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Untangling the multiple effects of slack resources on firms' exporting behavior

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ABSTRACT

Drawing on a behavioral theory perspective, we investigate how distinct types of slack resources affect distinct aspects of firms' exporting behavior. Using longitudinal data of Belgian manufacturing firms, we find that financial and human resource (HR) slack affect the probability of exporting positively at a diminishing rate. Controlling for the export decision, we find that HR slack affects export intensity negatively, while financial and HR slack affect export diversity positively at a diminishing rate. Findings are economically meaningful, especially for new exporters. Taken together, our study adds new insights at the nexus of the international business and slack literatures.

1. Introduction

Exporting—the production of goods at home that are sold in foreign markets—is a key path to boost firm growth and performance (Bloodgood, Sapienza, & Almeida, 1996; Leonidou & Katsikeas, 1996). It is the initially preferred internationalization method and the most widely used strategy of internationalization (Agarwal & Ramaswami, 1992; Johanson & Vahlne, 1977; Leonidou, Katsikeas, & Coudounaris, 2010; Young, Hamill, Wheeler, & Davies, 1989). Compared to other foreign entry modes, such as establishing a foreign subsidiary, exporting involves comparatively lower levels of resource commitments (Cavusgil, 1984; Leonidou et al., 2010). Still, the costs of entry into exporting are not negligible (Bernard & Jensen, 2004), and competing across national borders consumes more resources than operating purely in the domestic market (Hitt, Hoskisson, & Kim, 1997). While the idea that resources affect firms' exporting behavior is now widely accepted, the purpose of this study is to enrich our understanding of this relationship by investigating two complexities that previous research has left under-explored.

First, previous research has generally explored one export dimension in isolation, typically the intensity of exporting or the extent to which a firm is dependent on foreign sales. However, as Hennart (2011, p. 136) indicates, "a firm's foreign footprint is the result of the many choices made by its managers". For instance, managers must decide to enter into exporting (Bernard & Jensen, 2004), and for those firms that enter into exporting, export intensity does not capture the diversity of foreign markets a firm serves (Verbeke & Brugman, 2009). Moreover, while the literature has generally tended to see these export dimensions as substitutable and has lumped them under umbrella terms such as "internationalization" (e.g., Hennart, 2011), there is increasing recognition of the multifaceted nature of firms' exporting behavior and the possibility that distinct export dimensions are likely to have their own antecedents (e.g., Annavarjula & Beldona, 2000; Goerzen & Beamish, 2003; Marano, Arregle, Hitt, Spadafora, & van Essen, 2016; Sullivan, 1994; Thomas & Eden, 2004). Our study builds on this recognition by considering distinct aspects of firms' exporting behavior and their interrelatedness.

Second, previous research has often focused on the *absolute* amount of resources as determinants of firms' exporting behavior (e.g., Hitt, Bierman, Uhlenbruck, & Shimizu, 2006; Kaleka, 2012; Preece, Miles, & Baetz, 1998; Sapienza, Autio, George, & Zahra, 2006). However, Mishina, Pollock, and Porac (2004, p. 1182) argue that "without considering current resource demands, it is unclear why the quantity of resources possessed by a firm should relate to organizational growth except in quite general ways". Thus, slack resources—or those resources that are not consumed by the demands from current operations—may provide a theoretically more justifiable basis for firm growth more generally and the exploration and exploitation of foreign market opportunities more specifically. Moreover, conceptually, slack is a multidimensional construct, where distinct types of slack resources lie along a continuum representing the ease by which they can be redeployed by managers (Bourgeois & Singh, 1983), and these resources are likely to have their own distinct effects (Mishina et al., 2004; Paeleman & Vanacker, 2015; Tan & Peng, 2003; Vanacker,

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Collewaert, & Zahra, 2017). Our study builds on this recognition as well by considering distinct types of slack resources.

While a limited set of recent studies have examined the relationship between slack resources and firms' exporting behavior (Kiss, Fernhaber, & McDougall, 2017; Lin, Cheng, & Liu, 2009; Tseng, Tansuhaj, Hallagan, & McCullough, 2007), the current paper is unique in that it jointly addresses the two abovementioned complexities. Specifically, drawing on a behavioral theory perspective, we examine how *distinct* types of slack resources, including financial and HR slack, differently influence *distinct* aspects of firms' exporting behavior, including the probability of entering into exporting, as well as export intensity and export diversity. We focus on firms' exporting behavior, because firms generally prefer non-equity entry modes such as exporting (Baum, Schwens, & Kabst, 2015; Kuivalainen, Sundqvist, & Servais, 2007).[1] Moreover, the amounts and types of resources that foster firms' exporting behavior are likely to play an even more decisive role for other more resource-consuming foreign entry modes such as foreign direct investments. We focus on slack in financial resources (i.e., excess cash) and human resources (i.e., excess skilled employees) because these resources differ significantly in their redeployability and are most clearly related to firm emergence and development (e.g., Cooper, Gimeno-Gascon, & Woo, 1994; Mishina et al., 2004).

For the purpose of this study, we use a unique longitudinal dataset on the exporting behavior of 9535 Belgian manufacturing firms between 1997 and 2010. Our results show that both financial and HR slack affect the probability of entry into exporting positively at a diminishing rate. Controlling for the export decision, we fail to find an effect of financial slack on firms' export intensity, while we find a negative effect of HR slack on firms' export intensity. Both financial and HR slack affect firms' export diversity positively at a diminishing rate. We find that our results are the most economically significant for new exporters (i.e., firms with no preexisting exporting activities). We further conduct several tests that demonstrate the robustness of these results to alternative explanations and measurement issues.

