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# Effects of prior market experiences and firm-specific resources on developed economy SMEs' export exit from emerging markets: Complementary or compensatory?

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## ABSTRACT

Globalization has led to increased competition and risk of business failure for firms venturing abroad over the last decades. A particularly challenging situation is seen for SMEs from developed economies entering emerging markets. We theorize and empirically show that prior market experience with domestic and developed countries helps to reduce the hazard of exit from emerging markets. We further develop competing hypotheses from complementary and compensatory perspectives about the moderating influence of firm-specific resources (reflected by size, productivity and innovation). Using data from all Canadian SMEs having exported to emerging markets between 1993 and 2008, we find that SMEs can compensate for less accumulated experience through being larger, more productive and more innovative. SMEs that lack prior market experience are – with a sufficient set of compensatory resources – thereby able to be resilient in dissimilar export markets.

## 1. Introduction

A key challenge for small and medium-sized enterprises (SMEs) is to stay in business and not become a victim of business failure in the highly competitive global market (Arasti, Zandi, & Talebi, 2012; Baldwin, Bian, Dupuy, & Gellatly, 2000; Franco & Haase, 2010; Sui & Baum, 2014). Research on business failure has increased in recent decades (Amankwah-Amoah, Boso, & Antwi-Agyei, 2018; Devece, Peris-Ortiz, & Rueda-Armengot, 2016) but has not reached consensus (Amankwah-Amoah, 2016; Matthyssens & Pauwels, 2000; Mellahi & Wilkinson, 2004). In particular research on export market exit has received limited attention (Bernini, Du, & Love, 2016; Chen, Sousa, & He, 2016; Gima, Greenaway, & Kneller, 2003), which is critical for SMEs (Sui, Baum, & Malhotra, 2018) that commonly use exports to grow and tap into international market potential (Lu & Beamish, 2001).

Although some years ago, the stereotypical exporting SME from a developed economy would have internationalized into institutional and geographically proximate countries (Acs, Morck, Shaver, & Yeung, 1997; Johanson & Vahlne, 1977), today's business environment with enhanced digitization (Autio, Nambisan, Thomas, & Wright, 2017) and reduced trade barriers (Sui & Goldfarb, 2014) offers new opportunities for SMEs to enter distant economies even at an early stage (Patel,

Criaco, & Naldi, 2018). In other words, SMEs from developed economies increasingly enter emerging markets for their international expansion (Huett, Baum, Schwens, & Kabst, 2014). Due to several aspects of economic and institutional conditions, the rules of operation in emerging markets are different (Li & Meyer, 2009; Marquis & Raynard, 2014) and thus not necessarily comparable to those in developed economies. These differences make it quite possible for SMEs to face considerable challenges when engaging in these environments, taxing SME survival chances in such economies (Austin, 1990; Patel et al., 2018). Therefore, the question arises, *How can SMEs from developed economies prevent export exit from emerging markets?* Previous studies, unfortunately, have remained comparatively silent on SME export failure (Bernini et al., 2016; Chen et al., 2016; Gima et al., 2003), particularly in emerging market contexts (Paul, Parthasarathy, & Gupta, 2017; Roberto, 2004). Consequently, our understanding of how developed economy SMEs can survive in emerging markets remains limited at best.

As advocated by Williams (2014), this paper studies business failure through a resource-based view, a dominant logic within the international entrepreneurship and international business literatures in which firms – SMEs in particular – must make use of intangible assets, such as their knowledge base and accumulated experience, to enhance their

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survival chances abroad (Sapienza, Autio, George, & Zahra, 2006). This notion largely rests upon the rationale that experience is a valuable, rare and difficult to imitate firm-specific capability (Barney, 1991) that helps firms to generate competitive advantage when entering into foreign markets (Cuervo-Cazurra, Maloney, & Manrakhan, 2007). For instance, previous experience should be helpful in identifying opportunities abroad, erecting more-efficient operations or in circumventing institutional obstacles in foreign markets (Bloodgood, Sapienza, & Almeida, 1996; Maekelburger, Schwens, & Kabst, 2012).

Despite this positive reception of prior experience in the mainstream literature, recent research has also highlighted that prior experience might not always be a safeguard in international operations and could also be connected with unwanted consequences (Jones & Casulli, 2014). Previous knowledge might not be that helpful, particularly if the existing stock of knowledge is rather unrelated to the approached economy such as in the case of developed market firms entering emerging markets (Sandberg, 2014). On the same note, Giarratana and Torrisi (2010) report that domestic experience did not have a positive effect on foreign market entry and survival, arguing that this experience might not be readily transferable to foreign markets. Accordingly, previous knowledge generated in domestic and other developed economy markets might not help the performance of developed economy SMEs in emerging markets.

Our paper seeks to resolve this puzzle by theorizing and empirically observing whether developed economy SMEs can actually benefit from prior domestic and developed market experience as they cope with the hazard of exiting from emerging markets. Thus, based on a resource-based rationale, we posit that despite the potential limitations of business experience from unrelated markets, the benefits and safeguarding role of domestic and developed market experience should ultimately dominate and thus reduce developed economy SMEs' risk of exiting emerging markets.

We further advance the debate on business failure by theoretically arguing and empirically testing the moderating role of several firm-specific resources, namely size, productivity and innovation, previously shown to have positive direct effects on SMEs' export market survival (Sui & Baum, 2014), and how the moderating effect either complements or compensates for the prior market experience of the SMEs. We thereby provide a more nuanced picture of the relative influence of previous market experience on emerging market export exit by SMEs from developed economies. This approach follows recent studies (e.g. Amankwah-Amoah, Antwi-Agyei, & Zhang, 2018; Mellahi & Wilkinson, 2004) arguing that business failure researchers must consider the interplay and effects of differences in internal factors of firms and external business environments.

Thus, we articulate two competing sets of hypotheses: a *complementary* perspective and a *compensatory* perspective. Few studies have thus far considered these conflicting models to identify successful combinations of resources for SMEs to avoid export market exit and failure (Denicolai, Zucchella, & Strange, 2014; Yang, Bossink, & Peverelli, 2017). The study of Semrau and Hopp (2016) on new ventures, for example, found that whereas human capital complements the effect of financial social capital on entrepreneurs' start-up activities, it compensates for the effect of informational social capital on entrepreneurs' start-up activities.

Specifically, the *complementary* perspective (Kaleka, 2012; Teece, 1986) rests upon the idea that resources help to make the most of previously accumulated experiences. Because the right combinations of internal resources are viewed as spurring firm survival (Yang et al., 2017), firms with more resources should be able to benefit more from experience. Thus, prior experiences are expected to reduce the hazard of exit from emerging markets for all SMEs, but the degree of reduction is higher for firms that are larger, more productive and more innovative.

Conversely, the *compensatory* perspective implies that resources can compensate SMEs for a lack of previous experiences with respect to firm

performance. Accordingly, in our study, the compensatory perspective (Johnson, Groff, & Taing, 2009; Semrau & Hopp, 2016) proposes that although firms with fewer resources are more likely to exit from emerging markets, they are able to benefit more from previous experience. Thus, the degree of reduction of previous experiences on emerging market exit is higher for firms that are smaller, less productive, and less innovative.

Based on a unique, large-scale, longitudinal administrative dataset that covers all Canadian SMEs that exported to emerging markets between 1994 and 2008, this study provides contributions to international business and international entrepreneurship fields from a resource-based perspective. First, our paper provides a better understanding about how SMEs from developed economies can prevent business failure in emerging markets – a question largely unresolved in previous studies. Despite an increasing interest in SME export challenges and barriers in recent decades, there has been limited focus on SME export endeavors in emerging economies (Paul et al., 2017). Therefore, we respond to recent calls to obtain a better understanding about how firms from developed economies perform in complex emerging markets (Cavusgil & Knight, 2015). Second, we provide both theoretical and empirical contributions by articulating and testing the role of prior experiences in export market exit. In that respect, we demonstrate that prior knowledge is helpful, even when it comes from a rather unrelated source (i.e., the domestic market or other developed markets). Third, we show that how such unrelated knowledge can be useful for remaining active within a foreign market depends upon the SMEs' resource endowment. By developing and testing conflicting theoretical models, we can juxtapose the complementary and compensatory perspectives and observe which one explains the interplay of prior experience and firm-specific resources in the context of developed economy SMEs' hazard of export exit from emerging markets. Therewith, we also follow the calls by studies such as Peng (2001) or Hoskisson, Eden, Lau, and Wright (2000) to extend resource-based studies toward observing activities of firms entering emerging economies (Brouthers, Brouthers, & Werner, 2008).

