# Internationalisation of Small and Medium-Sized Firms: the Role of the Host Country's Institutional Context

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**vorgelegt von:**

Dipl.-Kffr. (univ.)

Julia Eiche

aus Weinheim / Bergstraße


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## List of abbreviations

| | |
|---|---|
| BRIC | Brazil, Russia, India, and China |
| CEO | Chief Executive Officer |
| DC | Developed Country |
| EBRD | European Bank for Reconstruction and Development |
| EU | European Union |
| FDI | Foreign Direct Investment |
| GDP | Gross Domestic Product |
| IBR | International Business Research |
| IMD | Institute for Management Development |
| IMF | International Monetary Fund |
| IP Model | Internationalisation Process Model |
| LDC | Less Developed Country |
| MNE | Multinational Enterprise |
| NI | New Institutionalism |
| NIE | New Institutional Economics |
| OECD | Organisation for Economic Co-operation and Development |
| RBV | Resource-Based View |
| SME | Small and Medium-sized Enterprise |
| TCE | Transaction Cost Economics |
| UK | United Kingdom |
| USA | United States of America |
| VIF | Variance Inflation Factor |

# Internationalisation of Small and Medium-Sized Firms: the Role of the Host Country's Institutional Context

## 1 Introduction

## 1.1 Background of the Study

### 1.1.1 Internationalisation of Firms

The opening of markets, the lowering of trade and custom barriers, technological progresses and worldwide media connections together with lower communication costs make the world more global. This globalisation leads to radical changes in market conditions and competitive environments challenging firms all over the world. Increasing complexity and dynamic environments are important characteristics of the today's business world exposing firms to high change pressures (Dunning, 2001).

Internationalisation offers opportunities. Consequently, enterprises feel challenged to push their international activities in order to be represented globally. Foreign market entries allow for example for new markets, additional resources, and strategic assets, and help to achieve economies of scale and scope, to overcome trade barriers and to diversify risks (Dunning, 2009). The factors stimulating a firm's decision to initiate, develop, or sustain international operations are among the most dynamic and critical elements of the internationalisation process (Wiedersheim-Paul, Olson, and Welch, 1978). Driving forces for internationalisation include the prevalence of home market constraints, the identification of business opportunities in foreign markets, the possession of unique organisational competencies, the existence of idle operating capacity and pressures by domestic competitors (Flores and Aguilera, 2007).

Also small and mediums sized enterprises (SMEs) face a higher competitive intensity in their niche markets. Additionally, they may face strategic restrictions: SMEs often are family owned and managed as well as challenged to decide efficiently about their limited resources. SMEs, compared to their large counterparts, therefore are confronted with additional risks resulting from generation changes, the scarcity of traditional financial sources, as well as limited managerial capacities. Due to those special characteristics internationalising SMEs face higher risks. A failure of a foreign market entry may influence and even endanger the survival of the SME. Thus, internationalisation may expose SMEs to fundamental risks mostly due to liabilities of foreignness. When entering foreign markets firms may face barriers in particular with regard to foreign cultures and valid business rules. Nevertheless, about 98% of the 350,000 German exporting firms (ifm, 2010a) are medium-sized. SMEs therefore are the backbone of the German export (Simon, 1996).

Since SMEs comprise the vast majority of the population of firms in Europe, and barriers to internationalisation are falling, researchers are increasingly examining SME internationalisation issues (e.g. Nakos and Brouthers, 2002; Brouthers and Nakos, 2004; Erramilli and Rao, 1993). Consequently, considerable research has explored internationalisation of SMEs examining in-depth firm-specific determinants and effects, underlying motives, as well as performance implications. However, knowledge about the impact of the host country's institutional context on internationalisation of SMEs is still rather limited (Peng, Wang, and Jiang, 2008; Slangen and van Tulder, 2009).

The institutional context may significantly challenge a firm's internationalisation. Institutions specify the cultural, political, financial, and legal setup of a country. Internationalising firms therefore are challenged to handle uncertainties and additional risks in foreign countries resulting from constraints and differences in the prevailing institutional setup (Estrin, Baghdasaryan, and Meyer, 2009; Dikova and van Witteloostuijn, 2007; Henisz, 2000; Meyer, Estrin, Bhaumik, and Peng, 2009; Shenkar, 2001).

SMEs are more sensitive to the host country's institutional context than larger multinational firms (Brouthers and Nakos, 2004), as they are typically characterised by greater resource scarcity as well as differences in ownership and dependence (Nakos and Brouthers, 2002). Without the economic power of larger firms, SMEs can hardly diversify risk in response to the challenges arising from the institutional context (Brouthers and Nakos, 2004; Erramilli and Rao, 1993). Hence, the effects of the institutional context on internationalisation shall be more profound in SMEs than in large multinational enterprises (MNEs). Knowing the challenges arising from insufficiently developed institutions is therefore essential to successful internationalisation of SMEs. Yet recognition of these issues remains limited.

In line with this argumentation, the aim of this thesis is to examine the impact of the host country's institutions on SME internationalisation. The overall purpose is to contribute to a deeper understanding of the role of the institutional context with regard to the internationalisation of small and medium-sized firms highlighting its impact on entry and establishment mode choice, location choice and entry timing.

The following sections of this introductory chapter will first provide the relevant background of this thesis and give an overview of the main theoretical and methodological issues in research on SME internationalisation. In the following the research objectives are presented. Afterwards, I introduce two datasets applied in the empirical analyses in chapters 2 to 5. Finally, the last section of this chapter highlights the course of investigation.

### 1.1.2 Small and Medium-sized Enterprises

Small and medium-sized firms play an important role all over the world. In the European Union about 23 million SMEs exist representing approximately 99% of all active firms and 75% of the overall jobs (European Commission, 2006). In Germany, the 'Mittelstand' includes 99.7% of the active firms (ifm, 2010b).

Numerous definitions strive for clearly defining SMEs, yet there is no consense up to now. Researchers broadly agree that various quantitative and qualitative characteristics determine SMEs. Qualitatively, SMEs often join ownership, liability, management and risk in one person (Günterberg and Wolter, 2002). Mostly, SMEs strive for independency pursuing long-term and sustainable stability goals. In addition, SMEs often specialise on niche strategies. Whereas those qualitative determinants are essential to better understand motives, conditions, and particularities of SMEs, quantitative criteria mostly determine the size of SMEs. Common quantitative classifications relate to turnover, profit, total assets and the number of employees (Günterberg and Wolter, 2002). The European Commission (2006) draws on three quantitative criteria to define SMEs. Thus, all firms with less than 250 employees, a sales volume of up to 50 million Euros and total assets of maximum 43 million Euros represent SMEs in Europe. This definition is pivotal for the allocation of subsidies and public funds in Europe. In contrast, the Institute for SME Research in Bonn, Germany, applies other threshold values basing on two quantitative criteria for SME definition (ifm, 1997). Thus, all firms with less than 500 employees and a turnover of up to 50 million Euros are among SMEs.

