Buitenlands beleid, internationaal ondernemen en ontwikkelingssamenwerking

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KU LEUVEN

Paper No. 24 – June 2014

THE ANTECEDENTS OF EXPORTING

Priscilla Boiardi & Leo Sleuwaegen

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Abstract

The paper analyses the antecedents of exporting by small and medium sized enterprises. A conceptual model integrates push and pulls factors triggering firms to start exporting with factors acting as barriers and/or facilitators in the process. Specific attention is devoted to the role of the decision maker and the nature of the competitive advantage of the firm. The paper concludes by offering some policy considerations and implications for public agencies providing export assistance to small and medium sized enterprises.

Key Words

Exports, decision to export, literature review

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PREFACE (in Dutch)
WOORD VOORAF

De export door kleine en middelgrote ondernemingen, vooral door ondernemingen die recent gestart zijn met exporteren, spelen een belangrijke rol in de groei van de export door geïndustrialiseerde landen. Spijtig genoeg heeft de literatuur minder aandacht besteed aan dit fenomeen. Bovendien is de literatuur zeer fragmentarisch in dit verband. In dit rapport brengen we de relevante literatuur samen binnen een integrerend conceptueel model. Het model biedt een vernieuwend denkkader betreffende de antecedenten van de beslissing tot exporteren door kleine en middelgrote ondernemingen. In overeenstemming met de doelstellingen van het Steunpunt Buitenlands Beleid, Internationaal Ondernemen en Ontwikkelingssamenwerking, biedt het rapport aanknopingspunten met het overheidsbeleid en de werking van agentschappen gericht op de promotie van de Vlaamse export.

De auteurs bedanken de leden van de Werkgroep "Internationaal Ondernemen" van het Steunpunt evenals de leden van de Stuurgroep van het Steunpunt voor hun bemerkingen bij de totstandkoming van de studie. Dit onderzoeksrapport kwam tot stand dankzij de financiële steun van de Vlaamse Overheid.

NON-TECHNICAL SUMMARY (in Dutch)
NIET-TECHNISCHE SAMENVATTING ONDERZOEKSRAPPORT

Niettegenstaande kleine en middelgrote ondernemingen een belangrijke rol spelen in de groei van de export door industriële landen bestaat er weinig systematisch onderzoek in dat verband. Vooral betreffende de rol van ondernemingen die starten met export zijn er grote lacunes in het onderzoek. Bovendien is het onderzoek zeer fragmentarisch en/of specifiek gericht op bepaalde groepen van kleine en middelgrote ondernemingen.

Via het ontwikkelen van een conceptueel model wordt in het rapport het bestaande onderzoek samengebracht en geïntegreerd binnen een logisch geheel. Binnen het model wordt een onderscheid gemaakt tussen "pull" factoren, zoals de opkomst van nieuwe markten die ondernemingen aanzetten om proactief de baten van export te benutten en "push" factoren, zoals overcapaciteit, die op een reactieve wijze ondernemingen dwingen tot export om hun concurrentiekracht te behouden. De werking van deze "pull" en "push" factoren wordt veelal gehinderd door het bestaan van allerhande interne belemmeringen (financiering, menselijk kapitaal…) en externe belemmeringen (transportkosten, regelgeving, invoerrechten...). Anderzijds kunnen factoren zoals de mogelijkheden geboden via een efficiënte in informatie- en communicatietechnologie, globale logistieke netwerken en assistentie door overheden de werking van de push en pull factoren faciliteren. Het model besteedt tevens specifieke aandacht aan de karakteristieken en de rol van de beslissingsnemer, het concurrentieel voordeel en de strategie van de onderneming die als belangrijke intermediërende elementen binnen het systeem het beslissingsproces diepgaand beïnvloeden. Tevens wordt stilgestaan bij de tactieken die kunnen aangewend worden om de belemmeringen te overwinnen en de faciliterende factoren optimaal te benutten.

Het model verduidelijkt hoe de intensiteit van push en pull factoren, de aard van de belemmeringen en van het concurrentieel voordeel de timing, reikwijdte en schaal van de export door de onderneming beïnvloeden. Deze inzichten bieden nuttige aanknopingspunten voor het beleid en de doeltreffendheid van exportassistentie gericht op kleine en middelgrote ondernemingen.

1. INTRODUCTION

Exports of new or existing products to new destinations represent a substantial contribution to a country's export growth (Mayer and Ottaviano, 2008). Firms that start exporting play an important role in this process (Sleuwaegen, Onkelinx, 2013). Yet, knowledge about the antecedents of the decision by firms to start exporting is rather limited. What triggers a firm's decision to start exporting? What conditions have to be met? What hurdles do firms face? How do they overcome these hurdles?

This paper sets out to answer these questions in a systematic way. To this end, we review the literature dealing with the determinants and the process of launching export operations, the barriers firms face when embarking on exporting activities, and the actions firms take to overcome these barriers.

This paper is organized as follows. The next section reviews various streams in the literature dealing with the pre-internationalisation phase of companies and integrates them into a conceptual model. Section Three develops the main factors that push and pull companies to internationalise. Section Four describes the barriers to internationalisation that companies face when starting to export. Section Five outlines the facilitating factors that enable a more rapid internationalisation of companies. Section Six discusses the mediating role of the decision maker and of business strategy. Section Seven concludes by reflecting on the role of export support programs.

