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Master Thesis

**Transition in-and-out of exporting and its impact over
employment growth**

by

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1. Introduction

This study analyzes export behavior from a comprehensive perspective by examining the specific impact that the different export choices related to the transitions in-and-out of exporting have on employment growth in small and medium sized enterprises (SMEs). Small and medium sized enterprises (SMEs) are a leading factor for the economic growth of the countries, accounting for over 95% of the total population of businesses and 60% of employment rates worldwide (Raynard and Forstater, 2002). The justification of this research is based on the growing interest of academics and policy makers in SMEs' international activity and the potential benefits derived from exporting in terms of market competition, employment and technology implementation (Manolova et al., 2002; European Commission, 2010, 2011; Lamb et al., 2011). Although SMEs increasingly engage in higher-commitment entry modes (Dimitratos et al., 2010), exporting remains the most common mechanism chosen by SMEs to enter in international markets (Morgan et al., 2012). Exporting is especially appealing to SMEs as it represents a lower-commitment entry mode and therefore, the economic cost and risk borne by the entrepreneur are lower compared to alternative foreign entry modes.

Internationally active SMEs in the European Union (EU) show significantly higher average returns and employment levels, as well as greater innovation rates compared to their non-internationalized counterparts (European Commission, 2010). It is thus fundamental for Europe to increase the capacity and effective internationalization of SMEs (European Commission, 2011).

Although previous research demonstrates that exporting is a valid mechanism to improve SMEs' performance, these companies generally have limited resources and

capabilities at their disposal and this diminishes their capacity of getting involved in and sustaining export operations (Manolova et al., 2010).

But do these arguments imply that exporting is a sustainable strategy for SMEs? Do the decision to export and its continuity facilitate the creation of a competitive advantage that helps consolidate business operations and subsequent growth? Or to the contrary, the complexity and increased dynamism of the international landscape perceived by entrepreneurs lead them to believe that export operations do not represent a viable and profitable strategy anymore. In this scenario incentives to withdraw from foreign operations rise and the exit from international markets can become the desired objective.

For the empirical analysis, we use a rich dataset of Romanian SMEs for the year 2006. While existing evidence suggests that Central and Eastern European based small firms started venturing in the international arena (Manolova et al., 2010; Miocevic and Crnjak-Karanovic, 2011), most of the limited existent literature on emerging market companies is centered on the analysis of the international behavior of large multinationals (Yamakawa et al., 2008). International business scholars highlight the internationalization of small firms from emerging economies as a fruitful research avenue (Manolova et al., 2010; Zou and Ghauri, 2010).

In particular, our data allowed us distinguishing between firms that have exported since 2004 or started exporting in 2006 and SMEs that stopped exporting in 2006, and the subsequent impact of these export behaviors on employment growth. The Romanian context is attractive since this Central and Eastern European country has undergone a profound restructuring process that led to a radical shift from a centrally planned towards a market-oriented economy. One of the most important challenges faced by Romania relates to the development of competitive SMEs (Smallbone and

Rogut, 2005; Lafuente and Rabetino, 2011). This is especially evident when looking at the international performance of Romanian SMEs. The statistics made available by the European Commission (2010) indicate that 18% of Romanian SMEs export, a rate that is below the European average (25%). This signals that in terms of internationalization Romanian SMEs are in a weaker position relative to their European counterparts.

Thus, Romania represents a fertile ground for researching the emergent international behavior showed by local firms with little experience in competitive economic settings. In addition, to the best of our knowledge, few empirical studies focus on the differentiated impact over employment growth of the different decisions related to the transitions in-and-out of exporting (Bernard and Jensen, 1999; Requena, 2005), and none of these analyses the exporting – employment growth relation in the Central and Eastern European context. Thus, the dearth of research specifically addressing Romanian SMEs' international involvement and its repercussions on employment growth gives further relevance to the analysis proposed here.

This study contributes to the international business literature. The results emerging from our empirical analysis suggest that, in the European context dominated by competitive markets and low barriers to entry, exporting should not be regarded as an isolated event and research should recognize the importance of simultaneously analyzing SMEs' export involvement, continuity, as well as de-internationalization to correctly examine the impact of these strategic decisions on employment growth.

The paper is organized as follows. Section two presents the theoretical framework and the development of the hypothesis. Section three describes the data and the methodology. Section four presents the empirical findings of the research, and section five displays the conclusions and implications of the study.

2. Theoretical framework

2.1 The benefits of exporting

There is increased literature addressing the question of whether foreign market experience significantly boosts firm performance (Bernard and Jensen 1999; Peres and Stumpo, 2000; Castellani, 2001; Matanda and Freeman, 2009; Miocevic and Crnjak-Karanovic, 2011). The underlying idea motivating that research is that selling in the international markets improves performance either through allowing firms to exploit the expanded scale economies associated with a combined domestic and international market, or by providing firms with enhanced learning capabilities via access of an enlarged technology set and knowledge spillovers (Requena, 2005).

