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## The empirical link between export entry mode diversity and export performance: A contingency- and institutional-based examination<sup>☆</sup>

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## ABSTRACT

This study examines, for the first time, the critical issue of whether firms ought to adopt various entry modes in their export activities, i.e. whether firms ought to carry-out greater levels of export entry mode diversity, as a route to increase export performance.

Underpinned by contingency and institutional theories this research also examines the role of institutional barriers, investment uncertainty, and geographical scope as moderators of the export entry mode diversity-export performance link. Findings suggest that greater export entry mode diversity is beneficial for export performance. Furthermore, higher export entry mode diversity levels are particularly recommended for firms that operate in export environments with higher institutional barriers, and for firms that have greater levels of export geographical scope.

Results concerning the moderating role of investment uncertainty on the export entry mode diversity-export performance link are modest, and vary in signal across different levels of export entry mode diversity.

## 1. Introduction

Exporting is a critical mechanism for firms to expand internationally (Chen, Sousa, & He, 2016). Firms can adopt various entry modes in their export activities, such as exporting via foreign sales agents, exporting through foreign importers and distributors, exporting through firms' foreign offices and subsidiaries, and exporting via collaborating with other firms (e.g. commercial franchising, licensing). The literature highlights entry mode(s) adopted by firms in exporting as crucial in predicting export performance (Cavusgil & Zou, 1994; Ngo, Janssen, Leonidou, & Christodoulides, 2016). Existing studies often explore the performance outcomes of choosing one entry mode over another. In this context, there is a lack of knowledge regarding the impact of adopting multiple export entry modes on export performance. In other words, researchers have failed to examine the relationship between export entry mode diversity and export performance. This is unfortunate, as

firms frequently adopt more than one entry mode across their portfolio of export markets (McNaughton, 2002). Therefore, a crucial question persists as to whether firms should pursue various entry modes in their export activities (i.e. increase their export entry diversity levels) or whether, alternatively, firms ought to adopt a single entry mode across their portfolio of export operations.

In the present study, we seek to address this important research gap by examining, for the first time, the impact of export entry mode diversity on export performance. Furthermore, we draw on contingency and institutional theories to identify potential moderators of such a link. Those are the magnitude of export institutional barriers faced by firms, the level of uncertainty that characterizes firms' export environments, and firms' degree of export geographical scope. We contend that export entry mode diversity has a positive effect on export performance. In addition, we argue that such an impact becomes greater when higher levels of institutional barriers characterize firms' export

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environments, and when firms face greater levels of environmental uncertainty in their export activities. Finally, we predict that entry mode diversity is more beneficial for export performance when firms pursue greater levels of export geographical scope. We test our theoretical model using cross-sectional survey data from 250 Chinese exporters.

Next, we present the theoretical background of our study and develop the model hypotheses. We then outline the methodology used and present our findings. We subsequently discuss the theoretical and managerial implications of our research. This is followed by a discussion of the study limitations and directions for future research. Finally, we present the main conclusions of the study.

## 2. Theoretical background and hypotheses

A critical decision that exporters face when entering foreign markets concerns the degree to which they take on sales and distribution responsibilities directly and, relatedly, the extent to which they interact with export market customers (e.g. Anderson & Coughlan, 1987). Firms have a choice of possible entry modes, such as exporting via foreign sales agents, exporting through foreign importers and distributors, exporting through the firms' foreign offices and subsidiaries, and exporting via collaborating with other firms (e.g. commercial franchising, licensing). With very few exceptions (e.g. McNaughton, 2002), the bulk of existing research on export entry mode tends to focus on the pursuit of a particular type of export entry mode versus another (Li, He, & Sousa, 2017). Examples include direct versus indirect exporting (Hessels & Terjesen, 2010; Ngo et al., 2016), exporting via a market channel versus via a cooperative channel (Arranz & De Arroyabe, 2009), and exporting via integrated versus independent channel (Khemakhem, 2010). Yet, companies often use multiple entry modes over the same time period for the same product market, or across their different product markets (Hoppner & Griffith, 2015). In this context, we put forward a more holistic view of export entry mode that considers a firm's entire portfolio of export activities. Specifically, we analyze the relationship between the extent to which firms adopt various export entry modes across their export activities, i.e. export entry mode diversity, and export performance. We also investigate critical contingencies of such a relationship, namely the level of export institutional barriers faced by firms, the degree of uncertainty of firms' export environments, and the level of export geographical scope carried-out by firms. Our conceptual model is depicted in Fig. 1.