2. A CONCEPTUAL MODEL OF EXPORT ANTECEDENTS

Recent empirical research has shown that companies entering foreign markets need to make substantial investments of a sunk cost character, i.e. non-recoupable costs in the event of failure, such as gathering information about the process of internationalisation, collecting knowledge about international markets, understanding the marketing and product adaptations needed in the new context, and setting up a distribution network (Bleaney and Wakelin, 2012). Sunk costs create ''an asymmetry between incumbents and potential new entrants'' (Hölzl, 2005) that can hinder the propensity of a company to engage in international activities (Ghemawat, 2007; Choquette, 2011). Empirical studies have supported the view that sunk costs are present in international expansion (Bernard and Jensen, 2004). Analysing a sample of Irish firms, Lawless finds that there are sunk costs in entering export markets and that exporting firms differ significantly from non-exporters in a way that allows them to overcome these sunk costs and to compete internationally (Lawless, 2009).

The international trade literature looks at pre-internationalisation in very general terms, relating differences in firms' performance, including export performance and export status, to differences in firms' productivity. The underlying assumption is that the more productive firms are able to overcome the sunk costs of exporting and, therefore, self-select into becoming exporters (Melitz, 2003; Bernard and Jensen, 1999, 2004; Chaney 2008). The self-selection hypothesis has been largely supported by empirical evidence (Damijan and Kostevc, 2011; Bernard and Wagner, 2001; Bernard and Jensen, 2004). Bernard and Wagner (2001) find that higher levels of productivity positively affect the probability of becoming an exporter. Bernard and Jensen (2004) find similar effects for plant characteristics, with larger, high-wage and more productive plants being more likely to export. Productivity has also been deemed the decisive factor in determining which market a company enters. In a recent study of U.S multinationals, Yeaple (2009) finds that there is a 'pecking order' behind internationalisation, in which more productive firms expand into all countries, including the least attractive ones, while less productive firms enter, in gradual stages, only the more attractive markets (Yeaple, 2009).

However, recent empirical work shows that the relationship between productivity and export status is more complicated than originally thought (Hallak and Sivadasan, 2009; Brooks, 2006; Foster, Foster, Haltiwanger and Syverson, 2008) and that substantial differences in export performance can be found among firms that are equally productive.

Recent studies have introduced new dimensions of heterogeneity besides total factor productivity (TFP). Some authors include additional heterogeneity on the firm side, using differences in the sunk costs of exporting across firms (Das, Roberts and Tybout, 2007; Ruhl, 2008; Armenter and Koren, 2009; Koenig, Mayneris and Poncet, 2010). Other authors introduce heterogeneity on the demand side, investigating the implications of variations in product appeal across markets (Demidova, Kee and Krishna, 2009; Nguyen, 2008; Cheraskin, Demidova, Kee, and Krishna, 2010; Bernard, Redding and Schott, 2011).

An additional source of heterogeneity employed in recent studies concerns product heterogeneity, where differences in product quality explain the variation in export performance across firms. According to Hallak and Sivadasan, companies differ in their capability to produce quality. The inability to meet certain quality standards is an additional factor that might explain why some large firms do not self-select into exporting (Hallak and Sivadasan, 2009). A second stream of literature investigates the role of horizontal product differentiation across market segments within an industry to explain the heterogeneity in performance and export behaviour of equally productive firms (Altomonte, Colantone and Pennings, 2011).

Despite attempts to account for different sources of heterogeneity in firm productivity and their relationship to export status and performance, there is still plenty of unexplained variance in firms' export performance and in self-selection into export participation. Moreover, the international trade literature does not explain how the differences in productivity come about. It is reasoned that the higher productivity of new exporters compared to non-exporters implies that the decision to start exporting is determined by factors affecting the productivity of firms in the phase that precedes the decision to export (Damijan, Kostevc and Polanec, 2008).

The international management literature looks at the pre-internationalisation phase through a different lens. The traditional international management literature focuses on explaining the internationalisation process, paying less attention to what happens prior to internationalisation (Tan, Brewer and Liesch, 2007). Models belonging to traditional internationalisation research explain the process of internationalisation as an incremental 'staged approach' in which companies increase their commitment to foreign markets as knowledge, experience and learning increase (see, for example, Johanson and Vahlne's 'Uppsala model', 1977; and Casvugil's 'innovation model', 1980). These models provide an excellent description of the evolution and growth of companies in international markets but fail to provide an explanation of how the process is started (Tan, Brewer and Liesch, 2007; Morgan and Katsikeas, 1997). The emphasis in more recent literature is placed on identifying those activities performed during the pre-internationalisation phase that influence a firm's decision to enter international markets.

More recently, scholars observed that not all companies follow a staged approach to internationalisation. Concepts such as 'born globals' (BGs) and 'international new ventures' (INVs) were coined to explain the rapid internationalisation of firms that establish a simultaneous presence in many foreign markets from inception (Oviatt and McDougall, 1994). The rise of early internationalisation phenomena led researchers to further explore the drivers of international expansion, giving special attention to precocity and process speed (Ancona, Goodman, Lawrence and Tushman, 2001; Nayyar and Bantel, 1994). INV models assume that the entrepreneur launches a venture with a global view already in place and that the firm develops the capabilities needed to achieve its international goals at or near the firm's founding (Knight and Cavusgil, 2004). The most important implication of these theories is that the internationalisation process undertaken by BGs and INVs starts before the firm's inception. These models highlight the significant role played by the entrepreneur who spots international opportunities even in the phase that precedes the commencement of activities.

These new developments oblige scholars to adopt an holistic approach to a firm's internationalisation with due regard to the pre-internationalisation phase (Coviello, 2006; Mathews and Zander, 2007). In particular, Mathews and Zander (2007) claim that "internationalisation should be perceived as a process that does not start with the firm's first engagements in foreign markets, but has an important and potentially very influential pre-venture history" (p. 396). Other empirical studies (Knight, 2001; Solberg, 1997 Bijmolt and Zwart, 1994) found international preparedness to be positively related to international performance and to be a good predictor of the success of the exporting firm (Welch and Wiedersheim-Paul, 1980). In order to be successful and sustainable, an internationalisation strategy requires the acquisition of capacities, abilities and resources prior to the start of the internationalisation process. Reid (1981) argues that the activities performed during the pre-internationalisation phase are crucial in determining the probability of a company's success since the pre-export activity builds the export potential of a firm by creating motivation, attitude and expectations concerning the contribution of exporting to the firm's growth (Reid, 1981; Gerschewski, Rose, and Scott-Kennel, 2011).

