The Effect of Banking System in Decreasing Production Costs and Improving Export Performance

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Abstract

The development of stable export is among the important and effective foundations of economic growth, having an undeniable role in the increase of production, investment, employment, and eventually social welfare. On the one hand, in today's unstable and competitive world, to be successful in world markets, it is necessary for export firms to have power for maneuvering in big competitive contests. In order to reduce the costs of exporters, protective export institutes can, through choosing a suitable strategy, play a very important role in the development of export markets and the promotion of the performance of exporters. Considering the importance of the position protective institutes and policy-makers have in the area of export of the country, the present research intents to examine the literature related to this issue. Having examined Tehran's export firms, the research presented a model which was framed in three areas: imported raw materials used for the production of export goods, the role of banking system in the country (in areas including working capital, real measurement of exporters' credit, decreasing the rate of bank's interest, and offering export stimuli) and eventually satisfying informational needs of export firms regarding foreign markets. The research findings show that all the three research hypotheses have important roles in the reduction of production costs, enhancement of firm's competitive power in foreign markets, and consequently an outstanding increase in export performance. The results of the study also show that "working capital" is the most important problem of the analyzed export firms with respect to export.
Keywords: Protective Institutes, Export, Production Costs, Export Performance

1. Introduction

The development of stable export, which is usually referred to as a motive driving the economic growth of countries, has continuously been regarded as the main concerns of policy-makers in the areas of production, trade, export and in general commerce and economy of any country.

The development of stable export, on the one hand, requires generating or improving the structure of protective export institutes including the improvement of transportation substructures, the exclusion of restrictive regulations, improvement of banking services and in general facilitating the process of export. However, among these institutes, banking system has a very specific protective position and it is considered as an impetus stimulating the development of the process of export in all its phases.

On the other hand, for the production of export products, some export firms are in need of importing raw materials from foreign countries. The important points about such products are that, the price of such materials affects the final cost of the export products and also the time necessary for fulfilling customs formalities and clearing the goods from the customs are important affairs for the on-time production of export products. Policy-makers in the area of export also can, in this field, play a very important role for the development of the firm's export or even perform the other way round (Baroli, 1996; Leonidou, 1998).

Another important issue regarding what mentioned above is that one of the key factors helping export firms to get access to a more share of markets and especially of international markets, or, in better words, one of the most important informational needs of those active in this field, is information about market. Market information is so important that it is considered by exporters as a competitive advantage. As a matter of fact, benefiting from such information can undeniably affect the performance of exporters. Moreover, having a system of market research which is suitable for export can lead to the increase of knowledge and expertise of a firm, leading to the improvement of its export performance (Voerman, 2002; Li and Causgil, 2000).

However, what's problematic about this issue is that there are many differences among big companies and small and medium firms in how to use market research. In fact, big firms, due to benefiting from more resources in using market research, perform more actively as compared to small firms. This is because using market research, especially its formal aspect, is so costly; and, small firms cannot afford such costs.

To state it more simply, among the main duties of protective export institutes should be to think of some programs to satisfy the informational needs of exporters, especially in small and medium firms, about foreign markets.

In spite of the importance of the position protective institutes have in the area of export and also despite their effect on the appearance of a developed stable export in countries, there is still a research gap in the internal research literature of the country, and what's more is that no field and applied research is reported to be done regarding the subsystems of such institutes.

Therefore, the present research is intended to investigate this issue so that to, apart from formulating a conceptual model in this area, cause the model to be executed in the export firms of Tehran province. The results of the study can be suitable for the country's export policy-makers, and especially for protective institutes and exporting firms. It can also provide a guideline for subsequent research in the area.

2. Literature Review

One of the first steps to move toward stable export is to recognize the factors effective on it. The results of previous studies in this field are indicative of the existence of two groups of factors effective on the development of export.

In his classification, Leonidou (1998) divides the factors effective on the development of export into the following two groups:

The first group is "environmental factors". That is, the factors that can be controlled by exporters only to a limited degree. For example: the factors related to macro-economic, social, physical, cultural and political
factors. As a simple example, "characteristics related to industry and the way protective institutes in this area meet such features, affecting the firm's exporting behavior and performance" is among such factors.

The second group is the factors related to the level of a firm or company, which is also referred to as its organizational factors, and includes inner firm's structural and behavioral factors, and has a potential effect on export (Li and Chandra, 2007). One of the most important protective sectors effective on the development of stable export is banking system. To put it more simply, banks and other mechanisms of financing in the area of export are known as a protective strong institute with a systematic, market-oriented planning effective on the proper allocation of capital, and are found to have outstanding effects on the development of export performance, especially in the countries with specialized banking system. This process of effectiveness is obviously measurable in a country like China (Debery, 2003).