Our primary contribution is to the internationalization literature. Most studies that examine firms' exporting behavior treat distinct export dimensions as substitutable (see Hennart, 2011, for a similar observation). However, our study stresses the importance of differentiating between distinct export dimensions and incorporating their interdependencies. By doing so, we address recent calls to further unravel firms' exporting behavior (Hennart, 2011; Leonidou et al., 2010; Marano et al., 2016). Furthermore, internationalization scholars generally assume that having more resources is better than having fewer resources (e.g., Hitt et al., 2006). We show, however, that distinct types of slack resources differently influence distinct export dimensions. We also contribute to the literature on slack resources and the behavioral theory of the firm. There is increasing recognition that simply possessing slack resources will not generate performance or growth advantages—how managers use these resources may be more important (Sirmon, Hitt, & Ireland, 2007). Still, scholars have primarily focused on the effects of slack on firm performance and growth (e.g., Daniel Lohrke, Fornaciari, & Turner, 2004; George, 2005; Mishina et al., 2004). While recent research has focused on the relationship between slack and a firm's foreign footprint (e.g., Lin et al., 2009), this footprint typically combines several managerial choices (Hennart, 2011). We provide a cleaner link between slack and specific managerial decisions by focusing on the impact of slack on distinct export dimensions.

2. Theory and hypotheses

Current research on firm exporting can be divided in two major streams, with relatively limited cross-fertilization between them. The first stream is concerned with the factors that differentiate exporting firms from non-exporting firms (e.g., Bernard & Jensen, 2004; Burton & Schlegelmilch, 1987; Cavusgil & Naor, 1987; Cavusgil & Nevin, 1981; Leonidou, 1995a). While these studies provide very useful insights with respect to managers' decisions to enter into exporting, by design they provide limited insights into the factors that increase firms' foreign footprint once managers have made the decision to enter exporting (Katsikeas, Deng, & Wortzel, 1997).

A second stream focuses on exporting firms (e.g., Piercy, Kaleka, & Katsikeas, 1998; Tookey, 1964; Tseng et al., 2007) and is generally concerned with one export dimension, typically the export intensity. However, as indicated by Verbeke and Brugman (2009), the export intensity does not measure the diversity of the foreign markets a firm serves. Specifically, a Belgian firm that exports 50 percent of its output to neighboring France will have the same export intensity as a Belgian firm that generates half of its output from exporting to 50 different countries. Thus, studies on one export dimension (e.g., export intensity) provide limited insights into factors that drive managers' decisions with respect to other export dimensions (e.g., export diversity).

While scholars have made progress by addressing the multidimensionality of firms' exporting behavior by using composite measures, such measures also conceal differences between distinct export dimensions. Still, there is an increasing recognition that managers make multiple interrelated decisions with respect to their exporting activities and that distinct export dimensions may have their own antecedents (e.g., Annavarjula & Beldona, 2000; Goerzen & Beamish, 2003; Katsikeas & Leonidou, 1996; Marano et al., 2016; Preece et al., 1998; Sullivan, 1994; Thomas & Eden, 2004). Moreover, the limited cross-fertilization across the aforementioned research streams also raises concerns. Specifically, when studying export intensity or diversity, one cannot ignore the "first-step" (non-random) strategic decision of managers to enter into exporting (or not). Shaver (1998, p. 571), for instance, states that "If firms choose the strategy that is optimal given their attributes …, then empirical models that do not account for this choice process are potentially misspecified and the normative conclusions drawn from them may be incorrect".

Our study builds on these observations by considering distinct export dimensions concurrently. We first focus on the decision to export, which refers to the probability that non-exporting firms enter into exporting (Leonidou, 1995b). Exporting is a less resource-intensive entry mode relative to, for example, foreign direct investments. Still, as we detail below, the costs related to entering exporting are significant (Bernard & Jensen, 2004), and most managers view exporting as a risky undertaking without immediate financial returns (Burpitt & Rondinelli, 2000). Controlling for the export decision, we focus on the export intensity—or the depth of exporting—which is higher when firms derive more revenues from their international activities (Mathews & Zander, 2007). Controlling for the export decision, we also focus on the export diversity—or the breadth of exporting—which is higher when firms derive more revenues from a more diverse set of the foreign markets or countries (Tallman & Li, 1996). As we detail below, increasing export intensity is less resource demanding and represents a more standardized workflow relative to increasing export diversity (Gomez-Mejia, 1988; Preece et al., 1998; Tookey, 1964).

While there is general agreement that resources, and slack resources particularly, shape a firm's exporting activities, it remains unclear how they do so. Theoretically, slack resources may provide firms with the means to cross borders, allowing them to compete in international markets with fewer binding constraints (e.g., Tseng et al., 2007). From this perspective, slack resources are expected to foster firms' exporting activities. However, slack resources may also shield firms from external pressures, thereby reducing incentives to adapt to environmental pressures and to engage in uncertain projects (e.g., Nohria & Gulati, 1996). From this perspective, slack resources are expected to hamper

[1] Empirically, as we detail below, we control for firms that have foreign subsidiaries and foreign shareholders because their presence is expected to influence firms' exporting behavior.