ARTICLE IN PRESS

International Business Review xxx (xxxx) xxx–xxx

Contents lists available at ScienceDirect

International Business Review

journal homepage: www.elsevier.com/locate/ibusrev

Does the sequencing of related and unrelated export diversification matter? Evidence from Colombian exporters

Dirk Boehe[a,*], Alfredo Jiménez[b]

[a] School of Management, Massey University, Private Bag 102904, North Shore, Auckland 0745, New Zealand
[b] Kedge Business School, 680 cours de la Liberation, Talence cedex, France

ARTICLE INFO

Keywords:
Export diversification
Product and market relatedness
Organizational learning
Colombian exporters

ABSTRACT

How does related or unrelated geographic diversification affect future related or unrelated product diversification of exporting firms, and vice-versa? *This question addresses an unresolved debate, and it is important for firms in developing countries that seek to expand their product and geographical markets.* Our study contributes to a current debate by highlighting the relevance of the temporal sequence and the relatedness of international diversification. Expanding the classic transaction costs and the resource-based explanations, we argue that organizational learning as well as organizational and sales (in-)efficiencies (notably through resource and product cannibalization, negative transfer and coordination costs) affect the interrelationships between product and geographic diversification. Using a panel dataset of over 14,000 firm-year observations from exporters based in Colombia, we find that (1) related geographic diversification tends to increase future product diversification; (2) related product diversification tends to decrease future geographic diversification; and (3) unrelated product diversification tends to increase future geographic diversification.

1. Introduction

Shall exporters diversify their products before they expand into different overseas markets or shall they diversify first into overseas markets before they diversify their products? Either way, shall exporters prioritize related over unrelated product or geographic diversification? These applied, strategic questions reflect an enduring academic debate on whether product and geographic diversification are substitutes (Kistruck, Qureshi, & Beamish, 2013; Kumar, 2009; Wiersema & Bowen, 2008), complementary (Davies, Rondi, & Sembenelli, 2001; Tallman & Li, 1996) or both (Bowen & Sleuwaegen, 2017; Hashai & Delios, 2012).

While most research has focused on the diversification of foreign direct investment (FDI), research on export diversification is relevant despite remaining under-studied within the broader field of international diversification research. FDI and export diversification can be affected by the same factors, such as exchange rates, transfer prices or corporate taxes, in a very different way (Aulakh, Kotabe, & Teegen, 2000; Boehe, 2014; Hennart, 2015). Besides, research on exporting provides an ideal setting to explore the interrelationships between product and geographic diversification as it circumvents some potential confounding effects of FDI by focusing on only one element of the value chain–sales–, by limiting itself to only one entry mode–exporting–and by focusing on only one internationalization motive–market-seeking (Boehe & Jiménez, 2016; Shaver, 2011).

In this paper, we argue that advancing the substitutability versus complementarity debate requires to address the sequence between geographic and product diversification. In other words, the order of sequence of the relationship affects the extent to which geographic and product diversification may be synergistic or in conflict: the reasons why product diversified firms expand or reduce their geographic diversification can differ from the reasons why geographically diversified firms expand or reduce their product diversification. Specifically, for exporters who diversify geographically first, the benefits of market and technological learning seem to outweigh transaction costs. Conversely, for exporters who diversify their products first, organizational and sales (in-)efficiencies can explain why firms increase or decrease their geographic diversification. We further suggest that addressing the question whether product and geographic diversification are synergistic or in conflict, requires disentangling the effects of related from unrelated geographic and product diversification.

This paper makes the following theoretical and empirical contributions. First, we advance international marketing and international business theory on product and geographic diversification (López-Cózar-Navarro, Benito-Hernández, & Platero-Jaime, 2017; Sun & Govind, 2017) by theorizing and empirically testing the claim that the

* Corresponding author.
E-mail addresses: D.Boehe@massey.ac.nz (D. Boehe), Alfredo.Jimenez@kedgebs.com (A. Jiménez).

https://doi.org/10.1016/j.ibusrev.2018.04.005
Received 10 September 2017; Received in revised form 23 April 2018; Accepted 25 April 2018
0969-5931/

relationship between geographic and product diversification becomes positive or negative contingent on the sequence of diversification choices. This is novel as prior research has implicitly assumed that this relationship remains identical in both ways (Hitt, Hoskisson, & Ireland, 1994; Wiersema & Bowen, 2008). We contribute to the current debate in the literature on diversification by showing that moving beyond the classic transaction costs and the resource-based explanations can help reconciling incompatible earlier studies. Specifically, our explanations highlight two critical aspects affecting exporters–especially in emerging economies–, such as organizational learning as well as organizational and sales (in-)efficiencies (notably through resource and product cannibalization, negative transfer and coordination costs).

Second, whereas prior research has only disentangled the effects of *related* and *unrelated* product diversification (Chang & Wang, 2007; Ramaswamy, Purkayastha, & Petitt, 2017; Sambharya, 1995), this is–to the best of our knowledge–the first study that hypothesizes on the non-recursive relationships between related and unrelated product as well as related and unrelated geographic diversification. We demonstrate that the underlying theoretical rationale essentially differs for several of the resulting relationships. Thus, we add an additional pathway that could contribute to reconciling the debate on the relationship between product and geographic diversification. In addition, we believe that examining synergies and conflicts within these fundamental relationships constitutes essential groundwork for further-reaching investigations beyond the scope of this article, such as internationalization processes, internationalization and performance, or corporate diversification.

