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The state presence in the firm and the state presence in the export destination economy: A Colombian firms' analysis

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Abstract. This research analyses the relationship between state presence within firms and state presence in export destination economies; and the moderating role of export diversification in the relationship between these two manifestations of state presence. It presents the hypothesis that these is a positive relationship between state presence within firms and state pres-ence in the export destination economy, and that export diversification has a negative moderating role. Despite the ongoing process of marketization, liberalization, and privatization in emerging economies, the presence of the state within a firm enhances the ability to export, especially to countries with a high state presence. However, when such a firm exports to several destinations, it reduces its export to countries with a high state presence. The study was based on institutional theory and data from Colombian firms, from 2009 to 2016.

Keywords. State; SOE; hybrid firms; exports; Colombia; diversification

La presencia del estado en la empresa y la presencia del estado en la economía de destino de exportación: Un análisis de empresas colombianas

Resumen. Esta investigación analiza la relación entre la presencia del estado dentro de las empresas y la presencia del estado en las economías de destino de exportación, así como el papel moderador de la diversificación de exportaciones en esta relación entre ambas manifestaciones de la presencia estatal. Se plantea la hipótesis de que existe una relación positiva entre la presencia del estado dentro de las empresas y su presencia en la economía de destino de exportación, y que la diversificación de exportaciones tiene un papel moderador negativo. A pesar del proceso continuo de mercantilización, liberalización y privatización en las economías emergentes, la presencia del estado dentro de una empresa mejora su capacidad de exportación, especialmente hacia países con una alta presencia estatal. Sin embargo, cuando dicha empresa exporta a varios destinos, disminuye sus exportaciones hacia países con alta presencia estatal. El estudio se basó en la teoría institucional y en datos de empresas colombianas entre 2009 y 2016.

Palabras clave. Estado; empresas estatales; empresas híbridas; exportaciones; Colombia; diversificación.

Introduction

This study analyses the relationship between the presence of the state within firms and the presence of the state in the export destination economy, as well as the moderating role of export diversification in this state–state relationship, in an emerging country. The first motivation for this study is that the process of liberalization and privatization in several emerging economies seeks to reduce the intervention or presence of the state in firms and in the economy in order to enhance exports through firm internationalization (among other goals). This means that the state may have less and less influence or presence in the firm and in the economy, so it is worth asking whether the role of state is still relevant for the firm in an emerging economy during this process.

Liberalization has resulted in three kinds of firm in terms of ownership: private, state, and hybrid (private firms with a state presence or with both private and state shareholders). In this context, private and state firms have different capabilities, goals, and motivations (Cuervo-Cazurra & Dau, 2009a), when it comes to developing their own strategies. Meanwhile, hybrid firms, which contain both groups of shareholders, must reconcile their differences to take decisions in the firm in the exporting process, so this kind of firm not only has to deal with several business aspects, in common with other firms, but with differences among shareholders as well. The phenomenon of state presence in firms and the exporting process has attracted research interest from the literature on business strategy and international business, specifically in the context of emerging economies (Wu and Zhao, 2015). This study builds on this background by focusing specifically on the hybrid firms.

The second motivation for this study is that relevant previous studies have found a positive direct effect of state ownership on export activities (Buck et al., 2000) and a positive effect when state ownership is a moderator (Dong, Kokko, and Zhou, 2022), but that this effect is less pronounced than that of private firms on export activities (Cuervo-Cazurra & Dau, 2009b) because of the reduction of state interference the economy in a process of marketization[1]. Furthermore, in several emerging countries, weak institutions discourage firm efficiency in the internationalization process, especially in comparison to more developed destinations, which tend to have a scarce state presence in the economy, letting the market be ruled by

1 "Marketization refers to the extent to which a business environment is driven by market forces and firms, rather than the state and government" (Hong et al., 2015).

supply and demand (Wan, 2005). Therefore, in this study we seek to answer the following question: What is the relationship between state presence in the firm and state presence in the export destination economy?

The third motivation for this study is that hybrid firms arrange strategies, and at the same time have firm effects when exporting to different destination. Destinations may positively influence firms' survival and productivity (Demir & Hu, 2020), but they can also affect both positive and negative productivity (Xuefeng & Yaşar, 2016) related to export activities. Therefore, exporting to different countries, which have different institutions and characteristics, may influence firms' choice of export destinations or prompt them to change destinations. Previous studies have found that firms face different challenges in exporting to different countries but that they also acquire experience and knowledge. Other studies have explored export diversification, finding negative influences (Hutzschenreuter & Guenther, 2008) and positive influences (Piercy, 1981) on the firm. However, export diversification is little studied in terms of the role of the state in the firm and in the export destination economy. Another area examined is exporting to different destinations with specific variables (Wu & Zhao, 2015). Therefore, the second focus of the present study is the moderating role of export diversification (Palepu, 1985, Vega Salas & Deng, 2017) in the relationship between state presence in the firm and state presence in the export destination economy. Specifically, the second question is: What is the influence of export diversification in the relationship between state presence in the firm and state presence in the destination economy?

Although the presence of the state in the firm and in the economy has been studied, there is still a gap in the literature. Research has focused on presence of the state in the firm and the domestic economy (Liang et al., 2015; Cui & He, 2017; Hong et al., 2015), as well as the moderating role of the state[2] (Wu & Zhao, 2015). However, few studies have considered state presence in the firm, state presence in the export economy, and export diversification together in a single analysis. And previous studies have been carried out in countries (Demir & Hu, 2020, Dong, et al., 2022; Xuefeng & Yaşar, 2016; Wu and Zhao, 2015, Zhang and Greve 2019) where the role of the state in the firm, in society, and the economy and how they interact with other agents may differ compared with an emerging economy (Robins, 2010).

