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Innovation and experiential knowledge in firm exports: Applying the initial U-model☆

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ABSTRACT

Focusing on firm export activity as an important field within international business, this study corroborates the importance of experiential knowledge as the initial Uppsala model predicts. The model builds on the belief that experiential knowledge minimizes the risk and uncertainty of export operations. Additionally, the article examines a firm's capacity to widen this knowledge through its dynamic capacities, honing in on a firm's learning function. Thus, this article analyzes the role of innovation in exporting by investigating export product innovation and export market innovation, both strategic activities that allow experiential knowledge acquisition. The article uses a firm-level official dataset from a small developing country, Chile, examining data from 2006 to 2011. The results indicate, firstly, that experiential knowledge resulting from exporting to different and geographically distant markets increases the firm's export activity. Secondly, such export market innovation takes precedence over export product innovation.

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1. Introduction

Exporting plays a vital role in a firm's strategy and many scholars expect its importance to grow as globalization increases (Pla-Barber & Alegre, 2007). Porter (1991) states that a firm's knowledge acquired through its experience in the export market is key to its innovative behavior and international competitiveness. Both the initial Uppsala model (U-model) (Johanson & Vahlne, 1977) and the learning-by-exporting (LBE) hypothesis (Wagner, 2007) stress this very important role of experiential knowledge.

To become more competitive internationally, a firm has to be able to carry out innovative activities engendering better performance in export markets (Leonidou, Katsikeas, Palihawadana, & Spyropoulou, 2007; Wagner, 2007). Traditionally, inputs such as research and development (R&D) (Kotabe, Srinivasan, & Aulakh, 2002) or key outputs like product innovations (Monreal-Pérez, Aragón-Sánchez, & Sánchez-Marín, 2012) measure innovation. In this study, innovation, as part of a firm's exporting activity, is key to explaining firm performance. Thus, following Cirera, Marin, and Markwald (2015), this article examines export innovations, that is, new export products and new export markets.

This unique approach to measuring export innovations is one of the contributions of this study. Export market innovation is the main way a firm acquires new knowledge during internationalization, and export product innovation is the means a firm uses to successfully enter export markets. These are also measures of a firm's diversification (Cirera et al., 2015).

This article focuses on two research questions: first, whether experiential knowledge (acquired through export experience, export markets, export product innovations, and greater geographical distance) intensifies a firm's export activities (increases its activity), and second, whether market innovation leads to market export product innovations. Therefore, the objectives of the research are to shed light on the determinants of firm export activity, focusing on the role of experiential knowledge (as stressed in the initial U-model) and to explore the LBE effect on export product innovation.

This study contributes to the literature in several ways. First, the study examines primary data from a small, emerging (not very developed) but very export-oriented market, Chile, which not many studies have analyzed (Álvarez & Robertson, 2004). Second, the study's focus

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on a new specific innovation dimension, export innovation, may provide new information on innovation in a particular environment (export markets) and on a definite activity (exporting).

2. Theoretical framework

2.1. The U-model and the LBE hypothesis

The research framework builds on the theoretical scope of experiential knowledge and internationalization, specifically the initial U-model and the LBE hypothesis. The initial U-model argues that a firm's knowledge and commitment to the market determines that firm's path through the stages of internationalization (Johanson & Vahlne, 1977). Regarding knowledge, the firm enters a foreign market when the firm has acquired the necessary knowledge (Johanson & Wiedersheim-Paul, 1975) to generate new opportunities and reduce uncertainty (Johanson & Vahlne, 1977). Firms can acquire knowledge about a market internally or through trial and error (experiential knowledge) (Eriksson, Johanson, Majkgård, & Sharma, 2000). The commitment to a market usually relates to the quantity of resources a firm ascribes to that market (Johanson & Vahlne, 1977). Johanson and Vahlne find a relationship between knowledge and commitment; they conclude that the more knowledge a firm has about a market, the stronger is its resource commitment to that market.

The research framework here rests on the assumption that firms have imperfect access to information and the internationalization process increases experiential knowledge, which is the key issue in this study. Experiential knowledge not only reduces the risks involved in exporting but also provides a way to acquire information about internal and external resources, and the opportunities to combine them. The original authors of the model have modified the U-model stressing the possibility of acquiring knowledge dynamically through interactions with foreign partners (Johanson & Vahlne, 2009; Vahlne & Johanson, 2013).

