

THE EFFECTS OF STRATEGIC ORIENTATION ON THE EXPORT PERFORMANCE OF GARMENT MANUFACTURING BUSINESSES IN CAMBODIA

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ABSTRACT

The purpose of this research is to investigate the effects of strategic orientation on the export performance of export-oriented garment manufacturing businesses in the context of Cambodia. Hypothetical and quantitative research methods were applied to this research by which a paper-based questionnaire was designed to collect the data. The data was collected from 120 export-oriented garment manufacturing businesses operating in Cambodia. A multi-correlation analysis and multi-regression analysis were employed to analyze the data. The result of this research reveals the following. 1) Business executives generally agreed in applying the entrepreneurship concept style, that is, strategic orientation, at the high level. Additionally, in terms of export performance, business executives are overall fairly satisfied. 2) The results show that, overall, aggressiveness, analysis, defensiveness, and riskiness had a positive correlation with and an effect on export performance. With this alternative breakthrough from previous empirical studies, this research consolidates understanding of strategic orientation, and its relationship and effect on the export performance of garment manufacturing businesses in Cambodia.

Keywords: 1) Strategic Orientation 2) Export Performance

1. Introduction

In the late 1980s, Cambodia started to shift from a command and control economy to the free market. Cambodia's law on investment was initiated to establish an open and liberal foreign investment regime. All sectors of the economy are privatized and open to foreign investment. There are no performance requirements and no sectors in which foreign investors are denied national treatment. The Law on Investment was amended in 2003, bestowing a simplified, more transparent, and faster mechanism for investment approval. Furthermore, following the signing of the 1991 Paris Peace Accords and the structural economic reform, foreign investors

were encouraged to invest in Cambodia by a political environment in which there was domestic peace and security, a commitment to macroeconomic stability, and a favorable investment climate enshrined in the Law on Investment of 1994. Since then, Cambodia's export-oriented garment industry has emerged and grown very fast when Asian textile and garment investors from Hong Kong, Taiwan, Malaysia, and Singapore, started to produce for export in Cambodia. In doing this, they took advantage of the country's quota-free access to the US and EU markets and, secondarily its relatively low wage rates (Bargawi, 2005).

Cambodia's garment industry has been a pivotal source of export growth representing 80% of the country's total

export and directly contributing approximately 20% to the country's gross domestic product (GDP). Since 2012, 471 garment export-oriented factories have been currently operating, of which about 95% are foreign-owned, and which has employed about 415,550 Cambodian workers. The ownership is dominated by investors from other Asian countries, in particular Taiwan, China, Hong Kong, and South Korea. Taiwan tops the list with 111 factories, followed by Hong Kong, China, South Korea and Malaysia (Garment Manufacturers Association in Cambodia).

The global downturn depressed the demand for garments, and exports, particularly hard-hit, declined by 19% in 2009. However, the United States remained a key market. The government stated that 73 garment factories closed in 2008 with a loss of about 25,000 jobs but in the same year, 64 new factories opened, absorbing 13,000 workers. Since about 70% of its clothing exports go to the US and 25% to Europe, the crisis took its toll with about 100 factories closing in 2009. The structure of the businesses makes it susceptible to shocks in the global economy because it is so export-driven.

Rather, the research focuses on key implications for managerial practice at the firm level related to strategic entrepreneurial posture that has an effect on the export performance of garments manufacturing businesses in Cambodia. Whatever form strategic entrepreneurial posture takes, the key to successfully creating considerable performance is prospecting every value chain activity as a source of competitive advantage (Porter, 2008). Similarly, the effect of strategic entrepreneurial posture on a firm's strategic success is strongest when it stimulates all parts, skills, and sources of an organization. It is found that in companies and firms where strategic leaders and culture together generate a strong impetus they have vision, analyze, take risks, defend, are proactive, and aggressively compete. These ideas typify the concept known as "strategic orientation."

Ever since the 1980s, strategic orientation, or entrepreneurial orientation, has been considered as the principle concept of entrepreneurship that is linked to strategic management style in terms of patterns of action and strategic decision-making process at the firm-level. The firm's entrepreneurial orientation is a combination of 11 dimensions which are adaptability, integration, expertise, innovation, comprehensiveness, proactive-ness, rationality, assertiveness, and risk-taking (Miller and Friesen, 1984). Shortly thereafter, Venkatraman (1989) proposed a model of strategic orientation as the conceptual model of strategic behavior, based upon a set of key traits such as aggressiveness, analysis, defensiveness, futurity, proactiveness and riskiness. Then, Lumpkin and Dess (1996) expanded the entrepreneurial orientation framework by adding the dimensions of autonomy and competitive aggressiveness, arguing in favor of pursuing new ventures for researching entrepreneurial activity. Therefore, the most commonly-utilized dimensions have been based on the strategy-making process. These dimensions often work together and play a crucial role to enhance firm performance (Covin and Slevin, 1991). Thus, strategic orientation has an effective role in explaining export performance (Ussahawanitchakit, 2007). However, some organizations or businesses that are proficient in only a few aspects of entrepreneurial orientation can reach a considerable level of performance (Lumpkin and Dess, 2001).