In line with the more recent approach to the internationalisation process of the firm, we propose a conceptual model that provides a systematic overview of the major events and activities of the pre- export phase that have been identified in the literature. We have classified the events and activities according to a system of pull factors, push factors, friction factors, moderating factors and facilitating factors. Push factors or forces refer mainly to domestic market conditions, such as market saturation, which prompt companies to internationalise. Push factors are also called reactive motives. Pull factors or forces refer to conditions in foreign countries that attract foreign firms to do business in these countries. Pull factors are seen as pro-active motives. In spite of the pull and push forces, barriers such as lack of funds may prevent companies from executing their intention to export. Other factors, such as the development of a good communications and transportation infrastructure may facilitate export abroad. However, to understand the actual realization of the export decision, one should not underestimate the moderating roles of the decision maker, often the entrepreneur in SMEs, with his/her personal traits such as risk attitude and managerial capabilities, and of the existence of a business strategy in which internationalisation plays a part. Figure 1 provides an overview of the antecedents of internationalisation.

Various other related classifications of export-stimulating factors have been proposed in the literature. According to Etemad (2004), the company is exposed to three types of forces in the pre- internationalisation phase: the push forces to internationalise, entrepreneurial and internal to the firm; the pull forces, external to the firm; and the mediating forces resulting from interactions between push and pull forces. Wiedersheim-Paul, Olson and Welch (1978) emphasize factors they call 'attention evokers', defining them as events that cause a decision maker to consider international expansion as a possible strategy. Leonidou (1998) calls pre-internationalisation events 'stimuli' and divides them in two categories, internal and external.

The next sections outline different elements of the conceptual model presented in Figure 1.