In business research, the exact threshold for defining SMEs mostly depends on research aims and conveniences. Scholars often apply the number of employees as only criterion due to the easier measurability. They mostly consider firms with less than 1,000 employees as medium-sized (Kabst, 2004). This dissertation applies two different approaches for defining SMEs in order to pursuit a comprehensive approach: In chapters 2-4, SMEs are limited to firms with 500 employees at maximum whereas in chapter 5, I base on a more ample definition considering all firms up to 1000 employees.

### 1.1.3 Institutions in International Business Research

A firm's internationalisation requires decisions about how to enter (entry and establishment mode choice), where to enter (location choice) and when to enter (entry timing) a foreign market. These decisions represent highly strategic issues with important implications for a firm's growth and expansion paths (Cantwell and Lammarino, 2000; Bevan, Estrin, and Meyer, 2004). Entry mode research generally differs between non-equity and equity modes of entry (Brouthers, 2002; Brouthers and Brouthers, 2003; Brouthers and Nakos, 2004) as well as between Greenfield investments and acquisitions (Slangen and Hennart, 2008). With regard to location decisions, managers are challenged by the global competitive landscape. They aim to choose the most advisable destinations in order to fulfil the firms' strategic motives. Studies on entry timing, finally, examine determinants and characteristics that may lead firms to enter new markets at an earlier or later point in time. Especially the proactive international approach of international new ventures is of special interest in this research field.

But whereas considerable research has explored firm-specific determinants and effects, underlying motives, as well as performance implications of internationalisation, knowledge about the role of the host country's institutional context on entry mode, establishment mode, location choice, and entry timing of SMEs is rather limited or even missing (Peng, Wang, and Jiang, 2008; Slangen and van Tulder, 2009). According to institutionalists, institutions are the rules in a society or "[…] the humanly devised constraints that shape human interaction" (North, 1990, p. 3). Scholars broadly agree that institutions matter, yet leaving open wherein lies this impact (Meyer and Peng, 2005; Mudambi and Navarra, 2002). In line, Williamson (2000, p. 595) points out that the research on international business is "[…] still very ignorant about institutions".

Basically, organisations have to adapt their decisions and strategies to the institutional context in order to be successful in the host country (Estrin, Baghdasarayn, and Meyer, 2009; Wright, Filatotchev, Hoskisson, and Peng, 2005; Peng, 2000). Strong and complete institutions provide support for efficient business transactions (Gelbuda, Meyer, and Delios, 2008). In a mature and developed institutional context, institutional rules of the game are predictable, all democratic institutions of a nation-state are powerful, the democratic and constitutional laws are granted, human rights ensured, and minorities protected. Firms are then able to rely on the given institutional factors, as in mature environments institutions are robust, longstanding and trustful. In contrast, weak formal institutions are characterised by institutional restrictions and constraints (Peng, 2002). When property rights are not granted, repatriation of earnings not ensured, and business rules variable, the formal institutional setup implies high risk and hinders a firm's economic acting. The complexity and opacity of institutional settings in diverse markets lead to uncertainty about the valid rules for economic acting in the focal market (Whitley, 2001a; Khanna and Palepu, 1997). If – due to voids and underdevelopment – the institutional framework of the host country is erratic, enterprises have only limited knowledge about their present and future economic, political and societal surrounding. In consequence, firms may have difficulties to adapt to the institutional context when they do not know about the valid business rules. However, not acting autonomously, but being embedded in and determined by their institutional environment, organisations have to adapt their economic behaviour to the prevailing institutional parameters (Ingram and Silverman, 2002; Wright, Filatotchev, Hoskisson, and Peng, 2005; Narula and Dunning, 2000; Peng, 2003; Deeg, 2005).

Following this argumentation, I expect that the institutional context determines internationalisation strategies of firms. Institutions may influence entry and establishment mode selection, location choice and entry timing and thus represent key drivers of organisational strategies. In detail, I elaborate on the following research questions. Do the host country informal institutional distance and formal institutional risk have a moderating impact on SME entry mode selection? Does the perceived institutional uncertainty influences an SME’s decision between Greenfield and acquisition? Are the FDI location choices of SMEs contingent upon the firm’s knowledge intensity and international experience and which role does the level of institutional development in the host country play? Does the country-specific institutional context impact the timing of foreign market entries?

Addressing these questions will lead to a deeper understanding of how the institutional setup in the target country influences the internationalisation of SMEs, and, in particular, its strategic decisions on entry mode choice, establishment mode selection, location choice and entry timing.

### 1.1.4 Theoretical Foundations

In the past, the International Business Research (IBR) was dominated by theoretical perspectives, such as International Process Model (e.g. Meyer and Gelbuda, 2006), Transaction Cost Economics (e.g. Brouthers and Nakos, 2004), New Institutional Economics (e.g. Brouthers and Brouthers, 2001) and Resource-Based View (e.g. Meyer, Wright, and Pruthi, 2009; Brouthers, Brouthers, and Werner, 2008). The following sections briefly summarize these theoretical approaches.

Since the end of the 1970s, many studies on internationalisation of firms have based on the ***Internationalisation Process Model (IP Model)*** explaining the gradual expansion of foreign operations (Johanson and Vahlne, 1977). The IP Model assumes that firms need to acquire experimental foreign market knowledge in order to increase their commitment of resources in foreign markets. The more firms know about foreign markets the less risk is related to a foreign market entry and the higher is the investment volume. However, knowledge transfer from prior experiences is limited so that firms tend to internationalise in concentric circles and foreign market entries proceed gradually. The sequential selection of markets depends on the psychic distance as "[…] the sum of factors preventing the flow of information from and to the market" (Johanson and Vahlne, 1977, p. 24). Language, education, business rules, culture and industrial development are determinants of the psychic distance between countries. Firms tend to start their internationalisation in foreign markets with small psychic distance in e.g. neighbouring countries. With increasing knowhow and experience firms accept higher psychic distance for their foreign expansion.

The IP Model assumes that market knowledge is acquired primarily through experiences from current business activities in the host country (Meyer and Gelbuda, 2006). Thus, in markets with stable and longstanding institutional setups the IP Model explains gradual international expansion of firms in accordance with their increasing knowledge. However, in countries characterised by weak institutional contexts, learning possibilities are limited. In those markets, foreign investors generally lack experimental and/or market knowledge being key driving forces of international activities according to IP Model (Meyer and Gelbuda, 2006). So, basically, the IP Model neglects that firms are embedded in their environment, and that this embeddedness may have own effects on international expansion of firms. In consequence, the IP Model seems less suitable to analyse the impact of institutions on internationalisation of firms.

