



## Exporting firm's engagement with trade associations: Insights from Chile

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### ABSTRACT

This study addresses the effects of the firm's level of engagement with trade associations located at the company's export market on export performance. It analyzes firm-level data from a South American emerging economy, Chile. Results show that a stronger engagement with trade associations located at the company's export market has a positive effect on export performance. Environmental uncertainty on customer needs is confirmed as an export performance barrier, but unexpectedly, this obstacle only diminishes in a negligible factor as the level of engagement with trade associations located at the firm's export market increases. This study contributes to the international management literature by investigating the direct and moderating effects of overseas trade associations on the firm's export performance, and by scrutinizing on the distinctions among the cooperation determinants of local networks and networks situated at the firm's export market. Practical implications are discussed.

### 1. Introduction

Export performance of small and medium sized firms (SMEs') remain a relevant research area in a global environment with increasing technological change, lower trade barriers and a growing interest in country and firm-level export developing strategies (Ngo, Janssen, Leonidou, & Christodoulides, 2016; Cieřlik, Kaciak, & Thongpapanl, 2015), despite the fact of emerging new global trends on de-globalization (Ghemawat, 2017).

The understanding and modeling of export performance is typically grounded on the Resource Based View (RBV). The resource-based theory posits that firm's internal tangible and intangible resources result in competitive advantage and export performance (Barney, 1991; Zou & Stan, 1998). On the contrary, the contingency approach suggests that the interdependence of firm external and internal factors determines firm's export performance (Cavusgil & Zou, 1994; Yeoh & Jeong, 1995; Sousa, Martínez-López, & Coelho, 2008). This study approaches export performance from the contingency perspective.

Institutional networks need more attention in the study of export performance, especially within SMEs (Chetty & Agndal, 2007). At the same time, external networks and horizontal relationships, such as engaging with trade associations are factors that require further study (Boehe, 2013; Guimón & Paraskevopoulou, 2017). This is because external networks may facilitate access to resources that are essential for internationalization. These resources might include, for instance,

information benefits or access to pooled resources oriented at international operations (Lavie, 2006; Yiu, Lau, & Bruton, 2007), as well as collective action in the creation of crucial public goods (Porter, 1998).

In addition, the peculiar conditions on the export market environment are also relevant factors impacting the firm's export performance within the contingency approach. These circumstances include the management's perceived environmental uncertainty on customer's needs (Lee, Yeung, & Cheng, 2009; Phua, 2007). Nevertheless, very few studies that surpass national borders have addressed the relationship between environmental uncertainty on customer needs and inter-organizational collaborations (Matanda & Freeman, 2009). The evidence on the effect of such relationships is scarce when emerging markets are the context of study.

In particular, Kiss, Danis, and Cavusgil (2012), emphasize the necessity to comprehend the connection between firms and international networks in the context of emerging economies. For emerging markets, the predominance of networks is a mechanism to replace formal institutions, which are declining when the latter are strengthened and improved. They ask for a deeper understanding on how firms manage the complexity of resource acquisition while engaging with international networks (Kiss & Danis, 2008; Kiss et al., 2012). Our study explores this particular gap in the literature by answering the following research questions: 1) *What are the effects of the level of engagement with trade associations located at the firm's export market on export performance?* 2) *What are the effects that such engagement exerts on the impact of*

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### *environmental uncertainty on export performance?*

Previous literature has mainly focused on the question “Should firms concentrate more on local or foreign networks?” (Patel, Fernhaber, McDougall-Covin, & van der Have, 2014) and has overlooked the knowledge void on the fundamental disparities in the characteristics and determinants of cooperation in local networks and networks overseas. The lack of theory on these dissimilarities seems rather appalling if we consider that a categorization of networks as “local” and “foreign” can only be justified by these very same distinct attributes. In other words, without explaining the theoretical differences between “local” networks and “foreign” networks: Why should we assume possible contrasts in the behavior of such networks? Wouldn't they be networks behaving like networks regardless of their location? Why should “local networks” and “foreign networks” be separate subjects of study if they are not intrinsically divergent? This additional gap in the literature motivated the authors to first address the distinctions between “local” and “foreign” networks and later build on the direct and moderating effects of foreign trade association engagement on export performance.

The questions previously presented are relevant because the outcomes of cooperation venues can be counter-intuitive in some instances. As an example, we may cite research conducted in the South American emerging economy, Chile, by Dimitratos, Amorós, Etchebarne, and Felzensztein (2014), which shows that inter-firm networks increases the firm's probability of becoming a micro-multinational and expanding to a diversified portfolio of export markets. A positive effect of networks on internationalization is then suggested by this study. A prior study by Geldes and Felzensztein (2013) reports a negative effect of inter-firm cooperation on marketing innovation in the same context of Chile. Such a decrease in innovation should result in a diminishing firm internationalization.