2 The role of the state in this research is used as the country government effectiveness, a variable that captures the changes/evolution of government effectiveness over time in the home country, but no in the export country destination

Analysis of the relationship between state presence in the firm, state presence in the export destination economy, and the moderating role of export diversification presents a challenge in a complex micro-macro environment. From a macro-level perspective, even emerging economies undergoing liberalization and privatization are characterized by weak institutions, making firms based there less efficient than those in developed markets (Khandelwal et al., 2012) in terms of technology, branding (Buckley et al., 2007), and other factors. This makes for a domestic environment that is not conducive to developing the skills to compete in the international export market (Vega Salas and Deng, 2017), especially vis-a-vis developed countries, or those where the state has less influence on the market. Thus, given that emerging economies that are undergoing liberalization are seeking to reduce the influence of the state within firms, it would be intriguing to establish how hybrid firms export considering the size and influence of the state in export destinations.

From a micro-level perspective, the corporate governance of a hybrid firm is divided among state and private shareholders that possess different goals, experience, and so on. This may complicate decision-making regarding risky situations such as exporting, since the two groups may have different market and nonmarket strategies. This can complicate interaction between the shareholders, especially in countries that are attempting to diminish the role of the state in enterprise and in the economy. Therefore, if firms are exposed to interactions with different export destinations, it would be interesting to determine how this diversification may influence firms' exports considering the presence of the state in the destination.

Institutional theory, "the rules of the game" (North, 2005) fits the theoretical framework for this research. This theory has been used as a framework for analyzing the influence of institutions in firms' internationalization and the phenomenon of institutional distance between countries (Deng et al., 2017), suggesting that the success of different strategies depend on the institutions in host countries and how firm adapts to destination environments (Jackson & Deeg, 2008; Lee & Beamish, 1995). However, as we have noted, the role of the state in both the firm and the export destination have scarcely been explored. That is, studies considering the role of the state in firms' internationalization processes have not factored in the role of the state in the destination economy, and vice versa (Liang et al., 2015; Hong et al., 2015).

On the other hand, hybrid firms have private and state shareholders that assume different rules, norms, capabilities, and targets (Cuervo-Cazurra & Dau, 2009a) with regard to decision-making. This makes them some-what analogous to a convergence of micro-institutions that must adjust to macro-institutions in the destination economy. In the macro-analysis of international business, country institutions are often divided into strong institutions, reflecting a well-functioning market mechanism and scarce state presence in the economy; and weak institutions, related to immature market mechanisms and an extensive state presence in the economy (Boehe et al., 2016; Khanna et al., 2005). In this context, research must take into account macro-environment institutions, such as the presence of the state in the destination economy, in terms of how they interact with the micro-institutional environment, such as the presence of the state within firms.

The present study was conducted using Tobit regressions and data from 256 firms in Colombia over the period 2009–2016. This emerging country has already begun a process of liberalization, resulting in an environment containing private, state, and hybrid firms. One of Colombia's main paths to internationalization is exporting, which means that the study was conducted in a more natural export environment. The results were robust to other measures of state presence in the economy but also to other methodologies used for calculating export diversification; in all cases, the result obtained were of sufficient significance results to support the hypotheses.

This study makes three theoretical contributions: First, institutional theory is used in a micro–macro analysis of the relationship between state presence within firms and state presence in the destination economy, and of how uncertainty regarding export country diversification influences this relationship. Second, this analysis adds to the growing debate in the international business literature about emerging/market firm internationalization (Liang et al., 2015). Third, the question of whether diversification has a positive (Piercy, 1981) or a negative influence (Hutzschenreuter & Guenther, 2008) on firms is still open, so this study enlarge the debate by examining moderating effect of export country diversification.

At the same time, this research provides three managerial implications. First, it considers the opportunity for emerging market hybrid firms to internationalize, under environmental and internal constraints, by focusing on markets in which the state has a high presence, considering the possibility that firms in the destination or host economy may be subject to similarly difficult conditions, (Cuervo-Cazurra & Genc, 2008), inefficient mechanisms, (Khanna and Palepu, 2000) and state support (Aggarwal and Agmon, 1990) as in the country of origin. Second, it hypothesizes that the diversification process helps firms to develop market skills, shifing from nonmarket to market strategies to face international competition and access to more competitive markets. Third, the findings can aid policymakers in encouraging hybrid firms to export to destinations with a large state presence in order to support export expansion, and in promoting export diversification so that firms can learn, acquire experience, and enter more competitive markets and obtain the associated benefits from doing so (Deng et al., 2017).

Hypothesis

1. State presence within firms and in the export destination economy

Domestic institutions influence the selection of export destination. Previous research has notedthat the world's largest multinationals are more regional than global in their sales (Rugman & Verbeke, 2004), and this also holds true for emerging economy firms: more than international expansion, firms from these economies often focus on regional expansion motivated by similarities in culture, language, and society in the markets in which they operate (Lopez et al., 2009). This may demonstrate that domestic institutions exert an influence on the selection of export destinations (Cuervo-Cazurra, 2012). On the other hand, firms located in emerging economies are not competitive and have several disadvantages when it comes to doing business in developed markets, but when the destination is another emerging economy, these disadvantages may become advantages since the countries of origin and destination country experience similarly difficult conditions (Cuervo-Cazurra and Genc, 2008), weak institutions, inefficient mechanisms, (Khanna and Palepu, 2000), and heavy state involvement. Furthermore, firms sometimes receive significant support from the state in the internationalization process (Aggarwal & Agmon, 1990).

Emerging economies with weak institutions tend to experience a lack of resources, however state presence within firms may compensate for this shortage. Several emerging economies such as those located Latin America underwent a period of import substitution characterized by firm protection from international competition, high levels of regulation, and government intervention in the economy (Bruton, 1998). In the case of Chile, the internal market was marked by state ownership and inefficiency (Liu, 1993). After this period, one of the reasons for the liberalization and privatization process in the region was to upgrade local firms' capabilities (Cuervo-Cazurra & Dau, 2009a; Cuervo-Cazurra & Dau, 2009b). From this stage private ownership, especially that dominated by foreign investors and consortiums, emerged as a source of market capabilities for firms (Kotabe et al., 2000) amid an environment of pro-market reforms. However, because institutions in emerging economies remain weak, it still tends to be difficult for firms to access infrastructural, financial, and other resources in the country of origin.