The choice of international markets is a significant step in the life of any small and medium-sized firm (SME). This decision brings about important considerations that affect firm's survival and growth (Dimitratos et al., 2010). In this study we acknowledge the growing interest of academics and policy makers in SMEs' international strategy and the potential benefits derived from internationalization in terms of market competition, employment and technology implementation (European Commission, 2010; Lamb et al., 2011).

Although SMEs increasingly engage in higher-commitment entry modes, such as foreign direct investment and joint ventures (Dimitratos et al., 2010), exporting remains the most common mechanism chosen by SMEs to enter in international markets (Morgan et al., 2012). Exporting is especially appealing to SMEs as it represents a lower-commitment entry mode and therefore, the economic cost and risk borne by the entrepreneur are lower compared to alternative foreign entry modes.

In the particular case of SMEs operating in developing countries, there is increased interest in their international performance as these economies have become

more integrated into the global market. With technological advancements which increase the dissemination of information and communication, SMEs in developing countries tend to internationalize their business with export opportunities (Şentürk and Erdem 2008).

By going international, SMEs can achieve much wider and diverse markets reaching more customers. SMEs with foreign sales would presumably seek to actively satisfy the exact market needs of their most demanding international customers; collaborate with the international partners (suppliers, distributors, export agents, joint venture partners, government organizations, etc.); and learn from competitive strategies of their international rivals (Dimitratos et al. 2010).

The benefits attributed to exporting are varied. They include gains for workers in the form of higher wages and better future employment prospects. Also, internationally active SMEs can obtain important gains from their international operations which are linked to faster growth rates due to increased shipments and productivity, diversification of market risk, and improved survival chances (Bernard and Jensen 1999).

Benefits of exporting can also be linked to the adoption of innovation strategies. Most innovations are driven and developed by SMEs (Acs et al. 1997). Thus, active involvement in international markets could represent an additional incentive that increases SMEs innovative behaviors in order to create and maintain a competitive advantage against their competitors, until someone else duplicates or improves the innovation (Acs et al. 1997). As a result of any innovation process, businesses may achieve economies of scale and reach a wider market (in terms of number of customers), thus increasing the growth potential of the firm (Girma et al 2002).

Internationalization not only represents a platform to boost the internationalized business's performance and growth, but also creates the conditions to develop

organizational knowledge and other capabilities that could help enhance business performance (Filatotchev et al 2009).

As for the previous empirical evidence, the review of the literature shows mixed results when analyzing the intensity in the relationship between exporting and performance.

In the case of the US, McDougall and Oviatt (1996) examined data of 62 US new manufacturing ventures during the late 80s. The authors report that firms operating in foreign markets show significantly higher rates of market share two years following the internationalization process. Yet, there was no significant relationship between exports and financial performance measures (returns on investments, ROI).

A relevant paper by Bernard and Jensen (1999) shows that the effect of exports on performance is conditioned by the firm's technological regime, as well as by the business' international experience. These authors use an unbalanced panel of about 50,000 to 60,000 medium and large plants in the US for the period 1984-1992 to test the effects of the export on firm performance, measured as labor productivity, Total Factor Productivity (TFP), value added and employment growth. The authors report that exporting does not lead to greater productivity growth rates. However, internationally active firms show significantly higher employment growth rates.

Leichenko (2000) used regional data for the US during the 1980-1991 to explain the effect of exports on firm performance. The author finds that an increase in the proportion of sales abroad has a negative impact on manufacturing firms' employment. This result could indicate that exporting is linked to productivity increases, and thus the rise in productivity is more than proportionate than employment growth. Alternatively, more efficient businesses may increase their level of automation at the plant level, which can imply a reduction in the number of employees.

Empirical analyses assessing the export-performance relationship are somewhat different when examining studies conducted in Europe. Castellani (2001) explores the export-performance relationship in Italy. The author collected data for 2,898 Italian manufacturing firms for the period 1989-1994, and he used TFP growth as a performance measure. He reports that export intensity, measured as the proportion of sales abroad, has a positive and significant impact on TFP growth, that is, firms with a greater involvement in export activities show a significantly higher rate of TFP growth.

In the case of the UK, Westhead et al. (2001) conducted a survey in 1990 and 1997, and they analyze a total sample of 621 manufacturing, construction and service-oriented businesses. The authors find evidence of export-deepening as a result of economies of learning, and firms exporting in 1990 significantly increase their proportion of sales in foreign markets in 1997. Also, the authors conclude that exports are not significantly correlated with employment, sales growth and profitability (above-average operating profit relative to competitors).

Girma et al. (2002) examine 8,992 UK manufacturing firms for the period 1988-1999. In this case, firm performance is measured as employment, total sales, value added, labor productivity and TFP. The authors find that exporting is positively and significantly correlated with business performance, and for exporting firms, employment and output levels are higher. More specifically, exporting firms are larger than non-exporting firms, and exporters are on average more productive than non-exporters. Similar to Westhead et al. (2001), they find that firms with exporting experience benefit from learning curves, thus increasing more than three times the probability to export in the future, compared to their non-exporting counterparts.

