

Persistence in Exporting: cumulative and punctuated learning effects

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Persistence in exporting matters, because firms with continuous exposure to export markets derive greater benefit from exporting than do those that export intermittently. Using data from a panel of Spanish manufacturing firms we examine the determinants of export persistence, and how firms learn from exporting. Learning patterns vary markedly between large and small firms with implications for how we can help SMEs to become more persistent exporters.

Key findings

'Learning from export' effects are more important for SMEs than for larger firms which tend to be natural exporters. SMEs also react differently and more strongly to changes in overseas demand than large firms in terms of export persistence. Other key findings are:

- Firms with long export experience 'learn from exporting', and develop routines that help them export continuously in the future.
- Firms with sporadic exporting histories are less likely to develop such routines. Sporadic exporting today leads to shorter exporting episodes in the future.
- Innovation is more important to export persistence among SMEs than among larger firms.

Policy implications relate to helping SMEs to sustain an export presence to maximise the performance benefits and value of potential learning effects.

Cumulative and punctuated learning effects

Export persistence is poorly understood, and is typically explained by 'sunk costs' leading to high costs if a firm stops exporting. However, persistence may also be affected by different patterns of 'learning by exporting'. For example, we might expect that a firm with 10 years of exporting split into a number of discrete periods will learn less from its experience than one with 10 years of continuous exporting experience, for three reasons: first, the firm is unlikely to develop deeply embedded routine-based exporting learning; second, it has to keep re-learning what it has forgotten in periods of non-exporting because its organizational memory is compromised;

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and third, the specific knowledge it has accumulated in the past may not be as useful the next time around when it has to re-enter exporting.

Using panel data on Spanish manufacturers over a 22 year period we find support for this view of cumulative and punctuated learning by exporting. We also demonstrate how these effects differ between large and small firms. SMEs tend to demonstrate less persistence in exporting than larger firms, and we show that this is partly because a previous history of intermittent exporting compromises the benefit of learning from the firm's cumulative exporting experience.

SMEs and large firms also differ in how they react to both objective and subjective changes in domestic and foreign market demand. Export-oriented SMEs have longer spells of exporting than domestically-oriented SMEs, regardless of how the former set of firms view the state of their potential export markets. Thus an SME for which overseas markets are seen as key will have longer exporting spells than a domestically-oriented counterpart, even if the former firm perceives its key export markets as declining or static. This suggests export orientation is as much a mindset as a reaction to actual demand changes.

The analysis also suggests that innovation is important in extending periods of exporting. Again, however, this effect is much stronger for SMEs than large firms, and appears to be restricted to process innovation and patents rather than new product introductions (i.e. product innovation).

Policy implications

If we want to help SMEs export more persistently, we need to understand more about how SMEs learn from previous exporting experience, and how to prevent this knowledge decaying or atrophying. Prior ERC research also suggests that SMEs likelihood of re-entering exporting once they have stopped doing so depends crucially on why they exited exporting in the first place. So understanding how and why SMEs learn from their exporting experience is clearly important. This suggest a role for government not simply in helping firms overcome the information and financial barriers of entering exporting, but of staying there once they have made that initial investment in venturing overseas.

The analysis also stresses again the crucial link between innovation and exporting, especially for SMEs, and underlines the need for a joined-up approach to support for innovation and exporting activity.

Full paper link:

<http://www.enterpriseresearch.ac.uk/our-work/publications/?type=whitepaper-research>