## 2. Theory and hypothesis development

Exporting is often the preferred entry mode for internationalizing SMEs with limited resources (Coviello & McAuley, 1999; McAuley, 2010; Yip, Biscarri, & Monti, 2000). Despite being vital drivers of global and national economic growth (Acs et al., 1997), SMEs face diminished chances of survival compared with larger firms when taking their business abroad (Eriksson, Johanson, Majkgård, & Sharma, 1997; Katsikeas & Morgan, 1994; Meyer & Skak, 2002). Thus, SMEs more often become victims of business failure within a couple of years in the competitive global market (Baldwin et al., 2000; Franco & Haase, 2010; Sui & Baum, 2014).

Business failure in terms of full termination of a business (Amankwah-Amoah, 2016) has increased in recent decades in international markets, but nevertheless, research is considered scarce (Devece et al., 2016; Matthyssens & Pauwels, 2000; Mellahi & Wilkinson, 2004). Export market exit in particular has received limited attention (Chen et al., 2016; Gima et al., 2003; Roberto, 2004). Previous research has focused foremost on mature market firms (e.g., Baldwin et al., 2000; Baldwin & Gu, 2003; Dhanaraj & Beamish, 2003; Franco & Haase, 2010; Gima et al., 2003; Ilmakunnas & Nurmi, 2010) and their exports overall. However, few studies have had a focus on business failure in an emerging market context (Amankwah-Amoah, Zhang, & Sarpong, 2013; Amankwah-Amoah, Boso, et al., 2018; Amankwah-Amoah, Antwi-Agyei, et al., 2018; Arasti et al., 2012; Roberto, 2004). Thus, this study contributes to existing research by pinpointing mature market firms' exports to emerging markets in particular.

One means of counteracting business failure is a set of strategic resources and capabilities (Barney, 1991; Esteve-Pérez & Manez-

Castillejo, 2008; Martinez, Zouaghi, Marco, & Robinson, 2018). Here, the resource-based view (RBV) has been shown to be a useful framework for predicting export performance (see reviews by Aaby & Slater, 1989; Chen et al., 2016; Dhanaraj & Beamish, 2003; Sousa, Martinez-López, & Coelho, 2008) because it builds on the acquisition and exploitation of firm resources. Such firm resources have also been demonstrated to have a positive effect on smaller firms' survival chances in international markets (Golovko & Valentini, 2011; Sui & Baum, 2014), which is why we, consistent with Williams (2014), consider RBV a suitable guiding paradigm for studying the business failure of SMEs.

According to RBV, firms can generate competitive advantage by making use of valuable, rare and difficult-to-imitate, firm-specific resources and capabilities (Barney, 1991). This point is also true for the exploitation of international opportunities. Having a set of such strategic resources allows firms to enter and operate international markets more effectively because these resources provide the basis to achieve competitive advantages over other firms (Cuervo-Cazurra et al., 2007). Resource-based competitive advantages can stem from a multitude of factors, including international experience (Bloodgood et al., 1996).

How well firm-specific strategic resources and capabilities can be transferred to foreign markets, however, also depends upon the fit between these resources and the market conditions in the respective foreign country (Cuervo-Cazurra et al., 2007). Emerging markets offer business opportunities (Amankwah-Amoah et al., 2013; Boso, Debrah, & Amankwah-Amoah, 2018) for not only large but also smaller firms (Jansson & Sandberg, 2008; Meyer & Skak, 2002). At the same time, they are also rapidly changing, turbulent and dissimilar to developed markets (Ghauri & Holstius, 1996; Meyer, 2001). Thus, they are more challenging, which increases the propensity for market failure (Austin, 1990). Because emerging economies are different in structure and demands, they pose a challenge for developed economy firms (Amankwah-Amoah et al., 2013), enhancing the likelihood of failure of SMEs suffering from lowered resource endowment. SMEs are thus in particular need of bolstering against these drawbacks envisaged in emerging economies.

### 2.1. Prior experience and emerging market exit of SMEs

Prior knowledge or experience should be a resource that allows protection, at least in part, against the challenges of SME internationalization. Prior knowledge or experience has often been described as influential in internationalization, determining appropriate decisions and outcomes (Sapienza et al., 2006). It allows firms to avoid lapses, as in the case of previous business failure experience (Amankwah-Amoah, Boso, et al., 2018), but also assists a more efficient interpretation of new information (Grégoire, Barr, & Shepherd, 2010). This point is particularly important in situations marked by complexity, uncertainty and risk, as can be found when entering a new territory such as an emerging market (Geldres-Weiss, Uribe-Bórquez, Coudounaris, & Monreal-Pérez, 2016). In such situations, available information is incomplete, and even where information is complete, the environmental complexity would be too high to find the most effective strategy by means of simple computation (Jones & Casulli, 2014).

One approach to being resilient and staying in business in foreign markets is to accumulate experiential knowledge, because previous experience in both domestic and international markets is viewed as decreasing uncertainty and facilitating further international commitment (Johanson & Vahlne, 1977). The more experience before going abroad, the higher the chance of survival because the experiential knowledge basis increases (Cavusgil & Zou, 1994; Eriksson et al., 1997; Figueira-de-Lemos, Johanson, & Vahlne, 2011; Geldres-Weiss et al., 2016). For firms that have entered markets abroad, the more time spent in export markets, the fewer problems are perceived compared with firms with shorter experience in exports (Katsikeas & Morgan, 1994). For hostile and turbulent markets such as emerging markets, Luo and Peng (1999) identified accumulated experience through time spent

exporting as providing higher performance effect. Without previous experience, however, the risk of emerging market exit increases (Austin, 1990).

Based on these arguments, we derive specific hypotheses for the utility of previous experience generated in the domestic market and in foreign developed economies for the survival of SMEs in emerging economy export markets.

#### 2.1.1. Domestic market experience

Internationalization of firms is traditionally considered an incremental process, starting in the domestic market and thereafter taking less committed steps into nearby markets, and an interplay between knowledge accumulation and uncertainty (Johanson & Vahlne, 1977; Johanson & Wiedersheim-Paul, 1975). The time in the domestic market enhances the knowledge platform built up by the firm (Eriksson et al., 1997) and facilitates forthcoming internationalization.

However, when firms internationalize with limited domestic market experience, they tend to develop routines and capabilities for repeating international expansion later on (Autio, Sapienza, & Almeida, 2000). Early internationalizers thereby favor international markets more than domestic-oriented firms (Bausch & Krist, 2007). Entering foreign markets is thus a successful growth strategy for firms, particularly for SMEs (Madsen & Servais, 1997; Oviatt & McDougall, 1994, 2005), because it increases the chances of survival (Autio et al., 2000). Thus, going abroad with shorter time in the domestic market is an attractive entrepreneurial growth strategy to quickly find and exploit opportunities in international markets (Bausch & Krist, 2007; Hilmersson, 2014; Sapienza et al., 2006).

As seen, the results have been contradictory. Carr, Haggard, and Hmieleski (2010) showed the odds of failure increasing with international market entry, and Giarratana and Torrisi (2010) did not find domestic experience to be an advantage for foreign market entry and survival, questioning its transferability to foreign markets. The contrary view, however, was stated by Eriksson et al. (1997), who found survival to be greater when going abroad later, with accumulated domestic experience, because rapid internationalization and less domestic experience tend to hinder knowledge accumulation and thus increase the probability of failure (Figueira-de-Lemos et al., 2011). In addition, Geldres-Weiss et al. (2016) found gathering knowledge and experience from different types of contexts important for firm export survival. Thus, even when emerging markets offer dissimilar and challenging business environments (Ghauri & Holstius, 1996; Meyer, 2001), experience gathered in the domestic market is still suggested to have a positive survival effect in emerging markets. Thus, we assume that:

**H1.** Domestic market experience will lower SMEs' hazard of exit from emerging markets.

#### 2.1.2. Developed market experience

When expanding across country borders, the firm will accumulate knowledge (Johanson & Vahlne, 1977), which is considered a key capability and outcome of internationalization (Pangarkar, 2008). International market experience, acquired through learning by doing (Penrose, 1959) is most essential for further internationalization (Forsgren, 2002) because it has a strong influence on the foreign market selection and entry-mode decision of the firm (Coviello & Munro, 1997; Johanson & Wiedersheim-Paul, 1975). Thus, it reduces the liability of foreignness (Hymer, 1976) that causes internationalizing firms to go to nearby and similar markets to start with. Developed economy firms thus enter other developed markets first to accumulate knowledge, which decreases the uncertainty met and spurs further market commitment (Johanson & Vahlne, 1977).