All these characteristics can prompt firms to emphasize the development of nonmarket capabilities to secure political advantages and overcome an inability to compete directly or freely in the market (Wan, 2005). As such, these firms may use the presence of the state to avail of resources, opportunities, international networking (Cui & He, 2017), and other benefits.

During the process of privatization in emerging markets, there is a transfer of property ownership from the state (Inoue et al., 2013) to private shareholders in order to develop market strategies and promote internationalization. However, in these contexts, the presence of the state within firms is still relevant for export expansion. Firms in emerging markets are characterized by low levels of technical capabilities, little-known brand names (Buckley et al., 2007, Hong et al., 2015), and lower levels of efficiency as those in more advanced economies (Khandelwal et al., 2012) in which dominant market strategies and limited state interference prevails. Yet hybrid firms in emerging markets can turn state presence within the firm into an important source of networking, political connections, reputational capital (Dorobantu et al., 2017) and other opportunities (Cui & He, 2017). Moreover, considering that firms often use successful nonmarket strategies in the country of origin during the international expansion process, these strategies may also be used for internationalization (Luo et al., 2010), especially in the case of export destinations where such strategies are more required, such as countries with high state presence.

Export destinations with a high state presence in the economy suit export firms with a state presence. Nonmarket-oriented regions are characterized by high levels of state influence and intervention mainly given the high uncertainty, transaction costs, and underdeveloped institutions (Hong et al., 2015). Therefore, the relationship between state presence within firms and state presence in the export destination is relevant. Those countries with high state intervention offer relatively unequal market access to importers (Deng et al., 2017). When resources are plentiful in the destination country, firms should rely on market capabilities, but when resources are scarce, firms rely on nonmarket capabilities to do business in those countries (Wan, 2005). In countries where there is no market economy, relationship-based transactions dominate (Meyer & Peng, 2016) making positive managerial attitudes to the crucial to survival (Zheng et al., 2015). Therefore, firms with a state presence may step up their exports to destinations with extensive state presence in their economies.

Emerging economy firms with a state presence focus on exporting to countries with heave state involvement in the economy to take advantage of nonmarket capabilities and state–state relationships. Institutions shape internal firm governance by balancing the power and capabilities of different shareholders for market and nonmarket strategies (Jackson & Deeg, 2008). Considering the several disadvantages faced by emerging market firms in international competition (Cuervo-Cazurra & Genc, 2008) and their scarce experience in the internationalization process (Meyer & Peng, 2005), they tend to prefer exporting to markets in which the state has influence in the economy, since nonmarket strategies are dominant in that economy and the state as a shareholder in the firm may become a source of nonmarket strategies. Therefore, exporting to markets with weak institutions, where the state has a presence, makes the emerging-market hybrid firms place more emphasis on non-formal relationships than in formal market relationships to succeed. This results in a state–state business relationship. Furthermore, doing business in a state-present economy is time-consuming for a firm that follows a market strategy (Peng, 2003). Thus, if the firm comes from an environment where nonmarket strategies are still relevant and the shareholders may be a source of nonmarket strategies, then in the internationalization process the firm will tend to find a destination where nonmarket strategies may be useful. This gives rise to the first hypothesis:

Hypothesis 1 (H1): State presence within the firm and state presence in the export destination economy have a positive relationship.

2. The moderating role of export country diversification

Countries with less of a state presence in the economy are attractive to emerging market firms. Emerging-market firms with a state presence tend to export to countries with a state presence based on the state–state relationship, nonmarket capabilities, institutional similarities, and so on. But at the same time firms have incentives to export to countries with a lower state presence or a more open market. These open-market destinations have more open and transparent institutions, equal access to worldwide exporters, and lower tariff and non-tariff barriers that positively affect firm performance (Deng et al., 2017, Baggs & Brander, 2006). At the same time these markets involve more market competition (Baggs & Brander, 2006, Khandelwal et al., 2012), making organizations more competitive and strategically alert (Barnett & McKendrick, 2004) while providing learning advantages for firms, acquired from destination market institutions in the process of exporting (Qian et al., 2010b). This knowledge can be leveraged for exporting to other destinations (Cantwell et al., 2010). Moreover, this exposure to different market institutions can have long-lasting positive effects on efficiency and survival for the firm (Burke, 2013). These incentives suggest that firms should turn to these markets, but firm limitations can halt the process. This is despite institutional theory suggesting that firms undergo a process of adaptation and country selection according to new environmental constraints such as when a firm is exposed to different export destinations, and to internal firm capabilities such as those provided by private and state shareholders.

The process of export diversification reshapes firm strategies from a focus on nonmarket to market capabilities. Given state presence within the firm and the nonmarket capabilities that are generated in the home country and required to do business in the export destination, firm exports are oriented toward markets where there is state presence. Meanwhile, the process of exporting to diverse destinations causes firms to enter higher degrees of marketization driven by market forces. This is because the diversification process exposes firms to more customers, requirements, conditions, processes, production, operations, progress, and learning to fulfil the expectations of those different markets (Xuefeng et al., 2016). This implies that the state within the firm has less influence on export decisions (Hong et al., 2015), meaning that export decisions lay more within private shareholders' capabilities.

