International Business Review 23 (2014) 1021–1033

Contents lists available at ScienceDirect

International Business Review

journal homepage: www.elsevier.com/locate/ibusrev

Choice of markets for initial export activities: Differences between early and late exporters

Ángeles Gallego [a,*], Jose C. Casillas [b,1]

[a] University of Seville (Spain), Avda San Francisco Javier s/n, 41018 Seville, Spain
[b] University of Seville (Spain), Avda Ramón y Cajal, 1, 41018 Seville, Spain

ARTICLE INFO

Article history:
Received 20 June 2013
Received in revised form 23 December 2013
Accepted 11 March 2014
Available online 30 March 2014

Keywords:
Early exporters
Financial resources
Institutional distance
Late exporters
Liability of foreignness
Liability of newness

ABSTRACT

The behaviour of early exporters not only challenges the perspective of the sequential process of internationalization, but it also questions general concepts in the field of management, such as the liability of newness and the liability of foreignness. This study analyses how firms initiate their export activities and proposes differences between early exporters and other firms. The results of our empirical investigation demonstrate that early exporters begin exporting to a greater number of countries than late exporters. However, in the case of early exporters, those countries are institutionally closer to the country of origin of the firm. Finally, we analyze the role played by financial resources in the choice of markets for those initial exports.

1. Introduction

Internationalization is one of the most risky decisions that firms may face. The decision processes of each firm that guide their expansion into foreign markets will therefore reflect different ways of assuming that risk, which is why some firms internationalize at a different pace than others. In the mid-1990s, Oviatt and McDougall (1994) showed that the sequential model proposed by the dominant paradigm in the field of International Business was not followed by all firms (Bilkey & Tesar, 1977; Johanson & Vahlne, 1977, 1990; Johanson & Wiedersheim-Paul, 1975; Reid, 1981). These firms are international from the outset and have been described as international new ventures (Baum, Schwens, & Kabst, 2011; Oviatt & McDougall, 1994; Zahra, 2005), born-global firms (Gabrielsson, Kirpalani, Dimitratos, Solberg, & Zucchella, 2008; Knight & Cavusgil, 2004), accelerated new ventures (Oviatt & McDougall, 1994), and early internationalizing firms (Rialp, Rialp, & Knight, 2005), among others. Beyond the debate surrounding the different labels and definitions, it is believed that these firms are "organizations that, from their inception, seek to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries" (Oviatt & McDougall, 1994:49). A new and fruitful line of research has developed from Oviatt and McDougall's seminal work, generally known as International Entrepreneurship (Coviello, McDougall, & Oviatt, 2011; Oviatt & McDougall, 2005). This line of research has attracted great interest (Keupp & Gassmann, 2009), fundamentally because it identifies a reality that the theories and paradigms once dominant in the field of International Business were unable to explain.

However, the majority of investigations have focused on explaining age at entry (the time between the establishment of the firm and its initial international activity), while the exact way in which INVs develop their first international activity remains under-investigated (Jones, Coviello, & Tang, 2011). In addition, this previous research has examined the timing of incipient internationalization (Jones et al., 2011; Moen & Servais, 2002; Ojala & Tyrväinen, 2007), with a large amount of research "focused on the characteristics or antecedents of the types of organizational form that compete internationally" (Jones et al., 2011:636). Two decades of research have helped us to learn much more about the demographic characteristics, organizational variables, resources and capabilities, knowledge mobilization, and social capital that differ between INVs and non-INVs (see Jones et al., 2011 for an extensive review).

Nevertheless, the speed of entry is not an isolated decision. The choice of market destination and the entry mode into foreign countries are questions that will impact on the risk that the firm assumes by either increasing or decreasing it, in such a way that the global risk is the result of that set of decisions (Burgel & Murray,

* Corresponding author. Tel.: +34 954 557527; fax: +34 954 556989.
E-mail addresses: maga@us.es (Á. Gallego), casillas@us.es (J.C. Casillas).
[1] Tel.: +34 954 554456; fax: +34 954 556989.

http://dx.doi.org/10.1016/j.ibusrev.2014.03.004
0969-5931/

2000; Gallego, Ramos Hidalgo, Acedo, Casillas, & Moreno, 2009). We therefore consider that both INVs and non-INVs not only differ with regard to their characteristics, but also with regard to their approach to internationalization. Nevertheless, we possess less knowledge on the differences between their internationalization patterns. Despite the considerable expansion of studies on international new ventures and born-global firms, this is because very few of these works have centred on the selection of geographical markets of this type of firms. One of the few exceptions, the work of Hashai and Almor (2004) has to a great extent inspired our research. While some researchers assume that destination country diversity is a defining characteristic of INVs and born-global firms (Gabrielsson et al., 2008), we consider that the market selection of a firm's initial internationalization activities is part of its international behaviour. In consequence, we need to gain a better understanding of how INVs select their first international destination countries (Cuervo-Cazurra, 2011; Dow, 2000; McNaughton, 2003) and the difference with the non-INVs. We wish to analyze what these patterns are, what different behaviours INVs and non-INVs have, with regard to the selection of markets in their first stages of internationalization, both in quantitative terms (how many countries) as well as qualitative (how different these countries are with regard to the host country). The present work examines the market selection decision at the first year of internationalization through exports.

