# THE STUDY OF THE DRIVERS AND INHIBITORS OF INTERNATIONAL TRADE BUSINESSES

**Ali Jandoust, University of Tehran**
**Jahangir Yadollahi Farsi, University of Tehran**
**Hossein Moghimi Esfandabadi, Islamic Azad University**
**Abolfazl Moghimi Esfandabadi, Payam Noor University**

## ABSTRACT

*International trade growth is a significant factor in establishing new ventures and promoting sustainable economic development. Therefore, it is important to develop a better understanding of the role of structural promoting facilitating factors in decision-making and supporting policies in this context. To achieve this, the three dimensional model (context, content and process) was used to categorize the factors affecting international business growth. To identify how inhibiting and driving factors affect international trade growth, the shared mental patterns for active exporters in Tehran were obtained using the Q-test. The results of the analysis of mental patterns show that stable regulations and standards and interaction between trade decision-makers and macro policy-makers (i.e., content) and international sanctions and regional conflicts as (i.e., context) and international business environment are, respectively, among the driving and inhibiting factors to international trade growth in Iran.*

**Keywords:** Structural Factors, Driving Factors, Inhibiting Factors, International Trade, Three-Dimensional Model, Q-Test.

## INTRODUCTION

On the one hand, International trade increases export and improves nascent export ventures. This in turn leads to infrastructural development of the economy. On the other hand, international trade results in higher quality products and competitive advantage in foreign markets. Therefore, an increase in demand necessitates responding and introducing new products which in turn, enhances new domestic and foreign investment. Moving from new economic activities to a stable stage requires the introduction of new products and entering new markets. However, the evidence from attitudes toward international markets and new ventures, not only shows no improvement during recent years, but also shows a decrease in the tendency level of new entrepreneurs. As argued by Hsiao (1986) and Riitta & Andersen (1994), changes in international trade growth depend on short-term changes. The structural factors control and facilitate growth strategies to reduce the effects of lags and result in sustainable effects in financial growth. According to Pettigrew and Whipp (1991), the major dimensions of change strategies include context, content and process. These dimensions need to be interactive in order to be efficient. As stated above, international trade activities play a fundamental role in exporting items surplus to domestic needs and improving new Iranian businesses and their stability. Therefore, the identification of structural factors in commercial businesses and determining the weight and importance of each of the three dimensions above could produce significant results in efficient decision-making and policy-making in developing non-oil export growth strategies. This would improve the political and economic system in Iran and enhances trade visions and active interaction with global economies. To achieve this, the data required for identifying the inhibiting and driving factors of international trade growth were collected and the results were analysed using the Q-test and sorting aligned mental patterns. The weight of key structural (driving and inhibiting) factors affecting international trade growth was determined using the factors of mental patterns in nine groups. So, the main aim of paper is the study of the drivers and inhibitors of International Trade Businesses (ITS).

## LITERATURE REVIEW

International trade theories and concepts emerge to explain why manufactured products are exchanged between countries; to determine the factors affecting international trade businesses; and to study the economies particularly domestic and foreign relations. Numerous theories have been proposed on international trade. The primary contemplations on economy were seen during the Mercantilism period after the 16th century. Mercantilist thinking is considered as one of the first economic systems which played a significant role in developing the classic economy school from 1500 to 1800. Mercantilism, the first economic theory, focused on manufacturing products with clear advantages. Adam Smith (1776) introduced trade growth strategies in international trades. Ricardo points to stages in business which leads to competitive advantage. Approaches developed after Ricardo, such as relative advantage approach by Hecksher-Ohlin focus on production factors. Moreover, Leonidou & Leonidas (2000) argued that the frequency of production factors affect global trade. Based on these theories, some models are proposed which study the causes of international businesses such as product life cycle (PLC), international new ventures (INV). In these models, the product type, norms of the industries, attitudes of business managers are considered as the main factors for entering global markets.

