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# Effect of export experience and market scope strategy on export performance: Evidence from Poland

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ABSTRACT

This study examines the impact of internationalization experience and market scope strategy on the export performance of firms operating in Poland. This study uses data from 2003 to 2010, an eight-year period that includes the country's accession into the European Union in 2004. Several important findings are revealed by the research. First, a firm's export experience and performance have an inverted S-shaped relationship, i.e., performance is increasing at low and high levels but decreasing at moderate levels of experience. Second, the relationship between the growth of the number of export countries and export performance is initially positive, but becomes negative over time. Third, over time the growth of a firm's share of the main export market is found to be negatively related to export performance. Revealing the dynamism of these relationships through a longitudinal approach is of theoretical and practical importance to scholars, practitioners and governments of other emerging economies that are considering joining similar trade organizations/agreements.



## 1. Introduction

As international competition increases, it is important for firms to develop and implement successful strategies in order to ensure satisfactory export performance outcomes (Casey & Hamilton, 2014; Laufs & Schwens, 2014). How and why some firms succeed in certain foreign markets, while others fail, is one of the critical issues in international strategic management (Beleska-Spasova, Glaister, & Stride, 2012). Certainly degree, scope and speed, the three most important strategic dimensions of international entrepreneurship as defined by Zahra and George (2002), play a role in the success or failure of a firm (Khavul, Pérez-Nordtvedt, & Wood, 2010).

In this study, we argue that a firm's success in a foreign market depends not only on its given portfolio of resources and capabilities, as per the resource-based view (RBV), but also on its capacity and ability to constantly change and adjust to international uncertainties. Therefore, we complement RBV with the dynamic capability view (DCV) (Kogut & Singh, 1988; Villar, Alegre, & Pla-Barber, 2014). This approach offers a suitable theoretical foundation for our research as it assumes that it is possible for a firm to not merely respond to external challenges but also to learn, integrate, build and actively reconfigure its internal and external competencies (Prange & Verdier, 2011). Not only does this approach take into consideration the relationships between the external environment and the firm, but other factors that may also have an impact on a firm's strategy formulation and performance in a global setting, such as an entrepreneurial vision, managers' international experience and alertness to opportunities, can also be considered (Crick, 2009).

We use export experience and market scope strategies to measure a firm's engagement with the internationalization process and propose that export experience and performance have an inverted S-shaped relationship. Using Poland as an example, we also seek to describe the internationalization process of firms operating in an emerging economy. What makes this study distinct from similar studies of firms operating in emerging economies is that it takes into account the context of the sudden, *albeit* anticipated, opportunities that were made available to Polish firms through easier access to the vast European Union (EU) market. Our study also offers important insights into the role of internationalization expansions during transition periods. We examine data from 2003 to 2010, covering the year leading up to and the six-year period following Poland's 2004 accession to the EU. We assume that Polish firms had already taken the scheduled 2004 accession

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into account in their strategic orientations in 2003 (or even earlier) and that their behavior during the year 2003 is very similar to the subsequent years. The now available EU funds created a favorable environment for the general economic development of Polish firms and, thanks to the unrestricted access to the EU countries, for the improvement of export conditions. Consequently, the export diversification opportunities for Polish firms increased dramatically during this timeframe. No doubt, most of these firms were exporters before the EU accession; however, without the benefits of the EU membership, their export activities during the years 2003 to 2010 would most likely have followed the pathways proposed by the traditional theory of internationalization and have continued to develop rather slowly and gradually (Johanson & Vahlne, 1977).

Although time is an important dimension of the entrepreneurship process, the extant international business research is characterized by static, cross-sectional studies (Coviello & Jones, 2004). The snapshot nature of cross-sectional studies limits their ability to examine how internationalization processes unfold (De Clercq, Sapienza, Yavuz, & Zhou, 2012). Kuivalainen, Saarenketo, and Puumalainen (2012) pointed to a need for longitudinal studies with large samples to further examine the pattern and speed of internationalization. Similar calls have come from other scholars with the objective of resolving the contradictory results found by various researchers in the field over the past several decades (Casillas, Moreno, & Acedo, 2012). Observing a firm before and after its first international sale may help explain the nature of the changes that a firm faces during the internationalization process and the performance consequences of these changes (Kuivalainen et al., 2012). In this study, we adopt a dynamic and time-related approach and base our analysis, which is grounded in the dynamic capability-based view, on longitudinal data.

