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The role of Foreign Market Focus and Outward Looking Competences in Latin American SMEs

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Abstract

This paper focuses on the internationalization of SMEs located in geographically isolated contexts like Latin America. We argue that strategic priorities towards foreign markets, Foreign Market Focus (FMF), as well as "Outward Looking Competences" (OLC) are important factors in enhancing productivity, and ultimately achieving a sustainable competitive presence abroad. FMF and OLC lay the foundation for setting better international business relations with foreign clients and increase opportunities for learning and attaining economies of scale. Results demonstrate the significance of FMF as a means of enhancing productivity only in manufacturing firms. OLC positively moderates the relation between FMF and productivity.

Keywords: Foreign Market Focus, Outward Looking Competences, Exports, Productivity, Latin American SMEs, Multilatinas.

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Building international business bridges in geographically isolated areas: The role of Foreign Market Focus and Outward Looking Competences in Latin American SMEs

1. Introduction

There is a burgeoning literature on the internationalization of emerging market multinationals focusing on their internationalization strategies, entry modes, location and performance (Cuervo-Cazurra & Ramamurti, 2014; Gonzalez-Perez & Velez-Ocampo, 2014; Kim & Aguilera, 2015). However, little research has been conducted on how Latin American exporting small and medium enterprises (SMEs) behave in the initial stages of their internationalization process (Perez-Batres, Pisani & Doh, 2010), and the impact thereof on their capacity to learn and improve their productivity and international competitiveness (Dimitratos, Amorós, Etchebarne & Felzensztein, 2014; Fleury, Fleury & Borini, 2012). The need for this capacity applies particularly to Latin American firms as they have a long exporting tradition, especially to regional markets (Lopez, Kundu & Ciravegna, 2009), yet normally take a long time to become MNEs (Cuervo-Cazurra, 2008).

The process of Latin American internationalization, other than the exporting of natural resources and agricultural products, is a relatively recent development (Fleury & Fleury, 2011). This means that many SMEs are likely to be incipient multilatinas, still in the process of growing into full-blown MNEs. The factors that enable them to export successfully, and through the learning process it provides, to improve their international competitiveness, are clearly deserving of more attention from researchers. The present study therefore aims to better understand the role of exports in the mulinationalization of Latin American SMEs, as a way to learn to improve their productivity, and ultimately develop their international competitiveness before establishing FDI activities and becoming 'multilatinas'.

The choice of Latin-American SMEs is further justified because of concerns related to their low levels of productivity relative to those SMEs from advanced economies and the recognition that their more active involvement in international business, especially through participation in global value chains, could be a powerful force for productivity improvement through exposure to technology frontiers and best practices (OECD, 2016). As the OECD and other agencies have pointed out, in many Latin-American countries, government policies to assist this process have been hampered by factors such as bureaucratic restrictions, poor coordination and lack of systematic evaluation of export promotion (OECD, 2016). Moreover, with few exceptions, Latin-American countries rank relatively low in terms of the KOF "Globalization Index" which assesses their interconnectedness with other parts of the world (KOF EthZurich, 2015). Indeed, a study of Brazilian clothing SMEs indicated that for many of them internationalization meant regional exporting to other Mercosur members rather than a global business reach (Seifert, 2010). This relative isolation, except for the case of Mexico, has been identified as one of the major limiting factors for the growth and success of Latin American SMEs with an international component (Cuervo-Cazurra, 2016).

The main contribution of this study is to provide a theoretical answer to the question 'How can Latin American firms overcome geographical isolation?' We develop our theoretical argument based on the work of Cuervo-Cazurra (2016) who suggests that geographical isolation of Latin American SMEs can be overcome through a shift in market priorities, i.e. from domestic to foreign markets. This is illustrated by some of the world's largest Multilatinas (i.e. Bimbo, Citrosuco, Tenaris) who achieved their international growth and success by switching from a domestic to a Foreign Market Focus (FMF), a concept first presented by Aulakh, Kotabe & Teegen (2000). Latin American firms with a FMF are likely to adopt new technology and upgrade product features to meet international standards (Serti & Tomasi, 2008) and therefore are likely to achieve productivity gains. We empirically

assess this possibility by comparing the productivity gains of exporting Latin American SMEs that exhibit a higher international orientation compared to those that have a more domestic focus. Productivity gain is a measure of performance that is attracting increasing interest in the international business literature (Luo & Bu, 2016). Only a few single country studies have investigated the effect of exports on firm productivity in the context of Latin America [see Alvarez & López (2008) on Chile, Bernard & Wagner (1997) on Colombia, and Clerides et al. (1998); on Mexico]. In addition, with the exception of Girma, Greenaway & Kneller (2004), previous studies have only compared the differences in productivity between exporting and non-exporting firms (Aw & Hwang, 1995; Van Biesebroeck, 2005). Therefore, our study contributes to this line of literature by comparing the differences in productivity between exporting firms only, thus eliminating the main criticism attributed to the export and productivity research, i.e. the self-selection argument.

An additional contribution of this research is that we consider the role of key moderating variables with the objective of better understanding some of the mechanisms that explain the complex relationship between FMF and firm productivity. In general terms, Latin American SMEs have faced several barriers to an active participation in global value chains (Azzi da Silva & da Rocha, 2001). For instance, Ciravegna, Lopez & Kundu's (2014) research findings suggest that due to negative country of origin effects, Latin American SMEs face more difficulties in internationalizing than their European counterparts. Our study contributes to an understanding of how exporting firms possessing an '*outward looking competence'* (OLC) that enhances their image and reputation, may improve their international competitiveness. Conversely, our study helps to understand why outsourcing export sales activities to *intermediaries* negatively affects firms' competitiveness, even though the use of intermediaries has been widely acknowledged by the international business literature as being a useful export mechanism in the region (Suominen & Volpe, 2013). A key strength of our

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study is the use of a large sample of 1267 exporting Latin American exporting SMEs, which enables us to test the consistency and significance of these various relationships through comparing various subsamples, i.e. by industry sector (manufacturing, etc.) as well as by country.

2. Theoretical Background and Hypotheses Development

The increasing pace of globalisation and integration of global value chains intensifies the pressure for international expansion. In the initial stages of their internationalisation process, firms tend to resort to exports as this entry mode requires lower levels of resource commitment and international market knowledge than foreign direct investment [FDI] (Johanson & Vahlne, 1977). As such, exporting becomes a particularly useful method of international development for SMEs because, when compared to large MNEs, they tend to possess a more limited resource and knowledge base (Sapienza et al., 2006).

The question of whether exporting firms have stronger performance than non-exporters is a core theme in international business (Wagner, 2007). The extant literature posits that exports helps smaller firms increase their size and more importantly achieve higher levels of productivity (Aw & Hwang, 1995; Girma, et al., 2004; Van Biesebroeck, 2005), and provides a myriad of potential factors underpinning the presumed increase in productivity of exporting firms. For instance, Aw & Hwang (1995) found that the differences in productivity level between exporting and non-exporting firms are partly explained by the size and resource base of exporting firms. Van Biesebroeck (2005) reported that exporting firms possess higher capabilities because of the tendency to pay higher wages thereby obtain and retain better talent and are more capital intensives than non-exporting firms. Others argue that the resulting improvement in productivity of exporting firms is greatly explained by a learning-by-exporting approach, as exporting firms increase their knowledge base by learning from

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being involved in foreign markets (Martins & Yang, 2009; Van Biesebroeck, 2005) and enhance innovative performance (Golovko & Valentini, 2011; Salomon & Shaver, 2005). Salomon & Shaver (2005) have argued and demonstrated that the learning-by-export effect is even more evident on firm innovative performance in terms of product innovation and patents development than it is on firm productivity. However similarly to other scholars, they acknowledge that this is due primarily because of the learning-by-exporting effects, as exporting firms directly or indirectly access and absorb knowledge experientially from international markets as they interact with foreign agents, customers, suppliers, competitors and intermediaries or other type of collaborators and are exposed to know-how and technologies not available in domestic markets (Dimitratos et al., 2014; Salomon & Shaver, 2005; Voudoris, Dimitratos, & Salavou, 2011). As suggested by Wheeler, Ibeh & Dimitratos (2008), frequent utilization of export-related information directly enhances a firm's export competitiveness. This tends to be the case because it develops greater knowledge about important export-related processes, routines and systems (Allison & Browning, 2006).

The well-established relationship between innovation and exporting among SMEs is also seen to have positive implications for productivity, whereby they jointly lead to productivity benefits (Love & Roper, 2015; Lööf et al., 2015). According to Tse, Yu & Zhu (2015), productivity gains linked to the process of learning-by-exporting are enhanced when firms have necessary internal capabilities such as human capital, production and innovativeness. However, taken as a whole the results from the extant literature are far from clear in helping us understand what factors contribute to an increase in the productivity of exporting firms (Martins & Yang, 2009; Wagner, 2007). Whilst there is an ongoing academic debate comparing productivity levels between exporting and non-exporting firms. Yet, we know very little about the heterogeneity within groups of exporters. Exporting firms differ with each other in their productivity levels.