Nowak (2012) clearly depicts that an inter-firm cooperative venue includes two strategic choices for actors, either cooperating or defecting. Moreover, cooperating partners might commit to cooperation at different levels. The latter explains why a cooperative venue could lead to results that place one cooperating actor in a worse position than not cooperating at all. Thus, engaging in a cooperative venue with an overseas trade association does not necessarily report a benefit for firms.

This study contributes to the literature on networks and export performance by: 1) Outlining the essential inequalities between the determinants of cooperation of local networks (networks located in the home country) and networks overseas (networks located in the host country). 2) Expanding current knowledge on the impact of horizontal networks such as trade associations on export performance, specifically when their location is beyond national boundaries. 3) Broadening the understanding on how the level of engagement with horizontal networks located overseas might assist in reducing export performance barriers, such as environmental uncertainty on customer needs.

In the following section we introduce the theoretical discussion, then hypotheses are presented. Data, Methodology and Results follow. Finally, we discuss the conclusions and the limitations, as well as the practical and theoretical implications of this study.

## **2. Networks, trade associations and firm's export performance**

Resource based view suggests that firms gain competitive advantage by securing distinct resources and fostering unique capabilities (Barney, 1991). This effort in developing firm-level factors increases firm export performance and provides support to the resource view approach to export performance (Sousa et al., 2008). In addition to internal firm elements, researchers have recently placed their attention on the relationship between firms and their environment. In this regard, the contingency model may posit that outcomes are contingent upon intervening variables. Cavusgil and Zou (1994) discussed that export performance is “determined by the alignment between export

marketing strategy, and internal and external environments of the firm.” Hence, the contingency approach tests the theory that the firm external environment exerts an important role on its export outcome (Cavusgil & Zou, 1994; Yeoh & Jeong, 1995). Studies have shown that external networks and its markets, which are positioned through network theory, are used to obtain resources/capabilities lacking in the firm (Griffith & Harvey, 2001). According to this view, the specific environment of the firm grounds its resource acquisition process and delivers an imprint to its export strategy (Robertson & Chetty, 2000). External networks, both formal and informal, are a fundamental part of such firm entourage and provide different kinds of support to the firm internationalization pursuit, especially for small firms in international markets (Chetty & Agndal, 2007; Felzensztein, Ciravegna, Robson, & Amorós, 2015; Guimón & Paraskevopoulou, 2017).

### *2.1. A classification of networks*

Firms manage a set of networks that include: social networks, reputational networks, marketing information networks, *coopetition* networks and cooperative technology networks (Hong & Snell, 2015; Nicholson, Gimmon, & Felzensztein, 2017). The concept of social networks refers to relationships among individuals. These relationships with friends and non-business acquaintances are relevant start-up resources that assist small firms in securing finance, suppliers, information, and customers (Lechner, Dowling, & Welp, 2006; Pinho & Prange, 2016). This is also relevant for SMEs operating in emerging economies like Chile (Felzensztein et al., 2015). Reputational networks, on the other hand, have a signaling purpose (Deeds, Mang, & Frandsen, 2004). Firms posing under such an umbrella should overcome the liability of newness with ease (Roberts & Dowling, 2002), and may conquer the liability of outsidership as well, through a better access to inter-connected stakeholders (Johanson & Vahlne, 2009). *Coopetition* networks are made of direct inter-firm relationships. Such direct relationships have a positive effect on export intensity (Boehe, 2013).

Chetty and Agndal (2007) propose a classification of networks based on four noticeable dimensions. Networks can be grouped depending on whether they are composed of individuals or organizations, and whether their organization is formal or informal. This alternative notion allows for a focus on the network organization instead of its purpose, and therefore concedes a clearer categorization of trade associations, which are the main focus of this research. Subsequently, trade associations can be viewed as formally planned inter-organizational networks with a concrete purpose and scope. Trade associations are external network organizations that exist as part of the firm's environment. Firms have the choice to join them or not. Trade Associations have also being defined as “orchestrating hubs” inserted in a bigger network of firms. Their mission in the larger network of firms is to enhance the reachability of participating firms and making them more accessible to others (Boehe, 2013).

### *2.2. Impact of external networks on export performance*

External networks facilitate resources that might be unreachable through market exchange (Hatani & McGaughey, 2013). Network resources are defined as “resources owned by partner firms which can be accessed by the focal firm through its network ties with these partner firms” (Boehe, 2013, pp. 168). Network resources may include business contacts, market information, weight in the political arena, or specialized equipment (Ciravegna, Lopez, & Kundu, 2014).

The network literature illustrates the many ways by which external networks contribute to firm performance and export performance: Entrepreneurs may use their contacts to browse through international market opportunities and choose on the most promising ones (Ellis, 2011). They may use social networks to strengthen international competitiveness and increase information gathering (Holmlund & Kock, 1998). In some instances, an alliance with a partner with good

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