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Innovation capacity, international experience and export performance of SMEs in Brazil

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ABSTRACT

Innovation capacity and international experience are factors often related to the internationalisation process of firms, with export activities as the first stage of the process. However, firms from emerging countries seem to show advantages and follow patterns of international expansion that may differ from firms based in developed countries, where the internationalisation models were created. Specifically, exporting firms from emerging countries tend to have limited resources, especially small firms (e.g., for investing in R&D). Despite these facts, the literature on export performance seems biased towards recommending firms to enhance, above all, their innovation capacity in order to achieve better export performance, while little attention is paid to international experience as a factor that is as important as innovation. In this context, the objective of this study is to investigate the impact of innovation capacity and international experience on the export performance of small and medium-sized enterprises (SMEs) located in an emerging country and to identify which factor is more significant. The Resource-Based View and Dynamic Capabilities approach were used as theoretical frameworks. A research model was developed and tested on a significant sample of Brazilian industrial SMEs. The data were analysed through partial least squares structural equation modelling. The results indicate that international experience has a greater impact on export performance than innovation capacity, showing that there is possibility of overemphasising the role of innovation in the export performance of SMEs, at least, in the Brazilian context.

1. Introduction

Innovation capacity and international experience are factors often related to the internationalisation process of firms (Fleury, Fleury, & Borini, 2013; Johanson & Vahlne, 1977; Knight & Cavusgil, 2004), with export activities being the first stage of the process (Johanson & Vahlne, 1977). However, firms from emerging countries seem to present advantages (e.g., they are more used to deal with poorer regulatory quality, lower control of corruption and unstable political environments, which are prominent in such countries) and follow patterns of international expansion that differ from firms based in developed countries, where the internationalisation models were created (Cuervo-Cazurra & Genc, 2008; Guillén & García-Canal, 2009). Specifically, exporting firms from emerging countries tend to have limited resources, especially small firms (Adu-Gyamfi & Korneliussen, 2013), for instance, to invest in R&D (Research & Development); and innovation is an expensive activity that commonly occurs in developed countries (Vernon, 1979; Lall, 1992; Le Bas & Sierra, 2002).

Numerous variables affect export performance (Ibeh & Wheeler, 2005; Zou & Stan, 1998), for instance, those related to managerial (e.g., export commitment, international orientation, perceived export barriers), physical (firm's size, financial resources and firm's location), organisational (e.g., firm's capabilities, general export strategy, product strengths), and relational resources (distribution channel and customer relationships, supply chain links, interpersonal research and foreign market visits) (Ibeh & Wheeler, 2005), but for delimitation purposes, we decided to focus on innovation capacity and international experience.

Following the above logic, firm size may mean greater limitation to the innovation capacity of SMEs located in emerging countries. Nevertheless, many studies on export performance appear to recommend that firms enhance their innovation capacity

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to improve their export performance (e.g., Filipescu, Prashantham, Rialp, & Rialp, 2013; Guan & Ma, 2003; Singh, 2009; Yi, Wang, & Kafouros, 2013) while little attention is paid to international experience (a traditional variable researched in the international business literature) as a factor that is as important as innovation. This is remarkable because, since the 1970s, international experience has been one of the main explanatory variables of the advancement of the internationalisation process of firms (Johanson & Vahlne, 1977; Eriksson, Johanson, Majkgard, & Sharma, 1997). However, to the best of our knowledge, only recently has its connection to export performance begun to be more addressed in more detail in a small number of studies conducted in developed countries (e.g., Kaleka, 2012; Papadopoulos & Martín, 2010), and one in Ghana (Adu-Gyamfi & Korneliussen, 2013). This latter study found no significant effect of international experience on export performance, while the former found positive and significant relationships. Therefore, based on a review of the literature so far, it is not clear which factor is more significant to the export performance of SMEs located in an emerging country like Brazil, which is the context addressed in this article.

In this context, the present study poses the following question: what is the impact of innovation capacity and international experience on the export performance of SMEs located in an emerging country? The objective is to investigate the impact of innovation capacity and international experience on the export performance of SMEs located in an emerging country and to identify which factor is more significant.

The main contribution of this paper is to clarify the role of innovation to the export performance of SMEs, comparing it with international experience, whose impact on export performance remains poorly understood. This comparison is relevant since the literature may be overemphasising the importance of innovation capacity to SMEs, a segment that enjoys access to fewer resources than larger companies (Yu, 2001).