According to the reason mentioned above, this research deems to study the effects of strategic orientation on the export performance of garment manufacturing businesses in Cambodia. The main purpose of this research is to examine the effect of strategic orientation on export performance, and the relationship between the two latter concepts. The data was collected from export-oriented garment manufacturing businesses operating in Cambodia. The research is amongst the earliest that studies firm-level entrepreneurship

in the perspective of an international environment to which the Cambodian export-oriented garment manufacturing business have faced in order to survive and grow. Further research will be effective and helpful to entrepreneurial practitioners.

Research Objectives

The objectives of the research are as follows:

1. To study the strategic orientation of garment manufacturing businesses in Cambodia
2. To examine the export performance of garment manufacturing businesses in Cambodia
3. To test the relationship between strategic orientation and the export performance of garment manufacturing businesses in Cambodia
4. To study the effects of strategic orientation on the export performance of garment manufacturing businesses in Cambodia

2. Research Methodology

Questionnaire

Based on GMAC's listed members, there are 304 members in Phnom Penh, as of October 25, 2012. Therefore, garment factories located in Phnom Penh city will be considered precisely the population sample group of the research. Thus, a total of 304 questionnaires was sent to garment factories since December 1, 2012. Of these 304 questionnaires, 126 were unreturned and 178 were returned by March 15, 2013. From the returned 178 respondents, 58 were returned uncompleted and not useable. In this research therefore, 120 questionnaires were retained and used for the research, indicating a net response rate of 39 percent which is considered acceptable according to Aaker and Dumar (2001).

Regarding to the data collection procedure, the questionnaire is used as the research instrument in this research, which is divided into four principal parts:

Part 1 asks for general information of key respondents such as gender, age, education level, business experience, and position. This part consists of five checklist questions.

Part 2 requests general information from the garment manufacturing businesses. This part consists of six checklist questions, such as firm age, firm capital, firm type, products, firm size, and export sales.

Part 3 deals with the dimensions of strategic orientation. It requests for a level of agreement or opinion regarding strategic orientation as an independent variable. In total, this part consists of twenty nine rating-scale questions.

- Aggressiveness has five rating-scale questions.

- Analysis has six rating-scale questions.

- Defensiveness has three rating-scale questions.

- Futurity has six rating-scale questions.

- Proactiveness has four rating scale questions.

- Riskiness has five rating scale questions.

All items are measured with five-point scales including 5 = strongly agree, 4 = agree, 3 = neutral, 2 = disagree and 1 = strongly disagree.

Part 4 is about the export performance of garment manufacturing businesses. It requests for information regarding the satisfaction level of export performance. In total, this part consists of four rating-scale questions. All items are measured with five-point scales, including 5 = very satisfied, 4 = fairly satisfied, 3 = average, 2 = fairly dissatisfied and 1 = very dissatisfied.

Analysis of Data

The analysis of data consists of seven steps:

Step one and two analyze respectively the general information of key respondents and firm characteristics by using descriptive statistics to find frequency and percentage.

Step three and four analyze respectively the opinions, which are the agreement levels of strategic orientation and satisfaction level of export performance, by using descriptive statistics (Mean and Standard Deviation) in order to interpret the meaning of mean scores, and by using the method as follows:

The average of 4.51 - 5.00 means the opinion is at the highest level.

The average of 3.51 - 4.50 means the opinion is at the high level.

The average of 2.51 - 3.50 means the opinion is at the average level.

The average of 1.51 - 2.50 means the opinion is at the low level.

The average of 1.00 - 1.50 means the opinion is at the lowest level.

Step five tests the relationship between strategic orientation and export performance and the effect of strategic orientation on export performance of garment manufacturing businesses in Cambodia, by using Multiple Correlation Analysis and Multiple Regression Analysis.

3. Results

Respondent Characteristics

Most participants are males, aged between 30 and 40 years old, and earned higher than bachelor degree. Moreover, most respondents have been working in garment businesses between 5 and 10 years. Additionally, half of all key informants are managing directors. Nearly two-thirds of all garment manufacturing businesses have

been investing in Cambodia for five to 10 years. Moreover, almost all the business ventures are fully foreign-owned, in which a half of the garment businesses have invested capital in the amount of 1 million US\$ to 5 million US\$. Furthermore, approximately a half of the firms have been employing workers between 100 and 500 workers.

