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Export intensity, scope, and destinations: Evidence from Brazil

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ABSTRACT

How do the three dimensions of geographic export diversification—namely, (1) export intensity, (2) export scope, and (3) export destinations—interact in determining firm performance? How does the export intensity–performance relationship change considering export scope and destinations? Drawing on institution-based and resource-based lenses, we argue that differences between home and destination country institutional environments are amplified by the scope or variety of export destinations. As firm resources nurtured in the home country may not fit an increasing number of different foreign institutional environments, the export intensity–firm performance relationship turns negative. Conversely, our panel data analysis suggests a positive relationship between export intensity and performance when exporters from an emerging economy increase their exports to a limited number of other emerging economies. Thus, our findings extend conventional wisdom on the export intensity–firm performance relationship and suggest that the international marketing strategy literature needs to simultaneously incorporate three dimensions (including export destinations) into the geographic export diversification construct.

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1. Introduction

While most research on geographic diversification deals with multinationals (Goerzen & Beamish, 2003; Qian et al., 2010; Rugman & Verbeke, 2004), many firms are active in exporting, but have not become multinationals (due to their lack of foreign direct investment [FDI]). Such exporters nevertheless have to confront a crucial but underexplored attention: How can they manage geographic export diversification?

A typical measure for geographic export diversification is export intensity, which refers to the ratio of export sales to total sales (Zhao & Zou, 2002). Some research shows a positive relationship between export intensity and firm performance. The reason is twofold: (1) more productive, competitive and knowledgeable firms export a higher proportion of sales (Bernard & Jensen, 1999; Ling-Yee, 2004), and (2) exporters that are more engaged in foreign (compared to domestic) markets learn more and thus become more competitive (Ellis et al., 2011; Salomon & Jin, 2008). However, other studies document a negative relationship. This negative relationship has been explained by reduced export price competitiveness due to widespread country-level drivers such as the home country currency appreciation, rising wages, competition by lower cost countries that lead to lower

margins overseas, among other factors (Gao et al., 2010; Ito, 1997; Lu & Beamish, 2001).

These conflicting claims suggest a gap in our understanding of the drivers of the relationship between export intensity and firm performance. We argue that the firm-level dimension, export intensity, needs to be concurrently analyzed within the context of country-level dimensions that take the form of export scope and export destinations. Export scope refers to the dispersion of activities across foreign countries (Chen & Hsu, 2010; Goerzen & Beamish, 2003), which is also known under the export market concentration versus diversification debate. This debate has long proposed that the costs and benefits of export scope are contingent on situational factors. Empirical evidence, however, has so far been inconclusive (Dean et al., 2000; Nath et al., 2010; Piercy, 1981). Export destination countries provide such situational factors.

However, prior research has hardly addressed destination country characteristics (for exceptions, see Cavusgil et al., 2004; Natarajarathinam & Nepal, 2012). Therefore, we address two research questions: (1) How do the three distinct dimensions of geographic export diversification—namely, export intensity, export scope, and export destinations—interact in determining firm performance? (2) How does the export intensity–performance relationship change when export scope and destinations are included into analyses? These questions are important because their analysis can help export managers to understand how their export strategies contribute to firm performance.

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Drawing on the institution-based and resource-based theories, our study aspires to make three contributions. First, it integrates the three dimensions of geographic export diversification in a comprehensive framework and thus sharpens the geographic export diversification construct. While there is widespread literature on each individual dimension, their combined effects have rarely been addressed. Shedding light on this gap in understanding is important given the persistent disagreements with respect to the conceptualization and operationalization of the geographic diversification construct (Hennart, 2007; Verbeke & Forootan, 2012). Thus, an underexplored opportunity lies in combining export intensity with export scope and export destination, which results in a three-dimensional geographic export diversification construct. In what follows, we emphasize the novel destination country dimension of the three-dimensional geographic diversification construct.

Second, we build on prior institution-based work that has suggested that the international success or failure of firms is contingent on the institutional conditions of the internationalizing firms' home and destination countries (Cuervo-Cazurra & Genc, 2008; Hoskisson et al., 2013; Meyer & Peng, 2005; Peng, 2012; Wan, 2005). We derive hypotheses that relate geographic export diversification strategies to firm performance for EE firms that choose DEs or other EEs as their export destinations. By uncovering a significant destination country effect, this study broadly supports the institution-based view. Thus, the institution-based view extends existing explanations for geographic export diversification (Piercy, 1981; Dean et al., 2000).

By shedding light on the inherent trade-offs between different dimensions of export diversification, this study extends existing learning by exporting theory that has proposed linear relationships between export intensity and firm performance (Ellis et al., 2011; Ling-Yee, 2004). We argue that this relationship can change contingent on the variety (export scope) and the institutional properties of export destinations. Making progress in the learning by exporting literature therefore requires incorporating the institution-based and resource-based underpinnings of the export destination dimension.