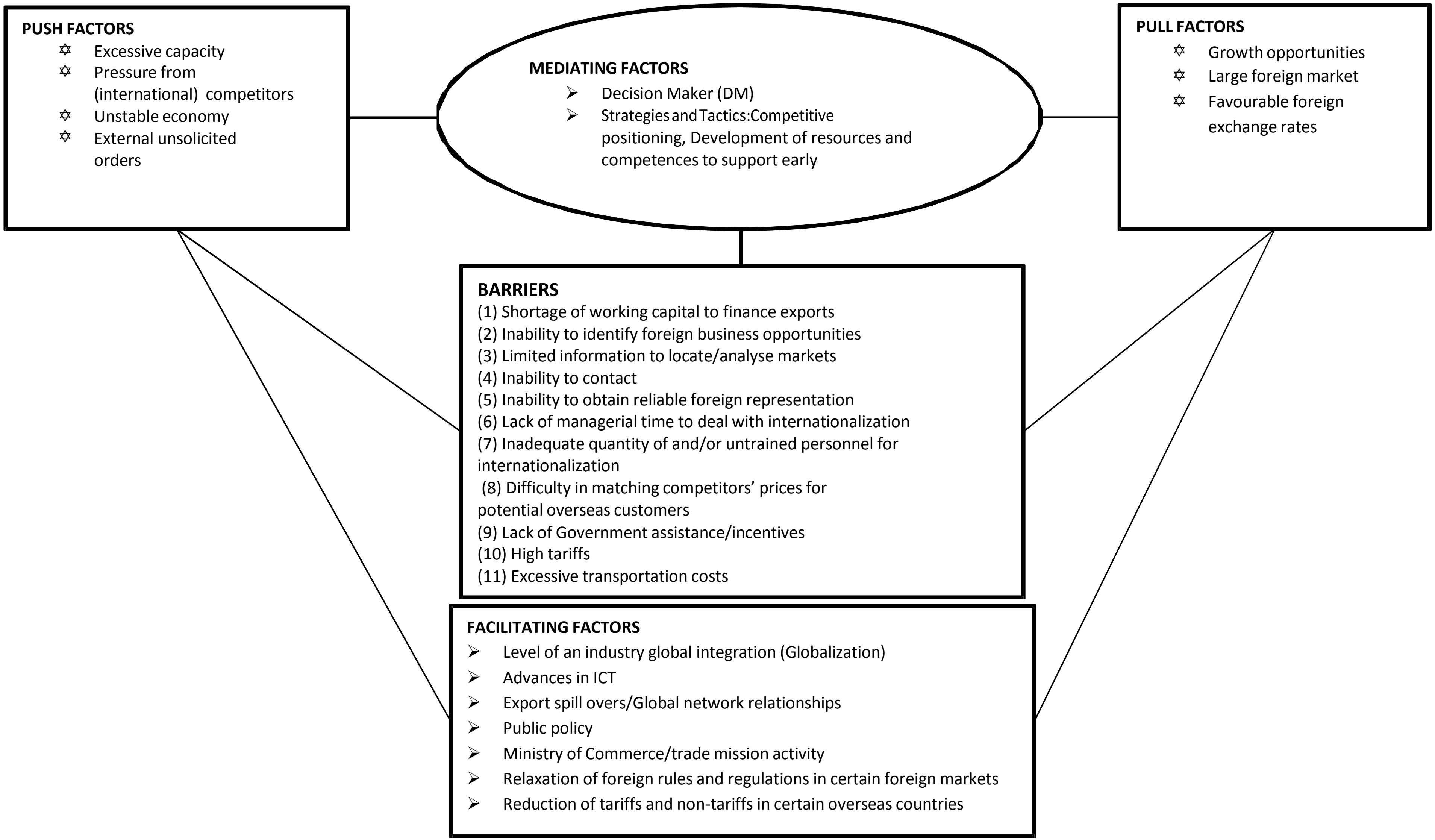

Figure 1: The antecedents of internationalisation

3. PUSH AND PULL FACTORS

3.1. Push factors

Push factors are mainly drivers, or reactive motivations, which push the company to look for new opportunities outside the home market. An important push factor follows from domestic market constraints, resulting in surplus production in the home market, or inefficient scales of operation. Such constraints force firms to look for outlets in foreign markets. A similar force comes from increased competition in the domestic market and/or the growth of international competition. When a company realizes it cannot achieve sufficient growth in the home market, it will feel an internal push to look outside the national boundaries for opportunities to generate additional profits (Orser et al., 2008) or to reduce costs by means of economies of scale or potential tax benefits (Khalili, 1991; Louter, Ouwerkerk and Bakker, 1991; Vernon, 1966). Similarly, if a company perceives that its production exceeds the needs of the local market – leading to excess capacity – it will look for outlets for its products outside its national borders. The competitive pressure the firm faces in the domestic market and from firms that have gained economies of scale by competing internationally (Leonidou, 1998) stimulates it to look for opportunities outside the home market (Wiedersheim-Paul et al., 1978). Firms are also pushed to foreign countries if the major competitors they commonly face have a presence there, underscoring the fact that the relevant market in which firms need to compete is larger than the domestic market. Firms are also pushed into exporting by receiving unsolicited foreign orders from customers located beyond the national borders (Cavusgil, 1980).

Innovative companies or companies that have products characterized by very specific/unique features are typically active in niche markets and in sectors that are technology intensive (Mahnke and Venzin, 2003). Such sectors have two main characteristics: the need for high investments in R&D and high specificity of the product offered to a particular segment of the market. As a result, companies typically active in these niches are, from the start, pushed to operate in international markets and export to a larger number of markets at an early stage of their existence (Bleaney and Wakelin, 2012; Lawless, 2009, 2010). Selling in more markets allows such firms to recuperate their investments in R&D within a shorter time span and to overcome the constraint of a small domestic market for the niche product. Firms also look for extra outlets abroad if the domestic economy becomes unstable or subject to excessive regulation, hence making foreign markets look more attractive.

3.2. Pull factors

The pull factors are stimuli to internationalise if the company sees extra profit and growth opportunities in foreign markets. They are called ‘proactive motives’ as they assume companies will be forward-looking in seeking to realize these opportunities. Foreign countries characterized by growing and large markets typically attract firms to do business. This pull factor will be amplified when the product offering from domestic suppliers in the foreign markets is rather weak. More specifically, companies seek to maximize the return on their unique competences (the control over unique resources described by Oviatt and McDougal, 1994).

Firms often learn about international opportunities through partners, competitors and suppliers that are part of their network (Johanson and Mattson, 1988). A network is a system of relationships between customers, suppliers, distributors, institutions and governments (Eriksson et al., 1998; Johanson and Vahlne, 2003; Lindstrand, 2003; Achrol and Kotler, 1999; Anderson, Håkansson and Johanson, 1994). Recent studies have shown that participation in different types of network increases the probability of a company expanding its activities abroad (Etemad and Lee, 2003; Johanson and Vahlne, 2006).

4. BARRIERS TO INTERNATIONALISATION

Internationalisation barriers are internal and external impediments to internationalisation that prevent the company from taking action. Internationalisation barriers cause frictions that delay or prevent pull and push factors from triggering internationalisation.

Leonidou (1995) groups the barriers into four categories: internal-domestic problems refer to the barriers faced internally by the firm in its home country, such as lack of resources and lack of management knowledge. The internal-foreign problems are barriers internal to the company that occur in the destination market, such as issues, concerning logistics, product specification, and finding the right partners. The external-domestic problems are issues the company faces in its home country but arise from external factors such as high bureaucracy, complex procedures and lack of support. External foreign problems are issues related to characteristics of the foreign market and external to the company such as trade barriers, regulation, and intense competition.

Barriers to internationalisation are particularly relevant for SMEs. Smaller firms have fewer resources to overcome the costs of internationalisation. The resources include financial means, knowledge and managerial capabilities.

An OECD survey in 2009 identified ten barriers to firms' internationalisation (OECD, 2009, p.7). Table 1 shows the ten barriers based on the classification proposed by Leonidou. The number in brackets denotes the severity of the barrier (OECD, 2009).