We argue that one of these heterogeneities is implicit in the FMF orientation. The FMF concept, introduced by Aulakh et al. (2000), refers to the perusal of foreign markets as a strategic market priority. FMF is especially relevant for firms in developing and emerging countries, who need to decide whether to focus on their domestic market, or to give priority to foreign markets. Comparing firms with foreign vs a domestic market focus seems to be particularly relevant for regions suffering from high levels of geographic isolation such as Latin America. As illustrative cases some of the world's largest Multilatinas like Bimbo, Citrosuco, Tenaris, Coldelco, JBS and Vale "were mostly focused on their domestic markets just a couple of decades ago" (Cuervo-Cazurra, 2016, pp. 1963). A FMF orientation poses certain challenges to SME exporters as these are likely to face having to transact across greater geographical, cultural, institutional and psychic distances (Child, Rodrigues & Frynas, 2009). The challenges can be particularly acute when firms from emerging markets attempt to export to developed economies, where they are more likely to encounter a large number of resource-endowed competitors and more demanding consumers. The next sub-section theoretically builds the linear relationship between FMF and productivity, which ultimately enhances internal resources and capabilities and lays the foundations for international growth.

Foreign Market Focus (FMF) and Productivity

FMF is a dichotomy that signals a preference for a specific market. In the context of this study we consider that the firm focuses on domestic vs foreign markets. By definition, firms with a domestic market focus have a preference for selling more in their domestic markets, whilst firms with a FMF derive most of their revenues from foreign markets.

We draw on the resource based view of the firm (RBV) to explain the link between FMF and productivity. The internationalisation literature has made extensive use of the RBV theory to study firm internationalisation (Lafuente et al., 2015; Peng, 2001) because it conceives firms as being bundles of heterogeneous resources which they use to achieve and maintain a

competitive advantage (Barney, 1991; Wernerfelt, 1984). Understanding firm internationalisation from a RBV perspective is particularly relevant for our study because SMEs tend to be less resource-endowed compared to larger MNEs, being this difference being more severe in emerging markets (Manolova et al., 2010). One of the key assumptions of the RBV is that variance in firms' performances is a result of differences in resources and capabilities, notably the way such resources are combined and transformed. In fact, Bloodgood et al's (1996) research findings show that higher levels of productivity of some international firms were explained by the uniqueness of their resource bundles. Therefore, it is reasonable to assume that productivity, a key indicator of performance, is determined by the firm's resources and capabilities. This is the case because productivity can be measured as the level of revenues generated by taking into account the level of resources and capabilities utilised during the production process.

Having a preference for exporting enables firms to leverage their existing resources across countries and create more economies of scale than if they focused only on their domestic markets (Kaleka, 2012). An increase of scale is normally associated with higher productivity. This relation is especially relevant in manufacturing settings in which economies of scale are a key determinant of productivity (Buera & Kaboski, 2012). Moreover, FMF enhances firm capability through a learning-by-exporting process (Min & Smyth, 2014; Tse et al., 2015). There are four possible explanations that link FMF, capability development, and productivity. Firstly, firms may learn about new products, processes or technologies by exporting to knowledgeable buyers who may share product designs and production techniques. Secondly, participation in foreign markets brings firms into contact with international best practices, therefore fostering new organizational capabilities. Thirdly, international competition is likely to challenge exporting firm capabilities, helping to enhance internal efficiency processes. Finally, a more contextual relation between FMF and firm capabilities can be built

assuming that the firms operating in developing countries face higher levels of uncertainty and institutional dysfunctions in their domestic markets (Mort and Weerawardena, 2006). Having an FMF, especially towards more developed and stable markets, is likely to increase firm performance as higher levels of predictability may be more conducive to higher levels of resource commitment and productivity (Aulakh et al., 2000). Additionally, understanding the impact of FMF on the productivity in the context of regions suffering from high levels of isolation, which export relatively little in terms of % of their GDP, is particularly important. In such contexts, dramatic firm-level policy changes such as the adoption of a FMF may help the company reach more global markets, and ultimately enhance firm productivity. Thus, we posit that:

H1: *Firms with a foreign market focus have higher productivity than firms with a domestic market focus.*

The Moderating Role of Outward Looking Competences (OLC)

Firm's with a FMF orientation are not confined by the limits of their home market and therefore have the advantage of dramatically increasing their potential target market. However, international expansion comes at a cost as firms have to move across different institutional, cultural and geographical environments to reach new international markets. This poses a particular challenge for exporting firms from developing markets, especially from more isolated regions like Latin America. How can this cost or challenge be better overcome? This question was first explored over five decades ago in Keesing's (1967) seminal paper suggesting that those governments in developing countries pursuing an increase in the competitiveness of the export manufacturing sector need to implement outward looking policies. That is, he argues, developing countries need "a strong effort to remain in touch, absorb the latest technology, catch up and become competitive with the most advanced

industrial countries" (Keesing, 1967, p. 304). Empirical evidence lends credence to Keesing's recommendations. Dollar (1992) for instance reported a positive relation between outward looking policies (especially those developed in Asian countries) and an increase in the competitiveness of the manufacturing exports for the period 1976 and 1985 at country level. This macro-level approach is applicable at firm-level as well, since in a globalized context firms need to continuously improve relevant OLC to be sustainable and grow in international markets (Prange & Verdier, 2011).

In our framework, OLC can be linked to any initiative that enhances firm's image and/or improves firm's stock of knowledge. As suggested by several scholars, an outward looking market strategy orientation, facilitates the acquisition of external knowledge (Zhou & Li, 2010), primarily through the acquisition of licenses, patents, and outsourced research and development activities (Cassiman & Veugelers, 2006). Empirical studies of innovation often use the acquisition of external knowledge as a moderator variable between market focus and firm performance (Denicolai et al., 2014). In the same vein, OLC also help reduce asymmetric information problems resulting from cultural and institutional differences between exporting firms and their clients abroad, especially when exporting firms are located in more isolated regions. In these cases, problems can be minimised by sending quality market signals, such as the acquisition of external knowledge which enhances company image (i.e. Quality Certifications) and can provide new channels of communication with foreign clients (i.e. Webpage in B2C or some sort of intranet platform in B2B) (see signalling theory in Myers & Majluf, 1984). Newburry & Soleimani (2011) suggest that signalling seems to be particularly important for Latin American firms because it is a dynamic and interactive process, involving exporters, agents and buyers who send higher product quality signals and receive feedback (of product quality), and ultimately learn from the experience. Market signals have been demonstrated as a crucial element for firms to enhance

their exporting position (Das & Bandyopadhyay, 2003). These perspectives strongly reinforce the role of moderator of OLC in the relation of FMF and productivity. Therefore, we hypothesise that:

H2: *"Outward looking competences" positively moderate the relationship between FMF and firm productivity.*

The Moderating Role of the Use of Intermediaries

While "outward looking competences" (OLC) help to project the firm's image and enhance direct communication with foreign clients, we suggest that the use of intermediaries will have the opposite effect. Instead of engaging and selling directly to foreign markets, the use of intermediaries to manage their export activities leads firms to focus on their internal activities and processes. This method is frequently used by Latin American exporters (Suominen & Volpe, 2013). By outsourcing their foreign selling activities, firms are more internally focused and devote more time and resources to the development of their products and configuration of resources and management structures, thus developing a more "inward looking attitude."

The use of intermediaries is linked to the extensively studied "make or buy" decision, which is a central question in the transaction economic theory (Peng et al., 2006). In this regard, the decision to internalize or to outsource the relations with foreign clients is of vital importance; and there is substantial agreement in the literature that market distance and product complexity are the main factors explaining this decision (Peng & Ilinitch, 1998; Trabold, 2002). However, though Christensen, Da Rocha & Gertner (1987) reported that successful Brazilian exporters tended to use intermediaries, empirical evidence on how intermediation works suggests that a large percentage of manufacturers normally become quite dependent on their intermediaries and every so often do not receive the expected intermediary service

(Haigh, 1995). Another disadvantage of using intermediaries resides in the fact that the focal firms lose direct contact with clients, and end up becoming more isolated from them (Dimitratos et al., 2014). A second issue is that the coordination with intermediaries is difficult as firms' managers want to retain the decision making capacity (Madsen et al., 2012). Both problems – lack of contact with the consumer abroad and coordination with the intermediary – are especially relevant for those companies with a FMF. When exports are a small proportion of the firm's sales, the benefits of intermediation can outweigh the costs. However, when firms are more focusing on selling to foreign markets the disadvantages of using intermediaries is expected to outweigh the benefits. Therefore we hypothesise that:

H3: *The degree of usage of intermediaries negatively moderates the relation between FMF and firm productivity.*

3. Research Methods

The context and its relevance

The fact that Latin America, with the exception of Mexico, suffers from high levels isolation from global markets (Cuervo-Cazurra, 2016; KOF EthZurich, 2015; Seifert, 2010), provides an ideal setting for the testing of our hypotheses. This is the case because we attempt to understand how the possession of outward looking competences (OLC) and the use of intermediaries may serve as bridges to firms with a foreign market focus (FMF). However, since Mexico does not suffer from the same problem, it provides an opportunity to control for Latin American firms that do not have the same geographical barriers to reach international markets.

