



Resources, home institutional context and SMEs' exporting: Direct relationships and contingency effects

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ABSTRACT

Research highlights the role of resources in SMEs' exporting but is less forthcoming with respect to entrepreneurial perceptions of home institutional quality. Drawing on institution-based lenses, we distinguish among formal, informal, and regulatory institutions, which in concert with firm resources are expected to influence SMEs' export behavior. Our predictions are tested on a sample of 150 firms located in Greece. The analysis of direct relationships shows that formal and informal institutional dimensions affect significantly, but differently, SMEs' export activity. The analysis of interaction effects demonstrates that resource decisions for exporting are contingent upon entrepreneurial perceptions of the home institutional context, such that SMEs respond to formal and informal domestic institutional weaknesses by intensifying resource allocations to fuel export sales. In an opposite direction, export regulatory complexity reverses the positive resources-exporting link. These findings suggest the importance of home institutions in the exporting field.

1. Introduction

Exporting represents a critically important strategy to internationalize and one of the most frequently used foreign markets' entry mode chosen by firms (Cassiman & Golovko, 2011; He, Brouthers, & Filatotchev, 2013) and especially small businesses (Hessels & Terjesen, 2010). Small and medium-sized enterprises (SMEs) are usually conceived as resource-constrained, lacking the managerial ability and skills, adequate knowledge of overseas markets and financial means to expand abroad (Brouthers, Nakos, & Dimitratos, 2015; Leonidou, 1995). Yet, today they account for a significant portion of global trade (OECD, 2013). SMEs' internationalization is then well established, but regained a considerable momentum nowadays, since global markets are characterised by intensified competitive pressures due to declines in trade barriers, interdependence of resources and advances into higher levels of productivity (Lu & Beamish, 2001).

While this recently renewed interest in exporting at the SME level has spurred internationalization research, an area of scholarly concern is that the theoretical underpinnings in the field are not fully matched

with the developments in practice (Dhanaraj & Beamish, 2003). Traditionally, export theorizing has been mainly anchored to the ability of firms to leverage idiosyncratic resources and capabilities¹ in foreign locations (Brouthers, Brouthers, & Werner, 2008; George, Wiklund, & Zahra, 2005; Leonidou & Katsikeas, 2010). Notwithstanding its important insights, this resource-based view (RBV) has not looked beyond the properties of resources and resource selection (Oliver, 1997) to explain SMEs' exporting, neglecting in that way the role of national contextual factors, such as home country institutions. In practice though, the domestic institutional environment influences not only internationalization decisions (Estrin, Meyer, Nielsen, & Nielsen, 2016), but also the context of firm resources (Cuervo-Cazurra & Genc, 2008; Dimitratos, Lioukas, & Carter, 2004; Wan, 2005), a set of considerations whose implications are not fully appreciated in SMEs' export literature.

With this in mind, our purpose is to analyse the effects of home institutional environment on SMEs' exporting. In particular, we seek to evaluate the direct influence of institutional aspects on SMEs' export performance and the interaction effects of local institutional quality on the SME resources – exporting relationship. We consider this

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¹ While 'capability' is a common term in the RBV literature, Smith, Ferrier, and Ndofor, 2001 in their review replaced 'capability' with 'resource-based factors.' According to Ndofor, Sirmon, and He, 2011 the RBV's usage of 'resource' closely relates to dynamic's 'capability.' To further corroborate, Barney (1991) has argued that resources include "...all assets, capabilities, organizational pressures, firm attributes, information, knowledge etc controlled by a firm [...] improve its efficiency and effectiveness". To provide consistency, we utilize the term resource throughout this study.

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investigation important for three reasons: first, since exports drive growth for both firms and economies, idiosyncratic perceptions of the ways in which the home institutional quality affects export activity raise an important research issue that may denote diverse evaluations of SMEs' export behaviour. Second, while exporting is a commonly used foreign entry strategy (Leonidou & Katsikeas, 2010), we know relatively little about the role of home institutions in this mode of internationalization compared to other forms of international expansion, such as direct investments and joint ventures (Brouthers & Hennart, 2007; Mudambi & Navarra, 2002; Trevino, Thomas, & Cullen, 2008). Finally, while it is widely assumed that firm resources are positively related to export activity (Rodríguez & Rodríguez, 2005; Wolff & Pett, 2000), with some notable exceptions (e.g. Yi, Wang, & Kafourous, 2013), the moderating role of institutional dimensions on the association between SME resources and exporting is virtually absent in the pertinent literature (Gao, Murray, Kotabe, & Lu, 2010).

We test our predictions by amassing a sample of 150 food and beverages SMEs located in Greece, an EU peripheral economy under an ongoing financial recession and in a period of unraveling discussions about EU SME policies across regions. Echoing the micro-analytic perspectives of new institutionalism in organizational theory (Scott, 1995; Williamson, 2000, 1996) we adopt the conceptual framework proposed by Estrin et al. (2013), narrowing our study to formal constitutional, regulatory, and informal institutional layers. Consistent with the majority of export studies (Lu & Beamish 2006; Krammer, Strange, & Lashitew, 2018), we parallel export performance with export intensity, since the later measures the effects we wish to explore.