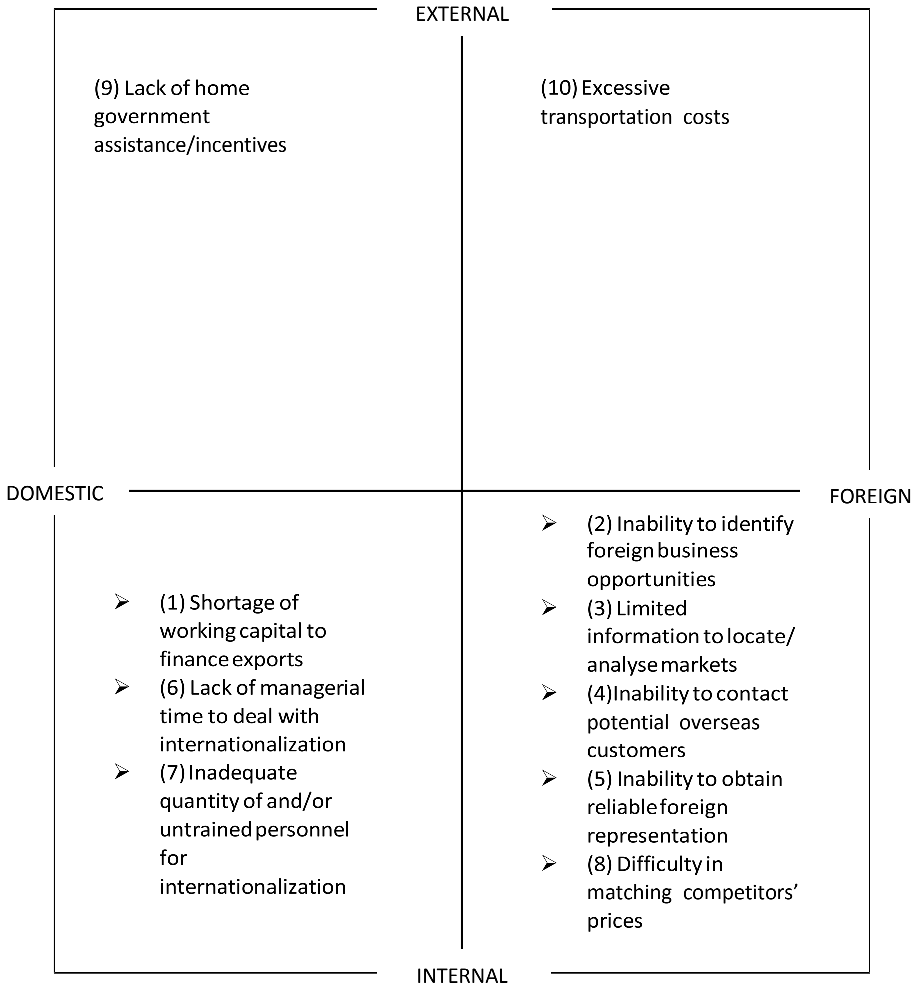

Table 1: Barriers to internationalisation – Source: OECD (2009) and EC (2007), classified according to Leonidou (1995)

The barriers listed in Table 1 can be summarized in three major groups: shortage of (financial) resources, limited information on target markets that leads to the inability to identify international opportunities and partners (Hymer, 1976; Zaheer, 1995), and lack of managerial time, skills and knowledge (MacCrimmon and Wehrung, 1990).

The shortage of working capital to finance exports is perceived by SMEs wanting to internationalise as a major barrier – in particular, the difficulty in securing access to operating and term loans. Despite the large number of support measures, this barrier persists as the number one difficulty. SMEs not only lack financial resources but also knowledge-related resources, such as information about the targeted market. As a result, a large number of firms suffer from 'liability of foreignness' (Zaheer, 1995) in doing business abroad, primarily because of a knowledge gap about the destination country compared to incumbent firms. This often translates into an inability to identify adequate foreign market partners. Moreover, not all firms that are exposed to potentially useful information are capable of using this information in an effective way. Information needs to be internalized and transformed into useful knowledge that can be used to trigger the internationalisation process (Tan et al., 2007). The inability to translate outside information into useful internationalisation knowledge is the result of management's lack of an appropriate skillset, inadequate time allocation, and failure to develop an internationalisation strategy.

A related EC report identified an extra impediment in the form of the lack of a 'structured' internationalisation strategy (EC, 2007). According to the EC, SMEs tend to have lesser structured management procedures and a tendency to making opportunistic rather than systematic strategic decisions (EC, 2007, p.12), which can constitute a barrier to internationalisation and result in internationalisation failure.

A company does not always realize that the product adaptations needed to enter a foreign country may be incompatible with its existing business model. When a company develops a global strategy, it decides "how it should change or adapt its core (domestic) business model to achieve a competitive advantage as a firm globalizes its operations" (De Kluyver, 2010). Such a change can pose a threat to the business model of the company. Research has shown that firms failing to give due weight to aligning the business model to foreign country conditions in the pre-internationalisation phase run a higher risk of failure (Sleuwaegen, 2013).

In sum, many barriers are internal and firm-specific. This view is supported by a large number of empirical studies (Dichtl et al., 1990; Johanson and Valne, 1977; Wiedersheim-Paul et al., 1975; Simpson and Kujawa, 1974; Tesar, 1975; Thomas and Araujo, 1986; Welch and Wiedersheim-Paul, 1980). For example, Jaffe and Pasternak (1994) argue that the most important barriers to internationalisation are the lack of resources, lack of knowledge, cultural distance from the destination market, and risk perception. As the barriers internal to the firm play a more crucial role in threatening failure of the internationalisation process, it is important that the company prepares itself to face them in the phase preceding its first international activity.

5. FACILITATING FACTORS

There are several factors that facilitate the internationalisation of companies, such as the development of global transportation and communication infrastructures. Equally important are the global institutions, such as the World Trade Organization, and regional institutions, such as the EU, in creating a level playing field in international markets. The growth in global networks of logistics service suppliers and other service providers plays an equally important role in facilitating new business start-ups in foreign countries. Prior importing experience also helps companies to expand abroad. Empirical evidence suggests that there is a positive effect associated with engaging in both importing and exporting activities: two-way traders appear to perform better and to be more productive (Muuls and Pisu, 2008; Aristei et al., 2011). Through imports, companies can gain knowledge about foreign markets, increase their productivity by securing access to cheaper inputs, and reach the productivity threshold necessary to become exporters (Kasahara and Lapham, 2008; Blalock and Gertler, 2004; Blalock and Veloso, 2007; Bas and Strauss-Kahn, 2011). Sunk-cost complementarity (Kasahara and Lapham, 2008) is another mechanism through which previous importing experience has a positive impact on the probability of becoming an exporter. Empirical evidence has shown that if the sunk costs associated with importing and exporting to the same market are shared, participating in importing activity can decrease the productivity threshold required to become a two-way trader (e.g. Kasahara and Lapham, 2008; Muuls and Pisu, 2009). Aristei et al. (2011) find that prior importing experience has a positive effect on the decision to start exporting.