***Transaction Cost Economics (TCE)*** is most associated with the work of Oliver Williamson (1975; 1990), though he was building on earlier work, particularly on the Nobel prize winner Ronald Coase (1937). TCE explains the structure of a firm assuming that firms are profit maximising, and that profit maximisation involves costs minimisation. In order to act successfully, firms therefore shall minimise transaction costs resulting from making economic exchanges or participating in markets. Transactions costs arise for ex ante reasons (drafting, negotiating, and safeguarding agreements between the parties to a transaction) and ex post reasons (maladaption, haggling, establishment, operational, and bonding costs). Market transactions can be frequent or rare, have high or low uncertainty, or involve specific or non-specific assets. These characteristics will, according to TCE, determine whether transaction costs are lowest in a market or in a hierarchy. TCE can therefore be applied to explain internalisation of firms (Buckley and Casson 1976; 1998): Hierarchical market entry modes are efficient, when risks of subsequent contract adaption or infringement of contract – and therefore ex post transaction costs – are expected to be high.

TCE has been developed assuming stable and well developed market mechanisms. Scholars therefore are challenged when applying TCE in institutional frameworks characterised by incomplete and fragmented institutions (Meyer and Peng, 2005). In those environments, researchers can hardly identify the pertinent transaction costs, as lacks of information systems, ineffective courts or increased opportunistic behaviour may lead to additional costs. Consequently, transaction costs may be higher in countries with weak institutional frameworks and they may vary across markets differing significantly from mature markets. Thus, particularly in instable institutional settings, transaction costs are hard to identify and to measure. This lowers the predictive power of the theory in institutionally immature countries (Meyer and Peng, 2005).

To address those limitations, TCE has been extended by an institutional perspective to better explain internationalisation (Hoskisson, Eden, Lau and Wright, 2000; Brouthers and Brouthers, 2001). The ***New Institutional Economics (NIE)*** is an economic perspective arguing that social and legal norms and rules underlie economic activity (Williamson, 1975). NIE has its roots in Ronald Coase's insights and posits that without transaction costs alternative institutions can equivalently internalise conflicts and externalities. NIE examines the interaction between institutions and organisations assuming limited rationality and opportunistic behaviour. Stable institutions may reduce uncertainty and transaction costs and facilitate interactions between social actors. But although NIE helps to explain how institutions influence organisations, major limitations still lay in the measurement of transaction costs challenging enterprises especially in institutionally uncertain environments. In order to consider institutions as determinant of transaction costs, firms are challenged to regularly update the assessment of the cultural, legal and economical environment (Meyer and Peng, 2005). In addition, and in line with TCE, NIE analyses firm-specific determinants on the organisational level but neglects the social embeddedness of organisations in the institutional environment (Meyer and Gelbuda, 2006).

The ***Resource-Based View (RBV)*** argues that firms possess specific resources enabling them to achieve competitive advantages and leading to superior long-term performance (Wernerfelt, 1984; Barney, 1986). According to RBV the basis for a firm’s competitive advantage lies primarily in the application of the bundle of valuable and rare resources being at the firm’s disposal. This advantage can be sustained over longer time periods to the extent that the firm is able to protect itself against resource imitation, transfer, or substitution. Firms are challenged to identify and maintain valuable combinations of resources in special contexts. RBV helps to explain international market entries examining how firms should cooperate with local partners considering partner selection and organisational learning as important subjects. RBV suggests cooperations as efficient mode of organisation as complement resource bundles may create sustainable competitive advantages whereas in market transactions firms cannot build strategic resources. Thus, RBV explains hierarchy and cooperation based entry modes rather than international market transactions as cooperations and networks help to create competitive advantages.

In the past years, IBR has shown that the institutional context influences the way firms manage their resources (Meyer and Peng, 2005; Peng and Heath, 1996; Uhlenbruck, Meyer, and Hitt, 2003). In those environments, context-specific resources, such as business networks, and process-related capabilities, such as organisational and strategic flexibility, get more important. Theories applied in research of different institutional contexts therefore need to capture dynamics in resource bundles challenging in particular RBV. Due to the given dominance of theoretical frameworks mainly on organisational levels, firm-specific determinants of internationalisation are among the most frequently applied in IBR (Brouthers and Brouthers, 2003; Brouthers and Nakos, 2004; Chang and Rosenzweig, 2001; Glaister and Buckley, 1996; Hill, Hwang, and Kim, 1990). Consequently, context-related determinants with regard to the institutional framework in the host country find less attention when examining internationalisation patterns and behaviour of firms. However, firms are not immune to the institutional context in the host country (Granovetter, 1985; Ramamurti, 2004); they are rather are nested in a broader political, economic, and social context shaping behaviour and action (Meyer and Gelbuda, 2006; Hitt, Levitas, Arregle, and Borza, 2000; Dacin, Ventresca, and Beal, 1999).

A theory explaining the role of institutions on internationalisation of firms shall mainly fulfil the following requirements: First, it shall consider formal and informal institutions (Brouthers, 2002). Formal institutions refer to the legal, juridical, educational and economical framework of a country. They characterise the environment firms are embedded in and provide the valid business rules in a specific country (Davis, Desai, and Francis, 2000; Chatterjee and Singh, 1999; Roberts and Greenwood, 1997). On the other hand, when formal institutions are weak, informal institutions represented by the culture, values and norms in a country play a more important role in the host country (Kogut and Singh, 1988; Brouthers and Brouthers, 2000; Delios and Beamish, 1999; Brouthers, 2002). Hence, both formal and informal institutions need to be incorporated when examining the role of institutions on internationalisation. Second, the theory shall be positioned on macro-level. Theoretical approaches in IBR can be differentiated upon the levels manager, organisation, industry, and environment (Zahra, Ireland, Gutierrez, and Hitt, 2000). In the past, most of the existing studies have focused on organisational, industrial and individual levels. The macro-level was rather treated as black box. Researchers therefore claim for combination of existing theories with approaches considering institutions (Meyer and Peng, 2005) or to base on theories, e.g. from sociology or politology, that are able to examine the impact of the context on firm behaviour (Meyer and Nguyen, 2006; Meyer and Skak, 2002). In line with these claims and the mentioned requirements, this thesis bases on New Institutionalism to examine in-depth the impact of the host country's institutional setup on internationalisation of small and medium-sized firms. The following section explains the main concerns and contributions of ***New Institutionalism (NI)***.

Since the beginning of the 1990s, institutions attract more research attention within the disciplinary triangle of sociology, politics and economics (Geppert, Matten, and Schmidt, 2004). The NI understands enterprises as social actors embedded in the social, cultural, political and economical context of their environment and aims to explain how social actors adapt to their institutional environments (Scott, 1995; Geppert, Matten, and Schmidt, 2004). Institutions provide the laws of the game consisting of both, the formal rules and the informal social norms that govern individual behaviour and structure social interactions (Whitley, 1999). Formal institutions are manifested in political rules, legal decisions, and governmental issues. They determine the nature of private property rights, access to finance, the development of skills and knowledge, and labour relations (Whitley, 2005). They result mostly from historical occurrences such as wars or significant political changes, and reflect the characteristics of the pre-industrial political and economical organisation (Whitley, 1992). In contrast, informal institutions describe patterns of behaviour concerning trust, collaboration, identity, and subordination (Whitley, 1999) and are embedded in culture and ideology (Peng, 2000).

