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Experience, age and exporting performance in UK SMEs

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ABSTRACT

We consider the determinants of SME exporting performance using a survey of internationally engaged UK SMEs. We first develop a model incorporating organisational and prior managerial learning effects. Our empirical analysis then allows us to identify separately the positive effects on exporting from the international experience of the firm and the negative effects of firm age. Positive exporting effects also result from grafted knowledge – acquired by the recruitment of management with prior international experience. Innovation also has positive exporting effects with more radical new-to-the-industry innovation most strongly linked to inter-regional exports; new-to-the-firm innovation is more strongly linked to intra-regional trade. Early internationalisation is also linked positively to the number of countries to which firms export and the intensity of their export activity. We find no evidence, however, relating early internationalisation to extra-regional exporting, suggesting that early-exporting SMEs tend to be ‘born regional’ rather than ‘born global’.

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1. Introduction

The ability of small firms to internationalise has received significant research attention (D’Angelo, Majocchi, Zucchella, & Buck, 2013; Esteve-Perez & Rodriguez, 2013; Freeman, Styles, & Lawley, 2012; Gashi, Hashi, & Pugh, 2014). Alternative models of internationalisation have been explored as have the links between internationalisation and resource availability (Aliouche & Schlenker, 2011; Hsu, Chen, & Cheng, 2013; Sui & Yu, 2012). For small firms, in particular, attention has often focussed on how resource and informational constraints shape firms’ internationalisation strategy and actions, and how these constraints can best be overcome. Much of the literature on the internationalisation of small and medium-sized enterprises (SMEs) involves a contrast between the process or stages approach, originated by Johanson and Vahlne (1977), and the international new ventures or ‘born global’ approach (Knight & Cavusgil, 2004; Oviatt & McDougall, 1994). Despite the critiques levelled at it (e.g. Forsgren, 2002), the process model of internationalisation remains influential in international business research. With its emphasis on incremental, experience-based learning, it has an intuitive appeal, especially when considering the process of internationalisation among SMEs with an established domestic market position. Exporting – the

focus of our analysis here – is often the initial stage of international activity for SMEs (Leonidou, Katsikeas, & Coudounaris, 2010; Wolff & Pett, 2000), and is important because it allows firms to accumulate valuable market, institutional and product knowledge which can be of use in other foreign markets (Majocchi, Bacchiocchi, & Mayrhofer, 2005; Sharma & Blostermo, 2003).

If, as envisaged by the process model, SME internationalisation is driven mainly by incremental, organisational learning, we would expect both the geographical spread and intensity of exporting to be linked to the international experience of the firm. The empirical literature, however, suggests rather ambiguous results due perhaps to data limitations which restrict some studies and conflate experience with firm age and learned and grafted experience (Fletcher & Harris, 2012). Some studies, for example, use firm age as a proxy for the duration of firms’ internationalisation experience (e.g. Majocchi et al., 2005; D’Angelo et al., 2013) implicitly assuming that age and internationalisation experience will both be positively related to the extent or intensity of firms’ international engagement. However, a priori we might expect international experience and firm age to work in opposite directions with respect to exporting performance: international experience is likely to be positively related to the potential for learning (Johanson & Vahlne, 1977); firm age on the other hand may be linked to sclerotic thinking, inflexibility and an inability to change strategy and/or behaviour.

More recently, empirical analysis has extended to consider the geographical scope of firms’ internationalisation, and in particular whether it is intra- or inter-regional. This arises from the

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suggestion that the costs of foreignness may differ across countries and across regions, with the liability of inter-regional foreignness being greater than that which occurs within global or 'triad' regions. While this issue has been principally studied at the level of the multinational enterprise (Driffield, Love, & Yang, 2014; Rugman & Verbeke, 2004a, 2004b, 2005), the issue is also relevant to the internationalisation of SMEs. If there is a greater cost of foreignness for firms operating in inter-regional markets, this may be a particular issue for SMEs which are generally regarded as lacking the internal resources of larger firms, and hence find it more difficult to operate in geographically, institutionally and culturally distant markets. Despite the potential importance of this topic, there is relatively little research in the area. There is some evidence that there are differences in the internal attributes of SMEs which operate across regional or global markets (Kuivalainen, Sundqvist, & Servais, 2007; Nkongolo-Bakenda, Anderson, Ito, & Garven, 2010), and that the determinants of exporting performance among SMEs may differ depending on whether the firm is operating within its home region or across different global regions (D'Angelo et al., 2013). However, we still know little about how much experience matters in terms of helping SMEs enter new regional markets, and how this differs from the role of experience in shaping other aspects of SMEs' international profile.