Another important consideration that makes Latin America relevant for this study is its recent economic development. With a population of over half a billion inhabitants, a growing middle class, and a GDP of approximately US$4 trillion, Latin America is becoming one of

the world's most important economic regions (Martinez & Kalliny, 2012). In particular, our study considers continental Latin American countries with more than 1 million inhabitants. Seventeen countries meet these criteria. The sample contains information on internationalized SMEs in ten out of the seventeen countries in the region, representing in terms of population 85% of the region (496 million out of 580 million). The countries selected are Argentina, Brazil, Chile, Colombia, Costa Rica, El Salvador, Guatemala, Mexico, Peru and Uruguay.

According to the head of the department of emerging markets of Morgan Stanley, Ruchir Sharma, Latin America needs to develop manufacturing and technological capabilities in order to increase its international competitiveness. As he posits, "Latin America typically needed high prices of raw materials to grow rapidly. However, the prices of raw materials increased over a decade, but then tended to fall over the next two decades. Latin America needs to boost manufacturing base and reduce its dependence on raw materials" (EL PAIS, 2014). Therefore, understanding the role of exports in Latin American manufacturing SMEs is of critical importance. Because they face several internationalisation barriers in terms of knowledge base, marketing and technological capabilities (Azzi da Silva & da Rocha, 2001; Child & Hsieh, 2014; Christensen, Da Rocha, & Gertner, 1987; Martins & Yang, 2009) they tend to resort to exports for quite a long period, before establishing overseas subsidiaries (Cuervo-Cazurra, 2008; Lopez, Kundu, & Ciravegna, 2009).

Furthermore, the Vice Presidents of Booz Allen Hamilton, a US consulting company with interests in Latin America, argue that "few local Latin firms have taken on the world or tried to create large multilatinas. In fact, very few Latin American companies earn more than 50 percent of their revenue outside their domestic market" (Martinez, De Souza and Liu, 2003). Interestingly when looking in the media at the recent cases of Latin American SMEs switching to a FMF, we tend to find firms selling raw materials with high demand in international markets. This is the case of the Costa Rican firm 'Pura Vida Melons' that started

exporting melons and watermelons to Europe, especially to England, because of the increase in demand for the product, and after two years they are now selling 95% of their production abroad (SUMMA, 2016).

However, there are other Latin American SMEs that were more focused in providing their value added products to international markets. This is the case of the Mexican SME, 'Si o Si', that has successfully developed a novel technology to freeze dry fruits naturally so as to maintain all their nutritional properties, satisfying in this way the sophisticated palate of developed country consumers. The technology is patented and more than 90% of the firm's production is currently being sold abroad (El Financiero, 2014). The case of 'Si o Si' illustrates the evidence we seek to capture in this study. In fact, despite the acknowledged critical role of exports in enhancing international competitiveness, only a few scholars have devoted their attention to study the internationalization of Latin American SMEs (Ciravegna et al., 2014; Dimitratos, Amorós, Etchebarne, & Felzensztein, 2014; Lopez, Kundu, & Ciravegna, 2009).

Last but not least, another interesting aspect of analysing the case of Latin America is how the use of new technologies can help SMEs in the region to overcome its geographical isolation. In that regard, Claudio Muruzábal, President of SAP Latin America, suggests that "the extent to which [Latin American] companies are capable of adopting digital technology to provide customers a virtual service, and as we use more digital media, the GDP of countries will increase and that translates into benefits for the community" (Portafolio, 2014).

The importance of OLC, especially in terms of ICT, is further illustrated in the case of Sweet's, an SME producer of fine quality pastry from El Salvador. When in 2003 (after forty three years of focus on its domestic market) the company was presented with an opportunity to export its products to the US, in addition to several modifications to its production

processes, products and labelling, the firm was required to adopt a new web-based ICT platform in order to communicate with its distributor and reseller, Wal-Mart. As suggested by Martín Brusco (2011), "innovation and a more intensive utilization of ICT have had a significant impact in the successful internationalization" of Central American exporting firms.

Sample profile

The target population of this study consists of Latin American SMEs involved in exports. We used data obtained from the World Bank's Enterprise Surveys database (http://www.enterprisesurveys.org/) for the years 2009 and 2010. The survey provides a representative sample of private sector firm-level data covering a variety of factors including level of competition, financial data, technology, infrastructure, and business ownership. The data collection process is undertaken by specialised private organisations contracted by the World Bank. A high level of representativeness of the data is achieved through a stratified random sampling technique on the basis of firm size, geographical region and business sector. Firm owners and managers from various countries are also interviewed. The sample setting is derived from a list of suitable companies obtained from each country's national statistical office and from various government agencies such as business licensing authorities. The fact that the survey is supported and sponsored by the World Bank facilitates access to data and enables the construction of a very comprehensive sample frame. The quality and reliability of the data is ensured through the use of trained and experienced researches who conduct the data collection process in a very systematic manner and in cooperation with local business associations. Interviewers are trained to avoid interpretation bias by avoiding providing inappropriate explanations to respondents during the interview. Furthermore, interviewers also have to record the accuracy level of response of each respondent. The fact that full confidentiality is guaranteed to respondents, is an added measure designed with the

objective of encouraging respondents to provide accurate information about their firms. The quality of the enterprise survey data is attested by the fact that it has been utilised in previous studies in the area of international business (cf. Luo and Bu, 2016; Glaister et al., 2014; Gomes et al., 2015). Amongst those papers, only Luo and Bu (2016) have exploited this database to analyze the drivers of productivity gains for international SMEs in emerging markets, including a wide selection of countries from Eastern Europe and Asia, but excluding most of the Latin American countries since their sample only includes firms from Brazil.

Since the focus of this study is to analyse the impact of the degree of internationalisation of SMEs, we removed from our dataset all cases of firms that operated in domestic markets only, and all firms that had less than five or more than 500 employees. In addition, we have only included in our sample firms with 40 years of age or less in order to ensure a higher level of homogeneity; mature firms, i.e. those with ten years or more, have a high representation (84%) in the sample. This selection procedure resulted in a dataset of 1267 firms from the textile, chemical, food, and manufacturing sectors. The chemical industry includes pharmaceutical companies, whilst manufacturing includes firms involved in the production of metal, plastics, machinery and components. The country, maturity and sector profile of the firms included in the analysis are shown in Table 1. In addition, a correlation matrix with all variables of interest in the study is provided in Table 2. The low value of the parameters signals that there is an absence of multicolinearity (Farrar and Glauber, 1967).

INSERT TABLES 1 & 2 HERE

Measures

Independent variable: All firms in our sample are exporters. Our independent variable, FMF, seeks to capture the preference for selling internationally based on the percentage of sales revenue coming from foreign markets. We developed the independent variable in line with

the preferences literature (for an extensive survey of the preferences literature see Kahneman and Krueger (2006)), where the threshold preference point is commonly determined by the middle point (Aulakh et al., 2000). As with Hessels and Van Stel (2011) and De Clercq, Hessels and Van Stel (2008), our independent variable was obtained through the creation of a dummy variable where the value of 1 was attributed to cases in which firms exported over 50% of their sales, and 0 was attributed to the remaining cases. In statistical terms quartiles or median are normally used to determine unknown threshold points (Greene, 2012). In this respect, the threshold level of our independent variable coincides with the top quartile of the sample (25.6%), implying that our measure of export preference, i.e. FMF, has a statistical validity. To make it more robust we have used the median (or second quartile) as a threshold point. Results obtained with this measure are qualitatively the same as the ones shown in Table 3. Interestingly, the results are the same when we use a measure with statistical (1st or 2nd quartile) or economic (midpoint) relevance.

Moderating variables: We have two moderating variables. First, OLC measures the degree of technology usage in business relationships. Our measure of *OLC* follows the rationale behind the empirical measure of information and communication technologies (ICT) capabilities applied in Luo & Bu (2016). In their work ICT capabilities are examined with the addition of two binary variables; namely if the firm uses e-mail for communication, and whether the firm has its own website. Our measure of OLC goes a step further and additionally to the usage of webpage to carry out business transactions, it also includes quality procedures as well as the stock of knowledge acquisition. More precisely, the OLC variable is an index based on three binary dimensions collected from the survey. We included in the index variables related either to knowledge acquisition (*license*) or signalling (*website* and *quality certification*). License takes value of 1 when the firm uses technology licensed from a foreign owned company, and 0 otherwise. 19.8% of the companies in the full sample claim to have licensed

technology. Website takes the value of 1 when the firm has a website and actively communicates with clients and suppliers via this technology, and 0 otherwise. 81.7% of the companies in the full sample use their websites to manage their supply chain. Finally, quality takes the value 1 when the firm has an internationally recognized quality certification, and 0 otherwise. 38.9% of the companies in the full sample have quality certifications. In line with Musolesi & Huiban (2010) we consider that quality certification has a lower impact on OLC than the other variables and hence the outward looking index is equal to (3*license + 3*website + 2*quality)/8.[1] It is important to note that this index is a continuous variable that takes values between 0 and 1. In our full sample technology has a mean value of 0.478.