In this study, innovation capacity is defined based on the concept "international innovativeness", which is described by Knight and Kim (2009: 261) as the "capacity to develop and introduce new processes, products, services, or ideas to international markets". On the other hand, international experience is understood as "the sum total of experiential knowledge gained by the firm from all its markets over time" (Papadopoulos & Martín, 2010: 390). Finally, export performance is defined as "the extent to which a firm's objectives, both economic and strategic, with respect to exporting a product into a foreign market, are achieved through planning and execution of export marketing strategy" (Cavusgil & Zou, 1994: 4).

Several factors justify the relevance of export performance as a research topic, including the fact that exporters are more productive than non-exporters (Wagner, 2012), the importance of exports to employment and worker income (Negri et al., 2006), and synergy between export activities and innovation in companies (Filipescu et al., 2013; Golovko & Valentini, 2011). Product innovation, for instance, through its effect on firm productivity, seems to increase the likelihood of the firm entering the export market (Cassiman & Golovko, 2011). Thus, there is considerable academic interest in factors that lead companies to achieve better export performance (Sousa, 2004; Zou & Stan, 1998).

It must be noted that this study is not designed to address the antecedents of innovation capacity or international experience, but to determine the degree to which each of these factors contributes to achieving better export performance.

The study focuses on SMEs belonging to the industrial segment. Our interest in SMEs is justified by the fact that little research has been conducted regarding the export performance of SMEs in emerging countries, as confirmed by the literature review (only two articles specifically analysed samples of SMEs located in such countries, but none of them addressed Brazilian SMEs), despite the representativeness of this segment to exports. For example, in Brazil, SMEs account for approximately 51.6% of the total number of Brazilian exporters in 2014 (MDIC, 2015). In China, SMEs are responsible for over half of the country's total exports (The Economist, 2009 *apud* Cardoza, Fornes, Li, Xu & Xu, 2013).

In order to answer the research question, a theoretical model was proposed and tested through partial least squares structural equation modelling in a significant sample of 112 Brazilian industrial SMEs. The results indicate that both innovation capacity and international experience had a significant positive impact on export performance and that the impact of the latter variable was greater than that of the former, as hypothesised.

Regarding the study variables-innovation capacity and export performance—Wang and Kafouros (2009) declare that most previous research on innovation has focused in developed countries. Furthermore, among the studies that address the export performance in emerging countries, we see that many of them focus on Asian companies (Wang and Kafouros, 2009; Kim & Hemmert, 2015), and there are few studies that focus on the Latin America.

In this sense, World Bank Annual Report 2015 highlights the importance of Latin America to global development concerning the goals of reducing the share of the global population living in extreme poverty to 3 percent by the year 2030, and promoting shared prosperity (The World Bank Group, 2015c). Also according to data from the World Bank report, thanks to high commodity prices and structural reforms for growth, Latin America has enjoyed a decade of strong economic growth and significant social progress (The World Bank Group, 2015c).

Brazil is currently Latin America's largest economy (GDP of 2.3 trillions of US dollars in 2014) and is ranked among the seven largest economies in the world, ahead of India and Russia (The World Bank Group, 2015a), two other BRICS countries (Brazil, Russia, India, China, and South Africa). In 2013, Brazil's FDI inflows were equivalent to 39.5% of all direct investments made in Latin American, or 3.7% of world investments, being the second most attractive country among the BRICS, behind China (The World Bank Group, 2015b). Brazil is also Latin America's second largest exporter (behind Mexico) with 1.22% of world's total exports, based on figures of 2014 (MDIC, 2015).

Brazil is an interesting context for studying variables related to export performance as it is seen as representative of Latin American region, due to its highly globalised and diversified economy. Brazil has one of the most solid and prudently regulated financial sectors in the G20, the largest stock market in Latin America, a broad and sophisticated industrial base, and it is home to Latin America's largest aerospace, automotive, oil and gas, mining, capital goods, medical equipment and chemical industries (Apex-Brasil, 2015). In this way, the choice of Brazilian firms is justified by these facts and data.

Besides the relevance of Brazil in the world economy, the sample selection also considers that international business research on Latin America reflects the promise of using the region as a research laboratory for advancing the theory of international business (Cuervo-Cazurra & Liberman, 2010).

The article consists of six sections, including this introduction (first section). The second section addresses the literature review on export performance from the RBV and Dynamic Capabilities perspectives and presents the hypotheses of the study. The third section describes the method. The fourth section shows the results and hypotheses tests, while the fifth section discusses the results and presents conclusions. The final section presents the limitations of the study and suggestions for future research.

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