

INTERNATIONAL ORIENTATION AND EXPORT PERFORMANCE: EXPLORING THE MODERATING EFFECT OF INNOVATIVE CAPACITY, MARKET DYNAMISM, AND A FAVORABLE BUSINESS ENVIRONMENT

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RESUMEN

Las nuevas empresas internacionales específicamente las Born Global se ha convertido en objeto de investigación debido al éxito que tienen en las operaciones internacionales, a pesar de su naciente internacionalización y limitados recursos. En este sentido, la importancia de analizar las características que hacen de las Born Global empresas exitosas, hace que este estudio pretenda analizar la influencia de la orientación internacional en el desempeño exportador de las empresas Born Global. Adicionalmente, ante la importancia del ámbito internacional para entrar en nuevos mercados, otros factores son analizados como la capacidad de innovación, el dinamismo del mercado y la favorabilidad del entorno. Para este fin, en este artículo se utiliza un modelo de ecuaciones estructurales permitiendo demostrar que la orientación internacional es un fuerte movilizador del desempeño exportador de las Born Global. Sin embargo, esta relación es moderada por la capacidad de innovación, el dinamismo y la favorabilidad del entorno logrando un alto efecto en la relación entre desempeño exportado cuando la orientación internacional es complementado por estas variables.

Palabras clave:

Orientación internacional, desempeño exportador, capacidad de innovación, dinamismo del mercado

ABSTRACT

New international enterprises that are referred to as Born Global have become the subject of research due to the success of their global operations, despite their early internationalization and limited resources. Given the importance of analyzing the characteristics that make Born Global companies successful, this study examines the influence of international orientation on the export performance of Born Global companies. Additionally, given the importance of international guidance for entering new markets, other factors, such as innovative capacity, the dynamism of the market and the favorability of the environment, are included. By estimating a structural equation model, the results show that international orientation is a strong driver of the export performance of Born Global companies. However, this relationship is moderated by innovative capacity

and the dynamism of and favorability of the environment, thus achieving a greater effect on export performance when international orientation is complemented by these other variables.

Keywords: international orientation, export performance, innovative capacity, market dynamics

1. Introducción

The emergence of "international entrepreneurship," which is defined as the innovative, proactive behavior and risk-based approach that transcends national borders and seeks to create value (McDougall and Oviatt, 2000), supports the emergence of new international companies that are characterized by further internationalization processes that are different from traditional companies (Rialp et al., 2005). Born Global companies are a type of new international companies that are listed in knowledge intensive sectors where R&D is crucial, prompting these companies to internationalize from their inception (Autio and Sapienza, 2000). Thus, according to authors such as McKinsey & Co. (1993), Rennie (1993), Oviatt and McDougall (1994), Schueffel et al. (2014), Cavusgil y Knight (2015), Born Global companies seek to gain early competitive advantage by acquiring resources from abroad and selling products to different global markets.

The study of international orientation is of great importance, and it is based on the results of the Knight and Kim (2009), who analyzed the internationalization of SMEs and the factors that support superior performance and found that competition in international business leads to the development of specific organizational capabilities. Consequently, in this research, the relationship between international orientation and export performance in the context of Born Global companies are studied. This study considers the international orientation defined by Knight and Kim (2009) as a fundamental dimension of international business skills. Additionally, the fundamental role of international orientation in Born Global companies, for which resources are often limited, is the motivation to find other domestic conditions to help increase and pursue new opportunities in different markets. Thus, the central issue of this research is the influence of international orientation on the export performance of Born Global companies.

Moreover, an international orientation is an aggressive entrepreneurial approach by which companies take on the risk of entering new markets. This level of risk allows companies to develop different skills the further their capacity to achieve their objectives in foreign markets (Knight and Cavusgil, 2004; Kaur and Sandhu, 2014). Hence, in this study, the other variables can affect the relationship between the international orientation and export performance of Born Global companies. The moderating effects of internal and external factors are also considered. Using secondary research to understand the higher export performance of Born Global companies, for which international orientation is a central strategy, this study examines the factors that influence the relationship between international orientation and export performance as well as the influence of other factors that can be identified in this relationship