In the two mentioned models (i.e., INV and PLC), the product formation process will be investigated from the primary resources mobilization to its market sales. Kalleberg and Berg (1989) state that as long as the relationship between social structures and market environment is not studied, arriving at a complete understanding of different aspects affecting economic performance is not possible. Therefore, to identify the driving and inhibiting factors of international trade growth, structural factors need to be examined. Hsiao (1986) also refer to the reliance of growth strategies on structural characteristics and argues that these characteristics shape environmental changes in companies. Therefore, structural factors could act as facilitators or inhibitors to domestic and international transactions in organizations and financial companies with constant or short-term effects (such as supporting policies, tax cut rules or infrastructural policies administered by governments to develop the economy and society.

Pettigrew & Whipp (1991) argue that there are structural factors which explain how events are done. Therefore, the identification and application of structural factors in growth strategies would lead to significant results.

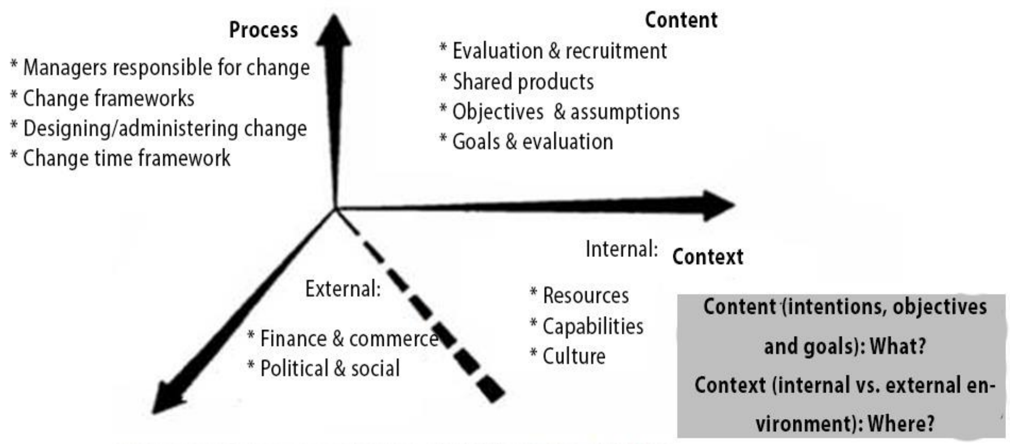



**FIGURE 1**
**THE THREE-DIMENSIONAL MODEL PROPOSED BY PETTIGREW & WHIPP (1991)**

In this approach, successful changes could be achieved through the interaction between three dimensions noted below (Figure 1). Therefore, the growth process could be understood through considering (internal and external) contexts, contents (objectives and mental assumptions), processes (executive patterns). Management decisions are political processes. Therefore, changes are intertwined with macro policies. When it comes to crucial decisions, the most important factor will determine the result of the decisions. In an integrated management system, context could be divided into, "internal" or "external" conditions.

The "content" dimension is comprised of a set of integrated processes which includes human resources, information, material, infrastructures and financial resources. The "process" dimension refers to the process followed to achieve the main objectives (Asif, Fisscher & Olaf, 2009).

In a study by Groke & Kreidle (1967) on identifying the performance of managers active in foreign trade, factors such as office documents for export and obtaining information about foreign trades are considered as key factors affecting export growth. Sullivan & Bauerschmidl (1989) found that inhibiting factors for export growth include currency rates, transportation costs and foreign competition which are highly important in export growth. Leonidou & Leonidas (2000) found that the factors affecting export growth include: Various product standards, regulations and standards, lack of government support, transportation, infrastructural facilities, market analysis, difficulties related to providing agencies, after-sale services, currency rates, foreign competitors, reasonable pricing. The study by Ortega (2003) indicates that regulations and standards are among the inhibiting environmental factors. Leonidou (2004) reviewed 32 empirical studies related inhibiting factors of export growth identified these factors as affecting international trade growth: Information, marketing, government regulations and appropriate policy-making for supporting SMEs and participating in global markets. In order to identify the inhibiting factors to the presence of entrepreneurs in international markets and to export growth, Zafar, Craig, Imad & Hadidian, (2004) examined the activities of manufacturing companies in different industries.