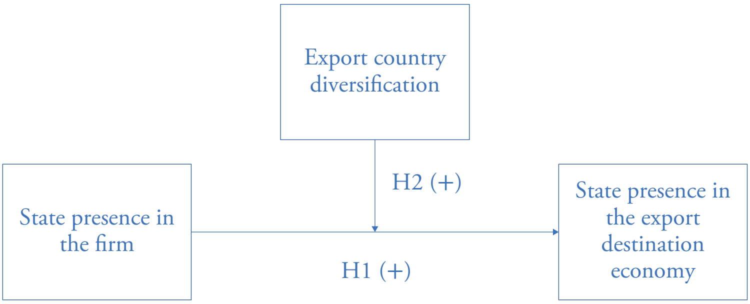
The incursion into more markets makes firm evolve to become more market oriented. Therefore, in order to survive and develop, firms need to change from nonmarket strategies to market strategies (Hoskisson et al., 2000). Consequently, export diversification makes firms rely more on their own capabilities than on state support during the internationalization process (Hong et al., 2015). They do so through different strategies, resources, and management attention (Deng et al., 2017), involving reinforcement of market strategies and reduction of nonmarket strategies, which decreases the role of the state in corporate governance as a source of nonmarket strategies for exporting to destinations with a state presence.

Export country diversification results in hybrid firms diminishing their exports to destinations with a high state presence. Hybrid firms encompass the behaviors, capabilities, and of their private and state shareholders. Therefore, firms need to choose their export strategies and destinations. To begin with, state presence within the firm and the possession of nonmarket strategies see firms export to countries of similarly imperfect and low institutional markets as their home countries (Cuervo-Cazurra & Genc, 2008), such as those countries with a state presence. However, export diversification, and the exposure to different countries and institutions, generates new challenges and opportunities, and firms must react to these new environmental constraints (Powell et al., 1996). Exporting to countries with different institutions requires unlearning some old organization modes and learning new ones in order to adapt to new economies, markets, and institutions (Deng et al., 2017); upgrading organizational learning;

developing new organizational skills; and preparing to enter to more open competitive markets. Under these circumstances, there is scope for new market capabilities enabled by private shareholders and enhanced by the export country diversification. And as a result, firms are in a better position to compete in countries with less state presence in the economy. Furthermore, these more liberalized countries offer incentives for export countries to choose them as new destinations, and the process of export diversification diminishes the positive relationship between firms with a state presence and export destinations with a state presence in the economy. Thus, our second hypothesis arises:

Hypothesis 2 (H2): export country diversification negatively affects the relationship between state presence within the firm and state presence in the export destination economy

Graphic 1
Variables and hypothesis



Methods

Data source

Colombia is an emerging country that has been undergoing a process of privatization and a transfer of ownership from state control to the market (Inoue et al., 2013) since the 1990s. At the same time, Colombian firms have undergone a process of internationalization primarily through exporting. Several nominal state firms have effectively become, during the first two decades of the 21st century, hybrid firms. Therefore, Colombia, as a liberal economy with underdeveloped institutions, provides a convenient yet scarcely studied context to study firms with a state presence and an export diversification process (Boehe et al., 2016, Hutzschenreuter & Guenther, 2008).

Moreover, Colombia's competitive internal market and route to internationalization through exporting also makes the country a suitable context for analysis. First, the difference between Colombia and other countries undergoing privatization is that Colombia created a competitive market system comprised of private, state, and hybrid governance firms, with the private sector participating in the country's policy design for the privatization process. And while several countries are subject to economic instability in the privatization process, Colombia did not endure that process. The state participates in firm governance, and in the internal market all firms operate like private firms. Past studies have tended to select their destinations by taking into consideration the state and private shareholders (Ramasamy et al., 2012) but they mainly focus their analysis on FDI and not on exporting, which is still one of the main ways of internationalizing for emerging countries such as Colombia (Cui & He, 2017). Researchers (Deng et al., 2017) have focused on export destination, diversification, and the state role in several regions such as Russia, Ukraine, Belarus (Buck, 2000), and China (Xuefeng, Q., & Yaşar, M. 2016), but research in Latin American countries such as Colombia is still scarce.

Our study includes a total of 256 firms from Colombia over the period 2009–2016. At the beginning of this period, half of these firms were totally private firms, and the other half were hybrid firms. To collect information for this research, four sources were used. The first source was the Colombian tax and custom bureau (Ministerio de Hacienda de Colombia, 2012), which provides annual information about export amounts in US dollars, export country destinations, and state presence within firms. The second source of information was the Colombian Superintendency of Corporations (Ministerio de Comercio, 2017), which provides information about industry, liquidity, liability, and size per year and firm. After combining the first and second sources, there were 7,585 private and 128 hybrid exporting firms. According to variables such as industry, sales, size and firm governance, 128 private firms were matched with the 128 hybrid firms previously obtained for this research. The third source of information was the Heritage Foundation (The Heritage Foundation, 2018), which provides information about countries' state size based on the Index of Economic Freedom. The final source of information was The Lauder Institute of the University of Pennsylvania (University of Pennsylvania, 2018), which provides information to construct the variable of geographical distance.

Variables

Dependent variable

The dependent variable is state presence in the export destination economy. To measure this variable, the weighted index of the export destination's burden tax was used based on the Index of Economic Freedom, which is used extensively in the international business literature (Deng et al., 2017). This index represents different country characteristics such as rule of law, regulatory efficiency, open market and state size. The tax burden variable is used to measure state size, since it reflects the marginal tax rates on both personal and corporate income and the overall level of taxation as a percentage of gross domestic products. This index has a maximum score of 100. A high score represents a country with a small state size.

Then, a new index was created to represent the state presence or economy size as follows: State presence in the economy = 100 – Tax burden variable. In this way, the state presence in the economy variable has a range between 0 and 100. A high score represents a big state size or state presence in the economy because of high marginal taxes, and a high overall level of taxation as a percentage of the country's gross domestic product. When the firm exports to two or more countries the indicator is obtained by adding together the multiplication of [the proportion of exports] x [the presence of the state in each economy[3]].

The impact of one institution on a firm depends very much on the presence or absence of other institutions, making the impact of institutions on firms non-universal (Jackson & Deeg, 2008). Therefore, it is not expected that all institutions have the same impact on firms. Based on previous studies on the state's influence on business activities (Cui & He, 2017), this research chose one variable related to the presence of the state in the economy (namely, taxes) to demonstrate the hypothesis.