Second, the degree of utilisation or not of export intermediaries was calculated as a percentage using the ratio of foreign sales obtained through the use of intermediaries over total sales in foreign markets. Similarly to the OLC variable this is a continuous variable and takes values from 0 to 1. On average, 7.7% of the foreign sales in our sample were obtained through intermediaries (see Table 1).

Dependent variable: *labour productivity* is calculated as the ratio of total sales over labour expenses. According to Porter & Linde (1995, p. 97-98) productivity is the best measure of competitiveness because "competitiveness at the industry level arises from superior productivity, either in terms of lower costs than rivals or the ability to offer products with superior value and justify a premium price." This factor seems to be important in the context of internationalization of Latin American firms because according to Fleury, Fleury & Borini (2012, p. 439), production competence is the "main competitive asset" in the internationalization of emerging market "infant multinationals." In this study the construction of the dependent variable has been adapted from previous studies which have normally

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[1] We performed the same analysis with different weights. For instance, we have given more weight to quality (3) and less to licenses (2). However, since the variables are highly correlated, the sign and significance of the parameters are the same.

measured labour productivity as the ratio of total Sales (P*Q) over number of employees (L), (described as P*Q/L) (Luo & Bu, 2016; Pessoa & Van Reenen, 2014).

At this point, we discuss two important aspects related to the computation of the dependent variable. First, from a macroeconomic perspective, traditional productivity measures (i.e., sales per employee) might yield biased results in a multi-country study as a result of the differences in both inflation rates and the value of the currencies across the analysed countries. Second, as a managerial issue, whereas the standard measure of labour productivity controls for the labour factor it does not quantify the distinct country patterns of human capital accumulation within the businesses (Barro, 1991).We addressed these issues by considering labour costs (W*L), instead of total labour (L). Consequently our measure of labour productivity is PQ/WL. Since both numerator and denominator are measured in local currencies, the monetary values cancel out and the measure of labour productivity becomes free of potential macroeconomic biases. Moreover, the introduction of wages into the measure of labour productivity controls for country heterogeneity in accumulated human capital. In empirical terms this measure can be interpreted as sales growth in relation to each monetary unit spent in labour. For instance according to Table 1 in our sample the average firm obtains 10.68 monetary units for each unit invested in labour.

We logged the labour productivity variable to reduce skewness and enhance estimation accuracy.[2] In terms of interpretation of the estimated coefficients, note that parameters can be interpreted as increases (or decreases) in percentage points in labour productivity (Manning, 1998). In addition, responses about monetary values provided in the survey were checked in

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[2] In our data the logged value of the dependent variable ranges from -0.968 to 6.776, which implies that values for this variables are not subject to censoring (that is, a fraction of values of the dependent variables are concentrated in a single value). Furthermore, the results of the Anderson-Darling test of normality confirms that error terms obtained from the OLS estimation are normally distributed (Z-Test = 9.9950; P –value = 1.000), confirming that our approach to productivity is appropriate. Compared to other tests (i.e., Shapiro-Wilks), we used the Anderson-Darling normality test because it accurately captures the deviations in the tails of the distribution of the analyzed variable.

order to remove any potential outliers. After using a scattered plot and residual analysis where the number of employees is the reference variable, no outlier observations were identified. The mean values of the dependent variables across the ten Latin American countries are shown in Table 1 and provide an indication of the differences between the ten countries in terms of the dependent variables considered in the analysis.

Control Variables

We introduce common control variables into the analysis such as size (number of employees), firm age, sector (dummies) and country (dummies). The average firm in the sample has 101 employees and is 19.8 years old. Further to these variables, we also include some control variables specific to this study: Time to export, Foreign ownership and Manager experience. Time to export was calculated by subtracting the year of the first export minus the year in which the firm began its operations. The average number of years that firms need to make their first exports is of 8.1; Foreign ownership was calculated as the percentage of firm owned by foreign owners. This value was divided by 100 in order to maintain homogeneity with the moderating variables, use of intermediary and level of technology. This is a continuous variable taking values from 0 to 1. The average percentage of foreign ownership is of 15%. In line with Lafuente et al. (2015) managers' experience was measured as the number of years of experience of the manager in the sector. The average number of years of experience is 23.5.

4. Results

The Model

In order to verify our hypothesis we tested the model specified in Equation 1, where LP refers to labour productivity, the subscript i identifies each company and ε_i are the error terms.

Table 3 shows the results of estimating these parameters for the full sample and the sub-samples of mature firms (1067 observations) and manufacturing firms (644).

$$LnLP_i = \beta_0 + \beta_1 FMF_i + \beta_2 Outward\ Looking_i + \beta_3 Use\ of\ intermediaries_i +$$

$$\beta_{12} FMF * Outward\ Looking_i + \beta_{13} FMF * Use\ of\ intermediaries_i +$$

$$control\ variables +\ \varepsilon_i\ (1)$$

INSERT TABLE 3 HERE

Direct Effects

Hypothesis 1 posits that firms with FMF have higher labour productivity than exporting firms with domestic focus; in our model it implies that β_1 is positive. This parameter is estimated in columns 1, 3 and 5 in Table 3 where we examine the direct relationship between FMF and labour productivity, excluded from any moderating effects. In this case, Hypothesis 1 is only confirmed in relation to manufacturing sector firms, showing that firms with FMF have 21.5 percentage points more labour productivity than their counterparts. This result is significant at 5%. The result is not significant for the other economic sectors. With the current data, it is difficult to find a conclusive explanation as to why manufacturing is the only sector in which FMF is an important factor to explain productivity. One tentative explanation is that manufacturing firms with FMF exploit economies of scale in a way manufacturing firms with a local market focus cannot. If this is the case, manufacturing firms with FMF need to be larger than manufacturing firms without this orientation, one of the main necessary (but not sufficient) conditions for exploiting economies of scale. As an additional test we compare the size of manufacturing companies with and without FMF. We find that whilst manufacturing companies with FMF have on average 129.6 employees, their counterparts only have 89.8 employees, with the difference being statistically significant at 1%. When applying the same test to other industries, the difference becomes statistically insignificant for food (119.5 vs

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124.1) and chemical (78.7 vs 98.7) sectors, but still significant at 5% (115.8 vs 86.1) in the textile sector. In comparison to the other industries analysed, textile is more labour intensive, therefore, the observed difference in size between FMF and domestic market focus in this sector is not translated into productivity gains. Interestingly, according to Table 1 the textile industry is the economic sector with the lowest labour productivity in the sample. Moreover, when taking into account the full sample or mature firms sub-sample, the parameter β_1 is not significant but still positive, exhibiting that firms with FMF are 6.8 and 1 percentage points more productive than domestic market focus firms respectively.[3]

By looking at columns 1, 3 and 5 in Table 3, it can be observed that "*outward looking competence*" has a positive and significant direct effect on labour productivity ($\beta_2 >0$). Note that OLC is an index that takes values between 0 and 1. As a result, in the case of the full sample, for any increase of this index by 0.1 points there is a subsequent increase in labour productivity of 3.1 percentage points (3.8 for mature firms and 3.4 for manufacturing firms). This result is significant at 1% level for the full sample. Similarly, by looking at columns 1, 3 and 5 of Table 3, a negative relationship can be observed between the use of intermediaries and labour productivity ($\beta_3 <0$). That is, a 10% increase in the *degree of usage of intermediaries* (0.10) is associated with a decrease in productivity of nearly 4 percentage points. This result holds in the three model specifications and the result is significant at 1% in the three subsamples.

Moderation effects

Hypothesis 2 states that "*outward looking competences*" (OLC) positively moderates the relation between FMF and productivity. In our model it implies that β_{12} is positive. Results shown in columns 2, 4 and 6 of Table 3 confirm this hypothesis**.** The effect of technology

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[3] The dependent variable is in logarithm and therefore, we have had to transform the parameters shown on the table by calculating the true effect which equals $\exp(\beta)$-1.

over productivity is different for exporting firms with foreign and domestic focus. Whilst for an increase of 0.1 points in the OLC index of firms with domestic market focus produces an increase in labour productivity of 1.8 percentage points (2.4 for mature firms and 0.8 for manufacturing firms), the same index increase in FMF firms produces an increase in labour productivity of 7.7 percentage points (10.8 for mature firms and 24.6 for manufacturing firms). The difference between the impact of OLC for foreign and domestic market focus of exporting firms is significant at 10% for the case of the full sample, 5% for mature firms and 1% for manufacturing firms.

