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What do we know about the factors that affect business export decisions?

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The benefits of exporting are well-recognised at micro and macro levels, which leads to export promotion efforts by governments and business support organisations worldwide. While firm characteristics related to export entry, such as productivity, are well studied, the same cannot be said about the factors that affect firms' decisions to export, especially to re-start and to continue exporting. This paper aims to address this gap by reviewing the key evidence from OECD countries published since the year 2000. The following key factors affecting firms' first-entry decisions were identified: leadership characteristics and perceptions, the financial situation of the firm, business networks, and digital adoption. Export re-entry decisions were primarily linked to firms' exit decisions and prior export experience and how this experience was absorbed in the firm. Export persistence was associated with similar factors as re-entry, as well as better export performance. Three main evidence gaps in the export decision-making literature are: a lack of uniformity in measurement, scarcity of evidence regarding the factors that affect export re-entry and persistence, and lack of clarity on the mechanisms by which the different factors affect firms' decisions.

Background

Trade openness is a critical lever for economic growth, offering substantial contributions to the country's overall welfare (UK Government, 2018). Exporting can increase firms' sales and contribute to their innovation, productivity and resilience to external shocks, especially for small and medium enterprises (Gkypali et al., 2021, Fath et al., 2021). Thus, national governments and business support organisations have been putting efforts into increasing export participation.[1] The UK export landscape shows significant concentration: the top 5 per cent of exporters were responsible for over 80 per cent of all UK exports of goods and services since 2001 (Du et al., 2021). In addition, the UK displays disparity in export participation rates compared to other European nations, particularly among smaller firms (Delis et al., 2018).

[1] See https://www.great.gov.uk/support/export-support/.

The academic literature is clear on the drivers of exporting and summarises that "better performing" firms are more likely to start exporting in terms of such factors as various measures of productivity (Costa et al., 2019, Altuzarra et al., 2016, Brancati et al., 2018), R&D expenditure and innovation (Arvanitis et al., 2016, Roper and Love, 2002, Ramdani et al., 2023), larger firm size and older age (Gullstrand, 2011, Carboni and Medda, 2018, Baldwin and Yan, 2021). Foreign-owned firms are also more likely to export compared to domestic firms (Ilmakunnas and Nurmi, 2010, Rojec et al., 2004, Ricci and Trionfetti, 2012) while family-ownership, somewhat debatably, affects exporting negatively (Aiello et al., 2024, Fernández and Nieto, 2006). These factors have been studied in different geographic, industry and organisational contexts comparable to UK (e.g., see Gkypali et al., 2021, Love and Roper, 2013, Monreal-Perez et al., 2012). However, the existing research offers limited perspectives on how and why firms make export decisions - understanding this is of importance for export promotion policy and business interventions.

Furthermore, most of the evidence that does exist is focused primarily on export entry, i.e., firms starting to export for the first time (Kafouros et al., 2022, Sousa et al., 2021). Recent scholarly works have begun to shed light on the phenomenon of intermittent exporting, i.e., firms entering, exiting and re-entering exporting. This acknowledges the nuanced reality that the process of exporting does not invariably follow a linear, orderly and progressive trajectory (Bernini et al., 2016, Coelho, 2022). The issue of intermittent exporting is also closely linked to the concept of export persistence, i.e., firms continuing to export once they start and remaining engaged in export markets. Some evidence shows that the same factors that increase the probability of export entry also increase the likelihood of persistent exporting and re-entering after exiting, that is, higher productivity, larger size and more capital intensity (Demirhan, 2016). However, as with export entry, firms' decision-making in re-entering export markets and continuing to export is underexplored.

This paper summarises the extant literature from OECD countries published since 2000 on the firm-level factors that affect export decisions.

Research evidence

Export entry
Leadership

Certain characteristics of firms' leadership, typically of owners or managers, are associated with the increased probability of first-time entry. Firstly, these are knowledge and experience, for instance, years of education or university education (Mozas-Moral et al., 2016, Muñoz-Bullón et al., 2015), work, managerial or entrepreneurial experience (Vaillant and Lafuente, 2019, Nam et al., 2018, Ganotakis and Love, 2012), including working in multinational companies (de Faria et al., 2021), export experience, general or to specific markets (Minondo, 2011, Sala and Yalcin, 2015), and experience working, living or travelling for work abroad (Costa et al., 2024, Stucki, 2016, Burgel and Murray, 2000).

Secondly, in terms of demographics, studies highlighted the positive effects of foreign-born or immigrant business leaders (Braymen et al., 2011, Wilson et al., 2022), as well as foreign-born staff (Andrews et al., 2017, Cardoso and Ramanarayanan, 2022), on firms' exporting. A typical explanation here is that knowledge and connections to the export country decrease information barriers to trade. Studies also examined business leaders' gender: some studies found that gender affects the likelihood of exporting (Orser et al., 2010, Liao, 2015) while others did not (Expósito et al., 2022, Ramón-Llorens et al., 2017).