**Table 1**
**THE STUDIES CONDUCTED ON INHIBITING AND DRIVING STRUCTURAL FACTORS AFFECTING INTERNATIONAL TRADE BUSINESSES**

| Authors | Structural Driving Factors | Structural Inhibiting Factors | International Trade Businesses |
|---|---|---|---|
| Groke & Kreidle (1967) | ✓ | | |
| Sullivan & Bauerschmidl (1989) | ✓ | | √ |
| Leonidou (1995a) | | ✓ | |
| Leonidou & Leonidas (2000) | ✓ | | ✓ |
| Orteega (2003) | ✓ | √ | ✓ |
| Wiig (2004) | | ✓ | |
| Leonidou (2004) | | ✓ | |
| Zafar, Craig, Imad & Hadidian (2004) | | √ | √ |
| Moore (2006) | ✓ | | √ |

## Theoretical Framework

There are structural factors affecting the coordination of economic processes which explain how procedures are accomplished in a given context. Therefore, the conceptual model of the research (Figure 2) adopted from the theoretical model proposed by Pettigrew & Whipp (1991) (Figure 1) is used for classifying the obtained structural factors. The factors affecting international trade growth is extracted from the related literature and presented according to the three dimensions of context, content and process.

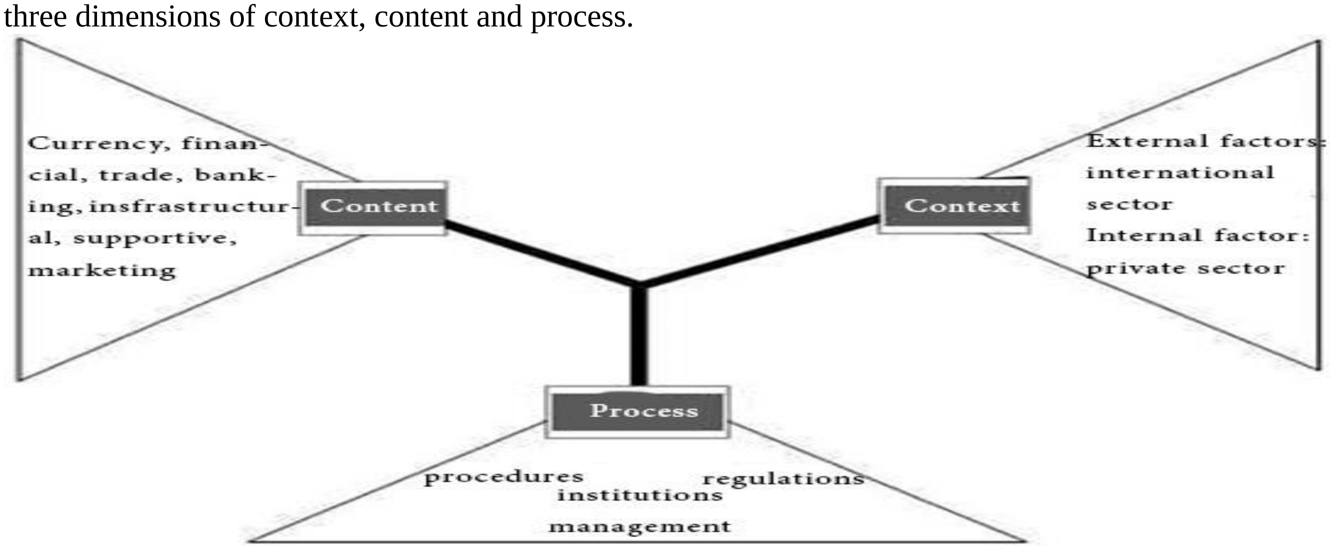



**FIGURE 2**
**THE CONCEPTUAL MODEL**

### Contextual Structural Factors

These include the factors for creating coordination with foreign institutions which affect international trade growth in Iran. External factors consist of political, economic and cultural factors, international infrastructures and internal factors consist of the private sector.

### Content Structural Factors

These include the initiatives carried out by the government for organizing and administering economic policies, infrastructural development, support and promotion.

### Process Structural Factors

Rules, trends, institutions and management policies coordinate the decisions made for trade growth and facilitate the process toward achieving the goals.

The results of categorization of factors into different levels and classes is examined though interviews with experts. This examination is done to measure whether the factors possess structural features or not and if they are related to the subject of the research at hand. Finally, 13 contextual factors, 9 content factors and 10 process factors affecting international trade growth in Iran were detected (Table 1).