Cabrol and Nlemvo (2009) analyze 68 early-internationalized French firms for 2002. These authors' results indicate that businesses with a much deeper international

orientation (export intensity) report higher levels of sales and employment. Also, firms with a higher proportion of sales abroad report operations in a greater number of foreign markets.

In the specific case of exporting as international strategy, so far most studies focused on internationalization of SMEs have tended to find that exporting is associated with superior profitability, market shares and sales growth. More broadly-based, studies from outside the US have tended to find weaker results.

More recently, researchers become aware of the importance of emerging markets in the global economy, leading to explore the internationalization of SMEs in developing and emerging markets. Filatotchev et al. (2009) analyze data for 711 young high-tech Chinese SMEs, and the authors find that export performance is positively associated with the profile of the entrepreneur (especially previous labor experience) and R&D investments.

Using information for 257 businesses located in China, India, Mexico, and South Africa for the year 2002, Wood et al. (2011) find that businesses accumulate knowledge from export activities (learning curves), and that export experience is positively correlated with export intensity. Also, they report that in these emerging markets technology spillovers are not an influential factor explaining international sales intensity. From the analysis of the existing empirical evidence we hypothesize that:

H1: There is a positive relationship between exporting and employment growth

2.2) Export status and performance

The process of internationalization leads to important changes in firm behavior and performance, and these changes are likely more pronounced the smaller the firm is (Acs et al. 1997). Yet, at this point the main question rising is whether changes in the export status, that is, from export entry to export exit, have a distinctive impact on business performance.

Movements in-and-out of international markets are times of substantial change for any business. According to Bernard and Jensen (1999) small firms experience a substantial improvement as a result of a switch from being non-exporters to become exporting, while firms that cease exporting have quantitatively equivalent performance, but with the opposite sign. This suggests that the benefits of exporting activity (that is, economies of scale and learning spillovers) occur quickly among small firms entering export markets (Requena, 2005). Yet, poor information about compliance with law, raw material specificities or market conditions can lead new exporters to make costly mistakes, thus increasing the initial investment necessary to effectively enter into new foreign markets.

In the case of businesses with more experience in international markets, the accumulated experience would lead to greater benefits from internationalization, which can translate in the development of a greater contact network that could help facilitate the access to distribution channels and selling points (Bernard and Jensen, 1999; Requena, 2005). In this scenario, performance improvements would come with time. Businesses with a more regular export activity and greater international experience would have to accommodate their operations and capabilities to the international conditions in the short run. Once the business is fully “equipped” and actively participating in the international market, its capacity to increase operations as a result of

exporting experience would help the business achieve performance improvements that would be observable in the mid-and-long run. This way, the potential adaptation cost of adopting specific technologies or processes linked to regulatory or market constraints in the foreign markets, together with the immediate post-entry period represent the time-span necessary for the firm to create the conditions to increasing the likeliness of succeed in its international activity. As a result, the outcome of exporting would be observable after the firm consolidates operations in the foreign markets.

There are few papers dealing with the performance consequences of transitions in-and-out of exporting. In their longitudinal analysis of medium and large US plants, Bernard and Jensen (1999) find that export entrants significantly improve their performance in the first year of entry into international markets. Compared to non-exporters, firms in the first year of internationalization show greater rates of employment growth (5.60%), labor productivity (3.10%), and total factor productivity (2.80%). Also regular exporters outperform firms that exit international markets in terms of employment; however, changes in total factor productivity are not significantly different from zero. The results for business that drop international markets (exiters) indicate that, compared to non-exporters, the strategic decision to exiting operations in international markets is associated with subsequent performance deterioration in terms of employment, value added, and total factor productivity. This is consistent with the view that businesses that stop exporting are exposed to potential financial losses related to their previous investments; and their operations would likely experience a decrease as a result of their lower activity levels.

Aw et al. (2000) analyze Korean and Taiwanese firms, and provide evidence that when firms switch from being non-exporters to become exporters, their performance is

enhanced, whereas switching from being an exporter to selling solely on the domestic market leads to poor performance results.

Further evidence is found in Requena (2005) who analyze 1,940 UK SMEs for the period of 1994-2000. The author uses six performance variables: employment, domestic sales, wage per employee, average director's wage and the return on sales. His results indicate that, compared to non-exporters, new exporters witnessed a substantial increase in their employment level, wages, sales and productivity growth rates. The companies that dropped exporting activities suffered significant employment losses, and a significant decrease in employees' wages, director's wages, sales and productivity. The exporters are larger than non-exporters and that both entrants and exiting firms are larger than non-exporters. The author also finds that new exporters exhibit significantly higher sales' growth rates and employment levels, whereas firms that exit exporting and stop international operations have significant lower growth rates, compared to both regular exporters and non-exporters.

