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Determinants of export intensity in emerging markets: An upper echelon perspective

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ABSTRACT

Using India as an example, this article extends the application of upper echelon theory to emerging markets to consider the effects on firms' export intensity. Five characteristics of top management teams that influence a firm's export intensity were analyzed—educational level, functional heterogeneity, international exposure, age, and length of tenure with their current firm. The time period studied was 2007–2012, with a focus on these industries: rapidly changing consumer goods, automobiles, pharmaceuticals, and textiles. Most of the study's hypotheses were supported, and some of the results obtained differ from those found previously for developed markets.

1. Introduction

During the past few years, with increasing levels of liberalization, privatization, and globalization, firms from emerging markets have internationalized rapidly (Ramaruti & Singh, 2009). This is evident from the fact that by 2010, 23,000 firms were reported as emerging market multinationals (Sauvant, Maschek, & McAllister, 2010). Firms pursuing internationalization from these economies face several challenges. For example, some emerging markets remained closed for a long time with the macro environment being almost stable (Gilpin & Gilpin, 2000). This resulted in risk averse tendencies in the business culture of emerging markets. Hence, firms rarely invested in risky projects (Courtney, Kirkland, & Viguerie, 1997). Furthermore, emerging markets suffer from institutional voids (Khanna, Palepu, & Sinha, 2005). This implies that several intermediaries, such as a well-developed stock market, credit market, or labor market, are uncommon in these economies. Still, despite these challenges, when the economies opened, firms from emerging markets internationalized successfully (Gubbi et al., 2010).

Booming internationalization of firms from emerging markets, when institutional environment is not supportive indicates the valuable and non-substitutable resource embedded in the capabilities of the "upper echelon," the top management team of firms in emerging markets (Crook, Ketchen, Combs, & Todd, 2008). This is because internationalization of firms is unlikely to be successful without the benefit of their exposure and knowledge to evaluate and act on business opportunities in resource constrained environments. Furthermore, because of risk aversion and resource-constrained environments in emerging markets, exporting is often the first stage of internationalization consistent with the "Uppsala model" (Figueira-de-Lemos, Johanson, & Vahlne, 2011; Johanson & Vahlne, 1977). Thus, before looking at other means of internationalization, such as subsidiary creation, it is vital first to explore the role of the upper echelon in a firm's strategic decision of export intensity, particularly when a firm belongs to an emerging market.

Studies investigating the internationalization of firms from emerging markets have relied mainly on institutional theory (Chittoor & Ray, 2007), eclectic perspective (Demirbag & Glaister, 2010), and network theory (Elango & Pattnaik, 2007). Unfortunately, scant studies from emerging markets explore the important role of the upper echelon in the internationalization process. As such because of reasons explained above, it is vital to analyze how emerging market managers' traits and capabilities influence the internationalization performance of firms.

Exploring upper echleon aspect contributes to filling an important gap in the literature, as studies of internationalization conducted in developed markets also have seldom analyzed the upper echelon's role in the first stage of internationalization, which is export intensity (Ganotakis & Love, 2012; Loane, Bell, & McNaughton, 2007). Thus, the objective of this study is to extend previous upper echelon research to the first stage of internationalization of firms for emerging market firms, focusing on their export performance and export intensity.

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We make three contributions to the literature. First, we introduce a seldom-applied theoretical perspective—upper echelon theory—to consider internationalization in an emerging market. The upper echelon perspective, despite its significance, has not been used in earlier studies of the internationalization strategies of emerging market firms. Second, we specifically analyze the role of the upper echelon in influencing firms' export performance. Studies of this issue are lacking, even for developed markets. Third, we explore the role of top management traits suggested by upper echelon theory in more depth. For example, we investigate if tenure has a curvilinear relationship with export intensity and if international exposure of top management acts as a moderator.

2. Theory and literature review

2.1. Upper echelon theory

Upper echelon or top management team refers to the Chief Executive Officer and other senior executives who are involved in strategic decision making (Amason, 1996). Upper echelon theory predicts organizational outcomes based on the demographic characteristics and traits of the top management teams (Hambrick & Mason, 1984). Some of these traits include age of the team members, tenure, international exposure, and teams' functional heterogeneity (Belso-Martínez, 2006; Ginsberg, 1994; Sambharya, 1996; Tihanyi, Ellstrand, Daily, & Dalton, 2000). These traits are used to predict organizational outcomes because they influence communication, socio-cognition, conflict management, and information processing competencies of the top management team, especially in an uncertain globalized international environment (Hitt & Tyler, 1991). Thus, a strong relationship exists between socio-cognitive capabilities of top management teams and their demographic traits (Hambrick, 2007). This implies that whether a firm takes risk aggressive strategic actions, such as exploring new capabilities, or risk conservative strategic actions, such as exploiting existing capabilities, largely depends on the demographics of top management team (Das & Teng, 2001). Thus, the competencies and capabilities of top management team provide the firm with valuable, rare, inimitable, and non-substitutable resource and potential competitive advantage (Barney, Wright, & Ketchen, 2001), as reflected in upper echelon or top management team (TMT) theory.