An obvious limitation of the process model of internationalisation is its concentration exclusively on the firms' experiential knowledge and the implicit assumption that firms can only gain the knowledge necessary for exporting through experience and organisational learning. By contrast, the international new ventures or 'born global' literature takes a broader view of the available internal and external knowledge sources for internationalisation (Fernhaber, McDougall, & Shepherd, 2009), including the prior international experience of management (Ganotakis & Love, 2012), knowledge obtained from hiring internationally experienced managers (Fletcher & Harris, 2012), and knowledge obtained from partners and major customers (Presutti, Boari, & Fratocchi, 2007). However, despite the emphasis of this literature on firms that internationalise early and quickly, relatively little is still known about the geographical spread of early exporters versus later exporters, separately from the experience issue. This matters because recent research suggests that early exporters tend to show a different pattern of geographical spread of export markets to those which export later. While early exporters have a greater geographical spread of export markets than other types of exporters, their choice of export markets tends to be more limited than late exporters in terms of institutional distance (Gallego & Casillas, 2014). This suggests that exporting early in the firm's lifecycle should be considered as a separate issue from that of experience per se, and is one which could confound the apparent effect of age and experience if not specifically accounted for.

This suggests a number of gaps in the current literature, and we address several of these. We use data from a sample of internationally engaged UK SMEs and examine three measures of exporting, including geographical scope in terms of countries and regions exported to, and export intensity (exports as a proportion of total sales). First, we examine the contribution of firm-level experience to exporting scope and intensity after allowing explicitly for the effects of firm age. This allows us to differentiate clearly between the effects of experience and age at the firm level, helping to resolve some of the ambiguity in the empirical literature. Second, we specify and test a model which considers the effects on internationalisation both of the experience of the firm overall and also that of the senior management team, allowing separately for the effects of 'grafted' knowledge (Fletcher & Harris, 2012). Third, we consider these age and experience effects both on the geographic scope and intensity of exports overall, and

specifically on extra-regional geographic scope. This adds to the very limited research which considers the determinants of extra-regional internationalisation among SMEs (e.g. D'Angelo et al., 2013), and thus contributes to the 'regional versus global' debate which has been largely the preserve of MNE research (Rugman & Verbeke, 2004a, 2005). Finally, we allow separately for the influence of early exporting on the geographic scope and intensity of SME exporting, and specifically consider whether early exporting influences intra- or inter-regional export performance after allowing for experience effects.

2. Knowledge, learning and exporting: theory and hypotheses

Firms' ability and willingness to internationalise depends strongly on their knowledge of international markets (Schmidt & Sofka, 2009). Conversely, a lack of knowledge about international markets is often cited by firms as one of the main barriers to exporting and internationalisation (Roper & Malshe, 2013). In the context of organisational learning theory, internationalisation can therefore be seen as a process of knowledge and learning accumulation that takes place within the firm (Barkema & Vermeulen, 1998; Yeoh, 2004). Exposure to international markets enhances a firm's technological (but also marketing) knowledge, which in turn forms the basis for the development of further learning (Yeoh, 2004). Thus experience helps firms overcome the difficulties and uncertainties of going international (Westhead, Wright, & Ucbasaran, 2001).

Information or knowledge about international markets can, however, be acquired through both direct experience and indirectly through recruitment, social networks or external advisory services (Fletcher & Harris, 2012). More generally, Huber (1991) identifies five main methods of knowledge acquisition, all of which have been incorporated into different aspects of the international business literature. These are: congenital knowledge, which the firm founders' possess before venture creation; grafted knowledge, acquired by hiring managers with relevant experience; experiential knowledge, acquired as the firm carries out its normal business activities, and which cannot readily be acquired in any other way; vicarious learning, resulting from observing and imitating the actions of other businesses; and search, which involves explicitly seeking relevant market knowledge for international expansion.

The international business literature has traditionally strongly emphasised the experiential aspect of learning as envisaged in the process approach to internationalisation (Johanson & Vahlne, 1977). Here, incremental movements into increasingly distant markets, both geographically and culturally, are facilitated by experiential learning, minimising the commitment and risks involved in the internationalisation process while helping the firm build up the knowledge necessary to become more international in scope. This may involve deliberate learning, but because it derives from the process of 'doing business', experiential knowledge is likely to arise simply as an unintentional consequence of operating in an international context, and is therefore difficult or impossible to acquire in different ways (Casillas, Barbero, & Sapienza, 2015). Eriksson, Johanson, Majkgård, and Sharma (1997) and Eriksson, Majkgård, and Sharma (2000) stress that market knowledge comprises both business and institutional knowledge. They demonstrate that a firm's experiential internationalisation knowledge, that is its experience of organising the process of going international in different settings, as embedded in the routines and organisational practices of the firm, is a critical element in reducing the perceived cost of the internationalisation process. Experiential learning may also offset negative attitudes and perceptions towards foreign markets, and lead to more realistic expectations of the effects of exporting on the growth and

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