From the abovementioned arguments our second hypothesis connected with the export status emerges:

H2 (a): The positive impact of exporting on employment growth is greater among regular exporters than among new exporters.

(b): The relationship between exporting and employment growth is negative among firms that exit international activities.

3. Data and Method

3.1 Data and variable definition

The data used in this study come from the Romanian Centre for Entrepreneurship and Business Research (CEBR) for the year 2006. The CEBR is an organization that promotes and develops research in the fields of entrepreneurship and business economics in Romania. The database provided by the CEBR was collected between January and March 2007, and it was designed to provide information about selected performance and organizational characteristics of Romanian small and medium sized enterprises, as well as of their corresponding entrepreneurs. Data collection by the CEBR was achieved through self-administrated, structured questionnaires where the entrepreneur was asked to answer essentially close questions. The questionnaire was also subject to a pre-test in order to correct potentially misleading or confusing questions. Previous evidence using the CEBR datasets can be found in Lafuente and Rabetino (2011) who study the relationship between human capital and employment growth in Romanian SMEs.

The original database contained information for 895 Romanian small and medium sized firms. In the interest of following a rigorous methodology we dropped those observations with missing values. The final sample comprises information for 566 Romanian SMEs, including 110 firms (19.43 per cent) and 456 (80.53 per cent) from Bucharest and from the rest of Romania, respectively. From Table 1 we also observe that our sample has information for small firms from all the Romanian regions, where 19.43 per cent of the firms operate in Bucharest, and there is also a significant representation of firms operating in the South-east (17.84 per cent), the North-east (14.66 per cent) and the Centre area (12.90 per cent).

Furthermore, the regional configuration of the sample is similar to the figures presented in a recent report on business demographics in Romania (Lafuente and Driga, 2008). In our sample, the largest number of observations is located in the Bucharest region (19.43%), whereas the lowest values are found for the Western and South-western regions (8.13% and 7.42% of firms operate in these regions, respectively).

Table 1. Geographic distribution of the sample

	Observations	Proportion
Bucharest	110	19.43
Centre	73	12.90
West	46	8.13
North-west	54	9.54
South-west	42	7.42
South	57	10.07
North-east	83	14.66
South-east	101	17.84
Total	566	100.00

Performance and business growth are multidimensional constructs and previous research proposes different ways to measure these business outputs (Davidsson et al. 2005 offers an extensive survey on this issue). In this study we follow the approach by Bernard and Jensen (1999), Peres and Stumpo (2000) and Girma et al. (2002), and performance is measured as employment growth. Employment is a key performance dimension and Davidsson et al. (2006, p. 8) conclude that growth measures based on employment show the highest correlation with alternative growth indicators (sales and assets). For the purposes of the analysis we use two employment growth variables: one based on Brixy and Kohaut (1999), and a second variable following the method proposed by Davidsson et al. (2002).

In their study on the determinants of business growth in Eastern Germany, Brixy and Kohaut (1999) propose to measure employment growth for each observation (i) as $\ln(\text{Employment}_{i,t}) - \ln(\text{Employment}_{i,t-k})$ to correct skewness in data, where t refers to

the year of the survey (2006) and k is the year the business started. We can see in Table 2 that in this sample the average employment growth rate according to Brixy and Kohaut (1999) is 83.59%, the minimum is -2.9957% and the maximum is 4.4659%. The second employment growth measure is according to Davidsson et al. (2002) where employment growth is defined as $(\text{Employment}_{i,t} - \text{Employment}_{i,t-k}) / ((\text{Employment}_{i,t} + \text{Employment}_{i,t-k}) / 2)$ to obtain an asymptotically normally distributed growth variable. In Table 2 we can see that the average employment growth according to Davidsson et al. (2002) is 66.57%, the minimum is -1.8095% and the maximum is 1.9545%. This latter variable also shows a lower dispersion than that found for the metric proposed by Brixy and Kohaut (1999).

Table 2. Descriptive statistics for the selected variables

Variable	Average	Minimum	Maximum	Std. Dev.	Observations
Employment growth (Brixy and Kohaut)	0.8359	-2.9957	4.4659	1.0129	566
Employment growth (Davidsson et al.)	0.6657	-1.8095	1.9545	0.7400	566
<i>Entrepreneur's Profile</i>					
Gender (male)	0.6820	0	1	0.4661	566
Age (years)	37.3922	18	60	8.3300	566
Education in management	0.5530	0	1	0.4976	566
<i>Business profile</i>					
Firm age (years)	6.1908	1	19	5.1034	566
Initial size (employees)	3.8463	1	120	8.7883	566
Employees in 2006	9.5813	1	160	16.2563	566
Entrepreneur team	0.5177	0	1	0.5001	566

For the purposes of this study, we use in our econometric model as dependent variables the employment growth rates as proposed by Brixy and Kohaut (1999) and Davidsson et al. (2002), and the final model to be estimated follows:

$$\text{Employment growth}_i = \beta_0 + \beta_1 \text{Entrepreneur's profile}_i + \beta_2 \text{Firm's profile}_i + \beta_3 \text{Export behavior}_i + \beta_4 \text{Regional effect}_i + \varepsilon_i \quad (1)$$

The model presented in equation (1) is estimated through OLS, and we will try to determine if the different variables related to export (export propensity, export intensity, and transitions in-and-out of exporting) are determinant factors of small firms' employment growth in Romania.