Firm Characteristics

Nearly two-thirds of the 120 garment manufacturing businesses (68.34%) and nearly a third (30.00%) have been operating in Cambodia during five to 10 years and 11 to 15 years, respectively. Additionally, the capital investment of the business ventures, whose range is from 1 million US\$ to 5 million US\$, represent 55.00%. Otherwise, the firms with a capital investment under 1 million US\$ are estimated to be at 22.50%. Moreover, almost all the business ventures are fully foreign-owned (80.00%). Furthermore, approximately a half (48.33%) of the firms has been employing between 100 and 500 workers. Meanwhile, 28.33% of the firms have been utilizing more than 1000 people as workers. Finally, last year's total export sales of the firm, whose range was between 1 million US\$ and 5 million US\$ represented 47.50%.

Agreement Level of Strategic Orientation

Overall, most variables have mean scores above 3.50. This means that the respondents agree on aggressiveness, analysis, defensiveness, futurity, proactiveness and riskiness in strategic orientation.

Table 1: Mean scores, standard deviation and agreement level of strategic orientation

Strategic Orientation (SO)	Mean (\bar{X})	S.D.	Level of Agreement
1. Aggressiveness (AGG)	4.12	0.48	Agree
2. Analysis (ANA)	3.92	0.60	Agree
3. Defensiveness (DEF)	4.08	0.66	Agree
4. Futurity (FUT)	3.95	0.67	Agree
5. Proactiveness (PRO)	3.67	0.64	Agree
6. Riskiness (RIS)	3.78	0.68	Agree
Total	3.92	0.53	Agree

Satisfaction Level of Export Performance

The overall perspective of export performance shows the level of “fairly

satisfied” in terms of export sales growth, export market share, export profitability, and overall export performance.

Table 2: Mean scores, standard deviation and satisfaction level of export performance

Export Performance (EXP)	Mean (\bar{X})	S.D.	Level of Satisfaction
1. Export sales growth	3.82	0.99	fairly satisfied
2. Export market share	3.71	0.75	fairly satisfied
3. Export profitability	3.71	0.84	fairly satisfied
4. Overall export performance	3.90	0.86	fairly satisfied
Total	3.78	0.75	fairly satisfied

Correlation and Multiple Regression

First of all, as can be seen from Table 3, the variance inflation factors (VIFs) of all independent variables are between 2.068 and 4.591 which are less than 10. As a rule of thumb, if any of the VIFs are less than 10 (less than 5, to be very conservative); the multicollinearity problem does not exist among independent and dependent variables (Black, 2006).

Moreover, the correlation matrix above shows the correlation coefficient (Pearson’s r) for each of the strategic orientation variables with export performance. All Pearson’s r values are positives. This means that as one variable increases in value, the second variable also increase in value, and vice versa. Next, most of the correlation coefficients are closer to 1 and are ranked between 0.530 and 0.904. For this reason, we can conclude that most independent variables (strategic orientation)

have a strong relationship with dependent variables (export performance). In this instance, there appears to be a very strong relationship between export performance (EXP) and riskiness (RIS) ($r = 0.904$). There is also a strong relationship between EXP and proactiveness (PRO) ($r = 0.731$), as well as strong relationship between EXP and analysis (ANA) ($r = 0.719$), with $F = 98.666$, $p = 0.000$ and $AdjR^2 = 0.831$. The regression equation can be expressed with constant ($a = -0.097$) and relevant regression coefficients (β) of each variable, as taking the data from Table 4, which includes, aggressiveness ($\beta = -0.139$), analysis ($\beta = 0.242$), defensiveness ($\beta = 0.102$), futurity ($\beta = -0.074$), proactiveness ($\beta = -0.010$), and riskiness ($\beta = 0.906$). These are as follows:

$$EXP = -0.097 - 0.139AGG + 0.242ANA + 0.102DEF - 0.074FUT - 0.010PRO + 0.906RIS$$

Table 3: Correlation matrix of strategic orientation dimensions and export performance

Variables	EXP	AGG	ANA	DEF	FUT	PRO	RIS	VIFs
\bar{X}	3.78	4.12	3.92	4.08	3.95	3.67	3.78	
S.D.	0.75	0.48	0.60	0.66	0.67	0.64	0.68	
EXP	-	0.530*	0.719*	0.673*	0.695*	0.731*	0.904*	
AGG		-	0.686*	0.594*	0.660*	0.539*	0.588*	2.068
ANA			-	0.815*	0.820*	0.582*	0.700*	4.591
DEF				-	0.765*	0.565*	0.653*	3.310
FUT					-	0.609*	0.730*	3.891
PRO						-	0.812*	3.010
RIS							-	4.124

* Correlation is significant at 0.05 level (2-tailed)

As can be seen from Table 4, at the 0.05 level of significant regression analysis, a dimension of strategic orientation has a direct positive impact on export performance ($\beta = 0.242$, $p < 0.05$). Also, riskiness, a dimension of the independent variable, has a significant positive effect on export performance ($\beta = 0.906$, $p < 0.05$).

