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The export performance of emerging economy firms: The influence of firm capabilities and institutional environments

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ABSTRACT

We advance a two-stage theoretical model which contends that the export performance of emerging economy firms (EEFs) will depend both upon their firm-specific capabilities and their home institutional environments. Specifically, we argue that EEFs will be more likely to export when facing more uncertainty at home from greater political instability, substantial informal competition, and high corruption. Furthermore, we hypothesize that firms' export intensities will be contingent upon specialized internal capabilities such as a skilled workforce, top managerial experience, and access to external technologies. We test these hypotheses using a dataset of more than 16,000 firms from the four BRIC economies (i.e., Brazil, Russia, China and India). Our results confirm that political instability and informal competition have robust effects on the export propensity of EEFs, whilst export intensity is contingent upon the availability of skilled workers and access to external technologies via licensing.

1. Introduction

The world economy has undergone significant changes in recent decades in response to major market and trade liberalization initiatives in many countries, with increasing numbers of firms embracing international expansion through exports (Buckley & Strange, 2015). Given this surge, many scholarly investigations have examined exporting activities, focusing in particular on firms from developed economies and host-country characteristics (for reviews see Zou & Stan, 1998; Sousa, Martínez-López, & Coelho, 2008; Bernard, Jensen, Redding, & Schott, 2007).

Although recent additions to this literature (Yi, Wang, & Kafouros, 2013; Gaur, Kumar, & Singh, 2014; Agnihotri & Bhattacharya, 2015) have begun to focus on emerging economy firms (EEFs) and contextual factors, our knowledge in these areas remains limited. Specifically, prior theoretical rationales that apply to exporters from developed countries might be unsuited to examine EEF strategies and behaviours (Wright, Filatotchev, Hoskisson, & Peng, 2005). Furthermore, prior export research tends to focus on various host-country characteristics, while paying less attention to features of the exporters' home countries (Sousa et al., 2008). Particularly in the emerging economy (EE) context, these characteristics may include critical factors (e.g., political instability, informal competitors, etc.) which are typically not considered in studies of firms from developed economies (Hiatt & Sine, 2014; McCann & Bahl, 2017; Gokalp, Lee, & Peng, 2017). Finally, firm exporting is a complex activity, comprising multiple layers of decisions (e.g., whether, where, what, and how much) that are governed by different determinants (Bernard, Redding, & Schott, 2011). While most studies focus solely on one of these aspects, it is important to understand the interplay between these distinct dimensions under different institutional and capability configurations (Gao, Murray, Kotabe, & Lu, 2010).

We seek to address these issues and enhance our understanding of EEF exports by employing elements from the institution-based view (IBV) and the resource-based view (RBV) of the firm (Estrin, Meyer, Wright, & Foliano, 2008). Our research questions are twofold: what institutional features in emerging economies affect EEFs' likelihood of becoming exporters (i.e., *export propensity*), and which firm capabilities determine their subsequent success (i.e., *export intensity*)? Among the many elements of the institutional environment and a wide array of firm capabilities, we focus on several prominent, but relatively unexplored, features in the extant literature. Accordingly, we develop six hypotheses, and test them empirically using data on more than 16,000 EEFs from the four BRIC economies (i.e. Brazil, Russia, India, and China). Together, these four economies account for nearly one fifth of world exports and their share has been steadily increasing over the last decades (WTO, 2015).

We contribute to the literature in two important ways. First, we

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Table 1
Previous studies of the export performance of Emerging Economy Firms (EEFs).