Concerning the independent variables, we first introduce two groups of control variables to account for the effect of the entrepreneur's profile and the business profile on employment growth. The control variables related to the entrepreneur refer to the gender of the entrepreneur (dummy variable taking the value of one for male, and zero otherwise), the entrepreneur's age measured in years, and the education attainment of the entrepreneur measured as a dummy taking the value of one to account for the completion of management studies, and zero otherwise. The variables related to the business profile include business age expressed in years, initial size of the firm in terms of the number of employees, and a dummy variable that captures if the business was founded by the entrepreneur solely or by an entrepreneurial team. In addition, a set of dummy variables accounting for regional effects are introduced in all models.

Concerning the key independent variables related to the different export choices, we introduced four different metrics to capture different dimension of the export decision. First, we included a dummy variable taking the value of one is the business exports in 2006, and zero otherwise. This variable is linked to the businesses' export propensity, and in our sample we observe that 24.38% of businesses export (Table 3).

The second variable relates to the export intensity of the sampled firms, and we measure this concept as the proportion of sales in international markets in 2006. In our sample, businesses export on average 13.07% of their products/services. The third variable used in this research is the change in the proportion of sales abroad, and the average change in exports among the sampled firms is 2.27%.

Table 3. Export behavior: Distribution of firms according to the export status

	Employment growth (Brixy and Kohaut)	Employment growth (Davidsson)	Observations	Proportion
Non-exporter	0.8054 (0.9799)	0.6515 (0.7321)	403	71.20
Exporter in 2006	0.9685 (1.0798)	0.7445 (0.7544)	138	24.38
New exporter	1.3326*** (1.3100)	0.9447** (0.8310)	45	7.95
Regular exporter	0.7923 (0.9051)	0.6477 (0.6986)	93	16.43
Export exit	0.5971 (1.1124)	0.4586 (0.7619)	25	4.42
Total	0.8359 (1.0129)	0.6657 (0.7400)	566	100.00

Standard deviation is presented in brackets. T-test refers to differences in variable means between groups of firms reporting some export activity (new exporter, exiter and regular exporter) against the non-exporter group. *, **, *** indicates significance at the 0.10, 0.05 and 0.01, respectively (two-tailed t-test).

The last set of variables related to export capture the different decisions linked to the transitions in-and-out of exporting. Here, we introduced three dummy variables to account for the differentiated impact of export entry, regular exports, and export exit on employment growth. The variable related to export entry measures whether the business started exporting in 2006. In the samples Romanian SMEs, 7.95% of firms report their first international sales in 2006 (45 businesses). Similar to Bernard and Jensen (1999), the second variable measures regular export behavior, and it indicates whether the business has been selling its products/services abroad for at least two consecutive years. From Table 3 we note that in our sample 93 firms (16.43%) report a continuous

participation in foreign markets. Finally, the third dummy variable captures the effect of the decision to stop exporting on employment growth. In this case, only 25 businesses in our sample (4.42%) exited international markets to concentrate their business effort in their domestic marketplace.

4. Empirical findings and discussion

In this section we present the results of the analysis of the sample of 566 Romanian small and medium firms. Table 4 presents the results of the different OLS regressions explaining the effect of the different export variables analyzed and employment growth. The Table also separates the results according to the employment growth measures analyzed (Brix and Kohaut, 1999; Davidsson et al., 2002). All model specifications include control variables accounting for the entrepreneur's profile and the business profile.

We further validate the robustness of the results we obtained the variance inflation factor (VIF) to test if parameter estimates in each regression are amplified due to correlations across the explanatory variables. Table 4 reports the average variance inflation factor for each model (1.07). The results for the diagnostic test indicate that for all the independent variables the variance inflation factor is below the commonly used cut-off threshold of ten, confirming that our model specifications do not suffer from multicollinearity problems.

As for the profile control variables, we notice that entrepreneur's gender and age are not statistically significant variables explaining employment growth. In particular we find that there is neither a gender gap nor an age difference effect when it comes to explain firm performance. These results are in sharp contrast to those by Bardasi et al. (2011) who find that male-controlled businesses export more and show significantly

greater efficiency levels and growth rates. Also, Rosa et al. (1996) find that the relationship between gender and firm performance is complex, but the gender still appears to be significant. The results for the coefficient related to the variable studies in management indicate that this factor is not influential to explaining employment growth. This result is consistent throughout the different model specifications presented in Table 4.