More generally, by interacting with other companies that have international experience, spillovers may help purely domestic companies to expand their knowledge of international opportunities and threats. The positive effect of a firm's decision to start exporting, in response to the presence of competing firms in international markets, is defined as an 'export spillover' (Aitken, Hanson and Harrison, 1997; Koenig, 2009). Spillovers constitute a positive externality, a benefit a firm receives without paying its costs. A company is unintentionally exposed to network spillovers simply by being connected to international companies and observing their behaviour. Scholars have proposed different categorizations of spillovers. Choquette (2011) groups spillovers into two categories: intra-industry and inter-industry. Intra-industry spillovers work through the signalling of a business opportunity in a particular export market by firms selling similar products (Greenaway, Sousa and Wakelin, 2004). Inter-industry linkages refer to the interactions between buyers and suppliers that result in a positive export spillover (Choquette, 2011; Javorcik, 2004; Kneller and Pisu, 2007). Intra-industry spillovers are particularly relevant for new, small, hi-tech companies in their interaction with large multinationals (Aitken et al., 1997; Javorcik, 2004; Choquette, 2011). SMEs have less resources to collect information on interesting market opportunities and can, therefore, derive more benefits than larger companies from knowledge shared in a network.
Having access to 'insider knowledge' about a specific foreign market also reduces a new exporter's liability of foreignness to that market (Athanassiou and Nigh, 2002) and the perceived internationalisation risks, and it helps companies to internationalise.

Findings from studies testing for the existence of unintentional spillovers are mixed. Some empirical studies provide support for the existence of export spillovers (e.g. Barrios, Görg and Strobl, 2003; Clerides, Lach and Tybout, 1998; Greenaway and Kneller, 2008), whereas others find only partial support or no support at all (Aitken et al., 1997; Bernard and Jensen, 2004; Lawless, 2010). The existence of a positive relationship between a firm's decision to start exporting to a particular market and the presence of other firms exporting to that market in its surroundings has been confirmed in the cases of Spain (Castillo-Gimenez, Serrano and Silvente, 2011; Silvente and Giménez, 2007), France (Koenig, 2009; Koenig, Mayneris and Poncet, 2010), Russia and the US (Cassey and Schneiser, 2011). Conversely, in analysing Irish companies, Lawless (2009) finds no significant spillover effects, both for exporting companies from the same sector and for multinationals present in the same area, once other firm's characteristics are controlled for (Lawless, 2009). However, in a subsequent study, the author finds support for location-specific spillovers: for Irish firms, the levels of entry to and exit from specific export markets are both positively associated with the number of firms already exporting to the market (Lawless, 2010). Membership of export associations was also found to have a positive impact on the propensity of a company to export, and to lead to higher export sales (Hiller, 2012). Empirical results show that successful internationalisation depends more on a firm's networks in a foreign market than on the ownership- or location-specific advantages (Forsgren, Hägg, Håkansson, Johanson and Mattsson, 1995).

Government support, or support from specialized agencies, facilitates the startup of international businesses. Support comes in various forms that go beyond the provision of information, such as the allocation of financial resources to overcome the financial constraints and support in finding the right partners in destination markets (OECD 2009; EC, 2007). During the pre-internationalisation phase, companies collect information that is relevant to reduce the perceived risks of entering a foreign market. Information can be both market-specific and internationalisation-specific. A large pool of public support instruments exist at the supranational (EC, OECD), national and regional levels. The support mechanisms can be grouped into four categories. The first category is constituted by individual support schemes. These schemes provide customized support to the internationalizing company by means of an analysis of its internationalisation readiness. The second category includes financial support and/or the sharing of expertise regarding available financial support mechanisms. A third category centres on network support schemes to promote direct cooperation among companies operating in various kinds of network that span countries. Managed typically by the government or business associations, these support schemes aim to increase the interactions among network actors to speed up and facilitate the internationalisation process. The last category of support concerns programs directed at specific sectors. In particular, emerging (e-technology) sectors, or sectors affected by rapid globalization, are often target sectors for extra support measures.

6. THE MEDIATING ROLE OF THE DECISION MAKER AND OF BUSINESS STRATEGY

6.1. The decision maker

The personal characteristics of the decision maker – in many cases the entrepreneur – significantly influence the way pull and push factors are captured and lead to action (Reid, 1981; Gundlach, Achrol and Mentzer, 1995; Tan et al., 2007). The decision maker's international orientation is associated with a higher propensity to be exposed to and to perceive attention-evoking factors (Wiedersheim-Paul et al., 1978; Collinson and Houlden, 2005; Dichtl, Kreglmayr and Mueller, 1990; Caughey and Chetty, 1994). In a first attempt to develop a pre-internationalisation model, Wiedersheim-Paul et al. (1978) argue that the decision-maker's perception and responsiveness to attention-evoking factors (the so-called 'trigger cues') is a function of the characteristics of the decision maker, the firm and the business environment (Wiedersheim-Paul et al., 1978). According to Jaffe and Pasternak (1994), the decision to export is a function of managerial beliefs about the firm's competitive advantage and organizational readiness, mediated by how managers perceive the risks associated with internationalisation (Jaffe and Pasternak, 1994). Madsen and Servais (1997) show that managers' experiences in a specific industry play an important role in the internationalisation of companies. The authors demonstrate that if the decision maker has prior acquired experiential knowledge about foreign markets, this knowledge will increase the new firm's opportunities to engage in foreign operations (Madsen and Servais, 1997).

