Policy Briefing

Export status and SME productivity: learning-to-export versus learning-by-exporting

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Exporting offers firms the opportunity both to maximise profits from their existing products and services and, through 'learning-by-exporting', to identify new innovation opportunities. Here, we identify a substantial group of export-capable firms which state that they have products or services suitable for exporting but have no intention to export. We are able to differentiate these firms from both exporters and other non-exporters who do not have products/services suitable for exporting which we term 'domestically-focused firms' (DFFs).

Key findings

Our ability to separately identify export-capable and domestically-focussed firms provides new insight into the nature of learning-to-export and learning-by-exporting effects. There are four key results.

- First, the direct effect of innovation on the probability of exporting is strong, and works exclusively through product innovation. However, the key influence of product innovation is in helping firms to become export-capable rather than in moving from export capability to actually exporting.
- Second, alongside this direct innovation effect, there is a clear relationship between growth ambition, export-capability and exporting.
- Third, to the extent that there is any indirect effect of innovation on exporting via productivity, it tends to be negative: export-capable firms exhibit a short-term decline in productivity relative to DFFs, an effect which does not persist into the exporting phase.
- Fourth, in our analysis there is clear evidence of learning-by-prior-exporting effects on productivity, regardless of firms' current export status. For current exporters, this means that previous exporting experience provides a boost to productivity compared to other exporting firms without prior export experience. Finally, there is some evidence that export-capable firms with previous export experience are more productive than other-non-exporters due to their prior export experience. This again suggests a learning-by-prior-exporting effect.

Innovation, exporting and productivity

Our analysis is based on a unique dataset of over 7,000 UK-based SMEs taken from the first two waves of the Longitudinal Small Business Survey (LSBS). We model simultaneously the determinants of firms' market position (i.e. whether they are exporting, export capable, or DFFs) and productivity. This allows us to identify both the learning-to-export process and any learning-by-exporting effects.

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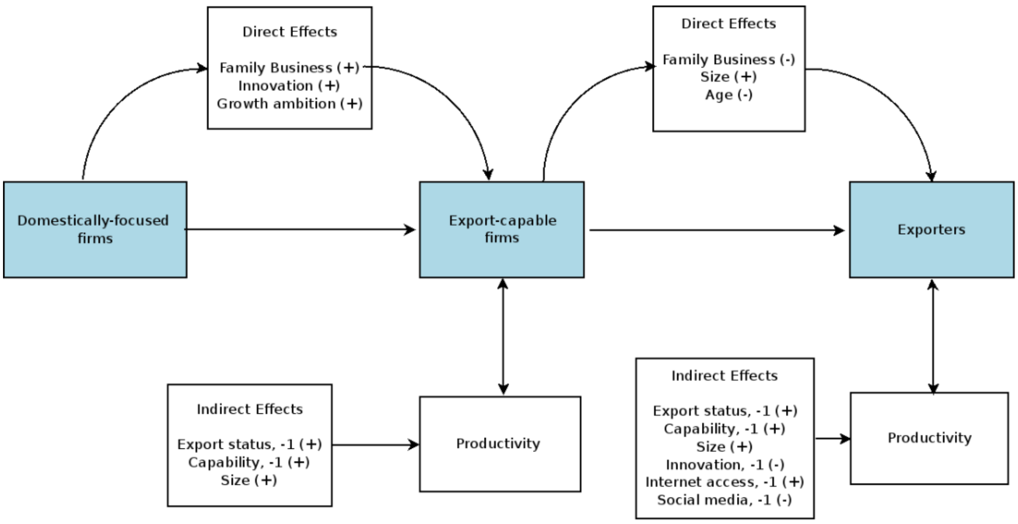
We also allow for both the direct and indirect (i.e. via productivity) effects of innovation on exporting. We demonstrate clearly that the direct effect of innovation does not occur in the move to exporting, but in the lead up to export capability – an issue hitherto not explored. Thus, the previously identified direct effect of innovation on exporting may be mistaken in attributing the nature of this effect – it actually occurs earlier in the learning-to-export process.

Our results also help to identify those factors which shape SMEs' transitions from non-exporter, through export-capability, to exporter (Figure 1). In policy – and potentially strategic - terms these transitions are important given the differentials in productivity between groups of SMEs, i.e. the relatively low productivity of firms in the 'other-non-exporting' category and higher productivity among export capable and exporting firms. Sales growth ambition and product innovation prove important direct drivers of firms' transitions towards export-capability and higher productivity although not the subsequent transition from export-capability to exporting.

Figure 1: From domestic focus to exporting



Policy and practice implications

In policy terms our analysis suggests the limitations of the standard binary categorisation of firms as exporters or non-exporters. A more useful distinction for policy design and targeting is between exporters, export-capable and DFFs: Boosting productivity and developing export-ready products/services requires capability improvement and innovation among non-exporting firms; export-capable firms may then benefit from more traditional export promotion initiatives. More specifically, our analysis also suggests the capabilities of family firms which are more likely to be export-capable but less likely to be exporting than non-family-firms. Given the positive export premium on productivity this suggests the potential value of targeted policy initiatives to support export market entry for export-capable family firms.

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