To answer these questions, we review the work of various authors who affirm the importance of the role of innovation for the early internationalization of Born Global companies (Jolly et al., 1992, Stromberg and Bindala, 2012), and we therefore seek to prove empirically the moderating effect of the innovative capacity of these companies on the relationship between international orientation and export performance. Moreover, we investigate how environmental conditions moderate the relationship between international orientation and

export performance, taking into account the existence of a dynamic international market and the need for companies to constantly explore customer preferences and to maintain a portfolio of attractive product lines that reflect such changes (Sutcliffe and Hubber, 1998). To achieve this, we consider the variables of market dynamism and environmental favorability. Based on these analyses, we have a better understanding of the phenomenon of Born Global companies from the point of view of the strategies that are undertaken by their employers and how they can affect performance or be affected by other variables, both internal as external. We also seek to further the research on early internationalization in emerging countries such as Colombia.

Theoretical development

1.1 International orientation and export performance

Knight and Kim (2009), Jantunen et al. (2008), Sorensen and Madsen (2012), Racela and Thourunroje (2014), and Behyan et al. (2015) propose a positive relationship between an international orientation and export performance, suggesting that the way that managers think reflects the international strategies that have been adopted by their firms, which can lead to the promotion of opportunity-seeking in foreign markets among employees. Various studies find that an international orientation provides the ability of a firm to enter international markets (Michel and Hambrick, 1992). Sorensen and Madsen (2012) conclude that an international orientation leads to a greater capacity to compile and interpret key information on international markets, which can be used to make decisions to enter such markets. In the case of Born Global firms, Knight (2000) notes that an international orientation by these firms allows them to develop strategic initiatives that are aimed at improving organizational performance. The author also argues that experience with internationalization and expansion to different markets can allow a firm to learn more about foreign markets and therefore ensure a greater possibility of success. In other words, the quick internationalization of Born Global firms shows that their employees know the environment in which they operate, so their operations that are related to the export market are routine. The international orientation of the management and employees of Born Global firms allows them to acquire the abilities that are necessary to maintain their competitive advantage. This makes them more willing to assume risk when they expand into new markets and improves their export performance (Kuivalainen et al., 2007). Given this evidence, the following hypothesis is proposed:

H1. An international orientation has a positive effect on the export performance of Born Global firms.

1.2 Moderating effects

1.2.1 International orientation and innovative capacity

The theory of resources and capabilities proposes that the importance of internal resources is a key factor in generating competitive advantage. Barney (1991) and Barney (2001) discussed the impact of innovation capacity on export performance. At the company level, Teece (1996) argues that innovative companies have greater incentives to enter new international markets, thereby generating increased profitability.

Knight and Cavusgil (2004) find that Born Global firms are characterized by a strong innovative capacity and a tendency to search for new markets, which leads them to become international at an earlier stage. This innovative capacity, in addition to generating new products and processes, should also facilitate the acquisition of new knowledge, which can then lead to a greater capacity to obtain improved firm performance. Therefore, the export performance of Born Global firms is the result of their international focus, which refers to

their knowledge of the international market and their international operations (Autio et al., 2000, Boso et al., 2013). Such a focus often has a greater impact on performance when the firms simultaneously develop processes that incentivize innovation by providing greater capacity to their employees to compete in and understand international markets (Zahra et al., 2000 and Autio et al., 2000). Consequently, the following hypothesis is proposed:

H2. Innovative capacity positively moderates the relationship between an international orientation and export performance in Born Global firms.

1.2.2 International orientation and market dynamism

This study adopts the institutional theory, which postulates that the influence of environmental factors on organizational behavior is based on the influence of market dynamics and the favorability of the environment in the relationship between international orientation and export performance. The various social, economic and political factors that frame society determine the survival of companies in the market and their decision making processes (DiMaggio and Powell, 1983), thus, market dynamism depends on a set of factors, results and conditions at the enterprise level.

Born Global firms can be confronted with greater problems in dynamic markets because such firms may not have yet developed response mechanisms to changes due to their recent creation and early internationalization. These problems may also stem from the fact that they are still at the stage of learning about the market (Welter and Smalbone, 2011; Serrano et al., 2012; Zhang et al., 2013). Given these circumstances, market dynamism tends to promote a higher degree of international orientation among Born Global firms because of their need to frequently analyze their clients and competitors' actions and to develop organizational capacities that favor international activities. In line with Dimitratos and Plakoyiannaki (2003), Born Global firms develop an international orientation that directs their attention to external market opportunities and the need to adapt to changing market conditions, thus promoting strategic actions through their managers' commitment to promoting various firm processes among employees and investing the resources that are necessary to initiate these processes and to generate a positive impact on export performance (Madsen, 1989). Therefore, the following hypothesis is proposed:

H3. Market dynamism positively moderates the relationship between an international orientation and export performances in Born Global firms.