In order to attain a stable export, as one of the main indices for development, it is necessary to have an operational, purposeful and specialized financing system in this area (i.e. that of export). This is because benefiting from a general, non-active and non-operational financing system in the area of export can have negative effects on the development of export, making it inefficient (Levine, 2005; Monova, 2008).

The strategy now adopted by great exporter countries such as China for the aim of helping their exporting firms to have a better export performance in new markets is to use financing tools (such as: working capital), which is because working capital is a very important issue in the area of export, and what's more is that exporter countries, using this kind of capital, will certainly be able to have a better maneuver in their target markets. Such countries also employ novel methods and tools of banking services for the aim of protecting their export, which is because in today's competitive markets, working capital has changed into a stable competitive advantage.

Some of the main attributes that can be referred to as those of an exporting market-oriented financing system are its stable and continuous supervision on the allocation of banking credits, development of financial markets, low rate of interest and development of different resources for the provision of finance for exporters (Li et al, 2008).

One of the most important reasons for the high rate of growth in China, for example, has been maintained to be its benefiting from a market-oriented financing system. In fact, the financing mechanism in the country in the area of export has allowed the rate of interest and facilities offered by bank to be close to zero. In other words, it is because of low rate of interest that export production in China is economically cost-effective.

The generation of a suitable, purposeful and sensitive financing system on the basis of asymmetric export firms, with which it deals, leads to the expansion of a model that says "it is the banking system and the deeds it performs in the sensitive area of export that forms the foundations of an export firm that has a powerful appearance in foreign markets". This is because participation in foreign markets in today's fatal, competitive environment of global market is accompanied by high expenses; and what is more is that for firms to solve their financial concerns they are forced to seek for competitive advantages, recognize new foreign markets, and consequently to have a powerful appearance in such markets. Based on the findings of numerous researches done in the area of export, the following attributes can be enumerated as the most important ones of an efficient, purposeful financial system in the area of export.

- Optimal allocation of credits, having a market-oriented and exporting viewpoint.
- Recognition of exporter producers and giving them a higher credit score than commercial firms.
- Recognition of the kind of goods or services produced for the aim of export and the kind of industry.
- Calculation of the export performance and its trend (to see if it has any growth or not).
- Recognition of market strategies adopted and locating the position of the firm.
- Recognition of target countries for export.
• Identifying the amount of working capital required for the achievement of export purposes of the firm.
• Investigating the firm's financial statements and its assets and liabilities.
• Examining the conditions of the contracts between the firm and its foreign counterparts.
• Determining a suitable peak for the credits dedicated to the firm.
• Recognizing the probable risks of trading with target markets and helping the firm to reduce the risks.
• Understanding the importance of time in offering a credit to exporting firms (thinking of a suitable time to present a specific credit to exporting firms).
• Predicting the fluctuations of foreign exchange and planning to control them (Raddatz, 2006; Myeres, 1997; Levine, 2005, Barroli and Lee, 1996).

Another branch of duties that protective institutes are expected to have with respect to exporters is related to the support that should be dedicated to the firms requiring imported raw materials for the aim of producing export goods. Exporters in this area are operating in a bilateral approach of trading, thus requiring not only appropriate financial support in the area of export, but also support related to importing raw materials. As a matter of fact, this group should not be treated as importers, but exporter importers. Thus, to support them, customs tariffs of their imported raw materials should be excluded and what is more is that formalities usually applied for releasing their goods form customs should be accomplished as soon as possible (Barroli and Lee, 1996; Leonidou, 1998).

Providing an appropriate support for exporters in this area can facilitate their bilateral trade, helping them to surpass their powerful trading partners, to get access to a variety of export goods and as a result to promote their export performance (Manova, 2008; Svaleryd and Vlachos, 2005).

Another part of numerous duties of protective institutes in the area of export refers to the informational needs of exporting firms, especially with respect to small and medium firms.

Information plays a wonderful role in the process of internationalization. In fact, during this process (i.e. internationalization of firm), information and the way to manage it becomes much more important when dealing with entirely new environments and at the time of encountering new parameters (Toften, 2005; Sharma, 2004).

The development of universalization has caused trading environments to become highly uncertain, complicated and unpredictable. In such environments, correct use of market research can lead to the reduction of this uncertainty in the process of decision-making, and the increase of firms' abilities to have a true recognition of the opportunities and threats of foreign markets. It can also enhance the ability of firm to welcome competition (Voerman et al, 2000).

Investigating the process of market information, Sinkula (1994) introduces market information as the main organizational advantage. Glazer (1991) believes that one of the most valuable assets of firm is research done in export market and the information acquired from this channel.

Diamantopoulos (2003) introduces the information related to export market as a key factor effective on the export behavior of firm, noting its significance in reducing the uncertainty of unknown environments.