Finally, in this paper we compute export diversification as a standardized entropy measure taking into account the weight of each product (industry) and export destination country (region) over total exports. For this purpose, we use an innovative empirical approach drawing on recommendations from prior research (Raghunathan, 1995; Vachani, 1991), and calculate related and unrelated product and geographic diversification using product classifications and destination country information obtained from Colombian customs export declarations. By analysing the case of Colombia, a context with limited evidence, we also make an important contribution by responding to recent calls in the literature for contextualizing international business research by testing the relevance of established managerial theories in developing economies (Teagarden, Von Glinow, & Mellahi, 2017), including Latin America (Aguilera, Ciravegna, Cuervo-Cazurra, & Gonzalez-Perez, 2017).

2. Theory

What makes product and geographic diversification an exciting field of research is that we do not know how and why variations in related or unrelated *product* diversification translate into changes in related or unrelated *geographic* diversification and vice-versa. Essentially, these relationships relate to the questions of whether different types of diversification create conflicts or synergies. Wiersema and Bowen (2008) as well as Kistruck, Qureshi, and Beamish (2013) and Kumar (2009), for instance, argue that the relationship between geographic and product diversification is substitutive, whereas Davies et al. (2001), Tallman and Li (1996) as well as Hitt, Hoskisson, and Ireland (1994) see them as complementary. Yet, some authors argue that the nature of the relationship is contingent on factors such as the level of over and under diversification (Hashai & Delios, 2012), and the interplay between firm resources and the market environment (Bowen & Sleuwaegen, 2017).

When taking unrelated and related diversification into account, the inconsistencies in the literature do not disappear, on the contrary. Whereas Chang and Wang (2007) as well as Sambharya (1995) argue that the relationship between unrelated product diversification and geographic diversification is substitutive, Hitt, Hoskisson, and Kim (1997) as well as Kim, Hwang, and Burgers (1989) consider them as complementary.

Transaction cost economics and the resource-based view of the firm seem to be the dominant theoretical perspectives in previous research. For instance, while some studies analyse the transaction costs incurred between MNE units and external parties (Kistruck et al., 2013), others address the transaction costs within MNEs' internal markets (Tallman & Li, 1996). Still other studies explain that firms can keep their transaction costs unchanged by adjusting their modes of governance, even if they substantially change product and geographic scopes (Hennart, 2011). Furthermore, some firms may learn to manage complex transactions and thus, over time, the impact of transaction costs can actually diminish as diversification increases (Hitt et al., 1994).

Regarding the resource-based perspective, diverse studies interpret the role of synergies among resources and capabilities differently. While some see synergies across diversified products and markets as an opportunity to build unique competitive advantages (Hitt et al., 1994), others question the potential for synergies, especially when managerial resources are limited (Wiersema & Bowen, 2008). Prior research has further argued that firms can obtain synergistic economies if their activities use shared inputs in terms of products, manufacturing, logistics, marketing or sales (Capron & Hulland, 1999; Prahalad & Bettis, 1986; Tanriverdi & Venkatraman, 2005) across product and geographic markets. However, the synergies argument is founded on the assumptions that firms establish linkages across product and geographic markets and that such synergies are actually realized (Nayyar & Kazanjian, 1993). Accordingly, the synergies argument begs for studies that consider (un-)relatedness in product and in geographic diversification.

We believe that research on product and geographic export diversification can benefit if we move a step beyond the transaction costs and resource-based perspectives. In line with the notion that different dimensions of product and geographic diversification can be conflictual or synergistic, we think we can advance the field by building on learning mechanisms and by conceptualizing organizational and sales (in-)efficiencies as drivers of product and geographic diversification. We claim that export product diversification can be explained by market and technological learning in different geographies (Nelson & Winter, 1982; Quintana-García & Benavides-Velasco, 2008; Zahra, Ireland, & Hitt, 2000). Conversely, changes in geographic diversification can result from organizational and sales inefficiencies, such as resource and product cannibalization, negative transfer and coordination costs (Hashai, 2015; Roberts & McEvily, 2005; Zahavi & Lavie, 2013).

Accordingly, we extend and integrate existing streams of research by hypothesizing on the sequential relationships between related and unrelated product and geographic export diversification. As previously mentioned, our theorizing rests on the assumption that the order of sequence of the relationship matters: the reasons that drive product diversified firms to expand or reduce their geographic diversification can differ from the reasons that motivate geographically diversified firms to expand or reduce their product diversification. We therefore formulate different hypotheses for each case.

3. Hypotheses

3.1. How does geographic diversification affect product diversification?

We argue that existing geographic diversification is likely to increase future product diversification − both types of diversification are therefore expected to be synergistic. In sum, a broader spread of geographic export destinations increases the diversity of foreign market challenges and opportunities. Foreign market challenges and opportunities can create incentives for firms to modify their existing products or to introduce entirely new products that fit specific markets. Market and technological learning are key mechanisms that drive this process.

Products developed for current markets might be difficult to commercialize in new markets due to different customer demands, competition or government regulations (Schmid & Kotulla, 2011;