2013-12-11

PRESS RELEASE

The relationship between slack resources and firms' exporting behavior
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NBB Working Paper No 248 **-** Research Series

Belgian firms are under enormous pressure to raise their production efficiency and to attain their objectives with a minimum of resources. This pressure results from the increasing competition from fast-growing, mostly Asian, countries. At the same time, and in this increasingly globalising world, firms often need resources to expand their international activities and to compete in international markets. Furthermore, Belgian firms often feel compelled to innovate and thereby create and maintain a competitive advantage, but this, too, frequently requires access to additional resources. The above dilemma proves that it is not self-evident for firms to know the right amount of resources they need to hold in order to move into foreign markets effectively.

In order to be able to answer this question, this study conducted research into the effect on firms' exporting behaviour of holding slack cash resources on the one hand, and a buffer of managerial and white-collar staff on the other hand. We make use of unique data, obtained through the National Bank of Belgium, about firms' exporting behaviour in the Belgian manufacturing sector between 1997 and 2009. We focus on financial resources and staff resources, because these are traditionally considered to be the key resources a firm needs to be able to internationalise.

The results highlight that, when manufacturing firms hold slightly more resources than their sector's median (consequently, these firms have slack financial resources and human capital), they decide more easily to export and are also more active in a larger number of foreign markets. Thus, such slack resources create export opportunities for firms and provide more flexibility to cover sundry export-linked costs (such as new market entry costs or coordination costs). However, holding too many of such resources can lead to inertia. Firms will behave too optimistically, thus experiencing less pressure to adapt themselves to a constantly changing economic environment. Our results show that a surplus of resources makes firms decide less easily to export and that they are more active in a more limited number of foreign markets.

Less is more? More is less? From a policy perspective, it is crucial to understand why some firms export and others do not, and why some firms are active on a worldwide level, while others are only active in our neighbouring countries. Minimising what some define as "excess" slack and creating extremely efficient firms can curb the firms' exporting behaviour. Surplus slack can, however, also restrict firms' exporting behaviour, so more financing and human capital is not necessarily better. Our study highlights the importance of holding the "right" amount of resources. Firms need slack financial and human resources in order to export (to a larger number of foreign markets).

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