Managers with international experience and orientation have a higher probability of being exposed to and of recognizing external stimuli and opportunities (Dretske, 1981; Kirzner, 1973). Those managers collect new information relevant to internationalisation (Casson, 2003) and use the information appropriately to obtain sufficient relevant knowledge to initiate the internationalisation process (Freeman, 2002; Shane, 2004). The decision maker's personal experience and his personal network are particularly important in sharpening his perception of push and pull factors (Zhou, Barnes and Lu, 2010; Andersson and Wictor, 2003; Crick and Jones, 2000; Ellis, 2000; Chetty, Eriksson and Lindbergh, 2006; Madsen and Servais, 1997; Reuber and Fischer, 1997).

A large number of studies show that individual managers' experiences guide the learning process in internationalisation (Athanassiou and Nigh, 1999, 2002; Reuber and Fischer, 1997; Andersson and Wictor, 2003; Crick and Jones, 2000; Madsen and Servais, 1997). Crick and Jones (2000) established a link between the international experience of the decision maker and the capability of a company to develop the necessary resources to internationalise. Calof (1997)and Andersson and Wictor (2003) found the personal network of the decision maker to be a key source of information about international opportunities and international markets. Similarly, Leonidou (1997) showed the importance of informal and personal contacts as a means of gathering information about foreign markets. The personal network of the decision maker can positively influence internationalisation. Management's previous international experience and its network have been shown to be particularly important for small- and medium-sized companies gathering the information necessary to launch the internationalisation process (Crick and Jones, 2000; Madsen and Servais, 1997; Oviatt and McDougall, 1994).

6.2. Internationalisation strategies and tactics

6.2.1. Business strategy and internationalisation strategy

A growing number of companies develop an internationalisation strategy as part of their business strategy. In these proactive companies, internationalisation follows a well-prepared plan of action. More fundamentally, proactive companies will align the internationalisation process with the core competences and capabilities that characterize their business model. The nature and strength of the competitive advantage will be a decisive factor determining the speed, rhythm and mode of internationalisation. Moreover, proactive companies will only expand abroad if such expansion does not undermine the underlying business model.

Mäkelä and Lehtonen (2011) and Sleuwaegen (2013) look at the adaptations of the firm's business model that need to be made in order to sell to a foreign country. The authors identify internal and external factors impacting each building block of the business model when a company engages in international expansion. The authors show that adapting the business model to the international context is crucial for a successful internationalisation process.

During the pre-internationalisation phase, the company equips itself to internationalise by carefully considering the business model adaptations needed to enter the destination market. In reconfiguring their capabilities, companies can identify and exploit new market opportunities (Jantunen et al., 2005). According to the dynamic capability perspective (Knudsen and Madsen, 2002), the concurrent exploitation of existing and newly acquired capabilities generates unique knowledge and information flows that are key drivers in the development of a sustainable export strategy.

6.2.2. Tactics

Even in the absence of a well-developed strategy, companies deploy internationalisation tactics, i.e. activities that facilitate internationalisation or reduce the impact of barriers to internationalisation. In the following section, we consider some of the important tactics deployed by companies.

Market knowledge and internationalisation knowledge

Knowledge reduces the uncertainty associated with internationalisation and increases the probability of success of an international expansion (Barkema et al., 1996; Blomstermo et al., 2004; Jaffe and Pasternak, 1994). Knowledge can be subdivided into two main groups: market-specific knowledge and internationalisation-specific knowledge. It is in the pre-internationalisation phase that companies must acquire information and knowledge, about the specific market they wish to enter and, equally about the internationalisation process itself.

Casillas et al. (2010) show that acquiring knowledge in the pre-internationalisation phase is positively associated with initiating exporting activities (Casillas et al., 2010). Liesch and Knight (1999) stress the important role of 'informedness' about a market in determining a firm's export readiness. Different types of knowledge are relevant in different phases of internationalisation (Mejri and Umemoto, 2010). In the pre-internationalisation phase, market knowledge (Wiedersheim-Paul et al., 1978; Dichtl et al., 1990), network knowledge and entrepreneurial knowledge are key in overcoming internationalisation barriers. Market knowledge refers to the acquisition of information about the destination market. Network knowledge is the capability of a firm to acquire relevant information from actors in its network. Entrepreneurial knowledge refers to the knowledge of detecting and exploiting opportunities in foreign markets.

Knowledge can be objective or experiential, and it can be acquired either in a direct or in an indirect way. Objective knowledge can be acquired by the company through desk research or external partners (Fletcher and Harris, 2012; Leonidou and Theodosiou, 2004; Reid, 1984; Souchon and Diamantopoulos, 1999). Experiential knowledge is available on three levels: at the individual level, in the form of managers' experiences; at the organizational level, in the form of the international experience accumulated by the company; and at the supra-organizational level, through participation in social and organizational networks (Casillas et al., 2010).

The prior international work experiences of managerial teams have been found to positively affect venture internationalisation (Bloodgood et al., 1996; Carpenter et al., 2003; Reuber and Fischer, 1997; Sapienza et al., 2006). A company that lacks management with international experience can increase its internationalisation knowledge in various ways. The next sections review three different mechanisms to increase a company's knowledge pool: grafting, internalizing spillovers, and leveraging previous import experience.

Grafting

International exposure is defined as the extent to which a venture's management team comes into contact with international knowledge through prior experience or network relationships (Fernhaber and Li, 2013). Companies that decide to internationalise can acquire internationalisation knowledge by hiring managers who have previous international experience. This process of knowledge acquisition through hiring experienced managers is called grafting[1] (Huber, 1991; Segelod, 2001) or learning-by-hiring (Parrotta and Pozzoli, 2012). Through grafting, companies can overcome barriers related to the lack of managerial skills and knowledge.