The theory of internationalization processes does not stand without criticism. First, experiences from other developed markets were considered less useful when entering emerging markets, as those are dissimilar and thus require new and market-specific knowledge (Meyer &

Gelbuda, 2006; Sandberg, 2014). Second, firms diverge from traditionally suggested paths through more rapid internationalization (Oviatt & McDougall, 1994).

However, developed economy SMEs tend to enter distant emerging markets in later stages of their internationalization processes (Jansson & Sandberg, 2008; Sandberg, 2013). Gaining developed market experience first would then spur their international performance (Baldwin & Gu, 2003; Pangarkar, 2008), enhance their ability to both detect and exploit international growth opportunities (Johanson & Vahlne, 2009) and help them cope with risk (Figueira-de-Lemos et al., 2011). In addition, Luo and Peng (1999) showed that greater experience from international markets spurred both financial and market performance. Thus, it is stated that:

**H2.** Developed market experience will lower SMEs' hazard of exit from emerging markets.

## 2.2. Moderating effects of firm-specific resources on emerging market exit of SMEs

Competitive advantage and firm survival are resource dependent, because a firm consists of a bundle of resources; the more firm specific and unique they are, the more sustainable the advantage given. Thus, differences in firm performance are due to differences in resource bundles (Barney, 1991). Not only single resources but also how resources are combined are shown to affect the performance of firms (Denicolai et al., 2014). Nonetheless, we lack sufficient knowledge about advantageous combinations of internal resources for firm survival (Yang et al., 2017). Moreover, theory provides ambiguous perspectives on how firm-specific resources and prior experience might interact from either a complementary or a compensatory perspective (Johnson et al., 2009).

According to the complementary perspective, firm-specific resources and experience can be complementary assets enhancing the relative value of each other. Complementary resources can positively contribute to firm performance (Semrau & Hopp, 2016); discrepancies between firms are then caused by differences concerning the combinations of resources (Denicolai et al., 2014). The accumulation of different resources will provide a firm with a synergy effect that is greater than what each of them would deliver individually. The particular bundle of resources will thereby strengthen the firm's performance (Tece, 1986).

A lack of complementary resources is identified as one of the major causes of liability of foreignness in international expansion (Hymer, 1976). It can be counteracted by developing and holding complementary resources internally (Cuervo-Cazurra et al., 2007). It then becomes important to highlight the combination of resources to secure firm export performance (Denicolai et al., 2014; Yang et al., 2017), because a certain bundle of complementary resources could boost the survival effects of other resources held by an exporting SME.

The compensatory perspective provides quite the opposite picture (Semrau & Hopp, 2016). According to the compensatory perspective, internationalizing firms require resources particularly in situations in which they cannot rely on extensive previous experience. When internationalizing firms lack experience, operating in new environments is connected with emphasized hazards of unfamiliarity and connected liabilities of foreignness (Gaur & Lu, 2007; Lu & Beamish, 2001). However, because firms are heterogeneous and possess differing bundles of resources, there exist multiple approaches for SMEs to secure their survival abroad (Sui & Baum, 2014), even beyond the liabilities reducing the effect of experience. Thus, firms can secure their survival in an uncertain environment, such as emerging countries, by different means. If one means is not available, they might be more reliant on other means to circumvent disadvantages and secure a competitive advantage (Almor & Hashai, 2004). For instance, experience is important for identifying and exploiting opportunities (Bloodgood et al., 1996;

Johanson & Vahlne, 2009; Maekelburger et al., 2012). If a firm does not have previous experience, it might overlook existing opportunities in a foreign market or might exploit them only inefficiently. In the first case, potential profit is not realized, making it necessary to have other means of securing profitable market operations, such as being of larger size or highly productive or innovative. In the second case, market operations are more costly; thus, a firm requires more resources to leverage the potential in a foreign market to secure its survival there and to overcome liabilities of foreignness (Hymer, 1976).

Despite the models being contradictory, previous studies have found support for both complementary and compensatory models, and calls have been made for further insights (Semrau & Hopp, 2016). For smaller firms lacking an accumulation of resources, 'a focused use of a narrow but critical set of skills' (Wolff & Pett, 2000, p. 38) implies that not only the breadth or quantity of resources of the firm, but also the types of resources available, count because they will influence the determination of a firm's competitive patterns and actions.

Much resource-based research has focused on the direct effects of diverse resources on a firm's overall or export performance. However, this paper will provide further theoretical insights by testing the moderating effects (as called for by, e.g., Kaleka, 2012; Chen et al., 2016) of a set of internal, firm-specific resources on the relationship between previous market experience and emerging market exit. The moderating resources will prove to be either complementary or compensatory resources in combination with the previous market experience of the exporting SMEs.

### 2.2.1. Firm Size

Size is one of the most tested predictors of export performance, but the results remain inconclusive. Several researchers have confirmed that size positively affects firms' probability to export and their export success (Bonaccorsi, 1992; Lu & Beamish, 2001; Majocchi, Bacchiocchi, & Mayrhofer, 2005; Roberto, 2004). Larger firms have also been shown to do export market exits less often (Ilmakunnas & Nurmi, 2010). Size represents the accumulated resources held by a firm (Dhanaraj & Beamish, 2003), and by that measure, the results are consistent with the resource-based view. With larger size, a firm holds more resources, thus making the firm more competitive (Williams, 2014). Bonaccorsi (1992), who did not find support for the effects of size on export intensity, however, does pinpoint that larger firms tend to access higher levels of economies of scale. Higher production levels keep related costs down; thus, the perception of the risk associated with exporting among larger firms often is lower than among smaller firms. This perception suggests that the survival prospects of larger firms are higher compared with firms of smaller size (Esteve-Pérez & Manes-Castillejo, 2008). Based on the diverse findings of the direct effects, Calof (1994) suggests devoting more effort to investigating the moderating effect of size.

We argue that size interacts with the prior experience of a firm for predicting emerging market exit. According to the *complementary* perspective, firm size will enhance the negative effect of domestic and developed market experience on hazard of exit from emerging markets. Previous experience is connected with enhanced opportunity recognition in markets. Accordingly, larger SMEs with prior domestic and developed market experience are likely to identify more potentially attractive opportunities in emerging markets than will smaller SMEs. However, exploiting these potentially lucrative opportunities abroad requires up-front investments, particularly because institutional distance is large between the developed home country and the emerging host country. Larger SMEs possess more resources and thus can exploit opportunities abroad more easily – even in more-distant environments. Size thereby complements the prior experience held by the firm, which facilitates the ability to identify such opportunities (Bloodgood et al., 1996; Johanson & Vahlne, 2009; Maekelburger et al., 2012). Thus, SMEs can make the best use of prior experience if they have the larger size actually to exploit the opportunities they recognize in emerging economy markets. The complementary logic then suggests that:

**H3.** Firm size will *complement* the effects of (a) domestic and (b) developed market experience on emerging market exit of SMEs; therefore, the degree of reduction of experience on exit is higher for larger firms.

Following the *compensatory* perspective, however, larger firms will benefit less from prior experience; in other words, larger firms' emerging market success depends less upon prior experience. Operating in a foreign environment is a risky, resource-consuming activity (Chang & Rhee, 2011). In addition, it takes time to become successful in exporting (Majocchi et al., 2005). This point is particularly true if a firm enters a market that is very different from its home market. When SMEs from developed economies enter emerging markets, they must fend off existing risks and uncertainties. Thus, such markets are often entered late in SME internationalization (Sandberg, 2013). Previous experience built over time can be helpful in overcoming liabilities of foreignness (Hymer, 1976) or outsidership (Johanson & Vahlne, 2009), but if there is a lack of experience, other resources might compensate for that.

Experience will be more critical for preventing a firm's emerging market exit when the firm's resource base is thin, as is more likely for smaller firms. When short on resources, a firm cannot afford to experiment too much with different potential opportunities and must be more efficient in identifying and exploiting opportunities. Previous experience should help firms to make the most of the actually exploitable opportunities and survive even with a smaller size. Larger SMEs have more slack resources (Sui & Baum, 2014) and thus can more easily afford to make more mistakes in the foreign environment without directly failing and withdrawing from the export market. This view has received support from Mata, Portugal, and Guimaraes (1995), who showed that size enhances the chances of survival, particularly for new firms rather than for already established firms with more experience. Following the compensatory logic, we derive the following hypothesis:

**H4.** Firm size will *compensate* for the effects of (a) domestic and (b) developed market experience on emerging market exit of SMEs; therefore, the degree of reduction of experience on exit is higher for smaller firms.