These results are graphically illustrated for manufacturing subsample in Figure 1.a, where the differences in linear predicted productivity for different degrees of OLC are shown considering standard confidence intervals of 95% (horizontal lines). Figure 1.a shows that when OLC is 0, the predicted productivity of domestic market focus firms is larger than that of FMF ones. This difference is reflected in the parameter related to FMF in column 6 of Table 3, which reflects the fact that domestic market focus manufacturing firms are 32 percentage points more productive than FMF manufacturing firms when OLC is non-existent. According to our estimations in Table 3 the productivity of foreign and domestic market focus manufacturing firms is the same when the OLC index equals 0.33 ($-\beta_1/\beta_{21}$ =0.387/1.162). When firms reach the maximum degree of OLC index, meaning that they have foreign licenses, use their web sites for business purposes, and possess quality standards certification, manufacturing firms with FMF exhibit 117 percentage points (exp(1.162-0.387)) of higher predicted productivity than manufacturing firms with domestic market focus. As can be observed in Figure 1.a this difference is at least statistically significant at 5%. This implies that OLC as a moderator is a crucial strategic element for manufacturing firms with FMF.

INSERT FIGURE 1 HERE

Hypothesis 3 states that the *degree of usage of intermediaries* negatively moderates the relation between FMF and productivity, implying that β_{13} is negative. Results shown in columns 2, 4 and 6 in Table 3 reject this hypothesis. The difference between the impact of the *degree of usage of intermediaries* for firms with and without FMF is not statistically significant, but yet is relevant to interpret the parameters. Whilst for an increase of 0.1 points in the intermediation usage of firms with domestic market focus produces a decrease in labour productivity of 3.8 percentage points (3.4 for mature firms and 4.2 for manufacturing firms), the same increase in level of intermediation in firms with FMF produces an increase in labour productivity of 4.1 percentage points (4.2 for mature firms and 4.2 for manufacturing firms). These results are illustrated in Figure 1.b, where the non-significant differences in linear predicted productivity between domestic and foreign market focus manufacturing firms for any levels of *utilisation of intermediaries* are shown.

Further analyses

We have attempted to understand possible reasons for the existence of geographical heterogeneity and its effect on the parameters underlying FMF and OLC. Results presented in Table 4 are the parameters estimated in Table 3, column 6, with the addition of the interactions with the variable Mexico. We wanted to investigate the particular case of Mexico because it is the only Latin American Country with NAFTA membership, and hence has privileged access to developed market. This can be considered as a natural experiment explaining how geographical isolation affects the process of internationalisation of Latin American firms (Cuervo-Cazurra, 2016). In this case we have categorised Mexico as a non-isolated country and the rest of the Latin American countries in the sample as being more isolated countries. Results indicate that while for Mexico, FMF and OLC are independent factors contributing to productivity gains, in the case of other more isolated Latin American countries productivity gains are only evident in cases when firms with a FMF also have OLC.

INSERT TABLE 4 HERE

One explanation as to why our data does not support Hypothesis 3 is that the use of intermediation for firms with FMF in developing economies depends on a certain degree to the existence and quality of personal and inter-firm networks in the domestic market (Manolova et al., 2010). For instance, Ciravegna et al.'s (2014) research findings show that in the particular case of Costa Rica 89% of SMEs begin to export through domestic networks, instead of resorting to intermediaries. This seems to suggest that Latin American SMEs might perceive the use of intra firm relationships (including informal networks) as a more natural mechanism to explore international market opportunities, than the use of formal intermediaries. In this vein, it could be asserted that the impact of using intermediaries will be more positive, and necessary, in the absence of domestic networks (see Figure 2). On the contrary, the availability of domestic networks may substitute the need to use intermediaries as an export mechanism. Therefore, resorting to domestic networks at the initial stages of internationalization may create a path dependency effect on exporting firms, to the extent that even in the case of SMEs with more export experience and higher FMF may still continue resorting to their initial networks.

INSERT FIGURE 2

To test these assumptions, we have conducted an additional test by correlating aggregated variables at the country level. To measure the impact of using intermediaries in firms with a FMF, we regressed the *degree of usage of intermediaries* model (equivalent to columns 2, 4 and 6 in Table 3 without the country dummies) for each country independently and found that the parameter β_{13} is highly heterogeneous. These results are presented in the vertical axis of Figure 3. As it can be observed, the parameter is only statistically significant for Uruguay (β_{13} = -2.53, significant at 1%), but other countries such as Peru (β_{13} = -1.32) or Brazil (β_{13} = -

0.70) also have relevant negative parameters. Besides for some countries like El Salvador (β_{13} =1.80) or Argentina (β_{13} =0.97) the parameter is positive, and not far from being significant. This suggests that for the full sample, the moderating role of the *degree of usage of intermediaries* is irrelevant because the heterogeneous effects at the country level cancel out. As suggested before, one explanation for this heterogeneity is that FMF firms in countries with little availability of domestic networks could benefit from intermediaries (β_{13}>0), whilst FMF firms in countries with more established domestic networks will be worst off using intermediation. We measured networks at the country level through the use of experience in exporting to geographically and culturally distant regions. To this end, we downloaded exporting information at the country level in 2010 from the World Trade Organization (WTO) (http://www.wto.org). In particular, for each country the WTO offers detailed information of the exports made to its four major markets. We differentiate between the countries in Latin-American region and the markets outside this region. With this information we can create for each country an index dividing the sales made out of the region over total sales in its four major markets. For instance, Argentina in 2010 exported to Brazil (14428 million US$), China (5798 million US$), Chile (4493 million US$) and US (3668 million US$). Our index considers total sales out of the region (5798 + 3668 = 9466) over total sales to the four major markets (28387) and hence it is 0.333.

Figure 3 exhibits the correlations between the parameter for the moderating role of the use of intermediation in the relation between export orientation and productivity, and percentage of sales out of the Latin-American region. The results show a negative relation between those variables, significant at 5%. According to the estimation, when the exports outside the region as a percentage of total exports increase by 1%, the parameter β_{13} decreases by 0.027. This result suggests that the rejection of Hypothesis 3 must be treated with caution, since the

moderating role of the *degree of usage of intermediaries* is a function of other country specific variables, and supports the assumptions previously implied in Figure 2.

INSERT FIGURE 3 HERE

Robustness Tests

In this section we present the results of various robustness checks that contribute to validate our results.[4] First, one could argue that industry- and country-specific factors might explain productivity differences among the sampled businesses. To control for these effects we computed, for each industry and country, an industry median-adjusted productivity variable by subtracting, for each business, the corresponding industry-level median value of productivity reported by firms competing in the same country. We reproduce the analysis of Table 3, using the industry median-adjusted labour productivity measure as dependent variable. The results do not qualitatively vary relative to those observed in Table 3. Therefore industry-specific factors among the analyzed countries do not affect our results.

Second, the resources and capabilities of the firm might be determinants of both productivity and foreign market focus. This process of joint determination could affect our results producing an endogeneity problem due to simultaneity. We control by joint causality by implementing a two-stage least squares (2SLS) model. Since our FMF measure is binary we follow the steps suggested in Wooldridge (2002, pp. 623-625). In the first step we estimated a standard probit model in which FMF is the dependent variables and labour productivity is introduced as one of the independent variables. The other independent variables are Product Concentration, Trade barriers[5], Outward Looking, Use of Intermediaries, Employees, Age,

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[4] For reasons of space these results are not included in the paper but can be made available upon request.
[5] The 2SLS requires the introduction of instruments, which needs to be different than the variables being estimated in the second step. In this case we introduce *Product concentration* and *Trade* barriers. Product Concentration is a continuous variable measured as a percentage of the sales of the most sold product of the

Foreign Ownership, Manager Experience and the country and industry dummies. The probit estimates show that while product concentration and trade barriers are positive and significantly linked to foreign market focus, the parameter of productivity is statistically undistinguishable from zero. In the second step, the linear prediction of the probit model is included as independent variable in the productivity equation. We replicate the OLS analysis performed in Table 3 with a 2SLS approach. Although the sign of the parameters is consistent with the results shown in Table 3, we must point out that there are some changes in the significance level of coefficients.

Third, while one of the contributions of this research is the incorporation of FMF construct into the international business debate, we acknowledge that an extensive body of international business literature has used export intensity as a measure of international activity. As another robustness check we have performed the model specification in Table 3, introducing the variable export intensity as independent variable in substitution of FMF. Once more, results do not qualitatively vary, confirming that our approach to internationalisation is robust.

5. Discussion and Conclusion

Theoretical Implications

Our results provide various important contributions to the international business literature particularly with respect to understanding how geographical isolation can be overcome. First, whilst previous studies tend to generalise the positive effects of exports on productivity, evidence from our study indicates that in isolated regions firms with FMF are more productive than exporting firms with a domestic market focus only in the case of manufacturing firms. Our descriptive analysis suggests that economies of scale provide a

company over the total sales. Trade barrier is a dummy variable that takes value 1 if the company perceives major or very severe obstacles to trade.

plausible explanation. However, as with any cross-section analysis our results do not rule out completely the possible existence of learning-by-exporting effects (Salomon & Shaver, 2005).