Regarding the significance of the information about export market, on the one hand there are numerous studies the results of which indicate that there is a relationship between firms’ export performance and information about export market. On the other hand, firm needs to illicit information to become market-oriented. There are many differences between big firms and small and medium ones regarding their informational behavior; and the difference is accepted by various studies.

Information about technology and trade are so costly and their changes occur so fast. Therefore, it needs much more time to gather such information, and it is necessary to benefit from a specialized research unit to have an on-time investigation of such information. Small firms are more susceptible in this area, which is
because they have very few resources at hand to create, gather and evaluate information (Voerman et al., 2000; Li and Cavusgil, 2000; Lee and Griffith, 2003; Wood and Robertson, 2000; Li and Chandra, 2007).

In other words, there are many differences between big versus small and medium firms in how to use market research. In fact, due to having more resources at hand in how to use market research, big firms perform more actively than their smaller counterparts. As the results of Voerman et al's research (2000) indicate, using market research, especially its formal style, is so costly and small firms are not able to afford such costs.

Small firms, due to having fewer resources at hand, seek for the information that can be accessible with lower costs. That is why they ignore formal aspect of research. One of the most important methods helping such firms to get access to information about foreign markets is to use information acquired from guider organizations. As a matter of fact, the results of numerous studies indicate that it is more common for European small and medium firms to get access to the information they need about foreign markets through guider organizations such as Commerce Chamber. Therefore, firm size can undeniably affect market research (Voerman, 2002; Belich and Dubinsky, 1995; Cavusgils and Zou, 1994; Souchon and Diamantopoulos, 1985; Myeres, 1997; Lee and Lee, 2007).

3. Research Method

With respect to aim the research is an applied one, and regarding the method of data collection it is among qualitative and survey studies. The statistical population of the research is all small and medium non-governmental exporter firms in Tehran province that have exported their products to foreign countries over the year 1389. The unit on which the statistical analysis of the research is chosen to be done is exporter firms. In fact, using Kukran formula, 52 exporter firms were selected from the statistical population to function as the statistical sample of the study.

4. Hypothesis

Regarding the model presented the research hypotheses are put forward as follows:

**H1.** There is a significant relationship between financial supports offered by banking system as well as financial and insurance institutes in the area of export and firms' export performance.

**H2.** There is a significant relationship between the support offered by responsible institutes to those export firms having exporting raw materials and the firms' export performance.

**H3.** There is a significant relationship between informational supports offered by the institutes responsible in the area of export and export performance.

5. Data Analysis

Considering the variables' scales and the way they are distributed, Pearson correlation test was used for testing all the above three hypotheses.

5.1 Results of Testing **H1**

H1. There is a significant relationship between financial supports offered by banking system as well as financial and insurance institutes in the area of export and firms' export performance. The results acquired from the correlation test show that the amount of relationship between the two variables is equal to 0.212, while the significance level equals 0.064 (Table 1).

5.2 Results of Testing **H2**

H2. There is a significant relationship between the support offered by responsible institutes to those export firms having exporting raw materials and the firms' export performance. The results acquired from the correlation test show that the amount of relationship between the two variables is equal to 0.187, while the significance level equals 0.06.
5.3 Results of Testing H3

H3. There is a significant relationship between informational supports offered by the institutes responsible in the area of export and export performance. The results acquired from the correlation test show that the amount of relationship between the two variables is equal to 0.279, while the significance level equals 0.058.

6. Conclusions

The present research investigated the position of protective institutes in reducing production costs and improving export performance.

As indicated by the findings of the research, the sample exporter firms were not pleasantly satisfied with protective organizations in all the three areas under analysis (i.e. the operation of banking system in the area of export, protecting imported raw materials for the aim of producing export goods, and informational needs of exporters), which is so worrisome and distressing.

Based on the findings of the research and all previous research done, there is a positive relationship between the three variables referred to above and export performance. This explains how important these variables are in the development of stable export. However, it is noticeable to maintain that the correlation between the variables under analysis and export performance is not so significant. The reason for this can be found in the exporters’ having no pleasant satisfaction form protective organizations and also the traditional approach governing the export market of Iran.

In general and based on the literature of export, supporting exporters to export their product to foreign competitive markets can be done either before or after the transfer of product. The most important need of exporters before the transferring of their product is working capital. In this phase of trade they require liquidity to accomplish their commitments to their foreign counterparts. In fact, in this highly significant stage banking system takes on the most important function in providing exporters with enough working capital. Based on the findings of the research, the issue was the most important concern of sample exporters. Moreover, based on the findings, among the main problems of sample exporters with respect to this issue were reported to be the followings; the facilities offered, the rate of bank’s interest, the deposits requested from exporters and the long-lasting process of facility presentation.