Study	Dataset	Dependent Variable	Significant Determinants
Aulakh et al. (2000)	Firms from Brazil, Chile & Mexico	Subjective measure of export performance	Cost leadership Product differentiation Marketing standardization
Filatotchev et al. (2001)	152 firms from Russia, Ukraine & Belarus	Export intensity	Product development Foreign partners Unrelated acquisitions
Ling-yee and Ogunmokun (2001)	111 Chinese firms	Subjective export performance	Marketing planning capability Export financing capability Relationship cooperation Changes in relational intensity
Zhao and Zou (2002)	1049 Chinese firms	Export propensity and export intensity	Industry concentration Geographic location
Alvarez (2004)	295 Chilean SMEs	Export intensity	Efforts in international business (through export committees) Process innovation Utilization of export promotion programs
Estrin et al. (2008)	494 MNE subsidiaries from Egypt, South Africa, India, Vietnam, Poland & Hungary	Export propensity and export intensity	Distance from parent MNE Size of parent MNEs Acquisition of subsidiaries Host country institutions
Filatotchev, Stephan, and Jindra (2008)	434 FIEs from Poland, Hungary, Slovenia, Slovakia & Estonia	Export intensity	Majority foreign ownership Foreign control over marketing Foreign control over strategic management
Singh (2009)	3542 Indian manufacturing firms, 1990–2005	Export intensity	Firm size, R & D intensity, Advertising intensity, Business group affiliation, Industry effects
Gao et al. (2010)	18644 Chinese firms, 2001–2005	Export propensity and export intensity	Cost leadership, Differentiation, free market institutions, intermediary institutions, and industry export orientation
He et al. (2013)	285 Chinese manufacturing firms, 2008	Export channel choice (Subjective indicator)	Market orientation capabilities institutional distance between home and target country
He and Wei (2013)	196 Chinese manufacturing firms	A subjective composite indicator of export performance	External networks; Propensity of exporting to distant markets; Absorptive capacity (moderator)
Lengler et al. (2013)	197 Brazilian firms	Export sales and export profit	Customer orientation Competitor orientation
Wang et al. (2013)	141 Chinese manufacturing firms, 2000–2003	Export intensity and export volume	External technology acquisition
Yi et al. (2013)	359,874 Chinese manufacturing firms, 2005–2007	Export intensity	Foreign ownership, business group affiliation, and the degree of marketization as moderators of the link between innovation and exporting
Agnihotri and Bhattacharya (2015)	450 Indian manufacturing firms, 2002–2012	Export intensity	Top management team characteristics including—educational level, functional heterogeneity, international exposure, age, and length of tenure with their current firm.

advance our understanding of EEFs' export determinants by proposing a two-stage theoretical model that encompasses the two main dimensions of export performance, namely *propensity* and *intensity*. Compared to past research that addressed these questions in isolation, we adopt an integrative approach that allows us to study them in conjunction, while paying attention to their different determinants. We argue that weak home-country institutions provide a 'push' to EEFs to seek out overseas markets (Witt & Lewin, 2007; Cuervo-Cazurra, Narula, & Un, 2015; Luiz, Stringfellow, & Jefthas, 2017), thereby determining their export propensity. In this way, exporting presents a potential escape route for EEFs to avoid the "institutional misalignment" (Witt & Lewin, 2007: 582) between internal needs and domestic institutional constraints. However, such an escape motivation does not warrant success abroad, hence we do not expect institutional variables to explain variations in the export intensities of EEFs. To understand the latter, we focus on EEF heterogeneity, and in particular on differing levels of key firm-specific capabilities. Thus, an EEF's relative export success vis-à-vis its competitors will ultimately depend on its existing capabilities and its ability to mobilize them effectively (Singh, 2009). Subsequently, our empirical analysis follows this theoretical reasoning and employs a two-stage Heckman procedure, in which we model export propensity (i.e. whether or not firms export) as *inter alia* function of the home-country institutions, and then model export intensity (i.e. the value of the export/sales ratio) as *inter alia* function of firm key capabilities.

Second, we contribute by developing IBV (Peng, Wang, & Jiang, 2008) and RBV (Barney, 1991) explanations that are specific to emerging markets (EEs). Both institutional environments (Gaur et al., 2014) and internal capabilities (Yiu, Lau, & Bruton, 2007; Wang, Cao, Zhou, & Ning, 2013) of EEFs are very different from those of developed economy firms, thus presenting the former with unique challenges. To explore these idiosyncrasies we focus on three key institutional aspects (i.e., informal competition, corruption, and political instability) and their effect on export propensity (Arráiz, Henríquez, & Stucchi, 2013; Lee & Weng, 2013; Schneider & Enste, 2000). Moreover, given EEFs' challenges in terms of securing traditional resources (Gaur et al., 2014), we examine how the workers' skill level (Ganotakis & Love, 2012), access to external technologies (Yasar & Paul, 2007) and top management experience (Sapienza, Autio, George, & Zahra, 2006) affect their export intensity. In these ways, we are able to augment existing literature by showcasing the joint importance of institutional contingencies and firm capabilities for export performance.