

## Expanded abstract

# Geographic diversification in export destinations of agri-food companies and cooperatives. Influence of external factors on their selection

### Objectives

The relationship of the disciplines object of this study, geographic diversification and international market selection (IMS), has been hampered by a high degree of fragmentation of the IMS in the various research streams, and by its greater link in favour of works focused on the entry mode into foreign markets. Although Tihanyi, Griffith and Russell (2005) study the effect of IMS factors on geographic diversification, their work focuses on cultural distance. In turn, in the work of Cos and Escardíbul (2019) is concluded that the diversification of export destinations of the companies is opening the way to use other criteria in the IMS that differ from geographic and cultural proximity. Although the research recognizes that IMS may be associated with the criteria most commonly used in the literature, it does not explicitly focus on its relationship with geographic diversification, suggesting, however, the influence of IMS factors.

The objective of this paper, focused on the geographic diversification of an economy, is to determine the impact of the most common factors of traditional internationalization theories to select countries. More specifically, it is intended to answer the following questions: a) Is psychological distance an influencing factor in the growing of geographic diversification of an economy? b) What is the relationship between the external factors of the IMS and a tendency to an economy towards greater geographic diversification?

This research focuses on a specific economy chosen for its particularities, the exporting agri-food sector of Lleida. From the perspective of exporting agri-food cooperatives, highlight the interest that the results obtained in this study may arouse. Although non-cooperative companies predominate over cooperatives in the exporting agri-food sector of this province, Lleida stands out as the most exporter of the Catalonia agri-food cooperative sector, concentrating more than half of the total exported and with two out of four exporting cooperatives (Cos, Aldaz, Escardíbul, Millán and Moltó, 2019). In turn, the horticultural is the main exporting sector of the Lleida agri-food cooperatives, as in the case with the total exports of this province.

### Methodology

The study data are obtained from several secondary sources. The first one, from the Customs Department of the Spanish Tax Agency, is used to obtain the 23 countries that make up the

sample, the main destinations of the 672 agri-food exporting companies in the province of Lleida. The importance that the agri-food cooperatives of this province acquire in these figures, still represented by 10%, must be analysed in the context of the agri-food cooperative sector in Catalonia, as Lleida is the most internationalized province.

The growth of Lleida's agri-food exports, in the analysed period, has been considerably lower in the main destinations of the EU-28 than in the rest of the countries of both advanced and emerging economies, the latter acquiring greater prominence to the detriment of European Community destinations, despite its higher export quota. Regarding the Catalan cooperatives studied, they tend, on the one hand, to a greater diversification in the number of destinations, and, on the other hand, to a greater concentration of the percentage of exports to the EU-28 countries.

The dependent variable of this study, geographic diversification, when analysed from the general perspective of an economy and considering the dynamic nature of this strategy, is the 'Growth rate', during a certain period, of exports to each selected market. The independent variables used are psychological distance (cultural, geographic and language), economic intensity, country risk, a country's competitiveness and the market size. To measure these variables in each priority destination country, the information used comes from secondary sources: World Bank, World Development Indicators Database (WDI); OECD; WTO; Global Competitiveness Report (World Economic Forum); Hofstede Centre (2010); Geobytes Database; and Centre for the Practice of International Trade (Melbourne Business School).

Like other studies related to the scope of this research, a factor analysis is performed first (e.g., Whitelock and Jobber 2004; Sakarya *et al.*, 2007; Sheng and Mullen 2011), followed by a multiple regression analysis (e.g., Triguero-Cano and Cuerva, 2011; Benito-Osorio *et al.*, 2016) with the scores of the retained factors, avoiding the problem of correlation between the variables and the influence of many items.

The three working hypotheses are:

- H1. The psychological distance (cultural, geographic and language) positively influences the geographic diversification of an economy.
- H2a. Environmental factors (economic development) influence the geographic diversification of an economy.
- H2b. Environmental factors (market) influence the geographic diversification of an economy.

## Results / conclusions / limitations

Four factors are obtained from the factor analysis ('Economic development', 'Market size', 'Cultural / Language distance' and 'Geographic distance'), which together explain 88.1% of the variance. The results of the regression analysis allow the validation of H2a and H2b hypotheses. The model shows a significant and negative relationship between economic development and the market size of an exporting country with the tendency of an economy to geographic diversification. In this way, companies tend to diversify their sales towards countries with less political and economic stability (lower GDP per capita, lower competitive intensity and with

country risk) and with smaller market size. Regarding H1, with the results obtained, it could not be confirmed, as there was no empirical evidence of a relationship between both variables.

As part of the analysed economy, the agri-food cooperatives described in this paper could use these conclusions as a reference and comparison of the companies in the studied economy, considering their specific characteristics. The importance that international activity acquires in agri-food cooperatives for their growth (Bretos, Díaz-Foncea and Marcuello, 2018), makes this work of special interest for this group of companies, especially considering that the internal limitations and Cooperatives' externalities make them less competitive and hinder their international expansion. The influence of the relevant criteria of the IMS with various strategic internationalization decisions, such as geographic diversification, should serve the cooperatives in this study to be able to evaluate the different alternatives that are presented to them.

Regarding the main limitations, it is worth highlighting the exclusive use of secondary sources and the dependent variable used. Limitations, however, that do not significantly influence the results and that could open the way to future research.

## Original value and practical implications

With the present work it has been tried to continue advancing in the knowledge of the internationalization of the Spanish company, among which is the cooperative sector, providing new empirical evidence on a little-discussed topic, such as the relationship between IMS and international diversification. Thus, an integrative analysis of the external factors of the IMS that influence the geographic diversification of a specific economy is provided, based on secondary sources that provide us with objective information and immediate accessibility.

From the present study, a series of practical implications can be found in the field studied. Diversifying destinations should help companies to become aware of the importance of selecting markets in their internationalization process, applying, for this, a methodology with a systematic approach or not, which allows them to expand their range of target markets. Above all, considering that companies in their territory and sector, whether they are competitors or not, seek new options to direct their international sales, beyond the security of community markets, geographically close and favoured by belonging to a common market. Probably these companies that target markets that are not desirable a priori due to their macroeconomic characteristics, select them for a series of reasons that, although unknown in this study, offer them some competitive advantage that makes them suitable.

For the agri-food cooperative sector, the usefulness of these practical implications acquires special relevance, when operating, most of the large global cooperatives of the agri-food sector, at an international level (Bretos *et al.*, 2018), standing out, in turn, the export as entry mode compared to the rest of the modalities. With these premises, the cooperative sector studied still has a journey in its internationalization, since half of the agri-food cooperatives in Lleida still do not export. In addition, with a tendency towards the concentration of their exports to EU countries in terms of volume, they could be based on environmental factors to diversify their foreign target markets, increasing their exports in those markets already served, with still marginal shares. Thus, geographic proximity and EU membership are the criteria main-

ly used by the cooperatives studied to select foreign markets, typical of the non-systematic approach, which implies that to choose export countries from other advanced or emerging economies they should develop systematic models, which would provide cooperatives with a structured method in the IMS, with the benefits that this entails.

**Keywords:** International market selection, geographic diversification, agri-food cooperatives, internationalization, environmental factors, psychological distance.