INTERNATIONAL MARKET EXIT AND SURVIVAL OF SMALL AND MEDIUM SIZED ENTERPRISES (SUMMARY)

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INTERNATIONAL MARKET EXIT AND SURVIVAL OF SMALL AND MEDIUM SIZED ENTERPRISES

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Principal Topic

To explore the effect of small and medium sized enterprises (SMEs) export exit on subsequent firm performance, we complement the “sunk cost” perspective on export entry and exit from international economics with the commitment perspective from strategy research. Export allows SMEs to enter foreign markets with limited resource commitments and sunk costs, making the decision reversible. Although foreign market entry is often followed by a return to the domestic market, the phenomenon of international market exit has received scant attention in academic research. Some firms may exit foreign markets proactively, to focus on the domestic market, in other cases the exit is followed by firm death. Even surviving firms are likely to suffer from negative performance implications.

Method

This paper draws on a comprehensive dataset, covering SMEs in Belgium in manufacturing industries, between 1998 and 2010. We focus on those SMEs that completely withdrew from export markets. This includes firms refocusing on the domestic market, and firms failing to survive. Our measures of performance are return on assets (ROA) and survival. Using a difference-in-difference methodology, we test the impact of export intensity, export duration and institutional distance on firm performance following export exit. We control for age, size, industry, technology intensity, financial leverage, import, and past profitability.

Results and Implications

We find that firms with lower profitability are more likely to stop exporting. After they exit foreign markets, profitability declines even further. Firm that were highly dependent on revenues from exports and firms exiting from multiple markets are more negatively affected, as reflected in lower survival rates and lower ROA. However, we do not find a significant impact of export duration or exiting institutionally distant markets. In sum, our results show that, although firm performance is negatively affected, failed internationalization does not always lead to firm failure. Knowledge about failed internationalization strategies can help entrepreneurs in making the right strategic choices in their internationalization process. Many SMEs avoid internationalization as they perceive it to be too resource intensive or risky. This risk and uncertainty avoidance may be unjustified and more entrepreneurs should consider exporting.

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