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The drivers of performance of exporting SMEs: The role of entry timing and initial speed

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Abstract

Despite the number of studies investigating the drivers of performance of incremental exporters and born globals (BGs), extant research has not clarified the relationship between early internationalisation, initial speed and performance of exporting small and medium sized enterprises (SMEs). Through a mixed method research, the authors investigate the impact of individual, organizational and strategic drivers on performance of exporting SMEs, by introducing two new elements pertaining the international strategy: the “earliness” and the “rapidity” at the entry. Results highlight some factors that increase the likelihood that firms achieve superior performance: the founder’s international experience, the firm’s marketing capabilities and the aggressiveness towards international markets in terms of initial intensity. In contrast, entry timing is not significant.

Keywords: drivers, born global, entry timing, initial speed, performance, exporting SMEs

Introduction

Many studies have recently focused on the new generation of companies so called “born globals” (BGs), which start exporting and reach at least the 25% of export share within three years from foundation (Knight & Cavusgil, 2004). The existence of BGs has stimulated an ongoing discussion within internationalisation research, by introducing the idea that beginning international activities early in lifecycles and rapidly increasing the presence in international markets could determine the subsequent success of the company. However, the limited number of studies investigating the effects of early internationalisation on performance have created a fragmented picture of this issue (Cavusgil & Knight, 2015). This study contributes to fill this gap by investigating whether entry timing and initial speed are predictors of superior performance in the case of exporting SMEs. Moreover, this research analyses the impact of individual, organizational and strategic drivers on the performance of exporting SMEs, particularly

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including two strategic dimensions related to the early international development: the entry timing and the entry speed in terms of initial intensity.

Hypotheses development

We developed a conceptual model considering individual, organizational and strategic drivers impacting on the performance of exporting SMEs, as illustrated in Figure 1.

Founder's background. Research has generally considered the role of founders and their stock of experience in determining the international development and performance of SMEs. When considering backgrounds, international experiences of entrepreneurs influence early internationalisation, because they lead to market knowledge, opportunity identification and network building or significantly reduce negative attitudes and perceptions towards exports (Martineau & Pastoriza, 2016). Even the sector knowledge determines the achievement of early and rapid internationalisation (Romanello & Chiarvesio, 2017), because a long experience in the same sector may result in product knowledge and higher consciousness of the dynamics characterizing the industry. In line with the view of the experienced entrepreneur as a critical resource for the company, we propose the following:

Hypothesis 1a. The greater international experience has the founder, the higher is the probability that the exporting firm achieves high overall performance.

Hypothesis 1b. The greater sector experience has the founder, the higher is the probability that the exporting firm achieves high overall performance.

Firm variables. Many SMEs base their competitive advantage on intangible resources, especially BGs that are young firms operating under asset parsimony (Cavusgil & Knight, 2015). Previous studies have found that the company's marketing skills in international markets drive SMEs to better international performances (Knight & Kim, 2009). On the other hand, many studies have stated that innovation capabilities and firm innovativeness are vital for a SME to achieve success in exporting (Martineau & Pastoriza, 2016). Based on previous literature, we hypothesize:

Hypothesis 2a. The greater marketing skills in international markets has the firm, the higher is the probability that the firm achieves high overall performance.

Hypothesis 2b. The more innovative is the firm, the higher is the probability that the firm achieves high overall performance.

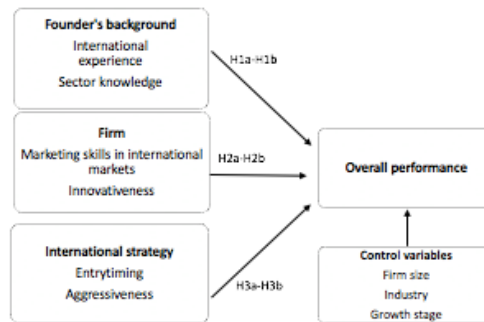
International strategy. Research on the relationship among early internationalisation, speed and performance of companies has been fragmented so far (Cavusgil & Knight, 2015). Some studies found that early internationalisation is positively correlated with performance, while other works showed that the relationship between early internationalisation and performance is influenced by moderating variables such as the venture age (Zhou & Wu, 2014). According to BG literature (Cavusgil & Knight, 2015), entering foreign markets within three years from inception and achieving at least the 25% of export share by that time, might represent a specific international strategy to obtain the international success and increase the chances of surviving. However, extant research has not investigated the effects of these two dimensions on performance in a separate way, and has only devoted attention to the influence of entry timing (Zhou

& Wu, 2012). Following recent studies underlining the general importance of the speed of internationalisation in relation to the performance of exporters (Chetty et al. 2014), we propose the following:

Hypothesis 3a. Aggressiveness in the initial approach towards exports increases the probability that the exporting firms achieves high overall performance.