Thirdly, various business leaders' perceptions and motivations were linked to increased export entry, such as proactiveness (Bowen, 2020), risk-taking (Kim, 2016a), innovativeness (Expósito et al., 2022), international orientation (Dominguez and Mayrhofer, 2017), and ambition to internationalise and be a successful exporter (Wood et al., 2015, Lautanen, 2000, Costa et al., 2024). A body of evidence also linked leaders' perception of the economic benefits from exporting to their decision to start exporting, for example, seeing exporting as advantageous or export markets as lucrative, expecting financial returns, profit seeking, risk diversifying, maximising production capacity, etc. (Beleska-Spasova and Glaister, 2011, Coudounaris, 2021, Wood et al., 2015). Business leaders can consider these benefits alongside (perceived) export feasibility and barriers (Bolzani et al., 2021, Ortiz et al., 2012), potential risks (Crick and Crick, 2016), size and opportunities of the domestic market (Holmlund et al., 2007), and the domestic competition (Hessels and Terjesen, 2010).

Financial resources

Entering export markets represent sunk entry costs for firms (Impullitti et al., 2013). Studies tend to agree that firms in a better financial health and those that are less financially constrained – in terms of total assets, profitability, liquidity, debt ratio, solvency, access to external finance etc. - are more likely to start exporting (Manez and Vicente-Chirivella, 2021, Forte and Moreira, 2018, Paeleman et al., 2017, Bellone et al., 2010, Foley and Manova, 2015, Phan et al., 2022). The above applies when comparing exporters to non-exporters, though a few studies emphasised that export starters, especially firms already constrained financially, tend to be worse-off financially when compared to persistent exporters due to the sunk costs needed to enter export markets (Greenaway et al., 2007, Kim, 2016b).

Networks

A body of evidence shows that firms' connections and networks positively affect export entry decisions. Importing and connections to overseas suppliers has been emphasised because they can improve firms' productivity and competitiveness and provide learning about export markets (Manez et al., 2020, Holmlund et al., 2007, Erbahar, 2019). Even small and less productive firms, if substantially involved in the supply chain, can take advantage of reduced costs of entry and economies of scale that enhance their probability of exporting (Giovannetti et al., 2015).

Other types of connections that have been found to affect export entry include:

- strategic partnerships and alliances (Asemokha et al., 2020)
- publicly listed firms (Beier et al., 2016)
- commercial intermediaries (Nassimbeni, 2001)
- business networks (Serrano et al., 2016, Ricci and Trionfetti, 2012)
- information and contact networks (Westhead et al., 2001, Stojčić et al., 2024)
- business partners (Bowen, 2020)
- personal contacts of decision-makers (Ellis and Pecotich, 2001)
- other domestic enterprises (Lautanen, 2000) and local exporters (Kang, 2016, Mendoza, 2022)

These connections are thought to result in export initiation by encouraging or highlighting market opportunities, advising on specific markets, facilitating knowledge and information sharing, capacity building and signalling demand in export markets. This is particularly helpful to SMEs which are more capacity and information constrained.

Other

There is evidence that ICT and digital technology adoption, especially having a website, positively affects export entry – presumably because of the decreased costs of trade (Higón and Bonvin, 2024, Visser, 2019, Hagsten and Kotnik, 2017). Plus, greater absorptive capacity (e.g., for scientific knowledge and international co-operation,) reduces entry barriers into export markets (Harris and Li, 2009, Ayllon and Radicic, 2019).

Export re-entry

The main finding on export re-entry decisions is that they are linked to export exit experience and decisions (Bernini et al., 2016, Dominguez and Mayrhofer, 2017, Chen et al., 2019). Firms learn from exit experiences, which might result in firms changing their re-entry strategy and shortening/prolonging periods to re-entry (Surdu et al., 2019, Crick et al., 2023). Some studies find that negative exit experience (i.e., learning from export under-performance) is of greater benefit to re-entry (Surdu and Narula, 2021, Vissak et al., 2020). In addition, longer prior export experience and more recent export participation increase the probability of re-entry, most likely due to lower re-entry costs, albeit prior export experience offers diminishing returns (Chen et al., 2019, Özler et al., 2009). However, learning from exit experience is not necessarily linear: export knowledge might be forgotten, it might not translate into experience, or it might need time to be absorbed (Surdu et al., 2018, da Fonseca and da Rocha, 2023). The length of time between export exit to re-entry can also matter, for instance, by eroding managerial experience and confidence if it is too long (Ganotakis et al., 2022). Foreign collaboration enhances confidence, thus increasing the likelihood of re-starting (Ganotakis et al., 2022).