## METHODOLOGY

The present study uses the Q-test, shared mental patterns of active exporters in Tehran to examine the effect of structural driving and inhibiting factors on international trades. The statistical population includes the experts and respondents. The experts were selected through non-random purposive and snowball sampling as three executive chains of executive, academic and government groups which consisted of 13 experts. Using stratified-random method, the respondents were selected from 581 active exporters introduced by the Trade Promotion Organization of Iran. Since the sample population includes 21 sorters, 30 sorters, 40 sorters and more and below this scale also suffices for particular purposes (Boros, 2006), 40 exporters were selected as the respondents through stratified-random method. The frequency of the sample population is examined with regard to their education, experience, institution and activities. The analysis shows that the frequency of the characteristics of each group is similar and 93 percent (12 respondents) held MA and PhD degrees. 74 percent of the respondents (active exporters) held university degrees and 37% had more than 15 years of experience in international trade activities. Sixty percent of their institutions were administered legally and 47% were engaged in international trades related to industries and mines and just one respondent was engaged in tourism activities. The reliability and validity of the collected data were tested using the Cronbach's alpha. The reliability coefficient is 95% which proves the reliability of the Q-sample statements and the results for Q-statement sorting. The validity of the test is usually determined by the related experts. Similarly, in the present research the accuracy of Q-statements is tested by the experts. Therefore, the Q-statements are content valid.

## RESULTS

Verbal data was collected through content analysis of the interviews. The key concepts in interviews were determined and afterwards the factors affecting international trade were extracted. The results for content analysis of the interviews with experts are shown in Table 2.

**Table 2**
**FACTORS AFFECTING INTERNATIONAL TRADE GROWTH OBTAINED FROM INTERVIEWS**

| | |
|---|---|
| 1-Lack of stability in import & export regulations and standards | 2-Evaluating product quality and controlling export products |
| 3-The attitudes of other countries to products imported from Iran | 4-After-sale services and guaranteeing export products |
| 5-The demands for Iranian products in adjacent and Islamic countries | 6-Iranian commercial complexes in adjacent markets |
| 7-The presence of foreign international transportation companies | 8-Holding permanent exhibitions for the selected products in neighbouring markets |
| 9-International sanctions and the recent UN resolutions | 10-Interaction between trade decision makers and general policy makers |
| 11-Regional conflicts and challenges with neighbouring countries | 12-The conformity of management expertise to executive positions |
| 13-Expanding and improving airline industries. | 14-Currency management systems and constant interference of the government in currency market |
| 15-Developing shipping and improving ports and shipping industry | 16-State monopoly control over currency supply |
| 17-Pricing | 18-World oil prices |
| 19-Determining average salary | |

To determine the correlation of the viewpoints of the respondents and to identify the convergent mental patterns, the cross correlation matrices of the respondents and the effect of each factor with the significant level of 5% was obtained.

Just like the exploratory factor analysis, the Q-factor analysis consisted of two phases: Extracting the common mental patterns and classifying them as the first phase and then re-sorting them for interpretation. Principal component method is among the most common methods for extracting the factors for conducting the first Q-factor analysis phase (Khoshgouyan, 2007). SPSS software was used to carry out the final analysis. Factor loadings are sorted purposefully to conduct the analysis based on new re-sorted groupings. The results illustrate the relation of each respondent with his corresponding mental pattern group.

### The Significance and Weight of each Driving and Inhibiting Factors

After the correlation coefficient analysis of the mental patterns of the respondents in each group, factors related to 6 respondents with highest correlation were selected as the core mental patterns in the group.

The correlation coefficients for mental patterns of other respondents were below average or showed no significant relationship.

