

Reply to the Referee 2 Report

We would like to thank the referee 2 for the careful reading and the valuable comments that helped us to improve the manuscript. Hereafter, the item-by-item response for each comment is provided.

Comment 1: This paper implements a recursive non linear model to test for the relationship between a firm decision to innovation and a firm decision to export on an original sample of 86 SMEs located in region “Lower Normandy” in France. Although small, the dataset has a unique advantage in the that it includes information on the willingness to export (based on self-declaration of non-exporting firms) and not simply on effective firm exports. Thanks to this information, the authors intend to test whether a firm intention to export induce a firm decision to innovate which in turn impact the firm effective entry into export through a productivity channel.

The paper is very well drafted. It provides a comprehensive and well organized review of the previous literature. It offers a clear exposition of the dataset and a clear definition of the main variables of interest. The empirical analysis looks sound to me. However, it does not fully exploit the panel dimension of the data which is a pity regarding the initial positioning of the paper. The results support the view that firms which take their decision to innovate prior to their decision to export and that the former impact the latter through a productivity channel. However, to me the paper does not provide a direct test of the conscious self-selection hypothesis.

Response 1: The data are derived from two sources. The information about innovation and export activities is provided by the IDEIS survey. The IDEIS data is referring to data from *only* one period, i.e. 2006-2008. The financial data (used for calculating productivity for example) have been retrieved from the Diane database. The Diane is available for each year over the period 2006-2008.

This study verifies the hypothesis of conscious self-selection by emphasizing the role of innovation activities as the main source of *ex ante* productive performance of firms before entering the export market, allows the firm to more easily overcome export costs. In our approach, the willingness to export is distinguished from effective export. The willingness to export means to be in

the position to export, understood principally by the high productivity performance. To be in position to export don't result necessarily in the effective export which also depend on the specific conditions of foreign market in the time of the exportation.

Comment 2: In the conclusion, the authors derive policy implications which sound too strong as regards the empirical analysis. Specifically, the authors claim that “picking winners” policies are called for but I didn't see the point. Also the authors claim that innovation support policies are better than export promotion policies to favor firm exports. Once again I can't see the justification of this claim in the empirical analysis.

Response 2: the recommendations will be revised. The results must be interpreted more cautiously, specific to the industrial SMEs in our region. In fact, this model provides the probability of being able to export for each non exporter. This probability can be one of the factors to distribute the export aid to enterprises, which already has been achieved in our region.

According to our result, innovation is a source of high productivity level which, in turn, increases the enterprise's chance to be in position to export. Therefore, one of the lines of export promotion policy can head towards the promotion of innovation activities.

Comment 3: Finally, the authors point a couple of possible extensions for future works. The first one is to make a better use of the panel dimension of the data which allow to distinguish between the intention to export and actual export. This is very confusing to me as the basic claim of the paper was to use this specific feature of the data. So my main concern is: why the authors didn't fully exploit the panel dimension of their data in this paper?

Response 3: As it mentioned, our data concerning innovation and willingness to export is cross-sectional and was collected by observing the firms at the one period of time. It is possible to distinguish only between the intention to export and actual export in period 2006-2008, but in our opinion it can be useful to follow the export behavior of the enterprises which are willing to export in period 2006-2008, in next periods.