### 2.2.2. Productivity

Several studies have highlighted the effect of productivity on firms' turnover. For instance, Aw, Chung, and Roberts (2000) and Esteve-Pérez and Manez-Castillejo (2008) found that more-productive firms have a lower risk of exit from the fierce competition in export markets. For exporting SMEs, productivity is critical to the export market exit (Sui & Yu, 2012). One reason for this importance is the enhanced knowledge accumulation from export experience, which spurs productivity among exporting firms compared with non-exporting firms (Baldwin & Gu, 2003).

We propose that productivity not only unfolds a direct effect on SMEs' exit from emerging markets but also moderates the aforementioned effects of previous domestic and developed market experience. The *complementary* perspective supports the view that productivity further enhances the benefits of experience. Highly productive SMEs can generate more resources from their operations than can unproductive SMEs, and they engage more frequently in exporting (Baldwin & Gu, 2003; Cassiman & Golovko, 2011). These resources can be used for establishing a secure and lasting position in international markets. In particular, SMEs who are more experienced should be able to make "wiser" choices for how to invest such resources and thus enhance the value of productivity gains. Productive SMEs can then create synergies between enhanced resource endowment created through productivity and expertise, that is, learning-by-exporting effects in which exporters learn and gain experience through which productivity is enhanced (Ilmakunnas & Nurmi, 2010), and then turn the two components into a sustained competitive advantage that helps to prevent exit even in a new, challenging environment such as emerging

markets. Accordingly, we argue for the following hypothesis:

**H5.** Firm productivity will *complement* the effects of (a) domestic and (b) developed market experience on emerging market exit of SMEs; therefore, the degree of reduction of experience on exit is higher for more-productive firms.

The *compensatory* perspective predicts contrarily that less productive SMEs need more experiences to reduce their hazard of exit from emerging markets. Baldwin and Gu (2003) showed that younger exporting firms in particular, with less accumulated previous experience, gain from productivity increases caused by undertaking exports. As noted above, the entry into a new market is a resource-consuming task, particularly if a developed country SME is about to enter an emerging economy market (Meyer, 2001). Firms must conduct market research, find distribution partners, and modify and customize their products and services according to local taste and legal requirements (Meyer & Skak, 2002). Experienced SMEs can more efficiently develop market strategies based on what they have learned in other markets. Accordingly, SMEs with higher levels of domestic and developed market experience need not rely as much on expensive trial-and-error processes as inexperienced SMEs must. Thus, experienced SMEs can more accurately and easily find the optimum level of modification of their products and services (Love & Ganotakis, 2013) and require less time and effort and fewer resources to establish foreign operations in a new location. Conversely, inexperienced SMEs must "walk a long road" and create the heuristics and processes needed to operate in the market first, requiring more resources. To prevent exiting from emerging markets, inexperienced SMEs must be highly productive and thus can compensate for longer and more resource-consuming market development. In summary, this perspective leads to the following hypothesis:

**H6.** Firm productivity will *compensate* for the effect of (a) domestic and (b) developed market experience on emerging market exit of SMEs; therefore, the degree of reduction of experience on exit is higher for less productive firms.

### 2.2.3. Innovation

Multiple studies have shown a positive relationship between a firm's innovation and export performance, including for SMEs (Bausch & Krist, 2007; Pett & Wolff, 2011; Sui & Baum, 2014). Innovation facilitates the possibility of attracting customers and effectively seizing market opportunities as a means of enhancing performance and surviving in turbulent market situations (Cuervo-Cazurra et al., 2007). Moreover, R&D activities and an innovative stance are shown to spur a firm's effectiveness (Lisboa, Skarmeas, & Lages, 2011) and to be crucial for the firm's survival (Esteve-Pérez & Manez-Castillejo, 2008; Martinez et al., 2018).

Following the *complementary* rationale, innovation should enhance the reduction effect of prior experience of SMEs because it relates to the risk of exit from emerging economies. Innovations provide firms with enhanced opportunities to satisfy differentiated customer needs and to enter multiple markets (Love & Ganotakis, 2013). Experienced SMEs have already developed skills in operating in domestic and foreign markets. Thus, experienced SMEs should be superior in identifying and exploiting opportunities in international markets. When an experienced firm is also innovative, it has more opportunities to hand to enter a foreign market and simultaneously be better able to exploit these opportunities effectively. In a parallel vein, Cassiman and Golovko (2011) and Golovko and Valentini (2011) argue that innovation and exports are complementary activities in the sense that having both would give a SME a synergy effect in terms of productivity and sales growth. Based on this perspective, we come to the following hypothesis:

**H7.** Firm innovation will *complement* the effects of (a) domestic and (b) developed market experience on emerging market exit of SMEs; therefore, the degree of reduction of experience on exit is higher for

more-innovative firms.

According to the *compensatory* perspective, inexperienced SMEs will profit more strongly from innovation than will experienced SMEs. Thus, the effects of domestic and developed market experience on emerging market exit should be particularly strong for less innovative SMEs. Inexperienced SMEs should have lower levels of understanding for foreign legislation, institutions and the general business environment (Almor & Hashai, 2004). Thus, inexperienced SMEs operate at a disadvantage concerning the hazards in the export market, particularly in emerging economy contexts. From the perspective of a developed economy SME, emerging markets are particularly hostile, given their high level of institutional distance (Baum, Schwens, & Kabst, 2015). This distance is connected with enhanced liabilities of foreignness (Hymer, 1976), making it easier to fail in such an environment (Sui & Baum, 2014). Strong technological advantages help to compensate for such liabilities of foreignness (Shrader, Oviatt, & McDougall, 2000) and thus should be conducive to emerging market exit. Because it is an essential component in preventing the export market exit of SMEs (Sui & Baum, 2014), innovation could be considered a potentially valuable resource to substitute for previous market experience of SMEs. Thereby, a hypothesis on a firm's innovation and its moderating effect is stated as follows:

**H8.** Firm innovation will *compensate* for the effect of (a) domestic and (b) developed market experience on emerging market exit of SMEs; therefore, the degree of reduction of experience on exit is higher for less productive firms.

In summary, Fig. 1 illustrates the research model for studying the direct effects of domestic and developed market experience on the emerging market exit of SMEs and studying either the complementary or the compensatory moderating effects of firm size, productivity and innovations.

### 3. Methodology

#### 3.1. Data

The data were collected in the developed Canadian market. The economy opened up a few decades ago, resulting in large increases in exports beginning in the mid-1980s (Baldwin & Gu, 2003). A majority of the exports were conducted by SMEs, and the main trading market was the neighboring, developed US market. Thus far, only a small but increasing share of the SMEs have focused on emerging markets (Sui, Yu, & Baum, 2013). However, there are increasing advocates from both scholars and policy makers to start selling to the high-growth emerging markets rather than the slow-growth developed markets that now are the main targets for Canadian exporters (Carney, 2012; Sui & Goldfarb, 2014).

We constructed data for this study from two linked databases – the Exporter Register (ER) (1993–2008) and T2-LEAP (1993–2008) –

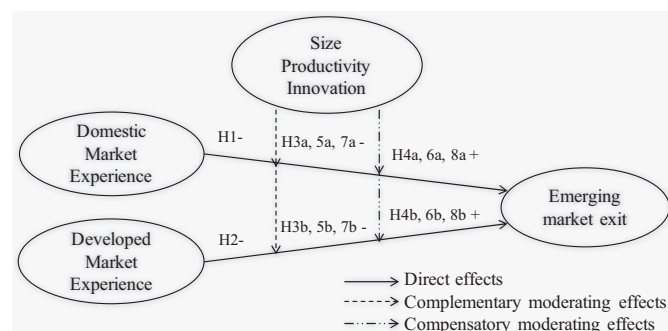


Fig. 1. Research model.

created and maintained by Statistics Canada's Centre for Data Development and Economic Research. The ER is an administrative database that contains merchandise trade transactions of Canadian firms from 1993 to 2008, assembled using US Customs and Canada Revenue Agency documents. Each transaction record in the ER includes the firm's identification number, a product code classified under an eight-digit Harmonized Schedule (HS8), the value of the transaction in Canadian dollars and the country of destination. The ER allows us to track the year in which a firm began to export, the value and destinations of its exports and the products it exported in each year between 1993 and 2008.<sup>1</sup>

The longitudinal T2-LEAP dataset effectively covers the universe of incorporated Canadian firms that legally hire employees and file corporate income tax returns. It was created by merging two administrative databases: (1) the Longitudinal Employment Analysis Program (LEAP), which provides information on a firm's employment, payrolls, industry and location, and (2) the Corporate Tax Statistical Universe File, which provides information on a firm's sales.