**Table 3**
**SORTING THE CORE RESPONDENTS**

| Respondent | Items | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 | 21 | 22 | 23 | 24 | 25 | 26 | 27 | 28 | 29 | 30 | 31 | 32 |
| p17 | | | 2 | 1 | | 3 | 2 | 0 | | | | | 2 | | | 2 | 3 | 1 | | 4 | 2 | 2 | | | | | 2 | 2 | 3 | 3 | 2 | 1 |
| p24 | | | 2 | 2 | | 4 | 4 | 4 | | | | | 1 | | | 4 | 1 | 4 | | 4 | 1 | 4 | | | | | 4 | 4 | 4 | 4 | 4 | 4 |
| p14 | | | 4 | 2 | | 3 | 4 | 2 | | | | | 2 | | | 4 | 4 | 4 | | 4 | 2 | 2 | | | | | 4 | 4 | 4 | 4 | 4 | 2 |
| p25 | | | 1 | 4 | | 4 | 4 | 4 | | | | | 4 | | | 4 | 4 | 4 | | 4 | 1 | 2 | | | | | 4 | 4 | 4 | 4 | 4 | 4 |
| p18 | | | 3 | 2 | | 2 | 3 | 2 | | | | | 4 | | | 3 | 4 | 3 | | 2 | 3 | 2 | | | | | 4 | 1 | 3 | 3 | 4 | 2 |
| p7 | | | 3 | 2 | | 1 | 3 | 3 | | | | | 4 | | | 3 | 4 | 3 | | 2 | 3 | 2 | | | | | 4 | 1 | 3 | 3 | 4 | 2 |
| Total share | | | 15 | 13 | | 17 | 20 | 15 | | | | | 17 | | | 20 | 20 | 19 | | 20 | 12 | 14 | | | | | 22 | 16 | 21 | 21 | 22 | 15 |
| The weight of convergent statements | 33 | 27 | 4.7 | 4 | | 5.3 | 6.2 | 4.7 | | | | | 5.3 | | 35 | 6.2 | 6.2 | 5.9 | | 6.2 | 3.7 | 4.3 | | 4.1 | | | 6.8 | 5 | 6.5 | 6.5 | 6.8 | 4.7 |

According to Table 3, the statements 3, 4, 6, 7, 8, 13, 16, 17, 18, 20, 21, 22, 27, 28, 29, 30, 31 and 32 are driving factors and their weights are, respectively: 4.7, 4, 5.3, 6.2, 4.7, 5.3, 6.2, 5.9, 6.2, 3.7, 4.3, 6.8, 5, 6.5, 6.5, 6.8 and 4.7. The statements 1, 2, 15 and 24 are inhibiting factors and their weights are, respectively: 33.3, 27, 35.4 and 4.1. The conformity in other statements was not strong enough.

## The Weight and Significance of Structural Driving Factors

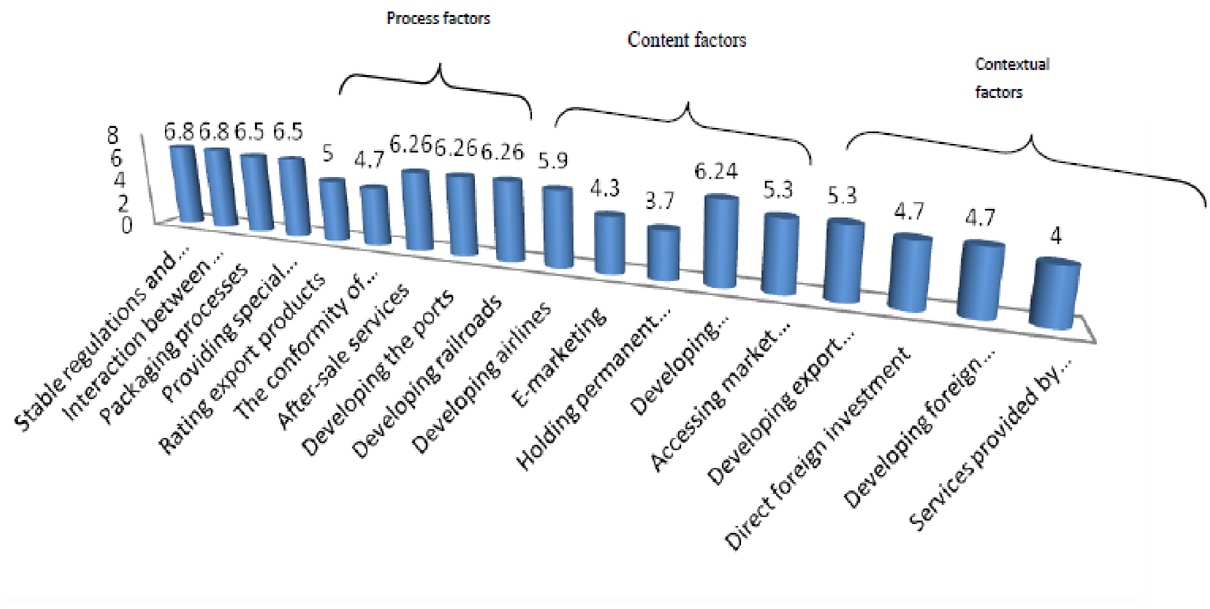
Using the factors respondents whose mental patterns were selected as the core mental patterns, the weight of each factor in the two driving and inhibiting groups was determined.