The NI highlights the importance of the social context, the institutional linkages of organisational acting and the influence of culture, norms and values on organisations. Instead of being autonomous units, organisations are embedded in and influenced by the society. Institutionalist research emanates that behaviour patterns, routines and structures of organisations are contingent upon societal-cultural norms and values. Organisations therefore are obliged to interact with their institutional environment in order to survive. Firms have to e.g. raise capital resources on financial markets, define wages and working conditions, and have to ensure that workers have the required education. Furthermore, they need to secure access to technology via interfirm relations in order to successfully compete for customers (Hall and Gingerich, 2004). Regarding this, new institutionalists examine the way social actors control and coordinate economic activities and resources within a market economy (Whitley, 1999). This coordination may be affected by markets or contractual relationships or by strategic interaction of social actors. The specific type of coordination, however, is contingent upon the institutional setup of a nation state as economies differ in the extent they are depending of market-based, contractual or strategic coordination (Hall and Gingerich, 2004). As a consequence, the varying types of coordination of market economies lead to different strengths and specialisations which in turn offer various comparative advantages to organisations (Lange, 2006). Enterprises therefore adapt their strategies to benefit from these different comparative advantages. Stable institutional structures reduce uncertainty and facilitate interactions between social actors stabilizing the respective coordination processes. Thus, institutions influence for example the strategies of previously state-owned firms before and after privatisation (Peng, 2000), the creation of new firms (McDermott, 2002), and the strategies of foreign investors (Henisz, 2000; Oxley, 1999; Hoskisson, Eden, Lau, and Wright, 2000). Firms therefore should take into account the host country's institutional context when planning to enter foreign markets. In total, the comprehensive assessment of the host country's institutional context is vital for a full grasp of the challenges which can arise when entering into a foreign market.

This dissertation contributes to SME research in international business literature basing on New Institutionalism aiming to provide a deeper understanding of how institutions impact SME internationalisation.

### 1.1.5 Methodological Issues

Internationalisation has received considerable research attention in the past (Brouthers and Hennart, 2007; Slangen and Hennart, 2008) leading to high diversity in empirical methodologies. In general, two main empirical approaches dominate the research field: Some scholars apply a qualitative approach analysing case studies in order to generate a comprehensive understanding of relevant patterns of internationalisation. Other studies base on quantitative analyses closing research gaps with the help of multivariate methods of analysis. This dissertation pursues a quantitative approach.

With regard to research on the role of the institutional setup on internationalisation, existing quantitative studies are characterised by high degrees of heterogeneity in terms of significance, direction and strength of the effects mostly ending up with inconclusive and conflicting results. Particularly studies examining the direct effects of the institutional context on internationalisation have been inconclusive. The opposing empirical results and theoretical arguments indicate that the findings may be contingent upon other determinants. Thus, Slangen and Hennart (2007) suggest that these inconsistent findings might be due to unrecognised moderating effects. However, moderating effects of the institutional environment have found only limited attention so far and the few existing studies present different findings.

With regard to interaction effects, scholars recently started to critically reflect on this complex issue (Li and Meyer, 2009; Powers, 2005; Shaver, 2005) reasoning that interaction coefficients of moderating terms were not interpreted correctly in non-linear models (Ai and Norton, 2003). In non-linear models, interaction effects cannot simply be interpreted by looking at the sign, magnitude, or statistical significance of the coefficient on the interaction term when the model is non-linear. This dissertation therefore applies moderator analysis as suggested by Ai and Norton (2003) and Jaccard (2001) in its non-linear models. I suggest that the approach advanced by Ai and Norton (2003) supplemented by graphical plots (Jaccard, 2001) may be an appropriate means to study interaction terms when the dependent variable is non-linear. This procedure may advance management research studying categorical dependent variables.

In addition, IBR shows heterogeneity regarding the measurement of the institutional context. When measuring the institutional context, some scholars apply secondary indices such as the Euromoney Index (Gaur and Lu, 2007; Delios and Beamish, 1999), the Economic Freedom Index (Meyer, Estrin, Bhaumik and Peng, 2009; Estrin, Baghdasaryan and Meyer, 2009; Brouthers, Brouthers and Werner, 2008), and the World Competitive Yearbook (Gaur and Lu, 2007). Other scholars preferred basing on own composite measures in order to reflect the institutional context appropriately (Henisz, 2000; Brouthers, Brouthers and Werner, 2002; Child and Tsai, 2005). However, secondary and multi-item measures normally represent only formal institutions. With regard to informal institutions, researchers (e.g. Oxley, 1999; O’Grady and Lane, 1996; Dow and Larimo, 2009; Brouthers and Brouthers, 2000) often have applied the distance indices of Hofstede (1980) as well as Koguth and Singh (1988), and recently the GLOBE indices (Estrin, Baghdasaryan, and Meyer, 2009). This short review shows that the measurement of the institutional context still remains inconclusive. Studies do not consider the complexity of the institutional environment consisting in formal and informal institutions. This dissertation therefore presents various approaches to represent the institutional setup of a country. They range from secondary indices measuring the informal institutional distance and the formal institutional risk in chapter 2 over multi-item measures reflecting the level of perceived institutional uncertainty in chapter 3 and 5 to a new composite and comprehensive measurement of the formal and informal institutional context in chapter 4.

Finally, scholars claim for a more careful selection of the underlying research design (Slangen and Hennart, 2007) in order to assure reliable results. Thus, and in line with Slangen and Hennart (2007), this thesis tests the hypotheses on two different samples of German medium-sized enterprises (see chapter 1.3) both showing great variance in the host countries. This variance in the datasets allows for examining in-depth host-country-level effects. In addition, this dissertation provides results from a country (Germany) that so far has not found intensive research attention in IBR compared to other countries such as USA, UK, or Scandinavia.

Based on the methodological deficits as well as the theoretical research gaps pointed out up to now in this chapter the next section emphasises the overall research objectives of this thesis.

## 1.2 Research Objectives

The overall aim of the thesis is to contribute to a deeper understanding of how institutions impact SME internationalisation. To address this aim, I examine four different aspects of SME internationalisation: The entry mode choice, the establishment mode choice, the location choice, as well as the entry timing.

Chapter 2 addresses the moderating effect of the institutional environment in the host country on entry mode selection among SMEs. Although considerable research has explored international mode choices, knowledge about the impact of the host country's institutional context on the foreign market entry mode choice of SMEs still is rather limited. Focussing on New Institutionalism this chapter’s study examines the moderating effects of informal institutional distance and formal institutional risk on entry mode choice among German SMEs.

Chapter 3 examines the moderating role of perceived institutional uncertainty on SME establishment mode choice drawing on new institutionalism. While the decision between Greenfield investments and acquisitions has attracted large academic attention in the past, the impact of the perceived institutional uncertainty on this strategic decision still remains unclear. However, institutional uncertainty as perceived by the top management might be of particular importance in SMEs being often family businesses with centralised decision making by single persons.