#### 3.2. Sample selection

For our analysis, we selected our sample based on the following criteria. First, we selected firms that exported to emerging markets at least once between 1994 and 2008. We defined emerging markets as those identified by the Conference Board of Canada, which includes Brazil, Chile, China, Colombia, Egypt, Hong Kong, Hungary, India, Indonesia, Israel, Malaysia, Mexico, Peru, Poland, Russia, Saudi Arabia, Singapore, South Africa, South Korea, Taiwan, Thailand, Turkey, the United Arab Emirates, and Vietnam (Goldfarb, 2013). These countries here represent emerging markets in general, being in economic and institutional aspects different from developed markets (Li & Meyer, 2009). We acknowledge that there are differences between different emerging (and developed) markets (Marquis & Raynard, 2014), but for this paper, we generalize on differences in rules of operation in between the two types of markets, for which there is a call for further research (Marquis & Raynard, 2014; Paul et al., 2017; Roberto, 2004).

During the period of the study, roughly 45,000 (6%) Canadian SMEs exported at least once, but only approximately 4000 of these (8%) exported to fast-growth markets at least once. Second, consistent with the classification of Industry Canada (Industry Canada, 2016) and Statistics Canada (Rispoli, Leung, & Gibson, 2011), we define SMEs as having 500 or fewer employees. Firms with > 500 employees in the first year they exported were excluded. Third, because ER data are available from 1993 onward, we excluded firms that entered the ER in 1993 from our analysis due to a lack of information, such as initial export destination. Similarly, we excluded firms established before 1994. After accounting for missing information and other problematic entries, the dataset consisted of 3503 unique firm observations and 12,259 firm-year observations.

#### 3.3. Measures

##### 3.3.1. Dependent variable

The dependent variable *Emerging Market Exit* is measured as the conditional probability of a firm exiting from emerging markets in the interval between time  $t$  and  $t + 1$ , given that the firm has exported in emerging markets until  $t$  (Busenitz, Fiet, & Moesel, 2005; Sabuhoro, Larue, & Gervais, 2006). We measured the export duration as the number of years a firm exported to emerging markets since the year it began to do so. Exit from an emerging market can occur more than once for a given firm during the research period; a firm can enter, exit and then reenter emerging markets. In this study, a firm is considered to exit

<sup>1</sup> Unfortunately, ER does not have information on internationalization entry modes other than exports.

from emerging markets if it ceases exporting for more than two years after its initial entry to the export market.

### 3.3.2. Independent variables

We measured our independent variables on experience by the number of years in each market (Burgel & Murray, 2000; Cavusgil & Zou, 1994; Geldres-Weiss et al., 2016; Katsikeas & Morgan, 1994; Reuber & Fischer, 1997). *Domestic Market Experience* is the number of years a firm has been active<sup>2</sup> in the domestic market at time *t*. *Developed market experience* is the sum of the years in which a firm has been active<sup>3</sup> in each developed market at time *t*.<sup>4</sup> If a firm exported to three developed markets in a year, for example, its developed market experience in this year is counted as three.

### 3.3.3. Moderating variables

To test our moderating hypotheses – for both the complementary and the compensatory perspectives – three firm-specific resources previously shown to have positive direct effects on SME export market survival (Sui & Baum, 2014) have been selected. Previous research indicates that *Size* is an important determinant of a firm's survival (Dhanaraj & Beamish, 2003; Mata et al., 1995). Our measure is based on the number of employees (Cavusgil & Zou, 1994; Katsikeas & Morgan, 1994; Wolff & Pett, 2000), measured by the logarithm value of the number of employees a focal firm hires in a given year. In addition, research shows that a firm's *Productivity* is critical to its export market survival (Aw et al., 2000). We measured this variable by the logarithm value of the revenue per employee (Sui & Yu, 2013). Finally, product *Innovation* is proxied by the number of new products a firm introduced to the emerging markets in a focal year (Salomon & Shaver, 2005). Specifically, a firm is considered to produce a new product if it sold a product (at the four-digit HS level<sup>5</sup>) that it had never previously exported to emerging markets. Equivalent measurements have been used in previous studies to capture a firm's realized innovativeness (Smith, Collins, & Clark, 2005).

### 3.3.4. Control variables

Sabuhoro et al. (2006) show that firms that export to more destinations are less likely to exit from exporting. We controlled for these effects by including the number of destinations – measured by the logarithm value of the number of countries to which a firm exports in the focal year. Furthermore, the export market exit of a firm also depends upon macroeconomic conditions in its industry, the province in which it is located and the host country to which it exports. We therefore control for these factors using export destinations and the inverse Mills ratio and using industry and location (in the form of province) dummies. Furthermore, we controlled for possible macroeconomic fluctuations by including a set of year dummies. Thus, dual effects by internal firm resources and external environmental factors on export outcomes, as called for by Chen et al. (2016), are covered.

<sup>2</sup> A firm is considered to be active in the Canadian domestic market if its annual revenue was higher than CAD\$30,000, the threshold for an individual to be required to be registered as a business.

<sup>3</sup> A Canadian firm is considered active in a foreign market if its sales in this market were greater than CAD\$2000, the threshold for the goods to be registered as commercial goods at customs.

<sup>4</sup> We thank an anonymous reviewer for the suggestions on the measurement of these two variables.

<sup>5</sup> Each transaction record in the Exporter Register database includes the firm's identification number and a product code that is classified under the Harmonized Commodity Description and Coding System (HS). The HS code is available at the eight-digit level, with the first four digits covering the broadest category. To capture a firm's innovative resources, we use new product introductions at the four-digit HS level.

### 3.4. Econometric method

Previous studies (Mudambi & Zahra, 2007; Sui & Baum, 2014) show that firms' internationalization strategies are endogenous to their characteristics. Studies that do not control for endogeneity might yield biased estimates with respect to the effect of internationalization strategies on firm performance (Reeb, Sakakibara, & Mahmood, 2012). Following Sui and Baum (2014), we used a two-stage instrumental variable estimation with the split-sample method (Angrist & Krueger, 1995; Bolduc, Khalaf, & Moynour, 2008) to control for the endogeneity of a firm's internationalization strategies, in which the first stage estimates domestic market experience and developed market experience and the second stage estimates emerging market exit.

Specifically, we used the Poisson regression model to determine a firm's domestic market experience and developed market experience. The control variables included firm-specific characteristics such as size and productivity, measured in the first year that the firm exported. Whereas firm size measures firms' initial resource endowments, firm productivity measures their efficiency. Firms determine export strategies according to their industries, locations and cohort conditions (Sui & Baum, 2014). We therefore included control variables such as industry, location and year dummies in our regression analysis. In addition to the control variables, we also included instrumental variables such as gross domestic product (GDP) growth, exchange rate, and exchange rate volatility because previous research notes that these macroeconomic factors influence firms' internationalization decisions (Batjargal et al., 2013; Miller & Eden, 2006; Salomon, 2006). We measured home GDP growth by the annual percentage change in real gross domestic product of the home country (Canada). We measured exchange rate as the Canadian to major export destination nominal exchange rate and exchange rate volatility as the annual percentage change in exchange rate.

In the second stage, we used a reduced form duration model, the Cox proportional hazards model (CPHM) with firm fixed effects, to estimate a firm's chances of exit from exporting. This model is a preferred method when modeling firm survival (Manjón-Antolín & Arauzo-Carod, 2008) because it is flexible in its specification of the baseline hazard and allows for a proportional specification for unobserved heterogeneity. It also has a function of observables that allows for the aforementioned specification and heterogeneity. The CPHM's departure is in proportional hazards, meaning that the covariates are multiplicatively related to the hazard. We used Schoenfeld's global goodness-of-fit test to check the proportional hazard assumption in the CPHM. No evidence that contradicts the proportional hazards assumption was shown; therefore, we deemed the use of the CPHM appropriate.