1.2.3 International orientation and a favorable business environment

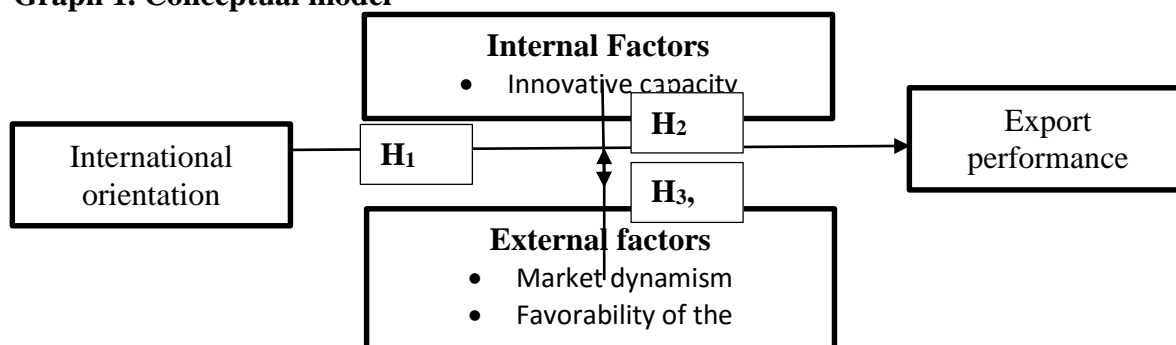
As noted previously, markets are subject to constant change, and firms must evaluate their capacity to adapt to such changes. In international business environments, changes in global markets tend to be more dynamic because firms must adapt their processes to the regulatory framework of each country and the varying preferences of consumers (Shoham, 1999). In this context, one of the characteristics of the business environment that can greatly affect firms' struggle to adapt to international markets and remain in these markets is the favorability of the business environment, which is often considered to be an indicator of the stability and ability for growth for organizations in different international settings (Sutcliffe and Huber, 1998). As argued by authors such as Elbanna and Child (2007) and Elbanna (2009), favorable environments mean better access for firms to international markets. Firms often promote strategies that focus on obtaining better results because managers' positive perceptions about their business environment can help them to acquire new commitments and to create better

conditions within which to improve management practices in international activities (Elbanna and Alhwarai, 2012). Thus, it is generally assumed that all types of firms, including Born Global firms, will promote a greater international orientation if they recognize a high likelihood of obtaining superior yields from export activities. Therefore, the following hypothesis is proposed:

H4. The favorability of the business environment positively moderates the relationship between an international orientation and export performance in Born Global firms.

Therefore, the present study focuses on the moderating effect of the environmental attributes of market dynamism and the favorability of the business environment (See Graph 1). This shows the conceptual model that has been developed in the present study.

Graph 1. Conceptual model



2. Methodology

2.1 Sample selection and data collection

This study focused on 312 exporters in major cities in Colombia. The enterprises were classified into three main categories based on the requirements for Born Global companies that were defined by Escandon (2009) and Escandon and Hurtado (2012). The first has to do with having a founding year of no more than seven years, that is, its year of creation was subsequent to 2007 (Jolly et al., 1992; Shrader et al., 2000; Zahra et al., 2000). Second, companies should have export activities, and they should manage to achieve more than 25% of annual sales abroad or through consolidated international presence (Kuivalainen et al., 2007; Jantunen et al., 2008; Milanov and Fernhaber, 2009; Taylor and Jack, 2013). The third criterion, although in the case of Colombia do not throw results is related to not include subsidiaries or filiales (Madsen and Servais, 1997; Iborra et al, 1998; Knight et al., 2004).