Hypothesis 3b. The sooner the firm enters foreign markets, the higher is the probability that the exporting firm achieves high overall performance.

Figure 1. Conceptual model



Method of research

We developed a multi-stage research design, which involved preliminary qualitative interviews and a following quantitative analysis carried on survey-data. The use of both qualitative and survey data improves the generalizability and trustworthiness of the study (Hurmerinta-Peltomäki & Nummela, 2006). We administered the survey through email procedure to 1000 companies randomly extracted from Aida database. We obtained a final sample of 130 usable questionnaires with a net response rate of 13%. The sample includes 43 domestic and 87 exporting companies representing a cross-section of low tech manufacturing industries. After excluding 8 outliers in terms of age, we tested the model on 79 exporting SMEs. Variable measures are illustrated in table 1.

Table 1. Measures of dependent, explanatory and control variables

| <i>Variable</i> | <i>Description</i> |
|--------------------------------|---|
| <i>Performance (dependent)</i> | Overall effectiveness performance |
| <i>Founder_int_exp</i> | Founder's international experience |
| <i>Founder_sector</i> | Founder's sector knowledge |
| <i>Mean_MkingSkills</i> | Marketing skills in international markets |
| <i>PatentsNumber</i> | Number of patents |
| <i>Entrytiming</i> | Number of years to achieve the first export |
| <i>Aggressiveness</i> | Aggressive initial approach towards international markets |
| <i>Industry (control)</i> | Textiles, furniture, mechanical |
| <i>Ln_size (control)</i> | Firm size |
| <i>Growth stage (control)</i> | Entry stage, post-entry |

Discussion and practical implications

The final sample of 79 companies was split into two clusters based on the dependent variable: low (30) and high performers (49). We statistically tested the differences between the two clusters related to the variables introduced in the model. Then, we used binary logistic regression modelling to test hypotheses through SPSS. Results of the three competitive models are provided in table 3. Model 1 incorporates only linear predictor variables, model 2 includes only control variables and model 3 incorporates both explanatory and control variables. The third model explains between the 31,7 and 43,7% of the variance and confirms three hypotheses: 1a, 2a and 3a. Control variables are never influential.

Table 3. The regression models

| | Model 1 | Model 2 | Model 3 |
|-----------------------------|-----------------|---------|-----------------|
| <i>Independent</i> | | | |
| Founder_int_exp | .272 | | .619* (.079) |
| Founder_Sector | .133 | | .075 |
| Mean_MkingSkills | 1.038*** (.007) | | 1.240*** (.006) |
| PatentsNumber | -.035 | | -.051 |
| Entrytiming | .058 | | .004 |
| Aggressiveness | 1.482** (.040) | | 2.214** (.02) |
| <i>Control</i> | | | |
| Furniture (control) | | -.462 | -1.316 |
| Textiles (control) | | -1.009 | -.508 |
| Growth Stage (control) | | .325 | 1.002 |
| Ln_Size (control) | | .024 | .097 |
| Constant | -4.029*** | .488 | -5.455** (.048) |
| R ² (Cox Snell) | .220 | .043 | .317 |
| R ² (Nagelkerke) | .302 | .059 | .437 |

Notes: The dependent variable is high performance. ** * p< 0.01; **p<0.05; *p<0.1

Superior performing firms seem to be founded by experienced founders who had lived abroad before the foundation of the firm, while the technical knowledge accumulated through previous working years in the same sector is not influential. At the firm level, marketing capabilities in international markets are important drivers of superior overall performance. In contrast, the innovativeness of the firm is not related to the performance in this model. Concerning the entry timing and the entry speed in terms of initial intensity, only the second one is related to superior performance.

To the best of our knowledge, this is the first study that separately analyses these two strategic dimensions of the early international development of the company. This choice expresses the intent to investigate whether and to what extent being a BG at the beginning impacts on the subsequent performance. Our results show that to achieve superior performance is important to rapidly increase the presence in foreign markets after the first entry, instead of simply entering foreign markets soon. Hence, from a theoretical point of view, our study extends the theory showing the influence of

aggressiveness in terms of initial intensity, flowing into the research stream supporting the importance of speed of internationalisation (Chetty et al. 2014). Future research is needed to understand *why* the entry speed in terms of initial intensity is important. For instance, an explanation might be related to the ability to discover and exploit international opportunities abroad (Cavusgil & Knight, 2015).

From the practical point of view, this research suggests that managers and entrepreneurs should not aim at entering international markets soon, but at getting ready for the big jump in the international markets. Also, better performers possess greater marketing skills in international markets, no matter how old the company is, suggesting to putting emphasis on this aspect as soon as possible.

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