Independent variable

The independent variable is state presence in the firm. A dummy variable to measure this variable. The variable has a value of 0 if the firm only has private shareholders, and 1 if the firm has state and private shareholders together in its corporate governance. This research does not consider firms

3 E.g.
In year t, firm X exported a total of US$400. US$300 was exported to country A, and US$100 was exported to country B. In year t, the state presence indicator for country A was 60, and for country B, 80. Thus the dependent variable for firm X in year t is quantified as (300/400) x60+(100/400)x80=65

with only state corporate governance for two main reasons: first, entirely state-owned firms are very scarce in terms of quantity and information; and second, they are not within the scope of the study.

Moderator

The moderator is export country diversification, which to test H2 is used as an export country diversification variable. The literature has tended to measure this variable by the number of export country destinations (Tallman & Li, 1996; George et al., 2005). However, this measure does not consider the magnitude of the diversification, because, for example, firms exporting samples or small amounts to some destinations were treated the same as exporting big amounts to another destination. Therefore, the entropy measure of diversification was used to measure international diversification (Hitt et al., 1997, Qian et al., 2010a, Deng et al., 2017), defined as ∑i[Pi ×ln(1/Pi)][4]. Pi is the sales in overseas market region I, and ln(1/Pi) is the weight. The results suggest this is a valid way of measuring diversification since it considers not only the number of destinations but also the monetary sales for each destination.

Control variables

Industry. This measure is divided into 15 different categories according to the International Standard Industrial Classification of Economic Activities provided by the United Nations. Industries in emerging economies differ in the nature and the level of support they receivefrom the state, which makes an impact on the internationalization process (Hong et al., 2015).
Liquidity. Previous research has found that firms engaged in export activities have more liquidity than just local sales firms, and at the beginning of export activities possess less liquidity than long-term export firms, showing that the role of liquidity is worthy of analysis (Greenaway et al., 2007).

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4 For example, two cases are considered in which the six largest export country destinations make up US$ 90 of the total import goods in a firm (Total exports = US$ 100). In either case, it is assumed that the remaining US$ 10 of export goods is divided among 10 equally sized destination countries.
Case 1: All six of the largest export country destinations are US$ 15 each.
Case 2: The largest export country destination is US$ 80 and the next five following largest export country destinations are equal to US$ 2 each.
The export country concentration for the six largest export country destination ratios would equal 90% for both Case 1 and Case 2. But the second case would promote significant concentration, resulting in a higher country diversification measure index in the first case:
Case 1: Diversification measure = [15 * ln(1/0.15)]*6+[1*ln(1/0.01)]*10
export country diversification = 217
Case 2: Diversification measure = [80*ln(1/0.8)]*1+[2*n(1/0.02)]*5+[1*ln(1/0.01)]*10
export country diversification = 103

Size. This variable represents the extent of the firm represented by total asset value. Internal resources are important for accomplishing international opportunities, generating diminishing returns and influencing the decision to take the risk of exporting (Hitt et al., 1997).

Experience. The rapid expansion of a firm abroad is related to its knowledge and experience (Guillen & Garciacanal, 2009). The experience variable is measured based on the number of years since the establishment of the organization until period t.

Geographical distance. This refers the weighted geographical distance, in 1000 kilometers, between the export country (Colombia) and the export country destinations. The geographic distance affects the ease of trading among countries (Ghemawat, 2001) since firms need to deal and coordinate transportation, communication, etc. It is used each country export destination on total exports as a lighting factor to build the weighted geographical distance per firm and year. (Berry et al., 2010).

Profitability. In order to control for the potential performance (Cui and He, 2017) that can affect the internationalization process. I measure profitability as the accounting base return on asset (ROA) (Liang et al., 2015).

Total export. To control for the possible perturbation, extend of total exports. It is measured by the weighted export value according to the destination markets in US dollars.

Competition. It measures the industrial competitive effect in the home country, since home internal competition may influence export destination. Two-digit industry is used to count the number of firms per industry in the sample to represent competition.

Liability. The financial situation of the firm can affect its behavior (Iyer & Miller, 2008) so the ratio of long-term liabilities to total assets is used since financial health can reflect the capability to obtain financing from banks, among others. It is one of the principal features on the internationalization process (Deng et al., 2017, Mcdougall & Oviatt, 2000).

Model

Panel data were built for the period 2009–2016 using the Stata 13.0 software package. Tobit model regressions were used to evaluate the significance of the independent variables on the dependent variable because the dependent variables are constrained to an interval of 0 to 100. The first regression analysed the relationship between state presence within the firm and state presence in the export destination economy. The second regression analyzed the moderating role of export country diversification in the previous relationship. The models can be specified as follows:

Tobit model

H1: State presence in the export destination economy = $\alpha 0 + \alpha 1$ state presence within the firm + $\beta \times X + \varepsilon 1$
H2: State presence in the export destination economy = $\lambda 0 + \lambda 1$ state presence within the firm $+ \lambda 1$ state presence within the firm × export country diversification + $\gamma \times X + \varepsilon 2$
Where X denotes a vector of control variables.

Results

Table 1 provides the descriptive statistics. Correlations among the variables is low, suggesting that there is no multicollinearity problem. State presence in the export economy has a mean value equal to 24.76 and a standard deviation equal to 9.308. State presence within the firm has a mean value equal to 0.192 and a standard deviation equal to 0.394. The moderator represented by the export country diversification has a mean value equal to 0.554 and a standard deviation equal to 0.608.