2.2 Variable measurement

To collect the data, a questionnaire was developed that consisted of a set of general information questions on the firms, followed by the measurement scales that were taken from a literature review. To measure international focus, we considered the scale that was developed by Sorensen and Madsen (2012), which was inspired by the multi-purpose indicator that was proposed by Knight and Cavusgil (2004) and Knight and Kim (2009), which has been used widely in other research. To measure export performance, we adapted the scale that was developed by Zou et al. (1998) to create a scale called EXPERF, which consists of three types of performance: financial performance, strategic performance, and export satisfaction. To measure innovative capacity, we adapted a scale that was developed by

Luo et al. (2005) that was based on the propositions of Hurley and Hult (1998) in which innovation is taken into account as an indispensable element for firm success. To measure the business environment variables, we used the Jaworski and Kohli (1993) scale to measure market dynamism, and we filtered five items that measured changes in the market that were due to changing client preferences or competitor behavior. For the measure of favorability of the business environment, we adapted the scale that was developed by Sutcliffe and Huber (1998) that indicates to what extent a business environment favors the stability and growth of firms. These scales were measured using a seven-point Likert scale (1 = completely disagree, 7 = completely agree).

2.3 Measurement analysis

To analyze the psychometric properties of the scales that were used in this study, we conducted a correlation analysis and an exploratory factor analysis for each scale to identify its fit and unidimensionality. We then conducted a confirmatory factor analysis to assess the convergent and discriminate validity of the constructs. The factor analysis indicates that the data have a reasonable fit, and all of the measures show adequate reliability as measured by compound reliability indices (SCR) that exceed 0.6 (Bagozzi and Yi, 1988) and average variance extracted (AVE) measures that exceed 0.5 (Fornell and Larcker, 1981).

In addition, all of the loads correspond to their hypothetical factors, and the estimates are significant given their high t-values, thus providing evidence of convergent validity (Bagozzi and Yi, 1988). Discriminant validity is confirmed in all of the scales by verifying that the value "1" is not present in the confidence intervals that were calculated between each of the construct pairs (Anderson and Gerbing, 1988). We also confirmed discriminate validity because we obtained in each scale an average variance that was extracted by the underlying construct that is greater than the variance shared with another latent construct (Hernandez-Espallardo et al., 2010). The resulting fit statistics are as follows: $\chi^2(485) = 799.82$; GFI = 0.88; RMSEA = 0.041; SRMR = 0.047; CFI = 0.95; TLI (NNFI) = 0.95.

3. RESULTS

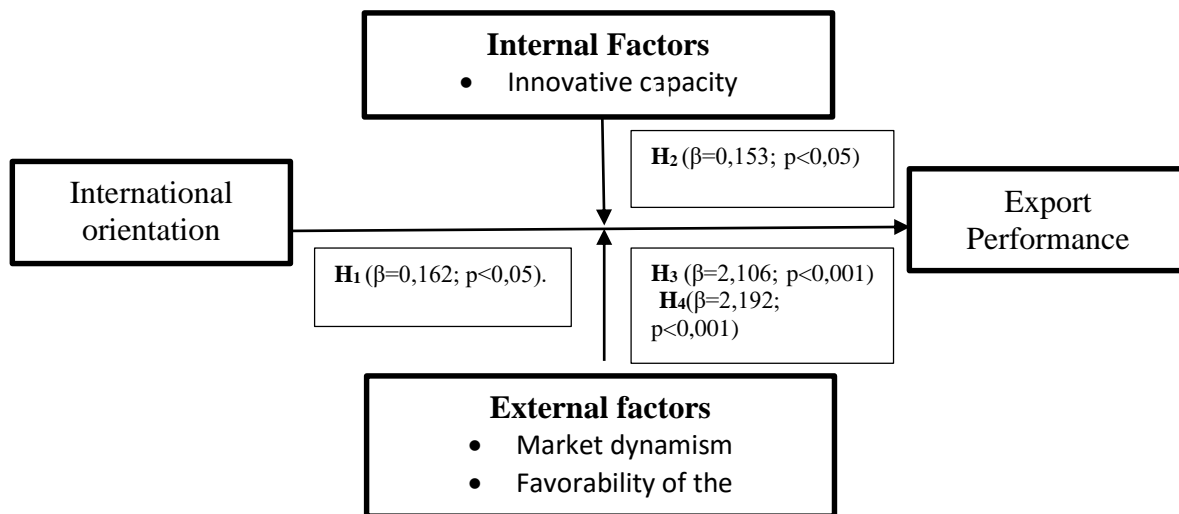
To rule out the presence of multicollinearity in the indicators that make up each construct value's factor inflation variance (VIF), condition indices that are well below the threshold of 10 and not as close to 0 are used (greater than 0.1); they indicated no multicollinearity problems (Hair et al., 1999). Additionally, the bi-variate correlations with values well below the critical value for the presence of multicollinearity (0.8) were obtained, allowing us to infer that they measured different concepts.