Our work offers two main contributions: first, we show that entrepreneurial perceptions of the quality of formal and informal institutions affect SMEs' exporting in an opposite direction. Thus, while the inefficiencies of the domestic formal constitutional setting seem to weaken export activity, perceptions of a weak informal institutional quality at home induce SMEs to intensify their export growth. We claim then for institutional theory as a suitable framework not only to explain, but also to predict SMEs' export behavior. In this vein, we also argue that the distinction among various institutional dimensions is meaningful in export practice. Second, building on discussions to integrate diverse perspectives in internationalization studies (Peng, 2001; Rialp, Rialp, & Knight, 2005), we add to knowledge on how the application of institutional insights into the established resource-based views enables a more accurate investigation of finer-grained aspects of SMEs' exporting. While both theories are widely acclaimed, their overt foci tend to neglect broader linkages between resources and contextual influences in the exporting field (Yi et al., 2013). While 'theory integration' is beyond the scope of our work, by considering synergistic perspectives between these two approaches, we result in a more systematic and inclusive understanding of the interaction effects of home institutional contextual characteristics with firm resources in shaping SMEs' export activity. In parallel, by combining insights from RBV and institutional theory we strengthen the explanatory power of both: while institutional arguments in exporting are predominately targeted on export markets (e.g. Gimeno, Hoskisson, Beal, & Wan, 2005; He et al., 2013; Peng, 2003; Wu, Sinkovics, Cavusgil, & Roath, 2007), here we investigate the role of home country institutions which is rather undertheorized (Estrin et al., 2016; Wu & Chen, 2014). We also enhance RBV by including contextual considerations in the study of SME resource exploitation in foreign markets and, also, by adding to the empirical forefront of the theory which is rather 'uncertain' and 'inconclusive' (Newbert, 2007) and focused on large firms with significant market power (Kraaijenbrink, Spender, & Groen, 2010).

2. Theoretical foundation and hypotheses

2.1. SMEs' exporting: from resource-based to institutional considerations

The RBV conceives firm resources as a significant determinant of

internationalization strategies (Cavusgil & Zou, 1994; Piercy, Kaleka, & Katsikeas, 1998), in the sense that firms which effectively exploit a unique bundle of valuable, rare and difficult to replicate resources have more proclivities to expand in foreign markets (Bloodgood, Sapienza, & Almeida, 1996). In this context, the empirical content of the theory has suggested a positive relationship between an array of entrepreneurial, organizational and technological parameters and firms' exporting (Brouthers et al., 2015; Filatotchev et al., 2009; Knight & Cavusgil, 2004; Wood, Logar, & Riley, 2015). Yet, evidence is accumulating that resource allocation decisions do not solely depend on the exploitation of firms' controllable internal factors bestowing ownership advantages in foreign locations (Ngo, Janssen, Leonidou, & Christodoulides, 2016), but may also be contingent on "characteristics [...] of their institutional environment" (Filatotchev, Liu, Buck, & Wright, 2009). This acknowledgment has shifted scholarly attention to the importance of the institutional perspective as a promising framework when analyzing firms' internationalization activity (e.g. Cheng & Yu, 2008; Estrin et al., 2016; Gaur, Kumar, & Singh, 2014; Wan, 2005). This seems to be more prominent for the study of SMEs that "...tend to suffer from unique resource gaps that are difficult to fill" (Brouthers et al., 2015). Since due to their limited dimensions SMEs possess less robust ownership advantages to commit to foreign operations (Cheng & Yu, 2008), their recorded successful internationalization may be attributed to institutional configurations.

The institutional theory maintains that each country represents a unique combination of institutional dimensions. These dimensions form the national institutional context and influence significantly not only entrepreneurial perceptions and decision-making (Cheng & Yu, 2008; Marano, Arregle, Hitt, Spadafora, & van Essen, 2016), but also the effective deployment of firm resources (Priem & Butler, 2001). The institutional context includes the formal rules (North, 1990), less formal shared interactions (Jepperson, 1991), agreements (Bonchek & Shepsle, 1996) and assumptions (Meyer & Rowan, 1991) that organizations are expected to follow. Hence, the institutional context is conceptualized as being formal, entailing the accepted rules and regulations (Estrin, Korosteleva, & Mickiewicz, 2013), or informal in nature, referring to customs, traditions and norms underpinning a society (Estrin et al., 2016).

While studies on the impact of the institutional context on firms' exporting have recently gained attention (e.g. Chang, Kao, Kuo, & Chiu, 2012; Chang, Kao, & Kuo, 2014; Meyer, Estrin, Bhaumik, & Peng, 2009), they are disproportionately oriented towards the effects of host institutional environments and pay less attention to features and characteristics of the exporter's home country (Sousa, Martinez-Lopez, & Coelho, 2008). Yet, nowadays the focus of scholarly investigations is equally placed upon home institutions, as exerting an influence on firms' multiple layers of export decisions (Cheng & Yu, 2008; Gaur et al., 2014; Krammer et al., 2018). But most importantly, the quality of home institutions has been highlighted as significantly affecting export performance not only directly, but also indirectly through its interaction with firm resources (Yi et al., 2013). In particular, the quality of home institutions shapes entrepreneurial perceptions on resource allocation decisions in foreign markets (Marano et al., 2016). These perceptions, in turn, influence strategic choices (Zahra, Korri, & Yu, 2005), by modelling the inherent uncertainties and riskiness of export activities, as well as identifying viable opportunities (Makhija & Stewart, 2002). As the importance of strategic choices increases in the internationalization field, the effects of several institutional aspects (Zahra, Neubaum, & Huse, 1997) and attributes (Ngo et al., 2016) of the domestic environment on exporting have been carefully scrutinized. Evidence revealed in these studies, while substantial, seems to underappreciate the multidimensionality of institutions that has been advocated by institutional researchers (e.g. Estrin et al., 2013; Kostova, 1997; Williamson, 2000).

In this context, building on Scott (1995) conception of institutions, Kostova has proposed a three-dimensional typology to explain how

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