## The Weight and Significance of Structural Inhibiting Factors

As noted in the previous section, the weight of each factor is obtained through the way core mental patterns are sorted in each group. Figure 3 shows the weight of each inhibiting factor.

The results of the factors of core mental patterns in each group, the weight of the factors in driving and inhibiting groups is determined. In this section, factors are prioritized according to their weight and significance. Afterwards, the key structural factors affecting international trade with regard to context, content and processes are identified.

The driving and inhibiting structural factors to the international trade growth are sorted as follows: Export-oriented clusters and having access to foreign markets information which are the contextual structural factors affecting international trade environments. Creating clusters improves the quality of products and services, enhances customer satisfaction and leads to inter-organization cooperation, attracting foreign currencies, improving social capital and exchanging technical information.



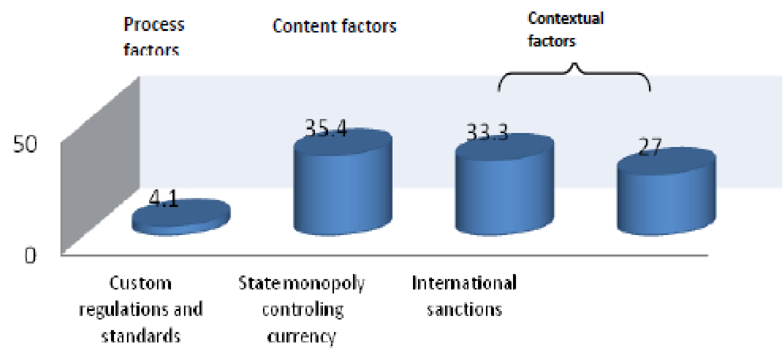




**FIGURE 3**
**THE WEIGHT OF INHIBITING FACTORS**

## CONCLUSION

The main reason for the failure of the enterprises is the lack of knowledge about consumers and markets. This can be overcome through developing a relationship between manufacturing enterprises, developing clusters, establishing CODEX system, cooperation with the related ministries, developing standards and information exchange systems for foreign trade. Other inhibiting factors of international trade include international sanctions, regional conflicts which are highly influenced by foreign policies and having trade relationships with other countries. The driving factors of content dimension include after-sale services and developing ports and rail transportations. Providing guarantee and other services for products could increase the impact factor of each product in the market and improve trust in products and after-sale services. This in turn results in sustainable products and long-term competitive advantage. Other driving factors affecting trade growth include policies for developing infrastructures.

The overview of welfare conditions in developed and industrial countries proves the significance and facilitating role played by the above factors in their development. The most significant inhibiting factor in international trade is the state monopoly. If administered properly, currency policies could have a positive effect on economy and particularly export and import sectors. Stable regulations and standards, the interaction of trade decision-makers with macro policy-makers are among the driving structural factors affecting international trade. Obviously, regulations and standards are enforced to accomplish and execute objectives. The more the interactions of experienced businessmen with unions of the chambers of commerce and the more improved the relationships of these commissions and unions with the Department of Commerce, the more stable the regulations and standards would be. However, custom regulations and standards are among the inhibiting factors of the international trade to the extent that most regulations create a lack of cooperation. Therefore, these rules need to be modified and updated if economic processes are to be facilitated. Surprisingly, the current evidence proves the opposite. The evaluation of the trade bill started five years ago and MPs have formed special commissions for studying this issue. Nonetheless, how this bill is going to be changed and modified has not been addressed and enacted so far.

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