However, aggressiveness ($\beta = -0.139$, $p > 0.05$), defensiveness ($\beta = 0.102$, $p > 0.05$), futurity ($\beta = -0.074$, $p > 0.05$), and proactiveness ($\beta = -0.010$, $p > 0.05$) are not significantly and positively related to export performance.

Table 4: Result of regression analysis between strategic orientation dimensions and export performance

Strategic Orientation	Export Performance		T	p-value
	Regression coefficient (β)	Standardized Error		
Constant (a)	-0.097	0.251	-0.388	0.699
Aggressiveness	-0.139	0.085	-1.640	0.104
Analysis	0.242	0.101	2.400	0.018*
Defensiveness	0.102	0.079	1.295	0.198
Futurity	-0.074	0.084	-0.883	0.379
Proactiveness	-0.010	0.077	-0.132	0.895
Riskiness	0.906	0.085	10.694	0.000*

F = 98.666 p = 0.000 AdjR² = 0.831

* Regression is significant at 0.05 level

4. Conclusions

With respect to the findings of the multidimensionality of the strategic orientation construct within the context of the Cambodian exporting garment businesses, independent and differential relationships between six dimensions of strategic orientation (i.e. aggressiveness, analysis, defensiveness, futurity, proactiveness, and riskiness) and the export performance of Cambodian exporting garment businesses are discussed below.

Referring to all equations above, only riskiness is significantly related to, and has an effect on export performance. It may be concluded that riskiness is an important factor that contributes to the export performance and other related export performance criteria. However, proactiveness and futurity seems not to have any considerable relationship with, nor effect on export performance, which are different from those provided by previous empirical research. Otherwise, according to Pansuwong (2009), proactiveness was found to be important for export performance of Thai SMEs.

Surprisingly, the negative but significant impact between aggressiveness and export sales growth was explained by two researchers Shoham (2000) and Guner et al. (2007).

Shoham (2000) presented a supportive argument with regard to firm strategic orientations that affect export performance. The author investigated firm strategic orientations by using the data collected from 232 Strategic Business Units of the active exporters located in Northern Israel. The research presented the negative impact of selling orientation on export performance. A selling orientation is typical of firms that are aggressive seeker of partners for selling products (Houston, 1986). Assuming that customers will normally not buy enough of the firm's products, the firm must aggressively sell or promote its products (Kotler, 1997). An additional characteristic that can enhance the impact of selling orientation is the potential

aggressive selling and promotion techniques to pay off. Low market awareness for the product might also necessitate this strategic orientation. Strategies under a selling orientation call for approaching customers with aggressiveness (Kotler, 1997). The findings have raised the awareness that a selling orientation "harmed" export sales performance and export profitability.

Guner et al. (2007) have examined the linkage between strategic orientation variables and the export performance of firms in the United States, Germany, and Japan. The authors selected 988 firms over a three-year period (2002-2004), consisting of 320 U.S. firms, 358 Japanese firms, and 310 German firms in the manufacturing sector. The samples for each country were analyzed separately to avoid any problems related to the effect of currencies and exchange rates. Surprisingly, the finding revealed that the collection period, which is a dimension of strategic orientation in the research, was significantly and negatively associated with export sales performance in Japanese firms. It indicates that the collection period is longest for Japanese firms which may lead to the lowest level of export performance. According to Lee, Zahra, and Wongtada (1995), the collection period (or credit activity) is the ability of a firm to collect its account receivables effectively; it is defined as the ratio of accounts receivables to total sales. Shorter collection periods stabilize the firm's cash flow and reduce the dependence on leverage for financing activities. This is mostly important for exporting firm because timely collection provides relief for administrative expenses and reduces the risk of doing business internationally. This finding is consistent with the present research, relating to the agreement of respondents who often seek positions for market positions at the expense of cash flow and profitability.

Recommendations

As this research highlights the strategic dimension concepts as a way for garment manufacturing businesses in Cambodia to reach superior performance, it suggests some recommendations that are addressed to Cambodian garment manufacturing business owners and managers:

Before taking any action, the garment manufacturing businesses should evaluate its levels of entrepreneurial orientation. It could be done through an internal audit or by being more objective. In this case, business owners or managers should not

be aggressively penetrating global markets to get additional market shares as it could have a negative effect on export sales growth.

Furthermore, business owners/managers have to feel the need to evolve the development of their entrepreneurial and market orientations. In this case, they need to develop competitor and customer orientation.

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