Chapter 4 examines several hypotheses regarding the location choice of foreign direct investments from German SMEs. The aim is to show that location choice cannot simply be explained by the commonly acknowledged internationalisation motives (new market seeking, resource seeking, strategic asset seeking) but need to include firm-specific moderators (knowhow intensity and international experience). My approach extends existing studies that simply distinguish between developed and less developed countries (dichotomous dependent variable). Instead, I consider the country-specific institutional setup of each location in the dependent variable by constructing and applying a measurement system for institutional development.

Chapter 5 examines the impact of institutional uncertainty on foreign market entry timing. While scholars have intensively studied the research field of international entrepreneurship, a more integrated view on the role of country-related factors on entry timing has received scarce academic attention so far. The study draws on New Institutionalism to examine how institutions in the host country moderate the relationships between international experience, network ties, learning capabilities and entry timing among German SMEs. Empirical results contribute to existing knowledge permitting a more profound understanding of the moderating effect institutional uncertainty has on entry timing.

Table 1.1 reviews the main chapters of this thesis summarizing the title, the research objective, the theoretical background, the research methodology, the sample characteristics and the results of each chapter.

*Table 1.1: Summary of the main chapters*

| | Chapter 2 | Chapter 3 | Chapter 4 | Chapter 5 |
|---|---|---|---|---|
| Title | The Moderating Impact of Informal Institutional Distance and Formal Institutional Risk on SME Entry Mode Choice | Greenfield versus Acquisition: The Moderating Impact of Perceived Institutional Uncertainty on Foreign Establishment Mode Choice of SMEs | FDI Location Choice of SMEs: Not Just Driven by Motives but Moderated by Knowledge Intensity and International Experience | Timing of Foreign Market Entry: How does Institutional Uncertainty affect Early Internationalisation? |
| Research objective | To examine the moderating effects of informal institutional distance and formal institutional risk on entry mode choice among German SMEs. | To examine the moderating effect of the manager's perception of institutional uncertainty on the decision between Greenfield and acquisition among German SMEs. | To examine the determinants of SME location decisions considering the institutional development of each target country. | To examine the moderating effect of institutional uncertainty on early internationalisation. |
| Theoretical background | New institutionalism | New institutionalism | New institutionalism | New institutionalism |
| Methodology | Quantitative survey<br>Logistic regression analysis<br>Moderator analysis | Quantitative survey<br>Logistic regression analysis<br>Moderator analysis | Quantitative survey<br>Linear regression analysis<br>Moderator analysis | Quantitative survey<br>Logistic regression analysis<br>Moderator analysis |
| Sample | Dataset 1<br>German SMEs<br>n=227 | Dataset 2<br>German SMEs<br>n=95 | Dataset 2<br>German SMEs<br>n=96 | Dataset 1<br>German SMEs<br>n=160 |
| Empirical Results | The influence of established variables (international experience, technological intensity, and strategic importance) on entry mode choice is contingent upon the informal institutional distance and formal institutional risk of the host country. | Perceived institutional uncertainty moderates the relationships between international experience, knowhow intensity, technological transfer, market growth and the choice of a new venture as establishment mode choice. | Knowhow intensity and international experience moderate the relationships between the motives new market seeking, resource seeking, and strategic asset seeking and location choice. Considering the institutional development of each target country in the dependent variable add further insights. | The impact of international experience, network ties, and learning capabilities on early internationalisation is contingent upon the level of institutional uncertainty in the host country. |

## 1.3 Data

Empirical analyses in this dissertation base on two datasets: Chapters 2 and 5 draw on dataset 1 and chapters 3 and 4 refer to dataset 2.

### 1.3.1 Dataset 1

Dataset 1 was originally collected by Kabst (2004). The data was derived from a mail survey basing on the Hoppenstedt company database. The sample consists of the total population (N=4,229) of German firms (100 to 1000 employees) with international business activities. Questionnaires were sent to the Chief Executive Officer (CEO) or firm shareholders, perceived to be most knowledgeable about the firm's internationalisation practices and strategic decisions. The sample included German firms only and the questionnaire was in German, taking established back-translation literature for internationally established items into consideration (Brislin, 1970; van den Viijver and Hambleton, 1996; Hui and Triandis, 1985). Data collection took place via standardised postal survey in three waves from November 1999 to January 2002. The first wave in November 1999 aimed to examine the international activities of SMEs focusing on market entry mode decisions. The second round of data collection focused on gaining a deeper understanding of the international activities of the SMEs from the first wave. Out of the completed questionnaires of the first round those firms with international activities other than export were selected for the second wave. These firms with international contractual cooperations, joint ventures or international subsidiaries received new questionnaires in June 2001. In wave three, finally, changes in the modes of foreign market entry were under examination. Out of the responding firms from the first wave those firms indicating a change in the mode of activity were selected. Thus, wave three considered all firms having chosen more than one mode of market activity during their internationalisation process (characteristics see Kabst (2004) for more details regarding the survey).

### 1.3.2 Dataset 2

Dataset 2 analyses the internationalisation behaviour of small and medium-sized firms across different industries. The survey was conducted by the author and took place from July 2008 until August 2009. The dataset bases on data gathered from German SMEs with up to 500 employees and a minimum international equity stake of 10%. All non-producing firms were excluded. Applying these criteria the Amadeus company database of Bureau van Dijk identified a total sample of N=961 firms. In addition to firm addresses, Amadeus company database provided also firm-specific information such as sales volumes, number of employees, as well as data on international subsidiaries. In order to develop and fine grinding the research questions and to gain a deeper qualitative understanding of the internationalisation determinants of the sampled firms, I conducted some in-depth interviews with a number of firms from different industries out of the sample (N=10). The choice of the firms was made at random for conceptual reasons. The interview results finally were incorporated in the questionnaire. As the sample included German firms only, the questionnaire was in German language using recognised back-translation literature of internationally established items (Brislin, 1970; van den Viijver and Hambleton, 1996; Hui and Triandis, 1985). The questionnaire referred to the latest foreign direct investment in order to reduce biases that may affect survey data referring to events too distant in the past (Meyer, Estrin, Bhaumik, and Peng, 2009). Thus, the reference FDI of the sample firms was on average about 7 years ago. After completing the first version of the questionnaire, I conducted a pilot study to finally test the survey instrument using different approaches. First, I observed the pilot respondent completing the questionnaire in a personal meeting in order to identify possible difficulties. Second, I asked the respondents to think out loud when reading and answering the questions. This procedure helped estimating whether the questions and the questionnaire structure were comprehensive and clear. Including the results from the pilot study the questionnaire was subsequently modified and adapted in terms of wording, structure, and layout. The final version of the questionnaire is attached in the appendix (see appendix I). Data collection took place via standardised postal survey. In February 2009, the questionnaires were sent to the firms' CEOs knowing best the internationalisation practices and strategic decisions. Reminding emails and follow-up calls finally led to a total response rate of 12.4% coming up to 119 completed questionnaires. The sample consists of firms from one home country (Germany) with foreign direct investments in 28 host countries worldwide. The average age of the sampled firms is 12.67 years; the mean size is 280 employees.