### 2.1. Entry mode diversity and export performance

Adopting various entry modes across exporting operations (i.e. pursuing greater levels of export entry mode diversity) is a key contributor to enhanced export success, as it provides firms with greater knowledge about undertaking different types of operational arrangements (McNaughton, 2002). Firms can use the operational knowledge acquired in one market not only to boost performance in that market, but also to gain a competitive edge in other markets where they undertake similar operational arrangements. Greater export entry mode diversity also provides firms with greater levels of flexibility, making them more able to adapt their export strategies to meet diverse market conditions (Brouthers, Brouthers, & Werner, 2008). Such flexibility is a critical factor to attain superior performance in export markets, as firms typically export to multiple markets that differ in critical aspects, such as infrastructure, market size, market structure, or type of competition (e.g. Katsikeas, Samiee, & Theodosiou, 2006). Additionally, diversifying export entry mode enables firms to spread the risks associated with any particular entry mode. Therefore, we put forward the following hypothesis:

**Hypothesis 1.** The greater the export entry mode diversity, the greater the firm's export performance.

### 2.2. Institutional barriers and investment uncertainty as moderators

Entry into export markets is undertaken within the constraints of the institutional environments in these markets (Manolova & Yan, 2002). Institutional barriers (e.g. political instability, corruption, crime, and theft) are the result of the behaviors of the institutions that characterize an economy, and have a critical role in shaping firms' competitive behaviors in that economy (Cahen, Lahiri, & Borini, 2016). Institutional barriers are especially pertinent in the examination of export entry modes, as such barriers often present unusual constraints for the management of export operations (cf. Yaprak, 2012). Export entry mode diversity increases firms' flexibility levels, enabling them to successfully cope with diverse market conditions. Enhanced levels of flexibility will be especially important when firms need to deal with higher institutional barriers, as flexibility allows firms to adopt entry modes in foreign markets that are best suited to overcoming such institutional barriers (or, at least, reduce their negative impact on performance). Hence, it is likely that export entry mode diversity will become more beneficial for export performance as institutional barriers increase. Thus, we hypothesize that:

**Hypothesis 2.** Institutional barriers positively moderate the relationship between export entry mode diversity and the firm's export performance.

Investment uncertainty in foreign markets concerns the lack of assurance on the part of managers that investments in those markets will not be affected by the conditions that characterize them (e.g. political instability, economic volatility) (cf. Brouthers et al., 2008). Greater export entry mode diversity levels provide firms with enhanced levels of strategic flexibility and with greater knowledge in terms of undertaking different types of operational arrangements. Such factors will become particularly important when firms' export environments are more uncertain, since they will allow firms to successfully shift entry modes in foreign markets, if needed. Thus, export entry mode diversity is likely to be more beneficial for export performance when investment uncertainty is higher. Therefore, we hypothesize that:

**Hypothesis 3.** Investment uncertainty positively moderates the relationship between export entry mode diversity and the firm's export performance.

### 2.3. Geographical scope as a moderator

Export geographical scope relates to the number of export markets in which the firm operates. The flexibility and knowledge gains brought about by greater export entry mode diversity will become especially apparent in the case of firms that have greater levels of geographical scope. The underlying reasoning is that exporting to a higher number of markets is likely to present firms with greater levels of environmental diversity (e.g. infrastructure, market size) and, thus, with a higher need to adapt their export strategy, including the operational arrangements undertaken across export markets (Katsikeas et al., 2006). Accordingly, we anticipate that export entry mode diversity will be more useful for export performance when export geographical scope is greater. Therefore, we hypothesize that:

**Hypothesis 4.** Export geographical scope positively moderates the relationship between export entry mode diversity and the firm's export performance.

## 3. Methodology

### 3.1. Sample and data collection

We tested our model using survey data obtained from a directory of 22,000 exporters in the People's Republic of China (Zhou, Li, Sheng, &

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