external interest group and stakeholder networks as well as managing organizational culture. In order for managers to adequately perform it is essential to possess certain experience and company specific knowledge (Lo, 2012). Managerial capabilities are embodied in a team of people, not just a single person, for an entire scope of complementary skills, technical and social, is needed in order to achieve predominance on a specific competitive market. If they possess these skills, characteristics of a managerial team can meet the conditions for achieving and maintaining competitive advantage (Sahaym et al., 2012). Insufficient managerial skill can lead to missing market opportunities and creating unnecessary cost for the company.

If management incorrectly interprets outer and inner environment, situation will result in adverse decision making, omitting necessary change or not being able to achieve necessary level of proactivity (Ambrosini et al., 2009). Managerial capabilities are key determinants of competitive advantage, an important source of multinational company's success and unique resource of the organization, as managers form strategic visions and communicate them within the entire organization, giving authority necessary for their implementation as well as maintaining the connection between the company and its environment (Ludwig and Pemberton, 2011).

Teece (2009) has defined managerial capability as one of the most important factor of resource management while emphasizing *managing and coordination of resources in existing operations,* maximizing their benefit and *making decisions about their relocation*. These processes will ensure the sustainability of competitive advantage. Sustainability is subordinated to a constant change and resources should be controlled with decision making in a limited time frame. Undoubtedly, the managers have a key role in a company's ability to adjust under changing circumstances. Nowadays, market success requires managers to act in an entrepreneurial way and build upon their organizational capability in order to sense or "seize" the opportunities exploiting them with regards on their competitive advantage and sustainability. Managerial capabilities are directed towards the managers' understanding of external and internal state of the company, i.e. understanding dynamics of the environment will affects manager's *motivation* (Helfat et al., 2014). Depending on the level of motivation, managers may become more or less valuable to the company. Their skills are embedded while hard to copy, especially in the short run. It is highly unlikely for managers to have the same capabilities; their competencies are different, but nevertheless may be equally efficient (Barbero et al., 2011). Managerial capabilities are a requirement for successful internationalization process, but they offer no guarantee of success. It will also depend on many different factors like the environment features, industrial structure, technological position and competition in a specific sector (Cavusgil and Knight, 2015).

3. METHODOLOGY

The research was conducted on the basis of 113 Croatian companies derived from the list of exporters using the database of The Croatian Bureau of Statistics. Sample was acquired from the population of companies which earned more than 50% of their total revenue abroad. According to the CBS in the period 2000-2010, there were more than 400 companies which fitted this description. Highly structured questionnaire was sent via email where participants had to provide company's financial data, information regarding strategy, reasons for entering foreign markets, speed of internationalization and their opinion regarding range of different statements concerning managerial capabilities. Participants perception was measured using Likert scale reaching from 1 - fully disagree to 7 - fully agree.

Out of 113 companies 64 declared using strategy based on exploitation of narrow market segment, 58 used strategy of differentiation and 20 companies claim to have achieved cost advantage. As one of the most important reasons for internationalization, respondents stated growth of the company, following launching of unique products, acquiring new knowledge, unsatisfied international demand and the similarities between markets. Furthermore, respondents also claim domestic market being insufficient in size or their managers having necessary knowledge for supplying demand in the foreign markets. Regarding the speed of their internationalization, 31 companies did it quickly and independently, 25 entered the international market instantly with the help of a partner and 23 followed traditional phases of the internationalization process where they firstly operated on a single international market, i. e., their entry was independent, gradual and careful. Gradual internationalization with the help of a partner was made by 17 companies and 9 of them were born global.
The average level of the foreign ownership in these companies was 18% and the average number of years in business 25, where 19 years on average was spent on the foreign market. Average share of the exporting revenue was 81%, average return on sales 19% and yearly average growth of revenue 7% (Table 1).

Table 1: Characteristics of the sample			
	N	*μ*	*σ*
Foreign ownership share in the capital? (%)	101	18.96	36.50
Years in business	104	25.13	23.19
Level of the firm's internationalization	107	81.01	14.58
Years of presence on the foreign market	103	19.41	14.82
What is the share of profit in your income in 2014? (%)	111	19.88	14.30
What is the average growth/fall in income in 2014/2013? (%)	113	7.89	6.22

Source: Author's calculation

Managerial capabilities were measured regarding two dimensions, managerial capacity and knowledge about the foreign markets. Subsequent 10 statements addressed managerial capacity: Our company is significantly investing in advancement of managerial knowledge and skills, Our company is significantly investing in managerial knowledge and skills regarding production or service technology, Our management has necessary knowledge and skills regarding efficiency in business planning, Our management has necessary knowledge and skills regarding strategic business analysis, Our management has necessary knowledge and skills regarding research and development, Our management has necessary knowledge and skills regarding company controlling, Our management has necessary knowledge and skills regarding business negotiation, Our management has necessary knowledge and skills regarding public relations and market representation, Our management has ability to learn quickly and adapt to environmental changes, Our management has ability to create innovative environment.