## 1.4 Course of Investigation

The thesis consists of six chapters in total. In the previous sections I characterised the field of IBR highlighting in particular the role of institutions for internationalisation of SMEs. Further I presented an outline of this dissertation, the applied methodology, as well as the research objectives. The following chapters 2 to 5 include four studies highlighting different aspects with regard to the role of institutions on SME internationalisation. They represent the core of the dissertation examining the research objectives as outlined in chapter 1.2. Chapter 6, finally, is recapitulatory and summarises the theoretical and empirical contributions of this dissertation. It further provides implications for the SME management. The thesis concludes showing limitations and directions for future research.

# 2 The Moderating Impact of Informal Institutional Distance and Formal Institutional Risk on SME Entry Mode Choice

## 2.1 Abstract

Considerable research has explored international mode choices. Anyhow, we have only limited knowledge about the impact of the host country's institutional context on the foreign market entry mode choice of SMEs. Chapter 2 draws on New Institutionalism to examine the moderating effects of informal institutional distance and formal institutional risk on entry mode choice among German SMEs. The empirical results complement prior research on SME entry mode selection showing that the influence of established variables such as international experience, technological intensity, and strategic importance is contingent on the informal institutional distance and formal institutional risk of the host country.

## 2.2 Introduction

Foreign entry mode choice has received considerable attention in internationalisation literature (Brouthers and Hennart, 2007; Slangen and Hennart, 2008). Scholars have extensively examined firm-specific effects on entry mode choice, yet studies examining country-related institutional factors are limited (Peng, Wang, and Jiang, 2008; Slangen and van Tulder, 2009). However, the institutional context – composed of informal and formal institutions (North, 1990) – may significantly challenge a multinational enterprise's entry mode choice from two perspectives. On one hand, the institutional context determines the extent of prevailing informal institutional distance, which I define as the cultural and ideological differences between a firm’s home country and the host country in which the firm will be operating. Entering informally distant countries, firms are challenged to bridge prevalent differences between the home and host market (Estrin, Baghdasaryan, and Meyer, 2009; Shenkar, 2001). On the other hand, the institutional context determines the extent of formal institutional risk, which I define as the constraints resulting from insufficiently developed market support institutions in the host country. In case of high formal institutional risk, firms face additional hazards, restrictions, and costs resulting from less advanced or incomplete political, financial, and legal institutions (Dikova and van Witteloostuijn, 2007; Henisz, 2000; Meyer, Estrin, Bhaumik, and Peng, 2009). Knowing the challenges arising from informal institutional distance and formal institutional risk is essential to entry mode choice, yet recognition of these issues remains limited.

The aim of this study is to address the moderating impact of the host country's informal institutional distance and formal institutional risk on SME entry mode selection. The research makes three major contributions to the existing literature.

First, the focus on internationally operating SMEs expands existing research. Compared to large MNEs, SMEs are likely to be more sensitive to the institutional context (Brouthers and Nakos, 2004). They are characterised by limited resources and differences in ownership (Nakos and Brouthers, 2002). In consequence, they often have difficulties to respond to challenges arising from the institutional context (Brouthers and Nakos, 2004; Erramilli and Rao, 1993). In addition, SMEs are more flexible than large MNEs due to their size and a lesser degree of organisational inertia (Criscuolo and Narula, 2007; Hannan, Laszlo, and Carroll, 2002). Hence, I expect that the effects of the institutional context on foreign market entry mode choice will be more profound in SMEs than in large MNEs.

Second, studying the moderating impact of the institutional context shows how SME entry mode choice is contingent on different levels of informal institutional distance and formal institutional risk (Luo, 2001). This is important, as results from studies of entry mode choice determinants – international experience, strategic importance, and technological intensity – appear incomplete without considering the challenges arising from the institutional context (Laurila and Ropponen, 2003; Meyer, 2004; Mudambi and Navarra, 2002; Ramamurti, 2004). The limited interest in the impact of the institutional context so far may be due to the dominance of transaction cost and resource-based studies, which largely disregard context-related factors. To overcome this deficiency, I build on new institutionalism.

Third, I apply a new procedure to study interaction terms in logistic regression models that may not only advance entry mode research specifically, but management research in general studying categorical dependent variables. Interaction effects are more complex to compute and interpret in non-linear models (Hoetker, 2007). I follow the procedure by Ai and Norton (2003) and Jaccard (2001) to provide a more detailed interpretation of interaction terms at low, medium, and high levels of the moderator.

## 2.3 Literature Review

Entry mode choice is one of the major research fields in international business (Lu, 2002; Root, 1994). Most prior studies focused on large MNEs and the determinants as well as performance implications of their chosen entry mode (e.g. Brouthers and Brouthers, 2000; Li and Meyer, 2009; Luo, 2001). Entry mode research generally differs between Greenfield investments and acquisitions (for a review see Slangen and Hennart, 2008), Joint Ventures and wholly-owned subsidiaries (for a review see Brouthers and Hennart, 2007), and non-equity and equity modes of entry (Brouthers, 2002; Brouthers and Brouthers, 2003; Brouthers and Nakos, 2004). This study focuses on the latter.

Few studies have elaborated on foreign market entry mode choice among SMEs, leading scholars to request more research in this area (Mudambi and Navarra, 2002; Ramamurti, 2004). Erramilli and D´Souza (1993) contrast foreign market entry behaviour of 54 small and 87 large service firms. They argue that SMEs suffer from severe resource constraints compared to large MNEs. As a result, environmental uncertainty causes small firms to minimise resource commitments related to SME entry mode choice. Shrader (2001) explores the relationship between collaborative modes of market penetration and performance among a sample of international new ventures. His argumentation is that the more limited the resources available to an international new venture, the more it may rely on collaborative modes. Collaborative modes provide access to resources, helping SMEs overcome their constraints and perform better. Nakos and Brouthers (2002) apply a model of large firm entry mode selection to SME entry mode choice, arguing that SMEs pursue different entry mode strategies. On one hand, because SMEs have fewer managerial and financial resources, they may use low control modes of entry. On the other hand, when SMEs serve niche markets, investment risk may be reduced and the use of equity based modes encouraged. Because of the particularities of SMEs, it is unclear whether large firm mode choice theories can be applied to SMEs as well. In another study, Brouthers and Nakos (2004) relate transaction cost reasoning to the SME entry mode literature. They argue that SMEs are not smaller versions of large firms, and that SMEs tend to interact differently with their environment due to their size. SMEs differ in managerial style, ownership, and dependence. Limited resources lead them to choose different international strategies than those chosen by large MNEs. Burgel and Murray (2000) study the initial foreign entry behaviour of 246 technology-based start-ups. They reason that small technology firms face a dilemma concerning entry mode. On one hand, small technology firms are forced to go abroad to quickly amortise their initial development expenditures; on the other hand, they lack the necessary resources required for the effective commercialisation of their products.