The LBE hypothesis describes the alternative explanation of why exporters may perform better than non-exporters (Monreal-Pérez et al., 2012). The exchange of knowledge in international markets, deriving from exchanges with international buyers and competitors, benefits the firms that engage in those markets (Wagner, 2007). The literature that describes the process of internationalization as a sequence of steps for a firm, or as innovation (Johanson & Vahlne, 1977), stresses the idea of exporting as a learning process (Delgado, Fariñas, & Ruano, 2002).

By linking the U-model and LBE theory, this study looks for an explanation for firm international behavior. The U-model deals with knowledge acquisition through a learning activity. This organizational learning affects firm performance, and in particular, the way the firm collects knowledge (Bhatti, Larimo, & Coudounaris, 2016). The LBE hypothesis draws on learning, arguing that a firm learns through its export experience (Wagner, 2007). This learning process, and the subsequent accumulated knowledge, is what connects the U-model and LBE hypothesis. The U-model and LBE hypothesis finds a link in the importance of a firm's exposure to international markets and to foreign partners, when acquiring knowledge and creating international opportunities. Additionally, entering new (export market innovation) and more distant markets enables a firm to reach new partners, thus allowing the firm to create new knowledge and consequently perform better (model and hypothesis 1), and to market new products (export product innovation) (model and hypothesis 2).

2.2. Innovation and international behavior of the firm

According to Porter (1991), firms receive competitive advantage through innovation. Drawing on this strategic aspect of innovation, Lundvall and Johnson (1994) highlight how fundamental learning is in accumulating the knowledge to innovate and thus compete successfully in today's global economy. These authors, crystallizing the relationships between learning, knowledge, and innovation, outline how learning increases knowledge (i.e., the flow of learning influences knowledge), and knowledge then allows the firm to innovate. Along these same lines, Lynch and Jin (2015) stress the importance of the capacity to learn, arguing that in emerging markets, local firms will only be able to innovate and benefit from cooperation with firms from other developed markets if these local organizations are able to learn.

Specifically, many studies have stressed the importance of following an innovation strategy when focusing on export activity (Leonidou et al., 2007; Pla-Barber & Alegre, 2007). Pla-Barber and Alegre (2007) emphasize the role of innovation in international markets, arguing that a single market may not be broad enough to support the innovations of the firm; for this reason, firms that innovate may try to export. Therefore, internationalization may represent an area where firms can exploit innovations to obtain economic benefit.

According to the initial U-model, market knowledge and market commitment affect both commitment decisions and how firms currently perform their activities. These firm decisions include committing to innovative activities and allocating resources to such activities in the firm's international ventures.

In a similar vein, along with the initial U-model, the literature on innovation and internationalization stresses the importance of knowledge in the development of the innovation process. In fact, many researchers consider new knowledge to be the basis for innovation, seeing innovation as an individual and collective learning process that searches for new ways to solve problems (Kotabe et al., 2002). Innovation seems to depend on the firm's capacity to learn, through which the firm develops, distributes, and uses new knowledge.

Thus, researchers emphasize that highly internationalized firms can improve their ability to innovate by increasing their opportunities to learn (Kafouros, Buckley, Sharp, & Wang, 2008). Furthermore, Kotabe et al. (2002) state that internationalization can reduce costs resulting from innovation: highly internationalized firms can access many markets around the globe, buy materials and R&D from the cheapest available sources, and locate their R&D and other departments in the most productive regions (Kafouros et al., 2008). Internationalization can also improve a firm's ability to innovate by allowing the firm to hire better technologists and access skilled technical expertise (Kafouros et al., 2008). On the other hand, a firm with greater international scope can achieve greater returns from innovation by utilizing many markets (Kafouros et al., 2008).

Here, the U-model and the LBE hypothesis merge in their application to innovation: exporting firms can use the learning process in dealing with international markets to enhance their competency base. Using this advantage, they can foster innovation.

2.3. Experiential knowledge and export activity

Eriksson, Johanson, Majkgård, and Sharma (1997) define experiential knowledge as the integration of business knowledge (cooperative agreements with foreign firms, subsidiaries), institutional knowledge (foreign laws/norms/standards, foreign languages), and internationalization knowledge (foreign experience, unique knowledge/competence). A few years later, drawing on learning theory, the authors examine the effect of varied international business operations on experiential knowledge development in firm internationalization. The results show that variation in international geographical operations positively affects the accumulation of experiential knowledge in internationalizing firms. Autio, Sapienza, and Almeida (2000) confirm this conclusion, arguing that exporting firms must comprehend, share, and assimilate new knowledge in order to compete and grow in markets in which they have little or no previous experience.

Both the initial U-model and later research based on this seminal work (see Eriksson et al., 2000) posit that firm participation in international markets provides experiential knowledge. Using a firm's presence

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