Subsequent 8 statements addressed managerial knowledge of international markets: International experience is very important when contracting our managers, Our management has significant knowledge about strategy of our international competitors, Our managers have extensive knowledge about values and norms inside the foreign market where we do business, Our managers have extensive knowledge about law regulation inside the foreign market where we do business, Our managers have extensive knowledge about customers inside the foreign market where we do business, Our managers have extensive knowledge about distribution channels inside the foreign market where we do business, Our managers have globally applicable knowledge and experience, Our managers are more efficient then regional competition.

4. RESULTS

Managerial capabilities were measured in terms of managerial capacity and knowledge about the foreign markets. First variable representing managerial capacity was derived using arithmetic average of 10 individual statements where most affirmation was given to the statement of Our management has ability to learn quickly and adapt to environmental changes (μ=5,77), following Our management has necessary knowledge and skills regarding public relations and market representation (μ=5,75), ability to create innovative environment (μ=5,64), knowledge and skills regarding business negotiation (μ=5,56), research and development (μ=5,55), company controlling (μ=5,47), strategic business analysis (μ=5,41), efficiency in business planning (μ=5,31), investment in advancement of managerial knowledge and skills (μ=5,20), and investment in knowledge and skills regarding production or service technology (μ=5,10).

Highest level of correlation between the level of the firm's internationalization and managerial capacity was found regarding necessary knowledge and skills in research and development (,525), investing in advancement of managerial knowledge and skills (,456) and strategic business analysis (,443). Lowest level of correlation between the level of the firm's internationalization and managerial capacity was found for ability to create innovative environment (,163), efficiency in business planning (,315) and business negotiation (,317). It is important to emphasize that the level of managers ability to create innovative environment was not significantly correlated to the level of firm's internationalization (p=0,093). Finally, correlation of aggregated final variable measuring managerial capacity encompassing all 10 statements was significantly correlated to the level of firm's internationalization 0,557 (p=0,00). (Table 2)

Table 2: Correlation matrix: Managerial capacity and the level of the company's internationalization

The level of the firm's internationalization	*μ*	*Pearson*	Sig.	N
Our company is significantly investing in advancement of managerial knowledge and skills	5,20	,456**	0,000	107
Our company is significantly investing in managerial knowledge and skills regarding production or service technology	5,10	,422**	0,000	107
Our management has necessary knowledge and skills regarding efficiency in business planning	5,31	,315**	0,001	107
Our management has necessary knowledge and skills regarding strategic business analysis	5,41	,443**	0,000	107
Our management has necessary knowledge and skills regarding research and development	5,55	,525**	0,000	107
Our management has necessary knowledge and skills regarding company controlling	5,47	,428**	0,000	107
Our management has necessary knowledge and skills regarding business negotiation	5,56	,317**	0,001	107
Our management has necessary knowledge and skills regarding public relations and market representation	5,75	,419**	0,000	107
Our management has ability to learn quickly and adapt to environmental changes	5,77	,425**	0,000	107
Our management has ability to create innovative environment	5,64	0,163	0,093	107
Managerial capacity		,557**	0,000	107

*** p<0,01*
 *** p<0,05*
Source: Author's calculation

Second variable representing knowledge about foreign markets was derived as arithmetic average of the following statements where most affirmation was given to the statement Our managers have extensive knowledge about customers inside the foreign market where we do business (μ=5,87), following Our managers have extensive knowledge about distribution channels inside the foreign market where we do business (μ=5,84), Our managers are more efficient then regional competition (μ=5,73), Our managers have globally applicable knowledge and experience (μ=5,73), Our managers have extensive knowledge about law regulation inside the foreign market where we do business (μ=5,57), Our managers have extensive knowledge about values and norms inside the foreign market where we do business (μ=5,47), Our management has significant knowledge about strategy of our international competitors (μ=5,39) and International experience is very important when contracting our managers (μ=5,37).

Highest level of correlation between the level of internationalization and managerial knowledge of the foreign market was found regarding importance of international experience when contracting managers (,808), knowledge about strategy of international competitors (,741) and extensive knowledge about values and norms inside the foreign market (,609) (Table 3.). The lowest level of correlation was found between the level of internationalization and managerial knowledge of the foreign market regarding extensive knowledge about distribution channels (,421), being more efficient then regional competition (,469) and globally applicable knowledge and experience (Table 3).