Concerning the business profile variables, we can see that the initial size of the firms is the only significant variable explaining employment growth. This result holds for all the model specifications and for the two employment growth measures analyzed. The negative result of the coefficient confirms that smaller firms (at the start-up year) show significantly higher growth rates. This result is consistent with the analysis conducted by De Carvalho et al. (2013) in Portugal. These authors find that small and young SMEs grow more quickly, than their larger and older counterparts.

In what concerns business age, we find no significant effect of this factor over employment growth, thus suggesting that market experience does not make a difference and younger firms are as likely as older firms to perform well and grow, in terms of employment. The presence of entrepreneurial teams is the last business profile variable introduced in the analysis. The results are not statistically significant for this variable. As a result, we can conclude that the analyzed firms are not benefiting from knowledge spillovers and the accumulated knowledge and market experience linked to teams, and businesses launched by individual entrepreneurs show similar employment growth rates, compared to those firms created and managed by entrepreneurial teams.

Our results are similar to those of Blackburn et al. (2013), who find that business size and age are critical factors explaining performance and are more important than strategy and the profile characteristics of the entrepreneur(s).

As for the key findings of the study, results presented in specification 1 in Table 4 indicate that firms reporting sales in foreign markets show significantly higher rates of employment growth. This is consistent along the different employment growth measures used, and in the case of the growth measure proposed by Brixy and Kohaut (1999) the result indicates that the employment growth rate among exporters is 19.40% greater relative to the rate observed for non-exporting firms in the sample. When analyzing the result for the growth measure by Davidsson et al. (2002), we observe that exporters' employment growth rate is 11.70% higher than the rate estimated for the sub-sample of non-exporting firms. Results are statistically significant and therefore we confirm our first hypothesis (**H1**) stating that there is a positive relationship between exporting and the employment growth. Also, it should be noted that although the export status is a statistically significant factor explaining employment growth, results for the export intensity variables presented in models 2 and 3 are not significant. This way, these results suggest that exporters are benefiting from international activities regardless their export intensity (model 2) and changes in their international deepening (model 3).

Table 4. Regression results: Effect of export on employment growth

	Employment growth (Brixy and Kohaut, 1999)				Employment growth (Davidsson et al., 2002)			
	Model 1	Model 2	Model 3	Model 4	Model 1	Model 2	Model 3	Model 4
Gender (Male)	0.102 (0.086)	0.104 (0.087)	0.110 (0.086)	0.111 (0.086)	0.075 (0.063)	0.076 (0.064)	0.795 (0.064)	0.078 (0.064)
Entrepreneur Age (ln)	−0.228 (0.205)	−0.224 (0.206)	−0.210 (0.205)	−0.210 (0.203)	−0.135 (0.143)	−0.133 (0.144)	−0.124 (0.144)	−0.126 (0.142)
Management studies	0.022 (0.082)	0.024 (0.082)	0.030 (0.082)	0.033 (0.081)	0.052 (0.060)	0.054 (0.060)	0.058 (0.060)	0.060 (0.060)
Initial size (ln employees)	−0.410 (0.052)***	−0.412 (0.523)***	−0.414 (0.052)***	−0.423 (0.513)***	−0.308 (0.039)***	−0.309 (0.039)***	−0.031 (0.038)***	−0.317 (0.038)***
Business age (ln)	0.037 (0.044)	0.033 (0.044)	0.028 (0.043)	0.023 (0.043)	0.024 (0.031)	0.022 (0.031)	0.019 (0.031)	0.019 (0.031)
Entrepreneurial team	−0.014 (0.08)	−0.012 (0.078)	−0.157 (0.080)	−0.034 (0.080)	−0.021 (0.058)	−0.020 (0.058)	−0.022 (0.058)	−0.034 (0.058)
Exporter	0.194 (0.100)**				0.117 (0.070)*			
Proportion of foreign sales		0.173 (0.156)				0.102 (0.117)		
Δ in foreign sales			0.372 (0.273)				0.252 (0.175)	
New Exporter				0.590 (0.181)***				0.341 (0.117)***
Exiter				−0.322 (0.195)*				−0.282 (0.143)**
Regular Exporter				−0.027 (0.104)				−0.017 (0.078)
Regional dummies	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Intercept	1.773 (0.711)**	1.790 (0.715)**	1.757 (0.713)**	1.752 (0.704)**	1.241 (0.500)**	1.251 (0.502)**	1.231 (0.502)**	1.240 (0.450)**
Adjusted R2	0.1202	0.1156	0.1190	0.1412	0.1258	0.1227	0.1261	0.1414
F – test	8.45***	8.19***	8.52***	8.22***	8.86***	8.45 ***	8.98***	9.06***
Average VIF (lowest: highest)	1.07 (1.01 : 1.25)	1.07 (1.01 : 1.25)	1.07 (1.01 : 1.25)	1.07 (1.01 : 1.26)	1.07 (1.01 : 1.25)	1.07 (1.01 : 1.25)	1.07 (1.01 : 1.25)	1.07 (1.01 : 1.26)
RMSE	0.9501	0.9525	0.9507	0.9386	0.6918	0.6931	0.6917	0.6857
Observations	566	566	566	566	566	566	566	566

Robust standard errors adjusted by heteroskedasticity are presented in brackets. *, **, *** indicates significance at the 0.10, 0.05 and 0.01, respectively.