Business activities and internal changes to management/ownership when not exporting also affect re-entry probability (Vissak and Francioni, 2020, Welch and Welch, 2009). For instance, receiving unsolicited export orders might result in a sudden re-entry, or new business connections, market resources or knowledge might shape re-entry decisions and strategies (Chen et al., 2019, Calabro et al., 2023).

Export persistence

Better financial health has been found to be a determinant of export persistence (Manez and Vicente-Chirivella, 2021, Greenaway et al., 2007), as well as a larger size (Bandick, 2020), higher productivity (van den Berg et al., 2022), higher share of exports (Wagner, 2012), exporting to new countries, exporting new products or exporting intermediate goods (van den Berg et al., 2022, Díaz-Mora et al., 2015), importing (Bandick, 2020), green innovations (Martínez-Ros and Merino, 2023), complex internationalisation, i.e., multiple forms of entering foreign markets such as exporting, intermediaries and foreign direct investment (Córcoles et al., 2019), and foreign connections (da Fonseca and da Rocha, 2023). Better financial returns also increase the likelihood of continuing to export – as does valuing learning from exporting even if financial returns are insufficient (Burpitt and Rondinelli, 2000). Longer exporting experience is associated with future persistent exporting (Timoshenko, 2015), while intermittent exporting is more likely to result in future intermittent exporting, presumably because of learning effects: intermittent exporting is less intensive compared to continuous exporting (Love and Manez, 2019). One study found that family-owned firms are more likely to export intermittently; though having a CEO with a foreign background helped these firms to become persistent exporters (but also to exit export markets altogether) (Kuiken et al., 2024).

Overview and evidence gaps

This paper is concerned with the main factors that affect firms' decisions to start exporting for the first time, re-start exporting following a period of cessation, and to export persistently. The distinction between these three export decisions is important because exporting is not a smooth, linear and straightforward journey, especially for SMEs (Bernini et al., 2016).

Most of the existing literature on export decisions is focused on first-time export entry. The main factors that affect export entry decisions and increase probability of entering export markets are: business leaders' characteristics (experience and education, foreign-born or immigrant status; the relationship with gender is unclear) and attitudes (e.g., ambition to export, favourable perception of economic benefits from exporting); better financial situation of the firm; connections and business networks (especially with importers and participating in international supply chains); and a higher degree of digital adoption. The mechanism of how these factors affect export entry decisions appear to be related to reduced export market entry costs (financial or informational), as well as an overall improvement of firms' competitiveness and productivity.

These findings illustrate a notable research gap: the evidence on first-entry decision-making is fragmented and not uniform. Although the identified factors have been studied in a variety of country and firm contexts, studies proxy and operationalise these factors differently due to a lack of standardised measures. For example, studies use a variety of metrics for firms' financial health and digital adoption, overview different types of business connections and focus on different attitudinal or experiential aspects of business leaders. Such diversity makes it difficult to synthesise findings and pinpoint specific factors of relevance to export decision-making.

The other evidence gap is a limited focus on factors that affect export re-entry and persistence decisions. The literature on intermittent exporting has a stronger focus on SMEs by the virtue of smaller firms being more likely to exit and re-enter export markets. Thus, limited evidence on why firms re-enter and become persistent exporters means more limited evidence on exporting decisions of SMEs.

Nevertheless, the current evidence tells us that firms' re-entry decisions are affected by the circumstances and decisions of exiting the export market, export experience and the period of time since exiting. This illustrates complexity of export decisions at different stages of business operations, including when firms are not exporting.

In terms of persistence, better export performance (in a variety of ways it was captured by the studies) appears to be linked to continuing to export. For both export re-entry and persistence there is some emerging evidence that foreign connections affect decision-making. Furthermore, for both export re-entry and persistence, studies highlight effects of learning from exporting as a mechanism by which firms decide to re-initiate and continue to export, as well as to change their export strategy.

Finally, few papers study how export decisions are made. Most of the literature instead studies relationships between various factors and firms' exporting activity and hypothesises the explanation for these relationships (e.g., see Altuzarra et al., 2016, Baldwin and Yan, 2021). Partly this is due to the evidence base being dominated by quantitative studies (Haddoud et al., 2021). The prevalence of quantitative studies limits the understanding of how exactly firms take different factors into consideration when deciding to export.

Overall, there is a lack of a comprehensive view of the diverse factors that influence firms' decisions across various contexts and stages of business operations. This evidence gap underscores the need for further research that delves into the qualitative aspects of exporting that can bring together complexities of export decision-making. In 2023-2024, ERC undertook a joint research study with the UK Government Department for Business and Trade (DBT) to reduce this evidence gap. This research study includes a large-scale business survey and in-depth interviews on firms' export decisions and is expected to be published later in 2024.

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