Table 1
Descriptive statistics and correlation coefficients

Variable	1	2	3	4	5	6	7	8	9	10	11	12[5]
1. State presence in the export destination economy	1.000											
2. Industry	0.116	1.000										
3. Liquidity	0.038	0.030	1.000									
4. Size	0.107	0.170	-0.015	1.000								
5. Experience	-0.078	-0.190	-0.037	-0.075	1.000							
6. Geographic distance	0.376	0.113	-0.009	0.159	-0.072	1.000						
7. Profitability	-0.021	0.057	0.003	0.000	0.061	-0.026	1.000					
8. Total exports	0.106	-0.165	-0.021	0.045	0.010	0.053	0.003	1.000				
9. Competition	-0.030	0.227	0.066	-0.115	-0.179	0.008	-0.001	-0.056	1.000			
10. Liability	0.040	0.080	0.133	0.045	-0.111	0.043	-0.071	-0.017	-0.033	1.000		
11. State presence within the firm	0.070	0.066	-0.012	0.141	-0.078	0.030	0.004	-0.001	0.036	0.013	1.000	
12. Export country diversification	-0.005	-0.086	-0.025	0.010	0.132	0.043	0.029	0.169	-0.069	-0.060	-0.050	1.000
Mean	24.760	5.512	2.580	0.040	21.063	2.614	0.047	1.437	3.582	0.173	0.192	0.554
Std. Dev.	9.308	2.617	7.314	0.422	13.845	2.560	0.453	4.763	2.692	0.695	0.394	0.608

5 For presentation of Mean, Std. Dev., Min and Max the results are divided by 100

Table 2 presents the results of Model 1, which tested the relationship between state presence within the firm and state presence in the export destination economy. The results show positive statistical positive significance at $p<0.05$, which supports H1, validating the argument that those firms with state ownership tend to use nonmarket strategies that are suitable for exporting to countries where there is a state presence. So, in the context of marketization in the home country, the presence of the state within the firm may have a positive relationship with export destinations where there is state presence in the economy. Model 2 incorporates the moderating role of export country diversification in the relationship between the state present in the firm and state presence in the export destination economy. The results show statistical negative significance at $p<0.05$, supporting H2 and validating the argument that venturing into a variety of markets make firms change internationalization strategies from nonmarket to market strategies. When firms export to several destinations, they may adjust to the new destination environment to fit their customers' necessities. This process of adapting to a new destination involves learning and experience, resulting in the development of new skills to be more competitive and facilitating the entry into more developed markets. Thus, the process of export diversification diminishes the tendency of firms with a state presence to export to economies with a state presence.

Table 2
Regression results for the presence of the state in the firm analysis

Model Variable	1 State presence in the export destination economy[6]	2 State presence in the export destination economy[7]
Intercept	27.799***	27.681***
	(4.480)	(4.484)
Industry	Included	Included
Liquidity	0.009	0.009
	(0.020)	(0.020)
Size	1.940	2.160
	(1.384)	(1.386)
Experience	-0.054	-0.055
	(0.043)	(0.043)
Geographic distance	1.105***	1.104***
	(0.100)	(0.100)
Profitability	-0.026	-0.009
	(0.339)	(0.339)
Total export	0.069	0.074
	(0.054)	(0.054)
Competition	0.015	0.031
	(0.095)	(0.096)
Liability	-0.664	-0.840
	(1.158)	(1.158)
Export country Diversif.	1.025*	0.911*
	(0.531)	(0.533)
H1: State Pres. in the firm	**1.400****	**1.529****
	(0.656)	**(0.657)**
H2: State Pres. in the firm		**-2.063****
x Export Count. Diversif.		**(0.969)**
N	1048	1048

Standard errors in parentheses. * p<0.10, ** p<0.05, *** p<0.01

6 Independent variable calculated based on the Index of Economic Freedom (tax burden) from the Heritage Foundation.

7 Independent variable calculated based on the Index of Economic Freedom (tax burden) from The Heritage Foundation. Moderator variable calculated using the entropy measure of diversification.

Robustness test

Two robustness tests were used for this study. First, to ensure the robustness of H1, instead of using the Heritage Foundation's weighted index of tax burden, the study used regulatory quality from the World Bank's worldwide governance indicators, employed extensively in the international business literature (Cui & He, 2017). The Worldwide Governance Indicators (WGI) is a research dataset summarizing the views on the quality of governance provided by many enterprise, citizen, and expert survey respondents in industrial and developing countries. This data is gathered from several survey institutes, think tanks, non-governmental organizations, international organizations, and private sector firms According to the World Bank, regulatory quality "reflects perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development"(World Bank, 2018c). This index's score is between 0 and 100. A high score represents a country with high government quality. Then, a new index was created to represent the state presence in the economy, as follows: State presence in the economy =100 – Regulatory quality index. In this way, the state presence in the economy variable has a range between 0 and 100. A high score represents a high state presence because of high burden regulations, excessive protectionism, price control, and so on.

Second, to ensure the robustness H2, the Herfindahl index was used instead of the entropy measure to measure country export diversification. This index, used in international business studies to measure export concentration (Lawless, 2010) and diversification (Vega Salas & Deng, 2017), measures international diversification according to total exports and export share per destination and year. The Herfindahl index for export country diversification is defined as follows: 1- ∑Sj2, where Sj2 is the share of the firm's exports that go to country j, squared. This measure takes into account not only the number of export destinations but also the export share per destination.

The robustness results for H1 and H2 are shown in Models 1 and 2, in Table 3. Model 1 confirms H1, since the presence of the state in the firm has a positive significance result $p<0.05$, while Model 2 confirms H2, since export country diversification has a negative significance result of $p<0.05$ as a moderator in the relationship between state presence in the firm and state presence in the export destination economy.