The review of entry mode literature indicates that the research of SMEs can add new insights to the field. Most studies argue that internationally operating SMEs differ significantly from large MNEs, leading them to pursue different strategies compared to their bigger counterparts. However, there is an absence of work examining the institutional context with regard to SME entry mode choice. A firm's entry mode choice is an important step to meeting the challenge of adapting to a foreign environment. This challenge may significantly depend on the institutional context of the host country (Estrin, Baghdasaryan, and Meyer, 2009; Meyer, Estrin, Bhaumik, and Peng, 2009; Shenkar, 2001). Entering foreign markets, firms must bridge the gap between the informal institutional contexts of the home and host country, and surmount problems which arise when the formal institutional context is risky. SMEs, which have fewer resources available and react with more flexibility than larger MNEs, may be more sensitive to the institutional context than their larger counterparts. The effects of the institutional context may thus be more apparent when studying foreign market entry of SMEs. Hence, research in the roles of informal institutional distance and formal institutional risk in the entry mode decision of SMEs is important.

## 2.4 Theoretical Framework

### 2.4.1 New Institutionalism and Entry Mode Choice

Recent studies on entry mode choice have been based on Transaction Cost Economics (Brouthers and Nakos, 2004), International Process Model (Benito, Petersen, and Welch, 2009; Meyer and Skak, 2002), Resource-Based View (Brouthers, Brouthers, and Werner, 2008; Meyer, Wright, and Pruthi, 2009), and the OLI Paradigm (Brouthers, Brouthers, and Werner, 1996; Nakos and Brouthers, 2002). However, most popular theories in the field of international business fall short of an integrated institutional approach (see chapter 1.1.4).

In line with Meyer and Peng (2005), the study is based on New Institutionalism to analyse how the host country's institutional context affects SME entry mode choice.

Institutional approaches focus on social actors and their ways to control economic activities and resources (Whitley, 1999). Social actors are embedded in the institutional environment providing the rules of the game in a country (North, 1990). The New Institutionalism distinguishes between informal and formal institutions. Informal institutions have a primarily cultural background, describing patterns of behaviour concerning trust, collaboration, identity, and subordination (Whitley, 1999). In contrast, formal institutions include political rules, legal decisions, and governmental issues (Peng, 2000).

Following Henisz and colleagues (Henisz, 2002; Henisz and Delios, 2002; Henisz and Zelner, 2003), I posit that the institutional context determines organisational strategies. In order to be successful in the host country, organisations have to adapt their decisions and organisational strategies to the institutional context (Chung and Beamish, 2005; Estrin, Baghdasarayn, and Meyer, 2009; Peng, 2000; Wright, Filatotchev, Hoskisson, and Peng, 2005). In line with prior research (for a review see Slangen and van Tulder, 2009), I apply two perspectives to theorise about informal and formal institutions.

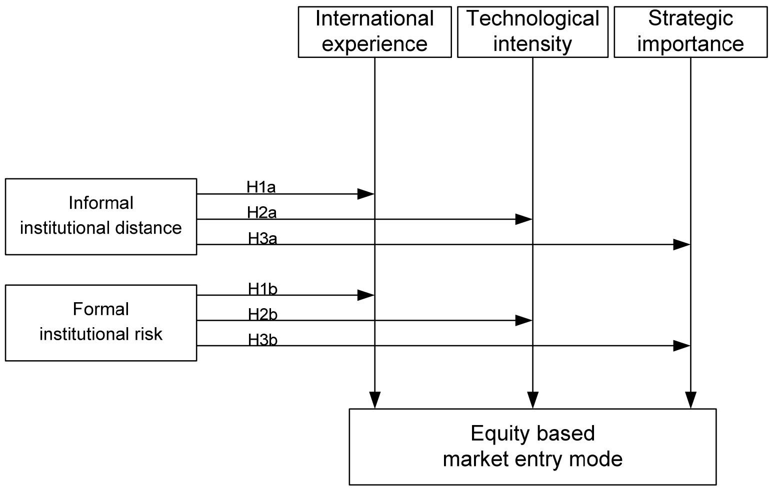
First, with regard to informal institutions, I focus on the distance between home and host country. Large informal institutional distance tends to increase the challenges of doing business in the host country (Slangen and van Tulder, 2009; Xu and Shenkar, 2002). Greater differences in culture and ideology between home and host country increase the costs and risks of doing business. The greater the informal institutional distance between home and target country, the more difficult it is to transfer the former management model (Gelbuda, Meyer, and Delios, 2008) and to adapt to local practices and preferences (Slangen and van Tulder, 2009).

Second, and related to formal institutions, I focus on the level of risk in the formal institutional setup of the host country. Strong and established formal institutions with predictable rules of the game provide support for efficient business transactions (Gelbuda, Meyer, and Delios, 2008). In contrast, weak formal institutions are characterised by institutional restrictions and constraints (Peng, 2002). When business rules are variable, the formal institutional setup implies high risk and hinders a firm's economic acting. The higher the formal institutional risk of the host country, the more the firm is challenged to adapt its business to insufficiently functioning political, judicial, or economic institutions. Summarising the argumentation, the institutional context determines the difficulties faced by a firm resulting from the informal institutional distance between home and host country and the formal institutional risk with regard to the valid rules for economic acting in the host market.

This study examines the moderating effects of the institutional context on entry mode selection. Prior studies of direct effects of the institutional context have been inconclusive, indicating that the effects may be conditional on firm characteristics. Some authors have shown that companies facing challenges from the foreign institutional context tend to choose non-equity based entry modes (e.g. Dow and Larimo, 2009). They argue that challenges from unclear regulative frameworks necessitate more flexibility and less exposure to investment risks, which is best achieved through non-equity modes. Others, primarily arguing from transaction cost reasoning, suggest that firms facing challenges from the institutional context tend to select equity based entry modes in order to internalise transactions and reduce risk (e.g. Dikova and van Witteloostuijn, 2007). According to this line of reasoning, equity based entry modes help to reduce transaction costs, offering maximal control to protect firm-specific competitive advantages (Luo, 2001). These opposing theoretical arguments suggest that the relative importance of either effect may vary across firms.

The hypotheses explore the moderating effects of informal institutional distance and formal institutional risk on the relations between international experience, technological intensity, strategic importance, and entry mode choice. The corresponding direct effects of international experience, technological intensity, and strategic importance on entry mode choice have been discussed in numerous previous studies (e.g. Brouthers and Brouthers, 2003; Brouthers and Nakos, 2004; Chang and Rosenzweig, 2001; Hill, Hwang, and Kim, 1990). Hence, I concentrate the reasoning on the moderating impact of the institutional variables as illustrated in figure 2.1.