As it was described in the method section, to test the second hypothesis we ran an additional model specification. Model 4 introduces three dummy variables to account for the different export status analyzed: export entry, regular exporter, and export exit.

From the results presented in Table 4 we notice that there is a significant and positive relationship between export entry and employment growth. For illustrative purposes, in the case of the growth measure by Davidsson et al. (2002), the result of the coefficient for new exporters indicates that the rate of employment growth among firms that entry foreign markets is 34.10% higher than the employment growth rate shown by non-exporters in the sample. The result for the regular exporter dummy is not significant, thus indicating that export premium and its repercussions on employment growth are not correlated with experience in international markets. This result is similar to that reported by Bernard and Jensen (1999) for the US and by Requena (2005) for the UK, who find no significant differences in the year-to-year performance changes of regular exporters and non-exporters. Consequently, we cannot confirm our hypothesis 2a (**H2a**) stating that the positive effect of exporting on employment growth is greater among regular exporters, relative to new exporters.

Further, the coefficient linked to the variable capturing export exit is negative and statistically significant, which indicates that firms that dropped international markets have lower employment growth rates than non-exporting firms. This result is especially relevant because it signals that the decision to exit exporting activities implies potential operational losses derived from the misallocation of previous investments undergone by the firm, being the reported employment decreases a consequence of the business' lower level of operations (at the domestic market solely). This way, we confirm our hypothesis **H2b** that states that businesses that exit exporting show a decrease in employment growth rates.

We conducted a robustness check to further complement our analysis, and the results are presented in Table 5. From the exhaustive analysis of our sample we first notice that, compared to non-exporters, exporters are significantly larger in terms of number of employees. This result exclusively comes from the employment growth rate of new exporters. The result is statistically significant at the one percent level. Furthermore, the only significant difference in the average employment growth rate was found when comparing new exporters (Brixy and Kohaut: 133% - Davidsson et al.: 94%) and non-exporters (Brixy and Kohaut: 80% - Davidsson et al.: 65%). This result is similar to that of Calof (1993) and Requena (2005) who find that small firms experience a substantial performance improvement the year they switch from being non-exporters to become exporting.

This result is not only in accordance with our previous analysis presented in Table 4, but also to those by Bernard and Jensen (1999), and this gives support to the view that in our sample the benefits of exporting (in terms of employment growth) are more pronounced among new exporters than among businesses with more international experience.

The lack of significance in the employment growth rates reported for regular exporters and firms that exit exporting results could signal on the one hand that non-exporting firms could have a strong position in their domestic market, which limits their incentives to sell their products abroad. On the other hand, the poor performance shown by firms that stop exporting could signal that these firms are experiencing employment losses as a result of their de-internationalization process. This result is in accordance with Requena (2005) who also find that regular exporters and non-exporters shown similar performance levels.

Table 5. Export behavior: Distribution of firms according to the export status

	Firm size (employees)	Firm age (years)	Exports in 2006	Employment growth (Brixy and Kohaut)	Employment growth (Davidsson)	Obs.
Non-exporter	8.52 (12.55)	6.31 (5.10)	N.A.	0.8054 (0.9799)	0.6515 (0.7321)	403
Exporter in 2006	13.36*** (24.26)	5.65 (4.95)	0.5360 (0.3184)	0.9685 (1.0798)	0.7445 (0.7544)	138
New exporter	23.18*** (35.73)	6.60 (5.25)	0.5187 (0.3141)	1.3326*** (1.3100)	0.9447** (0.8310)	45
Regular exporter	8.61 (14.00)	5.19** (4.76)	0.5444 (0.3218)	0.7923 (0.9051)	0.6477 (0.6986)	93
Export exit	5.80 (10.46)	7.12 (5.90)	N.A.	0.5971 (1.1124)	0.4586 (0.7619)	25
Total	9.58 (16.24)	6.19 (5.10)	0.1307 (0.2787)	0.8359 (1.0129)	0.6657 (0.7400)	566

Standard deviation is presented in brackets. For the variables related to firm size (employees), firm age and employment growth, the *t-test* refers to differences in variable means between groups of firms reporting some export activity (new exporter, exiter and regular exporter) against the non-exporter group. *, **, *** indicates significance at the 0.10, 0.05 and 0.01, respectively (two-tailed t-test).