Because the second stage is a nonlinear model (Bolduc et al., 2008), we claim that our two-stage model is not conventional. In other words, traditional tests, such as the Hausman test of endogeneity, might not be effective for such a model. Instead, we use the split-sample method (Angrist & Krueger, 1995; Beaulieu, Gagnon, & Khalaf, 2009; Sui & Baum, 2014) to verify the appropriateness of the model and the robustness of the results. This method has the advantage of producing an estimate bias toward zero (Angrist & Krueger, 1995), being reliable and powerful (Dufour & Jasiak, 2001) and controlling effectively for Type I errors (Bolduc et al., 2008). Specifically, we randomly split the sample in half and used one-half to estimate the parameters of two first-stage equations: one for domestic market experience and one for developed market experience. We then used these estimated first-stage parameters to construct fitted values for the endogenous repressors (domestic market experience and developed market experience) from data in the other half of the sample. After this process, we used the predicted values of the endogenous repressors (the predicted value for domestic market experience and the predicted probability of developed market experience) in the second-stage (exit from emerging market) parameter estimates. To summarize, the analysis occurs in three steps: (1) from the first subsample, we acquired parameters by estimating the strategic choice model. (2) Based on the second subsample and estimated

**Table 1**  
Descriptive statistics.

	1	2	3	4	5	6	7	8	9
1 Domestic market experience	1								
2 Developed market experience	−0.12*	1							
3 Size	−0.03*	0.04*	1						
4 Productivity	−0.03*	−0.20*	−0.18*	1					
5 Innovation	0.00	−0.02*	0.14*	−0.07*	1				
6 Destinations	−0.10*	−0.02*	−0.03*	0.11	−0.16*	1			
7 Home country GDP	−0.05*	0.39*	0.01	−0.15	−0.04	−0.03*	1		
8 Exchange rate	−0.22*	−0.21*	−0.02	0.07*	−0.12*	0.17*	0.08*	1	
9 Exchange rate volatility	−0.01	−0.00	−0.01	0.05*	−0.02	−0.03*	−0.12*	0.38*	1
Mean	4.98	3.11	36.29	73.90	2.15	2.29	13.69	1.27	−3.41
S.D.	3.18	4.72	46.3	12.50	3.97	3.99	1.98	0.37	4.57

Notes: N = 12,259.

\* p < 0.01.

parameters, we calculated the predicted value for domestic market experience and the predicted probability of developed market experience. (3) Using the second subsample, we regressed the predicted value for domestic market experience and the predicted probability of developed market experience on the survival analysis.

Finally, we adopted Heckman's (1979) two-step model to address possible sample selection bias because our analysis only included firms that exported to emerging markets. From firms exporting at least once between 1994 and 2008, we ran a probit model to estimate the probability of a firm exporting to emerging markets, calculated the inverse Mills ratio, and included this ratio in our regression analysis.

## 4. Results

### 4.1. Hypotheses tests

Table 1 reports the summary statistics of the variables used in this study. Table 2 reports the regression results for domestic market experience and developed market experience based on Poisson regression models. It shows that SMEs exporting to emerging markets are more likely to have more domestic market experience when the firm is larger. Additionally, SMEs that are exporting to emerging markets are more likely to have more developed market experience when the firm is larger and more productive.

As the basis for the results of the hypothesis testing, Table 3 shows the effect of the explanatory variables on the probability of exit from the emerging market. Model 1 is based on a conventional analysis, which includes the original value of age at internationalization and does not control for endogeneity. Models 2 and 3 account for the endogeneity of the empirical estimates by including estimated domestic

**Table 2**  
Regression results on domestic market experience and developed market experience: Poisson Models.

	Domestic market experience		Developed market experience	
Size	0.023***	(0.002)	0.232***	(0.016)
Productivity	−0.003	(0.002)	0.008***	(0.002)
Home country GDP	−0.189***	(0.001)	0.070***	(0.001)
Exchange rate	−0.785***	(0.028)	−0.207***	(0.037)
Exchange rate volatility	0.017***	(0.001)	−0.016***	(0.001)
Inverse Mills ratio	0.014	(0.013)	−0.008	(0.016)
Industry dummies	Yes		Yes	
Location dummies	Yes		Yes	
Year dummies	Yes		Yes	
Pseudo R2	0.245		0.451	
Log likelihood	−28,470		−26,291	
LR chi2	2716		43,199	
Prob > chi2	0.000		0.000	

Notes: N = 12,259. \*\*\*p < 0.01. Standard errors in parentheses.

market experience and developed market experience based on the regression results from Table 2. Model 3 includes the interactions of domestic and developed market experience with size. Model 4 includes the interactions of domestic market experience and developed market experience with productivity. Model 5 includes the interactions of domestic market experience and developed market experience with innovation. Model 6 uses the random split-sample methodology to determine the robustness of the results of Model 2. Models 2–5 provide the most reliable and unbiased results because, unlike Model 1, they account for endogeneity and, unlike Model 6, they are based on the entire sample.

The results show that the coefficient of domestic market experience is negative and significant, which suggests that domestic market experience reduces a firm's hazard of exit from emerging markets. Thus, Hypothesis 1 is supported. Similarly, the coefficient of developed market experience is negative and significant, which suggests that developed market experience reduces a firm's hazard of exit from emerging markets. Hypothesis 2 is thereby supported. Moreover, our results suggest that larger, more productive and more innovative firms are less likely to exit from emerging markets because the coefficients of size, productivity and innovation are negative and significant.

To determine whether the effects of domestic and developed market experience on emerging market exit depends upon firm size, we interacted size with domestic and developed market experience in Model 3 in Table 3. Hypotheses 3a and 3b predict that size will complement the effects of (a) domestic and (b) developed market experience on emerging market exit of SMEs. Because the effects of domestic and developed market experience on exit are negative, we expect the effects of the interactions to be negative. Conversely, Hypotheses 4a and 4b suggest compensatory and thus positive interaction effects between size and (a) domestic and (b) developed market experience. Our results show that the interactions of size with domestic market experience and with developed market experience are both positive and significant. Thus, Hypotheses 4a and 4b are supported, whereas Hypotheses 3a and 3b are rejected.

The interaction of domestic and developed market experience with productivity is tested in Model 4 of Table 3. Hypotheses 5a and 5b predict that productivity will have a complementary effect and thus negatively moderate the effect of (a) domestic and (b) developed market experience on emerging market exit of SMEs. Assuming a compensatory effect of productivity, Hypotheses 6a and 6b argued that productivity would instead positively moderate the effect of (a) domestic and (b) developed market experience on emerging market exit of SMEs. Because both signs of the interactions of productivity with domestic and developed market experience are positive and significant, Hypotheses 6a and 6b are supported, whereas Hypotheses 5a and 5b are rejected.

Finally, we test the interactions of innovation with domestic and with developed market experience on emerging market exit in Model 5



**Table 3**  
Hazard of exit from emerging markets: Cox proportional hazard model.

	1	2	3	4	5	6
Domestic market experience		−0.024*** (0.003)	−0.029*** (0.003)	−0.033*** (0.003)	−0.031*** (0.003)	−0.612*** (0.034)
Developed market experience		−0.017*** (0.002)	−0.020*** (0.002)	−0.022*** (0.002)	−0.022*** (0.002)	−0.126*** (0.021)
Size		−0.053*** (0.006)	−0.286** (0.134)	−0.050*** (0.004)	−0.053*** (0.006)	−0.025*** (0.004)
Productivity		−0.028*** (0.005)	−0.028*** (0.002)	−0.242*** (0.007)	−0.025*** (0.002)	−0.019*** (0.004)
Innovation		−0.012*** (0.004)	−0.012*** (0.002)	−0.012 (0.002)	−0.240*** (0.005)	−0.007*** (0.003)
Size × Domestic market experience			0.031* (0.016)			
Size × Developed market experience			0.012*** (0.002)			
Productivity × Domestic market experience				0.033*** (0.007)		
Productivity × Developed market experience				0.010*** (0.003)		
Innovation × Domestic market experience					0.028*** (0.003)	
Innovation × Developed market experience					0.007*** (0.002)	
Destinations		−0.012*** (0.003)	−0.011*** (0.003)	−0.012*** (0.003)	−0.011*** (0.003)	
Inverse Mills ratio		0.007 (0.012)	0.007 (0.015)	0.007 (0.015)	0.008 (0.015)	0.215 (0.237)
Industry dummies		Yes	Yes	Yes	Yes	Yes
Location dummies		Yes	Yes	Yes	Yes	Yes
Year dummies		Yes	Yes	Yes	Yes	Yes
Log likelihood		−33,100	−33,415	−33,075	−33,403	−15,243
LR chi2			582		606	
Prob > chi2	0.000	0.000	0.000	0.000	0.000	0.000
Firms observations		3735	3735	3735	3735	1973
Firms-year observations		12,259	12,259	12,259	12,259	6211