Table 3
Robustness regression results for the analysis of state presence within the firm

Model Variable	1 State presence in the export destination economy[8]	2 State presence in the export destination economy[9]
Intercept	38.079***	27.598***
	(10.725)	(4.476)
Industry	Included	Included
Liquidity	-0.018	0.008
	(0.055)	(0.020)
Size	0.244	2.232
	(3.603)	(1.391)
Experience	0.109	-0.053
	(0.103)	(0.042)
Geographic distance	-3.661***	1.108***
	(0.270)	(0.100)
Profitability	0.369	-0.009
	(0.917)	(0.339)
Total export	0.038	0.077
	(0.144)	(0.054)
Competition	0.559**	0.034
	(0.254)	(0.096)
Liability	0.191	-0.853
	(3.007)	(1.159)
Export count. Diversif.	-5.145*	1.337
	(2.654)	(1.009)
H1: State Pres. in the firm	**3.562****	**1.500****
	(1.743)	**(0.657)**
H2: State Presence in the firm		**-4.125****
x Export Count. Diversif.		**(2.045)**
N	1048.000	1048.000

Standard errors in parentheses. * p<0.10, ** p<0.05, *** p<0.01

8 Substituting the state presence in the economy variable calculated based on the worldwide governance indicators (the regulatory quality) from the World Bank instead of the state presence in the economy variable calculated in based on the weighted index of tax burden from Heritage foundation.

9 Substituting the state presence in the economy variable calculated in based of the worldwide governance indicators (the regulatory quality) from the World Bank instead of the state presence in the economy variable calculated in based on the weighted index of tax burden from Heritage foundation, and substituting Herfindahl index instead of entropy measure of international diversification to measure export country diversification

Conclusion and discussion

Considering several disadvantages of emerging market firms with state presence, it is worth reinforcing the argument that emerging market firms' disadvantages may become advantages in the export process. Firms in emerging economies are not considered as efficient as firms in developed economies (Khandelwal, Schott, & Ii, 2012) in terms of technology, branding, etc. (Buckley et al., 2007; Hong et al., 2015). Emerging markets have state presence in the economy and weak institutions that disable firms' ability to develop the capabilities to compete internationally (Wan, 2005). Furthermore, the presence of the state within the firm as a shareholder may be perceived as synonymous of inefficiency. Therefore, it may logically be concluded that the presence of the state in the emerging market firm may negatively influence the firms' internationalization process, especially considering the negative experience of state intervention in the economy and in firms through the import substitution period in several Latin American countries. Contrary to these arguments and expected results, I reinforce previous findings that such disadvantages in emerging markets may become advantages for firms in the internationalization process (Cuervo-Cazurra & Genc, 2008). This is because the state is an important resource provider for firms in emerging economies, benefiting their export activities (Wu & Zhao, 2015)

This study attests to the relevance of exploring state presence within the firm, with results that both echo and contradict those in other developing countries. First, the study adds to the analysis of state presence within firms in post-reform internationalization (Liang et al., 2015), since market-oriented reforms in countries like Colombia attenuated political connections, transferring resource provision from the state to the private sector in the internationalization process. Second, previous research found that there is a positive relationship between country corruption and destination corruption in terms of FDI. Cuervo-Cazurra (2006) assessed the state's role in countries in a macro–macro analysis, and here o similar results were obtained in this micro–macro analysis not of corruption but of the state presence. Third, contrary to our findings, in some other developing countries a negative impact has been found of the presence of the state in firms, in that the degree of marketization has a negative effect on state ownership in the internationalization process (Cui & He, 2017). Furthermore, I reinforce the positive role of the state within firms in export performance (Wu & Zhao, 2015), innovation (Dong et al., 2022), and therefore exporting.

The study also bolsters the discussion about the implications of export diversification in the firm and about macro–micro institutional co-evolution.

The literature on export diversification provides some positive (Piercy, 1981) and negative implications regarding firms (Hutzschenreuter & Guenther, 2008). These findings converge with the arguments that exporting to several destinations with different institutions requires unlearn some old forms of organization and learning new ones in order to adapt to new economies, markets, and institutions (Deng et al., 2017), resulting in upgraded organizational learning, the development of new organization skills, and readiness to enter to more open competitive markets. At the same time, these results echo previous research about firms co-evolving with the environment, adjusting their strategies and structures to counter uncertainty and complexity when they are developing their own activities in their environment (Cantwell et al., 2010). Managerial adaptation and environmental selection occur simultaneously (Volberda & Lewin, 2003, Lewin & Volberda, 1999) since hybrid firms have state and private shareholders and encounter different micro-institutions that may change or adopt strategies in the export destination strategies, since the firm is exposed to a wide variety of macro institutions in the export-country diversification process. Moreover, the results reinforce the discussion about firm productivity (Xuenfen & Yaşar, 2016) considering the effect of export destinations on productivity (Demir & Hu, 2020) and how this affects exporting.

These results may be extended to other similar countries to Colombia in a region still under exploration. The impact of the process of liberalization impact on exporting has been (Cuervo-Cazurra and Dau, 2009b). However, as we have noted, a focus on both the state presence within the firm and in the export destination, at the same time, has been little studied in the case Latin American firms, with previous studies having concentrated on other countries and regions such as Russia, Ukraine, and Belarus (Buck, 2000), China (Xuefeng & Yaşar, 2016), where the role of the state within firms and in the economy is different. Future research may replicate this study in countries that belong to the Pacific Alliance, since these countries have more similarities with Colombia. Furthermore geographical diversification and export country diversification have been studied in relation to FDI (Rugman & Verbeke, 2004; Goerzen & Beamish, 2003) but in terms of exporting research is still scarce in the Latin American region (Boehe et al., 2016; Vega et al., 2017) so the findings may be used to understand how firms, in countries similar to Colombia, increase exports to more developed countries that are relevant for emerging market firms (Deng et al., 2017). In addition, Latin American firms are under-explored in the international business research, so there is a need to learn more about the particular characteristics and unique features that may contribute to understanding how the country environment may influence the internationalization process (Aguilera et al., 2017; Brenes et al., 2016).