Studies on the application of the concept of grafting to internationalisation have shown that firms hiring managers with previous market-specific and internationalisation-specific experience have a higher probability of exporting (Choquette, 2011; Loane, Bell and McNaughton, 2007). Mion and Opromolla (2011), Molina and Muendler (2009) and Sala and Yalcin (2012) find a positive relationship between hiring managers with previous experience and a firm's propensity to export in the future. Fletcher and Harris (2012) and Choquette (2013) find that firms hiring employees with knowledge about specific export destinations acquired in previous jobs are significantly more likely to start exporting to these countries.

Networking

The use of networks to obtain information on target markets and to find potential customers in the destination market is seen as increasingly important.

[1] Huber defines grafting as the process of obtaining access to new information by internalizing its source (Huber, 1991).

Sharma and Johanson (1987) show that active engagement in relationships with actors active in international networks can work as a bridge to internationalisation. This happens when firms capitalize on the international experience of others (Andersen, 2006) and tap into the resources available from their network partners when internationalizing (Johanson and Vahlne, 2009). Studies show that firms can learn from companies active in the same industry (Lindsay et al., 2003) and engage in mimetic behaviour, imitating successful firms in the network (DiMaggio and Powell, 1983). Networks appear to be particularly important for SMEs and INVs. These firms dispose of a smaller pool of resources and knowledge in-house and can, therefore, benefit from resources and knowledge generated in their business and social networks (Coviello and McAuley, 1999; Oviatt and McDougall, 1994; Blomstermo et al., 2004; Elango and Pattnaik, 2007).

Leveraging knowledge acquired through previous import experience

Sourcing goods or services from a particular foreign market generates knowledge about that market (Luostarinen, 1993), provides access to information on existing opportunities, and offers a foothold from which it is possible to contact customers (Grosse and Fonseca, 2012; Welch and Luostarinen, 1993; Welch et al,. 2001). Empirical evidence shows that previous import activity often precedes exporting (Welch and Luostarinen, 1993; Korhonen et al., 1996; Di Gregorio, Musteen, and Thomas, 2009; Aristei et al., 2011; Choquette, 2013, Holmlund et al., 2007).

Importing can also stimulate exporting through the product channel. As a direct result of importing, companies gain access to a larger set of inputs and technologies; this allows them to develop new products of higher quality and higher technological content, and to compete successfully in international markets (Grosse and Fonseca, 2012; Damijan and Kostevc, 2011; Nakhoda, 2012).

7. WIDER IMPLICATIONS FOR EXPORT SUPPORT PROGRAMMES

A EU-commissioned study on the internationalisation of SMEs revealed that about 45% of SMEs in Europe never considered internationalisation (European Commission, 2004). This study noted that raising awareness of the potential benefits of internationalisation should be a prime concern and that, to this end, European, national and regional governments and institutions should collaborate and facilitate easier and more widespread access to support programs.

In a follow-up study, nine priorities were identified to support the internationalisation process for SMEs (European Commission,2008) :

1. Raising awareness
2. High value information

3. Human resources development programs
4. Supporting the financial needs of internationalisation
5. Promotion of networks
6. Supporting the internationalisation of services
7. Using internationalisation to enhance competitiveness
8. Individualized support
9. Border zones and cross-border cooperation.

Most of the existing support programs focus primarily on promoting exports, using instruments such as export finance credits, trade missions and joint trade exhibitions. These programs continue to represent more than 70% of SME internationalisation support measures worldwide (European Commission, 2008). Most of the support is undifferentiated by user despite the fact that the effectiveness of support measures depends heavily on an individual firm's particular needs and chosen strategy.

SMEs using different internationalisation strategies regarding speed and scope of their international operations have different needs for support. Crick et al. (2000) found a number of differences between firms using a concentration strategy and those spreading their activities over a number of markets. SMEs using a market-concentration strategy wanted policymakers to assist them in their efforts to stay competitive in the key markets in which they operated. Managers of these firms were aware of demand potential, and this had influenced their efforts to concentrate in these key markets. However, they did want assistance in reinforcing ties with parts of their value chain.

On the other hand, SMEs using a market-spreading strategy were looking for support in finding new markets. These firms want to spread their activities to exploit economies of scale and diversify their risk over more markets. Managers of these firms were inclined to move between markets in times of fluctuating demand. As these firms drop some markets in favour of those offering greater potential, there was a need for support in identifying markets with demand but also the most appropriate mechanisms to service demand in these countries. Both groups of SMEs ranked government export promotion programs in last place.

Similar research for Flanders revealed a marked difference between SMEs that produce standardized products for mass markets and those SMEs that produce specialized (often high-tech) products for niche markets (Onkelinx and Sleuwaegen, 2009, 2011). Firms in niche markets have a more proactive attitude towards internationalisation. Most of these firms started their international operations through active prospecting in foreign markets, whereas only a minority of firms selling mass products did so. Collaboration with foreign partners was an important motive for firms selling niche products. On the other hand, firms selling mass products started their international operations in response to a request from a local partner with foreign operations.

Given these differences, the study also revealed that SMEs in niche markets primarily need information about legislation in foreign markets. For SMEs selling mass products, the main need is identifying foreign partners (63%). Another difference concerns the need to develop or adapt products for foreign markets.

Almost twice as many SMEs in niche markets indicate a need for support in this area. SMEs selling mass products could benefit more from promotional support, networking with Flemish entrepreneurs that have international activities, and facilitating contacts with foreign business partners.

These findings call for a more tailored approach in supporting export activity. Support measures should align with the chosen strategy of the firm, reduce the risk and reinforce the commitment to activities in foreign countries. A useful approach is to encourage the company to carefully assess the benefits, costs and risks of internationalisation, and link support to a well-developed internationalisation plan. Moreover, rapid internationalisation by newly formed companies producing for niche markets is increasingly linked to innovation. Some countries are implementing integrated policy measures, offering programs that combine innovation and internationalisation support.

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