To examine the impact of internationalization experience and market scope strategy on a Polish firm's export performance, we have organized the study as follows. First, we present a literature review on the relationships between export performance, experience and market scope strategies, which results in a set of research hypotheses. A methodology section describes the data collection process, the measures utilized and the longitudinal analysis used on the 2003–2010 data. Then, we present and discuss the results in reference to the country's 2004 accession to the EU. Finally, we draw conclusions, discuss the limitations of the study and reveal the theoretical and practical importance of our findings to scholars, practitioners and governments of other emerging economies that are considering joining similar trade organizations/agreements.

## 2. Theoretical framework and hypotheses

There is a considerable amount of empirical evidence available on the impact of alternative market scope strategies on the export performance of a firm. However, the results are either contradictory or inconclusive (Beleska-Spasova et al., 2012; Ruzo, Losada, Navarro, & Diez, 2011). For example, a fundamental postulation that describes the traditional pattern of a firm's internationalization, known as the Uppsala model, is that internationalization is a process in which a firm gradually increases the number and diversity of the markets it serves (Kuivalainen et al., 2012). Thus, the theory postulates that a firm following the traditional internationalization pattern should have a narrow market scope at the beginning of its international operations and, therefore, the market concentration strategy should be the preferred option. However, research has shown that some firms undertake a contradictory approach to internationalization. In contrast to the pattern of the Uppsala model, born global (BG) companies begin to operate in multiple countries almost from inception (e.g., Loane, Bell, & Cunningham, 2014; Oviatt & McDougall, 1994), and their favorable export strategy should be market spreading. It is also important to note that most studies that have examined the relationships between export performance and export experience and/or market scope strategies were primarily conducted in the context of developed economies (Chao & Kumar, 2010; Chen & Hsu, 2010; Contractor, Kundu, & Hsu, 2003; Lee, 2010; Li, Qian, & Qian, 2012; Lin, Liu, & Cheng, 2011; Lisboa, Skarmeas, & Lages, 2013; Mas, Nicolau, & Ruiz, 2006). In contrast, studies on emerging market firms have been rarely undertaken (Contractor, Kumar, & Kundu, 2007; Sahaym & Nam, 2013; Xiao, Jeong, Moon, Chung, & Chung, 2013).

Internationalization scholars (Katsikeas and Leonidu, 1996; Lee & Yang, 1990) highlight that exporting firms have the tendency to either concentrate their export scopes to a smaller number of foreign markets located closer to their home markets, to spread their export landscapes to include a large numbers of markets, or to do both concurrently. Morgan-Thomas and Jones (2009) find that many firms opt to go with the concurrent entry into a larger number of export markets at the very outset of their expansion. This extensive international expansion is chosen, as Rialp, Rialp, & Knight (2004) argue, not only because firms are driven to maximize sales and market shares, but because they are also trying to safeguard themselves against competition and optimize their resource utilization. Datta, Rajagopalan, & Rasheed (1991), however, assert that having a presence and operating in multiple countries with varying cultural contexts may also burden firms with a significant increase in transaction and operating costs, which could potentially not be offset by the benefits of international expansion.

The prevailing view in the literature suggests that increasing the market scope should, at least initially, enhance a firm's export performance since it enables the optimization of the cost/benefit ratio of internationalization (Chao & Kumar, 2010; Lee, 2010; Li et al., 2012). When geographic spread is moderate, RBV indicates that such moderate sharing of assets leads to economies of scale (Li et al., 2012). Furthermore, firms operating in multiple countries may be less vulnerable to individual fluctuations in market demand and therefore may be better able to survive any market shocks. Firms with more international experience are also likely to have better knowledge of foreign conditions than firms with less international experience and, as a result, are much better at positioning their firms strategically in response to the various international conditions and in preparation for further international expansion opportunities (Barkema & Shvyrkov, 2007).

When Poland joined the EU, the first phase in the rapid and frequently chaotic increase of the Polish firms' export potential was similarly characterized by a market spreading approach. Thanks to the newly accessible export markets, the firms began to enjoy higher export sales due to the sheer volume of transactions scattered throughout multiple countries. This stage is equivalent to Stage 2, the "mid-stage internationalizers," in the three-stage S-shaped model of international expansion proposed by Contractor et al. (2003). Polish companies did not have to go through Stage 1 of the aforementioned model, the stage associated with "early internationalizers." As a member of the EU, they also did not face the *liability of foreignness*, as early internationalizers would normally face, and did not have to endure the additional burden or costs associated with this liability. Given that Polish firms have already been engaging in export activities prior to joining the EU, it is reasonable to assume that they have, to some extent, already acquired the needed export resources and capabilities. Nonetheless, these resources and capabilities may have been underutilized due to the limited opportunities for internationalization available to Polish firms. In this early, post-EU entry phase, Polish firms were likely to realize their market spreading strategy through familiar and neighboring markets, as the firms used and stretched their