Theoretical contributions

Institutional theory analyze state presences in the firm and in the economy, as well as how export country diversification influences that macro–micro relationship. First, institutional theory perspective has been used in the analysis of firm internationalization (Cui & He, 2017; Kim & Daniels, 1991), such as institutional distance between regions or countries (Deng et al., 2017) in a macro analysis in the home and/or destination region. Therefore, in this research, the macro-analysis took into account the presence of the state in an export destination economy. Meanwhile, in corporate governance there is an interaction between a mix of behaviors among private and state shareholders, bringing the state into a micro-analysis. This gives rise to a micro–macro analysis in the relationship between the state presence in the firm and the state presence in the economy in our first hypothesis. Second, institutions represent the formal and informal rules that constrain human behavior and are consistent with a given environment (North, 2005) but when there is uncertainty in the environment, human actors initiate the transformation of the system of which they are part, and of themselves (Cantwell et al., 2010). In this context, export-country diversification incites actors' uncertainty when private and state shareholders in the corporate governance face different export environments. Therefore, this study analyzed how export country diversification influences the micro–macro state–state relationship, finding evidence of a process of simultaneous change between corporate governance and export environmental selection (Cantwell et al., 2010).

Second, this research contributes to a discussion of the role of the state inside the firm and in the destination export market (Liang et al., 2015) as a strategy to encourage exports. Previous research found that the increase in marketization in some regions has a negative effect on firms with a state presence in the internationalization process (Hong et al., 2015). However, these analyses omitted the state presence in the destination economy. Other researchers (Deng et al., 2017) found that exporting to countries with a liberalized economy and low state intervention is more beneficial for firms, but omitted state presence within firms from the analysis. In this study, incorporating the micro–macro presence of the state, it was found that state presence may be synonymous with inefficiency in some emerging regions. Thus, the opportunity arises to use state connections in export destinations, and this study urges exploration of the importance of state presence within firms to internationalization after governance reforms (Liang et al., 2015). This can help determine whether the disadvantages faced by firms in emerging countries may become advantages when exporting other emerging markets (Cuervo-Cazurra & Genc, 2008).

Third, this study enlarges the debate by using the export country diversification to moderate the relationship between state presence within the firm and state presence in the export economy destination. Firms with state presence, in an emerging country with weak institutions, develop nonmarket capabilities (Wan, 2005) and use them in the process of internationalization. However during the process of export diversification, firms undergo a process of learning and acquisition of experience that influences the success of the firm in adapting to new institutions in new market destinations (Delios & Henisz, 2000), adapting resources and capabilities to new destinations (Boehe et al., 2016). This allows firms to develop market capabilities in the process of diversification to enter new markets, and to reduce orientation toward high state presence. On the other hand, the international business literature is unclear on how export diversification affects firms, which refers to how different institutions impact firm capabilities (Jackson & Deeg, 2008) specially in emerging countries (Xuenfeng & Yaşar, 2016) in Latin America. Furthermore, geographical diversification has been studied in relation to FDI (Rugman & Verbeke, 2004, Goerzen & Beamish, 2003) but far less so in terms of exporting (Boehe et al., 2016; Vega Salas & Deng, 2017) even though international trade has been the most important form internationalization for several emerging regions, including Latin America.

Managerial implications

This study adds to previous research (Cuervo-Cazurra & Genc, 2008) exploring the internationalization opportunities for firms in emerging economies through exporting. The results show that emerging market firms face several disadvantages in the internationalization process compared to firms in developed markets, and the presence of the state is seen as synonymous of inefficiency and a negative factor for firms. There are still international opportunities for those firms that have a state presence based on nonmarket capabilities developed in the home country, as well as political connections to export to destinations where nonmarket capabilities are dominant in business activities, such as countries with a high state presence in the economy. Firms with state presence in emerging markets that face disadvantages in the internationalization process may turn their disadvantages into advantages to accomplish successful exporting.

Export country diversification arises as an option for the internationalization process to emphasize market capabilities and reorient exports to more developed markets. These kinds of hybrid firms possess double capabilities and advantages that may be used according to different circumstances since the state and private owners have different goals, capabilities, and ways to do business. The presence of the state and private shareholders can complement each other in the process of export diversification. Although state presence within firms provides opportunities in the internationalization process through exports to countries with a state presence, the strategy changes when a firm is exposed to export diversification. The process of internationalization provides not only experience but also knowledge to a firm through contact with different cultures and institutions in each destination. The process of diversification constrains the firm to using market capabilities instead of nonmarket ones due to the advantages and requirements associated with exporting to developed markets (Deng et al., 2017).

This research suggests that policymakers consider the choice of export country destination as a way of encouraging exporting among firms that have a state presence. Strategies that these firms can adopt include strengthening their relations with buyers from countries where there is state presence in the economy. On the other hand, exporting to developed markets can lead to a large market share, the development of market skills, and other positive aspects for exporting firms (Deng et al., 2017, Wan, 2005). If the target of the government and/or policymakers is to encourage firms with a state presence to decrease exports to countries with a large state presence in the economy and encourage exports to countries with a low state presence, it may be suggested that they seek to intensify firms' export diversification.

Limitations and future research

Future research may explore whether this hypothesis holds true in other emerging economies, especially in other countries in the same region such as those that belong to the Pacific Alliance. Furthermore, data limitations precluded consideration of the percentage shares of ownership of the state and private shareholders, or of director experience, and these areas may be relevant in a deeper future analysis. Another possibility is to study ownership concentration (Vega Salas & Deng, 2017) and the proportion of board members with market and state experience (Zhang and Greve, 2019). Additionally, shareholder nationality may prove a better variable to explain the relationship among firm shareholders Dong et al. 2022), since foreign and local shareholders often face risks and deal with decisions in a different way.

There are two mechanisms to evaluate the effects of the state in the internationalization process: through political connections in the macroeconomic area or through ownership in the microeconomic area (Liang et al., 2015).

Because of data limitations this study could not evaluate the macro-influence of the state in the home country, nor even the presence of the state in the buyer firms, so considering these mechanisms is another opportunity for future research. Finally, new studies could evaluate the macro–micro presence of the state both in the buyer and seller firms and in home and destination countries to gain a better understanding of the presence of the state and its effects on the process of internationalization.

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