In particular, in this paper, we will investigate the differences between first market selection decision between Early Exporters and Late Exporters (Leonidou & Katsikeas, 1996). Early Exporters are a specific type of INV, which initiate international activities through exports (instead of different modes of entries, such as joint-ventures, international alliances, franchising, licensing, and so on) when they are still very young. Both, Early Exporters and Late Exporters encounter the liability of foreignness when they start up their export activities (Leonidou & Katsikeas, 1996; Mudamby & Zahra, 2007; Schwens & Kabst, 2009; Zaheer, 1995; Zou & Stan, 1998). We propose that Late Exporters can use financial indicators to develop their legitimacy in foreign markets (George, 2005; Wiklund, Baker, & Shepherd, 2010), while Early Exporters employ more entrepreneurial resources, such as networks and other intangible resources (Oviatt & McDougall, 1994).

Nevertheless, Early Exporters simultaneously face the liability of newness, a concept which refers to the internal and external challenges faced by young firms at the point at which they hope to gain legitimacy in their institutional environment (Aldrich & Auster, 1986; Lee, Kelley, Lee, & Lee, 2012; Stinchcombe, 1965). In other words, firms need to legitimize themselves in the eyes of external stakeholders, as well as for resource providers (Aldrich & Auster, 1986). The outcome of this liability is a higher failure rate in newly created firms (Baum, 1996; Lee et al., 2012; Stinchcombe, 1965; Thornhill & Amit, 2003). Therefore, newly created firms need to gain the legitimacy, which their competitor firms already enjoy, in order to survive (Choi & Shepherd, 2005; Wiklund et al., 2010). Even so, Early Exporters are capable of mobilizing the resources required to begin their internationalization process despite their newness and have other capabilities that can compensate for their liability of newness. Thus, Autio, Sapienza, and Almeida (2000) for example, proposed the concept of the learning advantage of newness, so that, faced with the liability of newness, younger firms have a greater capability to acquire, incorporate and apply new knowledge and abilities (Sapienza, Autio, George, & Zahra, 2006). Young firms differ from other more mature firms in many dimensions, among which we may mention shortage of resources (Lumpkin & Dess, 1996) and market legitimacy (Zaheer, 1995; Zaheer & Mosakowski, 1997) and at the same time, they usually show a higher entrepreneurial orientation than older firms (Hughes, Hughes, & Morgan, 2007).

This work considers both institutional legitimacy and financial resources in an analysis of their role in market selection, just when they initiate their export activities.

In summary, this study examines two central questions. (1) How does the market selection of first international activities differ between Early Exporters and Late Exporters? (Preece, Miles, & Baetz, 1998; Schwens & Kabst, 2009) (2) How do financial resources affect market selection of the first international activities in the case of both types of firms? By doing so, this work seeks to understand how the liability of newness affects the firm at the start of its internationalization and to increase our understanding of how both types of firms face up to the liability of foreignness (De-Clerq, Sapienza, Yavuz, & Zhou, 2012; Schwens & Kabst, 2009). Our research analyzes one characteristic of the first internationalization decision: market selection, given a fixed entry mode (export). This is an important objective because it allows us to evaluate which kinds of markets each type of firm selects, considering differences in the liability of newness between Early Exporters and Late Exporters and the role of financial indicators as a source of international legitimacy for the more mature exporters.

In this work, we find that Early Exporters are more likely to enter many countries, given their greater international orientation in comparison with Late Exporters, which only internationalize after operating for a long period in their domestic market. However, the broad expansion of Early Exporters into many countries will be into those which, institutionally speaking, are closest to their host country. Resources play an important role here, in order to explain the aforementioned relationship. In line with prior investigations, we propose that the availability or lack of financial resources (profit, liquidity and debt) influences these relationships, which stress the role of these resources in young companies (Wiklund et al., 2010). The basic premise is that the greater diversity of countries and their smaller institutional distance is only moderated by the resources available to more mature firms, but that this is not so for Early Exporters. We suggest that Early Exporters adopt a behaviour that conforms to the resource constraints theory (Baker & Nelson, 2005), according to which the scarcity of resources stimulates innovation and efficiency. Conversely, the initiation of internationalization for more mature firms can be best explained by the behavioural theory of the firm (Cyert & March, 1963).

Our work is structured as follows: in the following section, we develop a set of hypotheses regarding the number of countries to which the firms first export and the institutional distance of those countries from the country of origin of the firm. In the third section we set out the methodology of the empirical work, describing our sample selection, the measurement of the different variables, and the statistical instrument that was used. The following section summarizes the main results and finally, in section five, we discuss the results in the context of the theories and concepts set out in the theoretical sections. This discussion leads to a better understanding of the different ways in which Early Exporters and other firms embarked on their internationalization. We end with the presentation of our conclusions, the limitations to this study, and future lines of research.

2. Hypotheses development

2.1. The speed of entry and the number of destination countries for initial exports

As pointed out above, the way in which Early Exporters gain legitimacy in the face of liability of newness cannot come from financial resources that they do not normally have, but from a series of resources that have been widely analyzed in the literature on International Entrepreneurship. The international entrepreneurship