Furthermore, based on the research findings, a high amount of firms’ current costs refers to those related to banking facilities; thus, reducing the rate of bank’s interests can play the key role in decreasing the costs of production, hence leading to a decrease in final price of export products. In the stage after the transferring of product, exporters need to feel certain and secure about the return of the payments related to the goods exported. In this phase the insurance, export operations of credit-giving institutes, such as Iran’s Fund of Guaranteeing Export, can provide the security through removing the risks threatening exporters. The offering of export incentives by protective institutes, after the export is accomplished, is a variable important in reducing a part of current costs of firms and the generation of motivation for higher amounts of export in future (Sharma, 2004).

As far as the export prizes are concerned, the sample exporters showed their dissatisfaction at the amounts of prizes being so fewer than those of other countries, and also at the long-term process of giving prizes.

However, a sensitive issue which is required in both stages and the whole process of export is informational needs of exporters. As a matter of fact, in order to be able to accept competition against foreign markets, exporters should always be equipped with comprehensive information about target markets, customers, and their interests, or, in other words, benefit from a stable competitive advantage in this area. However, this is not accessible to small and medium export firms, which is because it is so costly; thus, protective organization in the area of export has a very important and serious duty in this field.

Concerning the raw materials imported for the production of export goods, there should occur some revisions and reforms with respect to the current programs of protective institutes so that some revisions are observed in customs tariffs, formalities of releasing the goods form customs, and credit facilities of...
The most important point is that during the process of export, "time" is considered as a very determining and significant variable, and that the suitable and on-time fulfillment of commitments to foreign parties can play a very crucial role in the development of export performance. In fact, the variable is so important that it can always be observed in the first articles of export contracts and is considered highly important.

One of the very important reasons for the existence of a traditional export system in Iran refers to the variable of time. In fact, a stable export system cannot be expected to be achieved unless the importance of this variable (time) is truly comprehended, especially by protective institutes in the area of export.

Based on the research findings, the following recommendations can be proposed:

1. Necessity of change to occur in programs of banking system with respect to export
   - Reducing the rate of interest in export facilities
   - Changing the method for measuring the credit of banking system in the field of export
   - Changing the first type of deposits received from exporters
   - Reducing the time required for giving credit facilities for the aim of export
   - Changing the amount of export incentives and especially the time of offering them to exporters

2. Providing protection or support for the exporters who use imported raw materials for the aim of producing export goods
   - Reducing the formalities for releasing the materials from customs
   - Offering credit facilities for the entrance of the raw materials
   - Reducing the customs tariffs of the materials

3. Initiating a research center for export market
   - Presentation of real and up-to-date information to small and medium firms about export markets, customers and all its variables, consistent with each industry and with taking a low charge
   - The performance of research for export firms about foreign market recognition
   - Presentation of up-to-date information about successful rivals of each industry in foreign markets
   - Investigating the reasons for the bankruptcy of Iranian export firms
   - Paving the way for movement toward a scientific system of marketing in the field of export

References


Table 1. The Results of Pearson Correlation Test for Testing the Relationship between Financial Supports Given by Banking System as Well as Commercial and Insurance Institutes in the Field of Export and Export Performance

<table>
<thead>
<tr>
<th>Variable Name</th>
<th>Support of Banking System</th>
</tr>
</thead>
<tbody>
<tr>
<td>Export Performance</td>
<td>Pearson Correlation 0.212</td>
</tr>
<tr>
<td></td>
<td>Significance Level 0.064</td>
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<td></td>
<td>N 52</td>
</tr>
</tbody>
</table>

Table 2: The results of Pearson Correlation Test for Testing the Relationship between the Support Given by Responsible Institutes to Those Export Firms that Use Exporting Raw Materials and Export Performance

<table>
<thead>
<tr>
<th>Variable Name</th>
<th>Supporting the Exporters Who Import Their Exporting Raw Materials</th>
</tr>
</thead>
<tbody>
<tr>
<td>Export Performance</td>
<td>Pearson Correlation 0.187</td>
</tr>
<tr>
<td></td>
<td>Significance Level 0.06</td>
</tr>
<tr>
<td></td>
<td>N 52</td>
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</tbody>
</table>

Table 3: The Results of Pearson Correlation Test for Testing the Relationship between Informational Supports of Responsible Institutes in the Field of Export and Export Performance

<table>
<thead>
<tr>
<th>Variable Name</th>
<th>Informational Support of Exporters</th>
</tr>
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<tbody>
<tr>
<td>Export Performance</td>
<td>Pearson Correlation 0.279</td>
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<tr>
<td></td>
<td>Significance Level 0.058</td>
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<td>N 52</td>
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