A Harman factor was used through the potential barrier of common method variance, which is a frequent problem when all of the variables are measured with the same instrument (questionnaire), which can potentially lead to the variance being attributed to the method and not the constructs (Podsakoff, MacKenzie, Lee and Podsakoff, 2003). Therefore, a factor analysis was developed and confirmed that the eigenvalues of all of the factors were greater than one and represent more than 68% of the total variance.

Moreover, it is important to note that the survey respondents expressed interest in the study and its subsequent results, and therefore their responses may prevent response bias. Additionally, a high response rate was achieved due to the development of surveys and forecasts some respondents found to be personally unacceptable or they were unable to answer or they simply were not available to respond. In this sense, a subset of the companies that met the conditions of being Born Global was selected.

However, although we made a great effort to avoid problems of bias or control their blood, it is clear that these challenges are inherent in studies of this nature, but they do not invalidate the results. The model estimation was performed using a hierarchical linear regression (see Graph 2). Before estimating the model, the independent variables were mean centered to reduce the multicollinearity that results from the presence of the multiplication terms that are used to estimate the moderating effects (Aiken and West, 1991). We started by estimating the model with the control variables, and subsequently, we estimated a model including all of main effects. Next we estimated a second model, including the moderating effects. This form of model estimation complies with the parsimony principle that establishes the introduction of higher-order terms only if they significantly improve a model's explanatory capacity (Aiken and West, 1991), i.e., the estimated main effects model explained a significant amount of variance ($F=93,276$; $p < 0.001$; $R^2=0,558$; R^2 adjusted= $0,550$). When we included the moderating effects, the R^2 value increased by 4.1% ($p < 0.001$). The results of the final model that includes the main effects and the moderating effects are presented in Graph 2.

Graph 2. Model



Hypothesis 1 proposes that an international orientation has a positive effect on the export performance of Born Global firms, and the results support this prediction ($\beta=0.162$; $P<0.05$). Hypothesis 2 proposes that an innovative capacity positively influences the effects of an international orientation on export performance, and Table 2 shows a significant, positive interaction effect in line with this hypothesis ($\beta = 0.153$; $P < 0, = .05$). Hypothesis 3 proposes that market dynamism positively influences the effects of an international orientation on export performance, and a significant, positive effect is obtained ($\beta=2,106$; $P<0,001$). Finally, according to Hypothesis 4, a favorable business environment should positively influence the effects of an international orientation on export performance, and the results support this prediction because a significant, positive interaction coefficient is obtained ($\beta = 2.192$; $P < 0.001$).

To interpret the results of the main effects and the moderating effects, we followed the procedures that were proposed by Aiken and West (1991) and graphically represented the interactions for which the high- and low-level values of the variables included in the interaction were estimated. For the low values, we defined a standard deviation that is lower than the mean, and for the high values, we defined a standard deviation above the mean. To estimate the results, the effects of the other variables were maintained constant.

Graphs 3, 4 and 5 show the effect of an international orientation on export performance for different values of the moderating variables of innovative capacity, market dynamism, and favorability of business environment. The Y-axis of each graph represents the values that were obtained for export performance (EP) when different values of innovative capacity (IC) (Graph 3), market dynamism (MD) (Graph 4), and favorability of business environment (FE) (Graph 5) are introduced into the estimated regression function. On each X-axis, we present the different values of an international orientation (IO).

Graph 3 shows the moderating effect of innovative capacity, which demonstrates that the positive impact of an international orientation on export performance is subject to high innovative capacity in a firm. At low IO levels (-1.4), when IC also has low levels (-1.039), the effect of IO on EP is 0.622 with a standard error of 0.747 and a t-value of 0.863 ($P > 0.1$). For high values of IC (+1.039), the effect increases to 6.174 with a standard error of 1.26 and a t-value of 4.9 ($P < 0.01$). For high levels of IO (+1.4), when IC has a low value (-1 standard deviation, -1.039), the effect of IO on EP is -2.276 with a standard error of 1.415 and a t-value of 2.916 ($P < 0.01$). This effect increases to 1.426 ($t = 1.769$; $P < 0.10$) when IC has high levels.