Notes: \*\*\*p < 0.01. \*\*p < 0.05. \*p < 0.1. Standard errors in parentheses. Firm-year observations = 12,259.

of Table 3. Mirroring the complementary perspective, Hypotheses 7a and 7b predicted that innovation would negatively moderate the effect of (a) domestic and (b) developed market experience on emerging market exit of SMEs. Opposing this logic, Hypotheses 8a and 8b argued for a compensatory effect and that innovation would consequently positively moderate the effect of (a) domestic and (b) developed market experience on emerging market exit of SMEs. The signs of both interactions of innovation with domestic and developed market experience are positive and significant. Thus, we again find support for the compensatory logic rather than the complementary perspective. Accordingly, Hypotheses 7a and 7b are rejected, while Hypotheses 8a and 8b receive support.

Based on the regression results from Model 2 of Table 3, we estimate each firm's predicted hazard of exit from the emerging market. In Fig. 2, we plot the effects of hypothesized interactions on the estimated hazard of exit from emerging markets (Baum, Schwens, & Kabst, 2013). Fig. 2(a), (b) and (c) demonstrate the moderating effect of size,<sup>6</sup> productivity,<sup>7</sup> and innovation<sup>8</sup> on the relationship between domestic market experience and hazard of exit from emerging markets. The plots reveal that the negative effect of domestic market experience on a firm's risk of exit from emerging markets is stronger for smaller, less

productive and less innovative firms. Similarly, Fig. 2(d), (e) and (f) demonstrate the moderating effect of size, productivity and innovation on the relationship between developed market experience and the hazard of exit from emerging markets. The plots reveal that the negative effect of developed market experience on a firm's hazard of exit from emerging markets is stronger for smaller, less productive, and less innovative firms. These results remain consistent with our compensatory Hypotheses, H4a, b, H6a, b and H8a, b.

#### 4.2. Robustness tests

We examined the following variations to the appropriate specifications to assess the robustness of the results. First, rather than using 500 or fewer employees to classify SMEs, we used alternative sampling criteria such as 250 employees. For the size of firms we used revenue instead of number of employees. Second, alternative econometric methods, such as a population-averaged linear model with firm-level fixed effects rather than the Poisson model was used to estimate domestic and developed market experience, while Probit models replaced the CPHM to analyze the emerging market exit. Third, we divided the period of analysis in two – from 1994 to 2000 and from 2001 to 2008 (before and after the internet bubble). In all of these variations, we find results that are consistent with our primary results.

## 5. Discussion and conclusions

Through seeking an answer to the research question, *How can SMEs from developed economies prevent export exit from emerging markets?*, this paper provides both theoretical and practical contributions to previous calls for further research (e.g., Cavusgil & Knight, 2015; Chen et al., 2016; Gima et al., 2003; Paul et al., 2017; Roberto, 2004; Sui & Baum,

<sup>6</sup> Smaller firms are firms with 36 (mean value of the number of employees in our sample) or fewer employees; larger firms are firms with > 36 employees.

<sup>7</sup> Less productive firms are firms with gross profits that are less than CAD \$73,900 per employee per year (mean value of productivity in our sample); more productive are firms with gross profits that are higher than CAD\$73,900 per employee per year.

<sup>8</sup> Less innovative firms are firms with 2 (mean value of product innovations in our sample) or fewer new products per year; more innovative firms are firms with 3 or more new products per year.

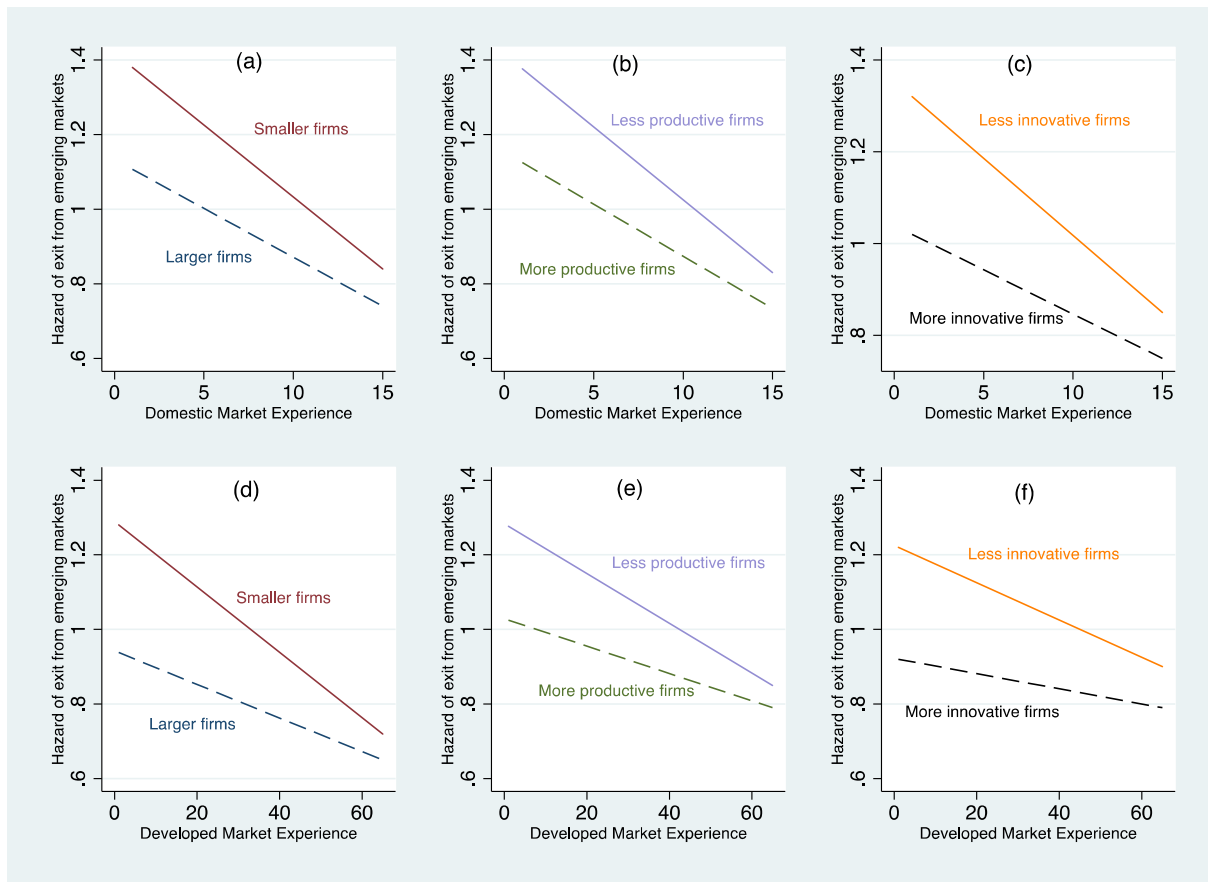


Fig. 2. Estimated effects of hypothesized interactions on the hazard of exit from emerging markets.

2014).

Starting with the importance of prior market experience, [Giarratana and Torrisi \(2010\)](#) and [Sandberg \(2014\)](#), for example, have questioned the usefulness of unrelated market experience in SME internationalization. Our research, however, shows such experience to be beneficial for SME survival in emerging markets, because both domestic market and developed market experience lower the hazard of emerging market exit. Our results thereby support research on the general usefulness of prior experience in firm internationalization ([Eriksson et al., 1997](#); [Figueira-de-Lemos et al., 2011](#); [Forsgren, 2002](#); [Johanson & Vahlne, 1977](#)) and of unrelated knowledge in more complex environments such as emerging markets ([Geldres-Weiss et al., 2016](#)). The likelihood of having the advantage of prior experience is viewed as increasing with size, because larger SMEs tend to have accumulated more domestic and developed market experience. In addition, more-productive SMEs have a higher level of accumulated experience from developed markets than do less productive SMEs. Thus, we can conclude that emerging market exit is counteracted by developed economy SMEs that accumulated more prior market experience through spending more time in both the domestic and other developed markets.