Table 3: Correlation matrix: Knowledge about foreign markets and the level of the firm's internationalization

The level of the firm's internationalization	*μ*	Pearson	Sig.	N
International experience is very important when contracting our managers	5,37	,808**	0,000	107
Our management has significant knowledge about strategy of our international competitors	5,39	,741**	0,000	107
Our managers have extensive knowledge about values and norms inside the foreign market where we do business	5,47	,609**	0,000	107
Our managers have extensive knowledge about law regulation inside the foreign market where we do business,	5,57	,598**	0,000	107
Our managers have extensive knowledge about customers inside the foreign market where we do business	5,87	,576**	0,000	107
Our managers have extensive knowledge about distribution channels inside the foreign market where we do business	5,84	,421**	0,000	107
Our managers have globally applicable knowledge and experience	5,58	,557**	0,000	107
Our managers are more efficient then regional competition	5,73	,469**	0,000	107
Knowledge about international markets		,795**	0,000	107

*** p<0,01*
 ** p<0,05*
Source: Author's calculation

Before estimating the regression model of managerial capabilities (independent variables) and the level of the firm's internationalization (dependent variable), correlation matrix was calculated in order to demonstrate the relationships among all variables. Results confirmed significant correlations for all variables. Although the correlation between independent variables was significant (,561), problem of multicollinearity wasn't present. Model was able to explain 64% of all variation. Coefficient assigned with managerial capacity was significant and positive (β1=0,27) as well as the coefficient assigned with the knowledge of the foreign market (β2=1,38) (Table 4). Residuals were normally distributed.

Table 4: Regression model			
Name of the variable	Variable description	(α)/ (β)	P - value
Level of the firm's internationalization	dependent variable		
α	constant	3,489038	0,6939
Managerial capacity	independent variable	0,279170	0,0126
Knowledge of the foreign market	independent variable	1,380736	0,0000
(F-test)			0,00
(R^2)	0,64		

Source: Author's calculation

On the basis of the regression model it is indicative that managerial capacities have the influence on the level of the company's internationalization. Development of managerial capabilities is an important factor for successful internationalization of the company. Managerial capabilities are a requirement of the organizational routine and may explain the difference between failure and success in the process of the company's internationalization. Since conceptual and organisational learning is the basis of international success, in order to accomplish defined set of goals and organisational integration, companies must strategically manage and monitor the development of managerial capabilities. Nevertheless, managerial capabilities may be an important characteristic of the best companies, but do not guarantee success. Final result will be the output of industry, technology and profit opportunities of the segment in which the company competes.

5. CONCLUSION

In order for the companies to maintain their competitive advantage in the open market it is important to do business outside the boundaries of national countries. International trade is an important condition of national economic development. Companies face internal and external barriers, where technological development, access to information and limitation of industrial infrastructure may diminish their efforts in achieving growth, development and international expansion. Finding solutions with externally given barriers, managerial capabilities should facilitate international expansion of the company. International activities are important for stabilizing company's revenue. If rising unemployment decrease demand inside the national market, exporting to other countries may help companies mitigate this revenue discrepancy. Internationally successful companies have above average investments, avoid limitation of national markets and are more competitive. Prior to global financial crisis in 2008, Croatia had a long history of merchandise trade deficit, importing twice the size of exports, but since then, value of trade was decreasing, with imports tumbling faster. Export has shown to be more robust regarding crisis and demand fluctuation. Global crisis endured longer than expected and fall in aggregate demand encouraged rethinking some economic principles. Robustness of exports, especially high quality manufacturing has demonstrated production to be the bedrock of every well-structured economy this being valid even for the postindustrial countries.

Export plays an important role in the economic development. It has the ability to create new jobs, increase GDP, stabilize balance of payment and create new knowledge which can further increases the competitiveness of the country. Research has demonstrated most exporting companies from Croatia use strategy based on exploitation of narrow market segment and differentiation, while their reasons were growth, launching of unique products, acquiring new knowledge, unsatisfied international demand and the similarities between markets.

Merchandise exports are responsible for 20% of Croatian GDP, exporters represent most successful segment of the economy and there is evident research interest regarding its determinants. Entering the European Union in 2013 Croatian export was affected by elimination of CEFTA agreement, but Croatia has gained access to aggregated demand of the European market with 500 million consumers as well as preferential agreements of the EU. Aforementioned represents great economic potential, bringing challenges where managerial capabilities may facilitate in achieving higher level of competitiveness for the Croatian companies inside the global market.

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