The results show that IO is more effective on EP when it is accompanied by high levels of IC. Thus, the variables seem to complement each other, as postulated in Hypothesis 2. Nevertheless, we needed to prove that the moderating effect of IC is significant. To do so, using prior values, we obtain a jumping effect of IO on EP that equals 5.554 ($t = 5.554$; $P < 0.01$) when we went from low IC values to high IC values. Thus, we can conclude that IO is more effective in the presence of high levels of innovative capacity. Innovative firms will therefore have a greater chance of obtaining better results. When the managers of Born Global firms have an international orientation but innovative capacity is not a feature of their organization, the firms are less likely to achieve good export performance.

Graph 4 shows that the positive implications of an international orientation on export performance are subject to the high market dynamism of Born Global firms. For low values of IO (-1 standard deviation, -1.4), the change of the IO effect on EP in low values of MD (-1 standard deviation, -0.862) is 1.826 with a standard error of 0.49 and a t-value of 3.727 ($P < 0.01$). For high values of MD (+0.862), the effect is 4.97 with a standard error of 0.924 and a t-value of 5.38 ($P < 0.01$). This result allows us to confirm Hypothesis 4, i.e., market dynamism moderates the relationship between IO and EP. This moderation is present for low values of MD and both high and low values of IO. However, for small MD values with high IO values, the relationship with export performance is improved, but when the values of IO are high, a saturation process begins that affects the relationship with export performance in a significant but negative way. However, although the moderating effect of market dynamism is not significant at high levels of MD and high levels of IO, the change in the effect when passing from low levels to high levels of MD is significant and allows us to confirm that there is a moderating effect of market dynamism on the relationship between IO and export performance.

Finally, according to Graph 5, the more favorable the business environment in which Born Global firms operate, the greater the positive influence of an international orientation on export performance. For low IO values (-1 standard deviation, -1.4), the change of the effect of IO on EP in low values of FE (-1 standard deviation, -0.957) is 1.945 with a standard error of 0.58 and a t-value of 3.353 ($P < 0.01$). For high values of FE (+0.957), the effect is 5.86 with a standard error of 0.946 and a t-value of 6.194 ($P < 0.01$).

This result allows us to confirm Hypothesis 4, i.e., a favorable business environment moderates the relationship between IO and EP. This moderation is present with low values of FE and both high and low values of IO. However, for low FE values with high values of IO, the relationship with export performance is improved, but if the values of IO are high, a saturation process is generated that affects the relationship with export performance in a significant but negative way. Moreover, although the moderating effect of a favorable business environment is not significant at high levels of FE and high levels of IO, the fact that the change in the effect from low levels of FE to high levels is significant allows us to confirm that there is a moderating effect of a favorable business environment on the relationship between IO and export performance.

In summary, this study contributes to the literature because it enriches our knowledge of Born Global firms and export performance and their determining factors. Additionally, the study allows us to shed light on other research that assumes that an international orientation is a strategy. It furthermore allows us to examine the various variables that affect the impact of international orientation on export performance by demonstrating that there are both internal and external factors that can influence this relationship.

4. Conclusiones

The primary objective of this study is to propose theoretical and empirical relationships between international orientation and export performance in Born Global companies. In this sense, this study is used as a benchmark for Colombian companies that meet the criteria of having less than seven years on the international market, more than 25% of their international sales and no subsidiaries. Such companies are characterized by a different form of internationalization and possess some particular issues that are associated with agile development, as well as an availability of resources and capabilities that allow them to make early inroads into international markets and survive the high dynamism of those environments.

Using the theory of resources, the capability of different factors to affect export performance in Born Global companies is analyzed. Therefore, although the phenomenon of early internationalization has been studied in other articles, it is clear that in Latin American countries there is little evidence in this field of study. Thus, the first contribution of this paper is to show further evidence of Born Global companies in the region, particularly in Colombia, by analyzing their potential to improve their export performance through the development of internal capabilities (innovative capacity) and environmental factors (dynamism of favorability market environment).