Furthermore, within the RBV, it is claimed that firms can counteract business failure through a set of strategic resources ([Barney, 1991](#); [Esteve-Pérez & Manez-Castillejo, 2008](#); [Martinez et al., 2018](#)). Our results confirm that firm resources measured by size, productivity and innovation capabilities can not only prevent SMEs' export market exit ([Sui & Baum, 2014](#)) but also bring additional knowledge to RBV by determining their values as moderating factors as called for by [Chen et al. \(2016\)](#). Because little is known concerning what combinations of resources and experiences would be most advantageous for SMEs to avoid export market failure ([Denicolai et al., 2014](#); [Yang et al., 2017](#)), a novel contribution is also made through this study by determining that

these resources are compensatory ([Semrau & Hopp, 2016](#)) to the prior experience held by the SMEs. This point is particularly interesting in our study context of emerging markets, because operating in new environments provides emphasized hazards of unfamiliarity and connected liabilities of foreignness ([Gaur & Lu, 2007](#); [Lu & Beamish, 2001](#)). Thus, an appropriate set of resources and insights into their interconnectedness could be a key to avoiding business failure in emerging markets ([Amankwah-Amoah et al., 2013](#)).

The moderating effect of size is considered compensatory because a larger size positively moderates the effects of both domestic and developed market experience on emerging market exit. This point is consistent with the findings of [Mata et al. \(1995\)](#), in which size was shown to reduce the probability of exit for firms new to the market, rather than for already established firms having accumulated more prior experience. Thus, size lowers the dependence upon previous experience and becomes more important for newer entrants. Our results thereby show that SMEs can compensate with size for less accumulated experience. Previous research showing larger firms to be more resilient in export markets (e.g. [Ilmakunnas & Nurmi, 2010](#)) is then further advanced because we conclude size to be a compensatory resource for prior experience in developed economy SMEs exporting to emerging markets.

Likewise, the moderating effect of productivity is also positive – and thus compensatory – to prior experience. Although firms with more experience have the advantage of being able to optimize their products and services over time ([Love & Ganotakis, 2013](#)), inexperienced SMEs are here considered able to compensate for time- and resource-consuming market development by being highly productive to keep exporting to emerging markets. Although success in exports takes time ([Majocchi et al., 2005](#)). [Baldwin and Gu \(2003\)](#) showed that younger exporting firms gain productivity increases from export activities.

Consequently, productivity can compensate for a lack of knowledge. Our conclusion then is that inexperienced developed market SMEs exporting to emerging markets must be more productive to avoid market failure.

Additionally, innovation is shown to positively moderate the effect of experience on emerging market exit. Inexperienced SMEs will thereby profit more strongly from innovation than will experienced SMEs. Inexperienced SMEs are viewed as possessing lower levels of understanding of foreign legislation, institutions and the general business environment (Almor & Hashai, 2004), particularly in distant markets (Baum et al., 2015). However, our findings show that being innovative will compensate for this lack of experience and thus counteract liability of foreignness (Hymer, 1976; Shrader et al., 2000) and hinder emerging market exit of developed market SMEs.

In summary, our results show that the confirmed negative effect of prior domestic market experience on a firm's hazard of exit from emerging markets is stronger for smaller, less productive and less innovative firms. The same goes for developed market experience. The results remain consistent, with these resources being further shown to be compensatory to the prior experience held by developed market SMEs exporting to emerging markets. Although previous experience traditionally is considered important to firms' international survival (Johanson & Vahlne, 1977, 2009; Sapienza et al., 2006; Sui & Baum, 2014, and in our study), and in particular for dissimilar market contexts such as emerging markets (Geldres-Weiss et al., 2016), other research challenged that assumption (Sandberg, 2014). Our results here show that SMEs can compensate for less accumulated experience through being larger, more productive and more innovative. Thereby, SMEs that lack experience are – with a sufficient set of compensatory resources – also able to be resilient in dissimilar export markets.

### 5.1. Implications

Our research makes both theoretical and practical contributions to the less studied area of SME export failure as called for by Bernini et al. (2016), Chen et al. (2016) and Gima et al. (2003), in particular in the emerging market context (Paul et al., 2017; Roberto, 2004). The theoretical implications are that (1) previous unrelated experience, both from domestic and other developed markets, lowers the hazard of emerging market exit by developed economy SMEs, and (2) firm-specific resources are compensatory to prior market experience and can thus secure emerging market resilience despite the obvious obstacles in the path of smaller, less productive and innovative SMEs. By these findings, we not only extend previous research within RBV on successful resource bundles of SMEs in export markets, but we also shed light on moderating effects (Chen et al., 2016) when determining whether these resources are complementary or compensatory to the SME's previous experience. These conflicting perspectives have previously been studied and have found support in other contexts, such as human and social capital on the start-up progress of entrepreneurs (Semrau & Hopp, 2016). However, to our knowledge, limited attempts have been done to apply them to explain SME export market exit. Another theoretical implication is the usefulness of contrasting these perspectives to sort out the inconclusive results often found among resource-based studies on antecedents of firm performance.

We have concluded that prior experience of selling to both the domestic market and exporting to other developed markets can prevent a firm's exit from emerging markets. A practical implication of this conclusion is that SMEs should take their time to internationalize and build previous experience to be more successful also in dissimilar markets. However, for inexperienced SMEs – those who internationalize more or less directly from inception and are quicker to enter distant emerging markets – holding firm-specific resources as size, productivity and innovation will compensate for the disadvantage of lack of experience, thus lowering the hazard of export exit from emerging markets. Therefore, managers should adhere to strategies to gain export

experience from home and other developed markets before entering emerging markets. They should also have a strategy to extend resources in terms of size – that is, number of employees – to have sufficient personnel to investigate emerging market exports. In addition, efficiency in terms of productivity should be prioritized, and they should work actively in research and development to be innovative. Altogether, these strategies should further enhance SME emerging market export resilience.

These implications contribute to the research front of international business and international entrepreneurship, because the latter relates to the proposed learning advantage of newness (Autio et al., 2000), pinpointing that rapidly internationalizing and inexperienced firms can overcome the built-in challenges in international ventures.

### 5.2. Limitations and future research

The results from this study also face limitations, which offer possibilities for future research. Because the focus of the study is export market exit, a limitation is that no other foreign entry and operation modes are included that would have given a more holistic view on SME international business failure. In addition, despite identifying firm-specific resources that lower and compensate for prior experience in a situation of export market exit, the actual decision-making behind the exit decision is not examined. Therefore, whether the export exit from emerging markets is a strategic decision or an actual market failure cannot be determined. Future research could then study not only firm-specific characteristics among the internal resources but also manager/management-specific ones. Quantitative research could contribute further in testing moderating effects to establish sets of complementary or compensatory resources for SMEs' international survival. Qualitative and longitudinal research could contribute by exploring the reasons – and thus identify potential countermeasures – for SME international business failures. In addition, it could be valuable to study whether the findings hold for larger multinational corporations, often presumed to accumulate more resources than SMEs.

The data in our study originate from Statistics Canada and cover all newly established Canadian SMEs that exported to emerging markets in 1994 to 2008. A limitation is that no matching dataset for later years is available. Nevertheless, the dataset is unique because it covers the full population over 15 years; it also holds the advantage of not being influenced by the financial crisis of 2008 onwards, a period during which the probability of business failure has been reported to increase (Martinez et al., 2018). Future research could then contribute in studying resource effects on export exits of SMEs from developed markets during later years, or on SMEs originating from emerging markets. Acknowledging also country-based differences in between each of these types of markets, in-depth studies of resource usefulness between different developed and/or emerging markets could also have merit. Because our study focused only on one among multiple relevant country-level differences, future studies on SME performance and survival abroad should emphasize other important aspects such as cultural distance or cultural tightness-looseness (Baum & Isidor, 2017) to inform our understanding of the role of country differences in international business and in small firm survival in the export market in particular. Previous studies point toward a role of stigmatization for future business failure (Amankwah-Amoah, 2014). Delving deeper into this debate appears a fruitful ground for future studies. Moreover, additional studies are needed on the consequences of failure in international markets. Failure might come with stigmatization, which again has negative implications for future international endeavors. Similarly, failed firms can learn from their negative experience and thus adapt their future entry strategies (Amankwah-Amoah et al., 2013; Amankwah-Amoah, Boso, & Antwi-Agyei, 2018), with positive long-term consequences for the company.

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