Second, we have identified one economically relevant moderating variable in the relation between FMF and productivity, which is observed across all sectors. Our results show that firms with a FMF are able to benefit much more from having OLC than are firms with a domestic market focus. In our framework OLC include knowledge acquisition via, for instance, licenses and obtaining signals from foreign markets to enhance their capabilities. Previous studies have identified the use of knowledge acquisition (Denicolai et al., 2014) or signalling (Das & Bandyopadhyay, 2003) as independent moderators of the relation of distinct measures of market focus (i.e. innovation) and performance, whereas the present research offers an integrated perspective combining both elements in the same index. From a methodological perspective we acknowledge that this index needs more validation, something that is beyond this research given the characteristics of the data used. The current research uses a large sample of 1267 companies, at the cost of using a secondary source and hence not having influence over the research design of the questionnaire. Future research employing primary information might explore and validate a measure for *outward looking competence*. Ideally, such research should include information on firm innovation, allowing it to be incorporated into the model as a potential positive moderator of the FMF-productivity relationship.

Interestingly, our results reveal that the *use of intermediaries* does not moderate the relation between FMF and productivity. The reasons behind this result require further empirical research. Our preliminary findings suggest that the impact of use of intermediaries is influenced by the firm's domestic economy such that FMF firms benefit more from intermediaries if they are located in countries with less access to domestic networks

(Ciravegna et al., 2014). Among these domestic networks, the availability of export promotion agencies is likely to reduce the need to rely on intermediaries. However, this result should be treated with caution since it has been based on an analysis conducted with data at country level. As such, future research using firm level data should investigate the substitution effect between domestic networks and intermediaries. On the other hand, the value of intermediaries may increase as a function of geographical, cultural or institutional distance suggesting that an appropriate research strategy would be to take account of the countries to which companies export (Peng & Ilinitch, 1998; Trabold, 2002).

Expanding International Business research in Latin America

We believe that a number of the key findings of this study are partly explained by context specificities. While previous research on the internationalization of Latin American companies has predominantly emphasised the link between their internationalization strategies and performance, little research has been carried out to uncover the potential impact their international strategy orientation has on their domestic performance. The link between FMF and productivity is particularly important in the case of Latin American firms that use exports as a way of learning and enhancing their competitiveness, before becoming multilatinas (Cuervo-Cazurra, 2008). Our results corroborate Cuervo-Cazurra's (2016) view that Latin American firms increased their international competitiveness once they were able to depart from their domestic market focus.

In particular, our results contribute to the literature analysing how geographical isolation plays a role in the way firms internationalise (Cuervo-Cazurra, 2016; KOF EthZurich, 2015; Seifert, 2010). Our findings show that countries like Mexico are more able to internationalise to regions outside Latin America than other Latin American countries like El Salvador, Guatemala and especially Argentina. The fact that Mexico is the only Latin American

country that is part of NAFTA will explain this to a great extent. Firms located in countries with higher levels of openness and proximity to markets outside the Latin American region are not as dependent on the development of OLC than those located in more isolated countries. This finding indicates the need for the development of more Latin American specific international business theories, especially for those economies exhibiting higher levels of isolation.

This study analyses Latin American SMEs without comparing them with SMEs in other regions. The fact that all countries analysed share a civil law-based legal system and were either Spanish or Portuguese colonies, seems to indicate that patterns of internationalization should be more homogeneous than in other more diverse continents such as Europe. However, the result on the *use of intermediaries* and robustness test shown in Figure 3 seems to indicate the opposite. Our findings show that firms from Argentina and El Salvador with a FMF seem to benefit from the use of intermediaries, while Uruguayan and Peruvian firms with FMF do not. In fact, the use of intermediaries seems to have a detrimental effect on the productivity of exporting firms because firms end up auto isolating themselves from their foreign markets by using foreign intermediaries (Dimitratos et al., 2014) instead of domestic networks (Manolova et al., 2010). This finding is consistent with previous studies showing that Latin American firms prefer using domestic networks when they are available, like the case of Costa Rica (Ciravegna et al., 2014). In some countries like Argentina, the access to domestic networks is more limited, and hence ends up having to resort to foreign intermediaries.

Furthermore, our findings help to unpack some of the earlier stages of the internationalisation process of Multilatinas. Our results show that by shifting from a domestic focus to FMF, SMEs are able to raise their productivity levels. One way of interpreting this result is that productivity gains derived from international sales and exposure to foreign markets and

networks increase knowledge, resources, visibility and credibility, and ultimately lead to further FDI commitments. This seems to extend established internationalisation theories such as the Uppsala model (Johanson & Vahlne, 1977), as we identify that in the context of Latin America, there is an additional intermediary step between exporting and FDI activities, i.e. exporting firms shift from domestic to foreign market focus prior to becoming Multilatinas.

Whilst the unit of analysis in our study is the firm, it is important to highlight some individual microfoundational aspects like managerial beliefs and leadership styles that may partly explain the observed behaviour of exporting Latin American firms with a FMF. For instance, Davila and Elvira (2012) suggest that Latin American managers seem to demonstrate a paternalistic attitude towards employees and are motivated by the desire of receiving recognition and status from the local community and other stakeholders, including competitors. A desire to enhance their local recognition through adding an international dimension to their business was expressed by many of the Brazilian SME leaders whom Seifert (2010) interviewed. However, we question the extent to which managers in Latin American SMEs may be motivated to increase the presence of their products in international markets in order to increase their social status rather than to achieve productivity gains. Therefore, future studies could follow a micro foundational approach in order to investigate the internalization of Latin American SMEs at the level of individual managers.

Managerial Implications

Our results have direct managerial implications. They suggest that the impact of export focus orientation depends on certain conditions. Though an export focus is expected to lead to higher productivity gains for Latin American SMEs in general, managers should not expect the gains to occur in all sectors of activity. The results suggest that Latin American SMEs in the manufacturing sector which have an export focus tend to outperform those with a local

market focus. That is, it pays off for managers of Latin American manufacturing firms to expand beyond the shores of their home markets. Therefore firms in non-manufacturing sectors seeking productivity gains from export should consider the adoption of an export focus strategy with caution. They should pay close attention to the cost-benefit ratio of an export focus orientation particularly the trade-off between enhancing their international exposure and capability to deepen their international experience and potential loss in productivity gains.

Managers also need to consider carefully how their productivity could be enhanced by adopting an FMF. As case studies of Brazilian clothing SMEs have shown, managers can have different potential benefits in mind when undertaking exporting (Seifert, Child & Rodrigues, 2012). Some look to competing in international markets primarily as a way of enhancing their brand or company reputation in the home market and in this way potentially achieve productivity gains through a scale effect. Others seek productivity enhancement through learning superior foreign practices. Yet others perceive that they enhance the motivation, and hence the productivity, of their staff through their company being an international player. The managerial rationales linking FMF to labour productivity are a topic deserving of further in-depth research.

Managers operating in Latin American countries will need to carefully ponder the possibility of using intermediaries. In doing so, they will need to take into account, not only their contacts, but also the specific characteristics of their home country and foreign markets contexts. This makes sense as international trade agreements, national trade associations, and local private associations of entrepreneurs are heterogeneous, and can provide support to entrepreneurs who may start selling abroad without the use of export intermediaries. In fact, our results show that it is not always beneficial for Latin American SMEs to use intermediaries when exporting. On the one hand, by avoiding the use of intermediaries, firms

are more able to gain much needed experience and access valuable knowledge about the performance of their products abroad. On the other hand, intermediaries provide quick access to foreign markets and possess the local knowledge to help firms access otherwise difficult markets. SMEs may need to avoid a potential Catch 22 situation here whereby less experienced ones perceive a greater need to rely on intermediaries but at the same time this reliance inhibits their opportunity to enhance their international experience by learning about foreign markets through direct contact with them. A way out of this dilemma is to work with intermediaries closely as active partners rather than delegating the management of export activities to them on an arms-length basis. As discussed above, a judgement on this matter also needs to be informed by a number of considerations. One is the characteristics of the export markets in question, particularly their psychic distance. Another is whether the firm is large enough to be able to resource its own direct representation in foreign markets. A third consideration is whether the firm's products can be effectively marketed, and even (as with software) supplied, directly to customers through the internet.

Limitations of this study

Our analysis has been a cross-sectional one which does not capture the dynamic nature of the factors that determine the relationship between the variables. In the literature of exporting and productivity, cross-section settings cannot rule out completely the existence of reverse causality. In the 2SLS model conducted in the robustness checks we rule out the possibility of joint causality of FMF and productivity in our sample; however our analysis remains silent on dynamic factors such as the potential productivity gains received when learning while exporting (Salomon and Shaver, 2005). Furthermore, this also means that even if the relationships are significant, other factors not included in the current model, e.g. the positive effects of institutional change on firms with a domestic focus (Kafouros and Aliyev, 2015),

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may also play an important role and hence future research will need to validate the analysis in

a longitudinal setting.