2.2. Emerging markets and internationalization

Firms from emerging markets suffer from resource constraints generated by institutional voids (Khanna et al., 2005). These voids refer to poorly developed financial and labor markets (Khanna & Palepu, 2000). Firms have survived in resource-constrained environments because earlier these emerging markets were closed economies, implying less competition (Gilpin & Gilpin, 2000). Thus, firms met domestic demand in a satisfactory manner (Cooper, Huang, & Li, 1996). With liberalization, markets opened up and domestic firms faced intense competition from multinational firms. Furthermore, the pressure increased for firms to internationalize by adopting a market-seeking mindset in a globalized economy (Luo & Tung, 2007).

Internationalization is a risky strategy as firms venture into completely unknown markets (Carpenter, Pollock, & Leary, 2003). The Uppsala model of internationalization suggests that inexperienced firms in the initial stages of internationalization expand via exports since it involves the least resource commitment (Johanson & Vahlne, 1977). Then gradually over years as their knowledge of the market increases, firms shift to more resource committed modes, such as mergers and acquisitions or wholly owned subsidiaries (Johanson & Vahlne, 2006). Recently liberalized emerging markets firms are in their infancy of internationalization (Ramamurti, 2012). They are more likely to adopt more risk adverse modes of internationalization. Hence, it becomes vital to explore factors that could influence performance of emerging markets firms in their first stage of internationalization, i.e., export intensity.

2.3. Upper echelon theory and organizational outcomes

Top management team traits have been extensively studied to explore their impact on several organizational outcomes. Wiersema and Bantel (1992) found a significant relationship between a firm's level of diversification and top managements' educational level, age and tenure. Upper Echelon theory has been validated in different business and corporate strategy arenas (Hambrick, Cho, & Chen, 1996). The most widely explored realm amongst organizational outcomes in relation to TMT attributes has been firms' performance (Carpenter, Geletkanycz, & Sanders, 2004; Certo, Lester, Dalton, & Dalton, 2006; Finkelstein & Hambrick, 1990; Smith et al., 1994). Performance here refers to financial, market, social and innovation based performance (Carpenter et al., 2004). However, results at large have remained inconsistent (Ensley, Pearson, & Pearce, 2003). Importantly, out of 52 studies conducted to date, only five have analyzed top managements' impact on firms' internationalization performance and none has focused on emerging markets (Nielsen & Nielsen, 2011). Thus, further research is needed, particularly with a focus on developing nations.

2.4. Upper echelon theory and internationalization of emerging market firms

In a risk-reluctant and closed economy environment of emerging markets, executives also develop a risk-averse attitude (Burgman, 2005). This happens because the macro environment is nearly always stable, requiring little risk-taking (Baird & Thomas, 1985). International diversification is a risky strategy (Amason, Shrader, & Tompson, 2006; Karami, Analoui, & Kakabadse, 2006); therefore, traits of the top management team in emerging markets could influence strategic outcomes of internationalization (Child & Rodrigues, 2005). Accordingly, we examine five traits of top management teams—educational level, functional heterogeneity, international exposure, age, and total tenure in their current organization regarding their effects on export intensity. In our study, export intensity or export performance refers to firms' revenues or sales from international markets as a ratio of total sales (Majocchi, Bacchiocchi, & Mayrhofer, 2005). In the next section, we discuss hypotheses based on upper echelon theory and empirically test the hypotheses.

3. Hypotheses

3.1. Educational level

Firms in emerging markets often lack managers with elite higher education degrees (Khanna et al., 2005). However, since the economies of many developing nations were also closed, environmental scanning was less challenging and restricted to domestic boundaries. The need to process information was less compared to firms operating in developed markets, mainly due to less uncertainty in emerging markets operating in a closed economy (Eisenhardt, 1989). Thus, the lower educational qualifications of managers did not pose significant problems, with the consequence that management gave less emphasis to higher education qualifications (Kirby, 2004).