We also from Table 5 that export intensity, measured as the proportion of sales abroad, is evenly distributed among exporting firms. In line with the results presented in model 2 of Table 4, this result is particularly interesting because it signals that employment growth is not linked to higher rates of sales in international markets, but rather to a combination of organizational factors, as well as elements emerging from both the domestic and the international markets where the business operates.

5. Conclusions

In this study we attempted to bridge the gap in the SMEs' internationalization field regarding the multidimensional nature of exporting. In doing so, we propose an exhaustive analysis of the relationship between different forms of export behavior and employment growth on a sample of 566 Romanian small and medium sized enterprises (SMEs). In addition, our analysis seeks to scrutinize the distinctive effect that the different forms of export behaviors related to the transitions in-and-out of exporting (export entry, regular exporting, and export exit) have over employment growth. The relevance of this study not only flows from the particular empirical design that simultaneously evaluates the different export choices, but also from the recognition that SMEs are both critical agents for territorial economic activity and the main instigators that help consolidate market economy in Eastern Europe countries. This is especially relevant in the case of Romania; an Eastern European emerging economy that in the last decades has experienced a dramatic shift from a centrally-planned economy until 1990, towards an economic system strongly rooted in western-oriented capitalism. To the best of our knowledge, scholars have paid little attention to the Romanian case, and this is the first attempt to simultaneously examine the effect on employment growth of the different export decisions, namely export entry, regular exporting and export exit, in the SMEs' context of a Central and Eastern European country.

The main results emerging from our empirical analysis indicate that exporting firms grow more rapidly than non-exporting firms, in terms of employment. As for the analysis of the effects of transitions in-and-out of exporting, we found that firms entering into international markets exhibit a statistically significant greater rate of employment growth than their non-exporting counterparts. To the contrary, in the case of regular exporters our results do not give support to the view that experience in international markets enhances business performance. Finally, our findings are in line with previous studies indicating that

firms that drop exports experience significant operational and financial losses, which translate into lower (or negative) employment growth rates (Bernard and Jensen, 1999).

This study has important implications for scholars, practitioners and policy makers. From an academic perspective, our results show that export matters for the employment growth, but we highlight the relevance of distinguishing the specific impacts of the different export behaviors analyzed related to the transitions in-and-out of exporting. Our findings permit us to corroborate that new exporters grow more rapidly than regular exporters, thus pointing to the presence of an impulse effect of exporting on employment growth. Previous literature indicates that experience in international markets is important to consolidate international operations; however, our results signal that the importance of complex organizational frameworks designed to get involved in export processes is diluting in the context of the European Union market, where barriers to trade are practically inexistent.

In line with the previous arguments, our results are encouraging for practitioners as they suggest that businesses may obtain important gains from exporting. In the context of the European Union where different international markets are much more integrated, we support that sophisticated contact networks and experience are no longer an indispensable prerequisite to achieve superior performance levels. This brings about important implications for practitioners, as this implies a hard decrease in the initial cost and investment to exporting. Together with the lower costs of internationalization through exporting, businesses may perceive exporting as a valid mechanism to grow as a result of the simplification of the bureaucratic work necessary to engage in international activities within the EU.

Finally, the results of this study also have important implications for policy makers. The consolidation of SMEs' internationalization is a top policy priority in Europe (European Commission, 2011). Support programs have traditionally considered the internationalization process and bureaucratic assistance at the core of most programs aimed at enhancing exports

among SMEs (European Commission, 2010). We find that management studies and the presence of entrepreneurial teams are not significant factors when it comes to explaining business growth; whereas exporting significantly boosts growth among new exporters. Also, we found that employment growth is more pronounced among smaller firms that recently entered into the international arena. We believe that support policies must encourage human capital formation to effectively consolidate business operations and maximize the potential benefits from exporting. Also, support measures should focus on training and technical assistance programs that, through knowledge spillovers emerging from the contact with other exporting entrepreneurs, help encourage entrepreneurs with no exporting experience to engage in internationalization processes. Also, additional specific measures should focus on communicating the benefits of exporting to entrepreneurs so that SMEs perceive exporting as a low financial commitment entry mode.

We report some limitations that, in turn, represent important future research avenues. As with any cross-sectional study, the main limitation of the paper lies in both the absence of a longitudinal analysis that could have given a greater perspective to the study, and the potential presence of selection bias (Lafuente and Rabetino, 2011). Future research should replicate similar studies in other emerging contexts, either within Central and Eastern Europe or elsewhere, so the results could be compared and ultimately generalized to larger populations. Performance is a multidimensional construct. Therefore, future research should pay attention to the long run repercussions that exporting is having on alternative performance measures other than employment growth. Finally, future research should not only attempt to explore the observed differences in the impact of exporting on SMEs' performance, but should also include a greater number of attributes related to the international activity of the firm, such as number of targeted countries, international experience of the entrepreneur for instance, in order to further build on our analysis.

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