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Figure 1: Predicted Productivity Margins for Manufacturing Firms with Foreign and Domestic Market Focus Depending on its Outward Looking Competence and Use of Intermediaries

1.a- Outward Looking
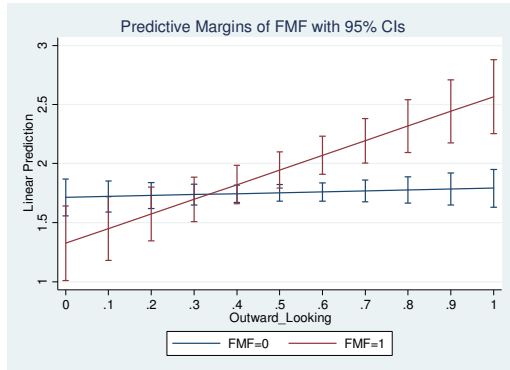
1.b- Use of Intermediaries
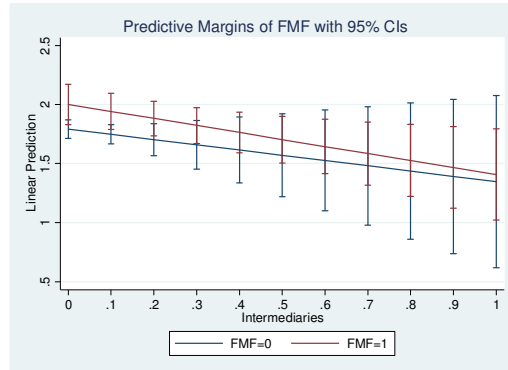
Results in the Figure refer to the Manufacturing sub-sample. The horizontal lines refer to the confidence intervals at 95%.

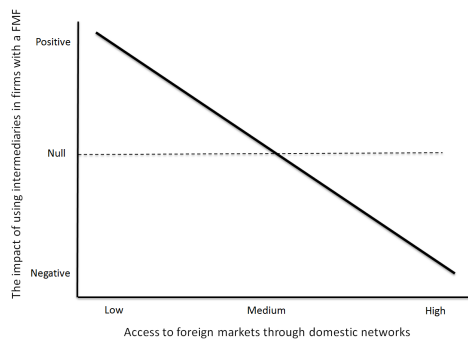**Figure 2: Intermediaries as substitutes to domestic networks in accessing foreign markets**

Figure 3: The correlation between sales out of the region and use of intermediaries moderating parameter at country level
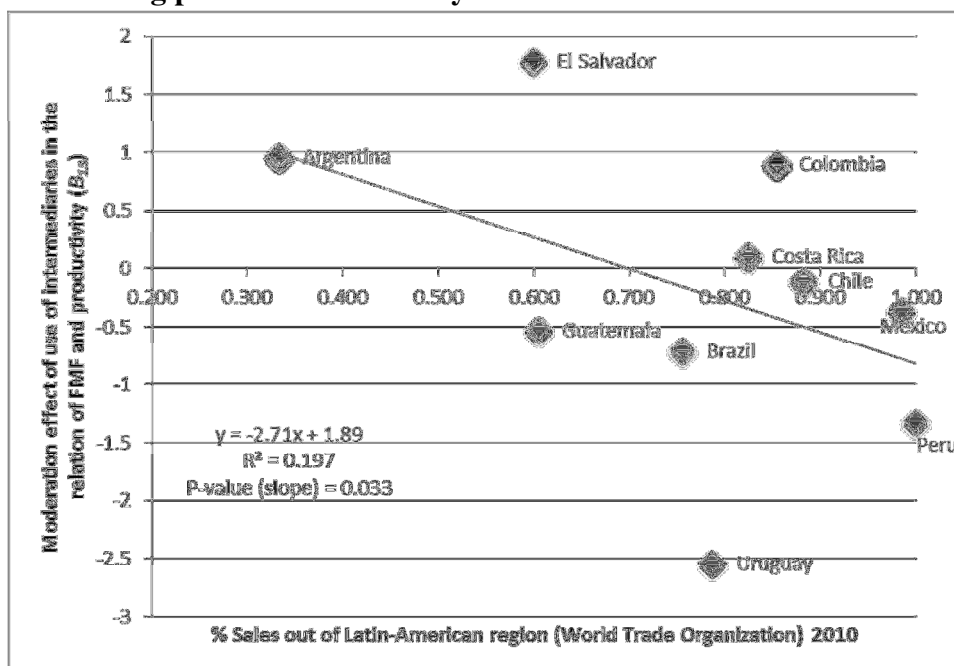

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Table 1: Country, maturity and Sector Profile of the Sample Firms

Sample	Observations	Mean **Labour productivity** (Total sales over labour expenses)	Mean **Foreign Market Focus:** Firms exporting more than 50% of sales over total firms.	Mean **Degree of usage of intermediaries** : Sales with intermediary over total sales abroad	Mean **Outward Looking** (Index)	Mean **size**: no. of full time employees	Mean **Age** of Firms (years)	Mean **Time to first export** (Years)	Mean **Manager experience** (Years)	Mean **Foreign ownership**: % ownership foreign owners
Full sample	1267	10.68 (32.36)	0.256 (0.436)	0.324 (0.468)	0.478 (0.266)	101.26 (104.46)	19.81 (9.66)	8.13 (8.07)	23.58 (11.21)	0.150 (0.343)
Mature firms	1071	10.47 (34.56)	0.230 (0.421)	0.320 (0.467)	0.486 (0.266)	104.93 (105.70)	22.25 (8.92)	9.34 (8.18)	24.39 (11.14)	0.130 (0.321)
Young firms	196	11.87 (15.61)	0.398 (0.491)	0.347 (0.477)	0.434 (0.261)	81.20 (95.17)	6.43 (2.04)	1.51 (1.94)	19.13 (10.54)	0.261 (0.467)
Manufacturing	644	10.45 (38.19)	0.199 (0.399)	0.334 (0.472)	0.493 (0.262)	97.69 (101.70)	19.87 (9.84)	8.22 (8.01)	23.94 (11.25)	0.159 (0.349)
Food	209	10.91 (13.27)	0.378 (0.486)	0.287 (0.453)	0.478 (0.258)	122.39 (113.34)	19.02 (9.48)	7.17 (8.35)	21.72 (11.27)	0.167 (0.357)
Chemical	156	12.72 (21.00)	0.167 (0.374)	0.263 (0.441)	0.558 (0.248)	95.30 (97.72)	21.61 (10.23)	9.44 (8.62)	24.70 (11.10)	0.244 (0.417)
Textile	258	9.84 (33.12)	0.353 (0.479)	0.368 (0.483)	0.392 (0.271)	96.63 (106.21)	19.21 (8.88)	7.86 (7.57)	23.50 (11.01)	0.056 (0.227)
Argentina	186	8.44 (14.69)	0.188 (0.392)	0.231 (0.423)	0.529 (0.230)	87.26 (102.69)	20.43 (10.18)	9.33 (9.10)	26.12 (11.36)	0.172 (0.368)
Brazil	121	16.55 (47.64)	0.099 (0.300)	0.446 (0.499)	0.468 (0.253)	107.26 (106.62)	20.46 (9.24)	9.37 (7.47)	23.99 (10.96)	0.148 (0.348)
Chile	142	12.69 (31.91)	0.239 (0.428)	0.218 (0.414)	0.579 (0.266)	114.50 (108.94)	20.76 (8.95)	8.08 (7.92)	23.44 (11.11)	0.217 (0.399)
Colombia	188	7.22 (6.73)	0.175 (0.381)	0.383 (0.487)	0.469 (0.266)	84.53 (97.21)	19.55 (8.97)	8.61 (7.67)	23.88 (10.35)	0.085 (0.253)
Costa Rica	61	8.18 (17.28)	0.377 (0.489)	0.213 (0.413)	0.467 (0.265)	88.13 (90.49)	20.64 (10.90)	7.44 (7.59)	18.02 (9.83)	0.297 (0.450)
El Salvador	42	8.07 (7.43)	0.309 (0.468)	0.285 (0.371)	0.417 (0.278)	101.45 (106.79)	18.91 (9.31)	5.40 (5.70)	24.05 (11.93)	0.149 (0.352)
Guatemala	70	8.89 (10.71)	0.300 (0.461)	0.371 (0.467)	0.464 (0.301)	125.33 (120.50)	19.92 (9.52)	6.64 (7.27)	23.30 (10.80)	0.132 (0.337)
Mexico	213	13.17 (60.32)	0.253 (0.436)	0.394 (0.490)	0.491 (0.271)	125.46 (116.36)	19.30 (10.04)	7.91 (8.02)	23.43 (11.06)	0.166 (0.360)
Peru	193	10.87 (15.86)	0.394 (0.490)	0.290 (0.455)	0.401 (0.262)	94.56 (91.44)	16.96 (9.34)	7.66 (8.43)	22.46 (11.61)	0.103 (0.281)
Uruguay	51	8.69 (7.59)	0.451 (0.502)	0.392 (0.493)	0.390 (0.237)	69.61 (73.24)	19.61 (10.29)	6.82 (8.08)	24.16 (12.94)	0.082 (.259)