In this sense, the authors use a quantitative analysis of hierarchical regression exporters of Born Global companies that allows for a theoretical review to find some relationships highly relevant. Hence, this study is likely to serve as a contribution to literature. In this sense, the results provide strong evidence that internal and external capabilities have an impact on and empower the relationship between the international orientation and export performance of Born Global companies.

The relationship that is obtained between an international orientation and export performance coincides with the results of studies by Jantunen et al. (2008) and Sorensen and Madsen (2012). An international orientation allows firms to develop their capacity to operate in international markets, anticipate their needs, and respond more quickly to changes. Thus, export firms generate a competitive advantage compared with their peers that enables them to improve their export performance. Born Global firms have operated for only a short time and

are still defining their competitive position in the market; therefore, these firms should rely on these types of strategies to successfully establish themselves in international markets.

In addition, this study analyzes the possible intervention of other aspects, such as a firm's innovative capacity, market dynamism, and the favorability of the business environment, which allows us to consider moderating effects.

Additionally, it is important to note that the results are relevant for future research, although some limitations on the type of study are noted. A first limitation is that the theory of resources and capabilities should be extended to include other perspectives that allow the longitudinal aspect or the inclusion of the own dynamic capabilities of these businesses, as well as the creation of added value in the long term with inimitable resources that are valuable and imperfectly substitutable.

Moreover, it would be interesting to develop other comparative research between Colombia and other countries in the region, or even in other developing countries, to analyze the overall export performance of Born Global companies to find common factors and match them with previous studies. It would also be of value to seek links within the industry to popularize the results and processes that arise out of entrepreneurial training to acquire the necessary skills that are required to ensure greater levels of export performance.

The present study might also consider other variables that should be assessed and included in future research. Although the study promotes the generalization of the results for Born Global firms, it would be interesting to investigate whether the results are replicated in traditional export firms and to verify the influence of other strategies, such as a market orientation or a learning orientation.

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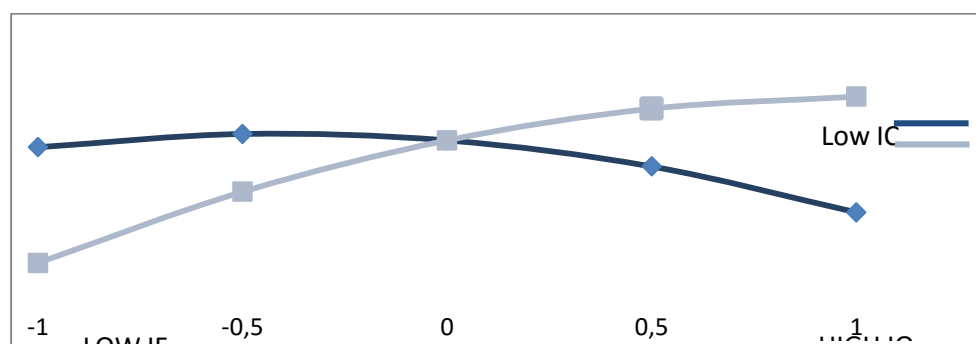
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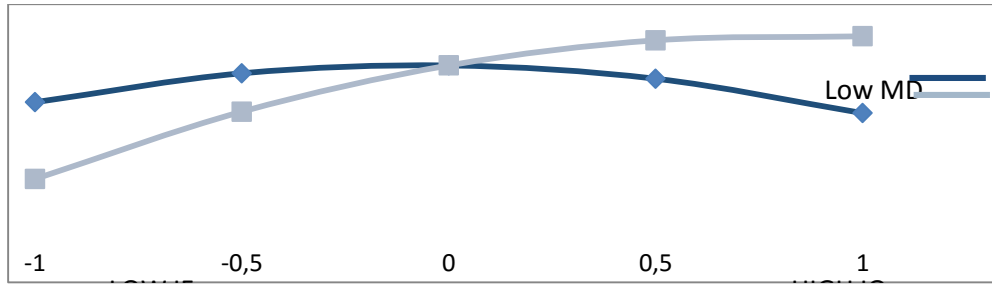
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Graph 3. Moderating effect of international orientation x innovative capacity



Graph 4. Moderating effect of international orientation x market dynamism



Graph 5. Moderating effect an international orientation x favorable business environment