2. Institution-based and resource-based theories

The three dimensions (Fig. 1) represent distinct properties of geographic diversification, i.e. diversification away from the home market (export intensity), across foreign markets (export scope) and across economically or institutionally dissimilar markets (export destinations). The implications of institutional differences between home and destination countries are the emphasis of this section. The subsequent section addresses how such institutional differences affect firm performance when export intensity and scope vary. Our approach builds on the incipient understanding that both export intensity and the export scope relationships require a contextual explanatory variable—export destinations—to properly explain firm performance (Dean et al., 2000; Piercy, 1981; Trofimenko, 2008; Wagner, 2012).

Although some scholars have advocated the use of only one dimension as a geographic diversification measure—foreign sales to total sales (FSTS) for multinationals or export intensity for exporters (Contractor

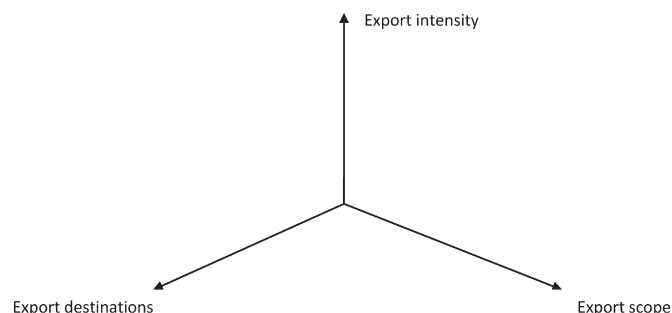


Fig. 1. The three-dimensional geographic export diversification construct.

et al., 2007; Rugman & Oh, 2011)—the choice of a three dimensional construct is more than a simple measurement issue. Different types of destination countries expose exporters to different institutional environments and consequently to different market challenges to which exporters have to adjust by proficiently deploying their resources and capabilities.

Prior research has suggested that the home country's institutional environment shapes firm resources and capabilities (Cuervo-Cazurra & Genc, 2008; Ramamurti & Singh, 2009; Wan, 2005), because institutions essentially work through incentives that prompt firms to learn, innovate and thus adapt to competitive challenges (Acemoglu et al., 2005; North, 1990). The resulting resources and capabilities explain why firms from particular EEs perform differently in particular destination countries (Aulakh, Kotabe, & Teegen, 2000; Cuervo-Cazurra et al., 2007; Peng et al., 2008; Hoskisson et al., 2013; Xu & Meyer, 2013). The literature distinguishes between weak and strong institutional environments (Peng, 2003; Shinkle & Kriauciunas, 2010). Whereas weak institutional environments imply that competition is impaired, strong ones reflect well-functioning market mechanisms. Weak institutional environments at home, often characterized by protectionism, insufficient protection of intellectual property rights (IPR), oligarchic or monopolistic market structures (Acemoglu et al., 2005), are likely to create insufficient incentives for firms to develop resources and capabilities to excel in foreign markets. For instance, protectionism limits domestic firms' exposure to international competition and thus the incentive to upgrade resources and capabilities. Lack of IPR protection limits the opportunities for firms to appropriate the gains of their investments and thus reduces the propensity to innovate (Khoury & Peng, 2011).

Weaker institutional environments at home may even impose further burdens on exporters. For example, excessive red tape increases the costs of doing business. Likewise, institutional voids, such as the lack of intermediaries that connect buyers and suppliers through information, product and service flows, tend to raise transaction costs and thus the costs of doing business (Khanna et al., 2005). There is empirical evidence that firms from EEs that have delayed market-oriented reforms are less internationalized than firms from EEs that have liberalized their economies earlier (Sol & Kogan, 2007).

However, despite such obvious disadvantages of weak institutional environments, some EE firms may develop “adversity advantages”—competitive advantages created by knowing how to work around institutional voids or by doing business in environments characterized by infrastructure and resource constraints (Ramamurti & Singh, 2009). In export markets, EE firms need competitive advantages based on valuable, rare, and difficult-to-imitate resource combinations (Barney, 1991; Kaleka, 2002) to compensate for their liability of foreignness. Adversity advantages embody context-specific knowledge resources and capabilities that can result in competitive advantage in some countries and disadvantages in others (Cuervo-Cazurra et al., 2007). For instance, EE firms can address resource and infrastructure constraints in their home country and their EE export destinations by developing products and services for populations with lower educational, income, and health levels or by introducing efficiency innovations and process improvements (Jiang et al., 2015; Ramamurti & Singh, 2009).

Finally, larger exporters may use their bargaining power in weak institutional environments to obtain financial resources, such as subsidies, tax breaks, and/or cheap loans, from home-country governments (Shinkle & Kriauciunas, 2010; Sun et al., 2015). We argue that these (adversity) advantages and disadvantages that result from EEs' home country institutional environments affect exporters' competitiveness differently, depending on the characteristics of destination countries (see Table 1). However, the homegrown relationship capability to effectively liaise with EE governments—a likely competitive advantage in other EEs—can become a liability in DEs. Thus, the resource-based view combined with the institution-based view explains why firms from particular countries of origin are differentially competitive in particular destination countries.

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