(Standard deviation in parenthesis)

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Table 2: Correlation analysis

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)	(22)	(23)
1.Labour productivity	1.00																						
2. FMF	0.02	1.00																					
3.Outward Looking	0.12	-0.02	1.00																				
4.Intermediaries	-0.12	0.31	-0.12	1.00																			
5.Employees	0.12	0.10	0.31	-0.12	1.00																		
6.Age	-0.04	-0.14	0.12	-0.09	0.15	1.00																	
7.Time to export	-0.02	-0.31	0.00	-0.10	0.01	0.63	1.00																
8.Manager experience	-0.06	-0.11	-0.01	-0.01	-0.06	0.26	0.17	1.00															
9.Foreign ownership	0.09	0.13	0.32	-0.02	0.19	-0.12	-0.19	-0.15	1.00														
10.Textile	-0.09	0.11	-0.16	0.11	-0.02	-0.03	-0.02	-0.00	-0.14	1.00													
11.Manufacturing	-0.05	-0.13	0.06	0.00	-0.03	0.01	0.01	0.03	0.03	-0.51	1.00												
12.Chemical	0.08	-0.07	0.11	-0.06	-0.02	0.07	0.06	0.04	0.10	-0.19	-0.38	1.00											
13.Food	0.09	0.12	-0.00	-0.07	0.09	-0.04	-0.05	-0.07	0.02	-0.22	-0.45	-0.17	1.00										
14.Argentina	-0.06	-0.06	0.08	-0.09	-0.05	0.06	0.06	0.09	0.03	-0.06	0.04	0.04	-0.02	1.00									
15.Brazil	0.07	-0.12	-0.01	-0.00	0.02	0.01	0.05	0.01	-0.00	-0.01	-0.04	-0.01	0.07	-0.13	1.00								
16.Chile	0.03	-0.01	0.13	-0.07	0.04	0.04	-0.00	-0.00	0.07	-0.09	0.01	0.02	0.06	-0.15	-0.11	1.00							
17.Colombia	-0.06	-0.08	-0.01	0.01	-0.07	-0.02	0.02	0.01	-0.08	0.13	-0.03	-0.02	-0.08	-0.17	-0.13	-0.15	1.00						
18.Costa Rica	-0.06	0.06	-0.01	-0.03	-0.03	0.04	-0.02	-0.11	0.10	-0.10	0.06	-0.05	0.08	-0.09	-0.07	-0.08	-0.09	1.00					
19.El Salvador	-0.01	0.02	-0.04	0.01	0.00	-0.01	-0.06	0.01	-0.00	0.01	-0.03	-0.00	0.02	-0.08	-0.06	-0.06	-0.08	-0.04	1.00				
20.Guatemala	-0.00	0.02	-0.01	0.05	0.06	0.04	-0.04	-0.01	-0.01	0.06	-0.02	-0.05	0.00	-0.10	-0.08	-0.08	-0.10	-0.05	-0.04	1.00			
21.Mexico	0.01	-0.00	0.02	0.07	0.10	-0.00	-0.01	-0.01	0.02	-0.11	0.16	-0.00	-0.09	-0.18	-0.15	-0.16	-0.19	-0.10	-0.08	-0.11	1.00		
22.Peru	0.06	0.13	-0.12	0.02	-0.03	-0.11	-0.02	-0.04	-0.06	0.12	-0.10	-0.00	0.00	-0.17	-0.14	-0.15	-0.18	-0.09	-0.08	-0.10	-0.19	1.00	
23.Uruguay	0.01	0.09	-0.07	0.07	-0.06	-0.01	-0.03	0.01	-0.04	0.06	-0.12	0.07	0.04	-0.08	-0.07	-0.07	-0.08	-0.04	-0.04	-0.05	-0.09	-0.09	1.00

Table 3: OLS regression analysis

Variable	Column 1 Full Sample	Column 2 Full Sample Moderation effect	Column 3 Mature firms	Column 4 Mature firms Moderation effect	Column 5 Manufacturing	Column 6 Manufacturing Moderation effect
Foreign Market Focus (FMF)	0.066 (0.065)	-0.125 (0.122)	0.010 (0.070)	-0.238* (0.132)	0.195** (0.99)	-0.387** (0.188)
Outward Looking	0.268*** (0.097)	0.166* (0.101)	0.324*** (0.100)	0.214** (0.106)	0.290** (0.127)	0.078 (0.122)
FMF * Outward Looking		0.406* (0.215)		0.520** (0.237)		1.162*** (0.338)
Use of Intermediaries	-0.531*** (0.141)	-.0.483* (0.286)	-0.557*** (0.150)	-0.422 (0.308)	-0.556*** (0.205)	-0.549 (0.359)
FMF * Use of Intermediaries		-0.039 (0.327)		-0.118 (0.354)		-0.0038 (0.436)
Employees	0.0005** (0.0002)	0.0005** (0.0002)	0.0005* (0.0003)	0.0005* (0.0003)	0.0009*** (0.0003)	0.0007** (0.0003)
Age	-0.005 (0.003)	-0.005 (0.003)	-0.0008 (0.0036)	-0.0007 (0.0036)	-0.003 (0.005)	-0.003 (0.005)
Time to export	0.003 (0.003)	0.002 (0.003)	0.0006 (0.0035)	0.0006 (0.0035)	0.0004 (0.005)	-0.00007 (0.005)
Foreign ownership	0.070 (0.081)	0.071 (0.081)	0.005 (0.086)	0.004 (0.086)	0.061 (0.112)	0.048 (0.111)
Manager experience	-0.0028 (0.0021)	-0.0028 (0.0021)	-0.0034 (0.0022)	-0.0034 (0.0022)	-0.0024 (0.0028)	-0.0025 (0.0028)
Argentina	-0.310*** (0.105)	-0.315*** (0.105)	-0.330*** (0.113)	-0.337*** (0.113)	-0.252** (0.118)	-0.264** (0.118)
Chile	-0.169 (0.116)	-0.171 (0.116)	-0.177 (0.124)	-0.175 (0.123)	0.023 (0.141)	0.016 (0.140)
Colombia	-0.256** (0.103)	-0.256** (0.104)	-0.253** (0.112)	-0.255** (0.112)	-0.111 (0.119)	-0.112 (0.121)
Costa Rica	-0.438*** (0.135)	-0.445*** (0.134)	-0.433*** (0.142)	-0.438*** (0.142)	-0.331** (0.163)	-0.335** (0.161)
El Salvador	-0.189 (0.143)	-0.205 (0.143)	-0.155 (0.149)	-0.169 (0.148)	0.090 (0.169)	0.056 (0.159)
Guatemala	-0.146 (0.132)	-0.162 (0.133)	-0.140 (0.134)	-0.161 (0.135)	0.0016 (0.190)	0.0012 (0.191)
Mexico	-0.159 (0.107)	-0.171 (0.107)	-0.218 (0.116)	-0.233 (0.116)	0.005 (0.124)	-0.032 (0.125)
Peru	-0.027 (0.110)	-0.026 (0.111)	-0.065 (0.118)	-0.063 (0.118)	0.214 (0.139)	0.209 (0.138)
Uruguay	-0.107 (0.134)	-0.101 (0.135)	-0.176 (0.137)	-0.168 (0.137)	-0.122 (0.178)	-0.174 (0.173)
Manufacturing	-0.158** (0.067)	-0.155** (0.068)	-0.151** (0.072)	-0.151** (0.072)		
Textile	-0.252*** (0.080)	-0.242*** (0.081)	-0.244*** (0.083)	-0.233*** (0.084)		
Chemical	0.014 (0.095)	0.025 (0.095)	0.029 (0.101)	0.040 (0.101)		
Constant	2.118*** (0.130)	2.163*** (0.132)	2.053*** (0.143)	2.099*** (0.144)	1.724*** (0.154)	1.848*** (0.156)
R^2	0.0744	0.0776	0.0771	0.0823	0.0941	0.1153
Observations	1267	1267	1071	1071	644	644

OLS with Huber-White robust standard errors reported within parentheses. Level of statistical significance: *** 1%, ** 5%, * 10%. Brazil and Food are the baseline categories.

Table 4: Geographical isolation effects of Manufacturing firms

	High level of isolation (Rest of countries)	Low level of isolation (Mexico)	t-test
Foreign Market Focus (FMF)	-0.560	+0.320	0.025
Outward Looking	-0.055	+0.503	0.087
FMF * Outward Looking	+1.270	+0.395	0.177
Observations	498	146	

Results are based on a re-estimation of Column 6 Table 3 introducing the interaction terms FMF*Mexico, Outward Looking*Mexico and FMF*Outward Looking*Mexico. The parameters shown in the Table have been rearranged in a way that they show the parameters β_1, β_2 and β_{12} for Mexico and the rest of countries.