*Figure 2.1: Research model (chapter 2)*




### 2.4.2 Hypotheses

A firm's international experience is an important determinant of entry mode selection (Agarwal and Ramaswami, 1992; Erramilli, 1991; Henisz, 2000). International experience can reduce the costs and risks of foreign market entry, making higher level entry mode choice more attractive (Sanchez-Peinado, Pla-Barber, and Hebert, 2007). Past research confirms that firms with greater international experience tend to prefer equity based entry modes, while firms without international experience tend to choose non-equity modes of entry (e.g. Agarwal and Ramaswami, 1992; Brouthers and Nakos, 2004; Erramilli, 1991; Nakos and Brouthers, 2002).

In contexts characterised by strong informal institutional distance and high formal institutional risks, firms may benefit from their international experience. Through their earlier exposure to different local institutional contexts, internationally experienced firms are knowledgeable about and have learned to do business in foreign cultures. They know how to handle challenging institutional contexts characterised by incomplete and underdeveloped formal institutions. SMEs suffer less organisational inertia compared to large MNEs due to their smaller size (Criscuola and Narula, 2007; Hannan and Freeman, 1984; Hannan, Laszlo, and Carroll, 2002). This increases learning efficiency and reduces the likelihood of knowledge being misapplied (Haleblian and Finkelstein, 1999; Hayward, 2002). SMEs thus possess some learning advantages over large MNEs (Autio, Sapienza, and Almeida, 2000) reducing the risk that international experience is improperly applied.

In line, I assume that SMEs with international experience continue to prefer equity based market entry modes while venturing into countries with large informal institutional distance and high levels of formal institutional risk. Internalised knowledge enables them to choose equity based entry modes in different institutional contexts. Informal institutional distance and formal institutional risk moderate the relationship between international experience and equity based foreign entry modes. In summary, I present the following hypotheses:

*Hypothesis 1a: The positive relationship between an SME's international experience and its choice of equity based market entry modes increases with higher informal institutional distance between the home and the host country.*

*Hypothesis 1b: The positive relationship between an SME's international experience and its choice of equity based market entry modes increases with higher formal institutional risk of the host country.*

The level of a firm's technological intensity is considered to be a critical determinant of foreign market entry strategy (Erramilli and Rao, 1993; Luo, 2001). According to Brouthers and Nakos (2004), a company can protect its specific knowledge to minimise transaction costs by integrating foreign operations. If a firm possesses specific technology or knowhow, it has to take extra precautions to protect itself from knowledge diffusion into the hands of competitors (Klein, 1989). Previous research has shown that technologically intensive firms prefer to internalise their specific transactions. They tend to select equity based entry modes as a control mechanism to safeguard their proprietary knowledge (Brouthers and Brouthers, 2003; Gatignon and Anderson, 1988; Kim and Hwang, 1992).

Venturing into host countries with high informal institutional distance and high formal institutional risk exposes the firm to additional challenges of knowledge protection. High informal institutional distance may increase the likelihood of exposure to opportunistic behaviour from foreign market players. To minimise opportunistic behaviour and diffusion of specific knowledge, firms need to establish specific control mechanisms (Klein, Frazier, and Roth, 1990; Gatignon and Anderson, 1988). In countries with high formal institutional risk, the political and legal frameworks do not support efficient and functioning intellectual property rights. When formal institutional risk is high, property rights protection is generally weak, both in enactment and enforcement. Without sufficient legal protection, a firm's property rights and tacit knowledge (such as patents, trademarks, brands, knowhow, and copyrights) can be exposed to piracy (Luo, 2001). One way to deal with these challenges is internal control, which can be achieved through hierarchical ownership (Klein, Frazier, and Roth, 1990). Although this is valid for any type of firm, it is particularly important for SMEs, which are known for targeting niche markets with knowledge intensive and specialised products (Nakos and Brouthers, 2002). SMEs possess a more limited resource endowment than large MNEs, which can afford to capitalise on efficiency, scale, and scope. Knowledge protection through internalisation of transactions takes on major importance for SMEs operating in foreign contexts with high informal institutional distance and formal institutional risk. For them, knowledge protection often determines firm survival.

Accordingly, I argue that technologically intensive SMEs facing high informal institutional distance and high formal institutional risk tend to internalise their international activities more than they do in countries with low informal institutional distance and low formal institutional risk. I derive the following hypotheses:

*Hypothesis 2a: The positive relationship between an SME´s technological intensity and its choice of equity based market entry modes increases with higher informal institutional distance between the home and the host country.*

*Hypothesis 2b: The positive relationship between an SME´s technological intensity and its choice of equity based market entry modes increases with higher formal institutional risk of the host country.*

Moreover, prior research has shown that the strategic importance of a foreign activity determines the choice of market entry modes (e.g. Glaister and Buckley, 1996). An investment in a particular target market is considered strategically important when it is essential for a firm's global plan (Isobe, Makino, and Montgomery, 2000). According to Kim and Hwang (1992), strategic motivations are achieved with tight coordination. Tight coordination is best effected by high control entry modes such as equity based entry modes (Chang and Rosenzweig, 2001; Isobe, Makino, and Montgomery, 2000).

When informal institutional distance and formal institutional risk are high, market forecasts are randomised and estimating expected strategic potentials becomes difficult. High informal institutional distance and formal institutional risk inhibit long-term planning and considerably increase the challenges of operating in the host country. Operations that are owned by foreign companies may be at a disadvantage when the institutional context is complex. SMEs need to ensure flexible reactions in order to guarantee sustainable firm development (Oviatt and McDougall, 1994). However, equity based market entries imply less flexibility for SMEs. When entering foreign markets with a challenging institutional context, SMEs may best safeguard their strategically important international activities by market entries that are not equity based. Flexible and dynamic behaviour are then maintained. Hence, I assume that the positive relationship between strategic importance and the choice of equity based entry modes will be weakened by high informal institutional distance and high formal institutional risk. I derive the following hypotheses:

*Hypothesis 3a: The positive relationship between an SME´s strategic importance of an international activity and its choice of equity based market entry modes decreases with higher informal institutional distance between the home and the host country.*

*Hypothesis 3b: The positive relationship between an SME´s strategic importance of an international activity and its choice of equity based market entry modes decreases with higher formal institutional risk in the host country.*

## 2.5 Methodology

### 2.5.1 Data

The empirical analysis is based on dataset 1 (see chapter 1.3.1 for more details). In this study, I define SMEs as firms with up to 500 employees, which is in line with prior research (e.g. Lu, 2002) and adheres to the commonly applied classification of the German Institute of SMEs (ifm, 1997). Accordingly, I reduced the sample to 2,549 SMEs. In total, 257 questionnaires were completed and returned (response rate of 10.1%). Due to missing data, the final sample includes 227 firms. The mean size of the firms in the sample is 243 employees.

Tests for common methods variance or outliers did not show any significant problems (Podsakoff and Organ, 1986; Podsakoff, MacKenzie, Lee, and Podsakoff 2003). Due to missing data, tests as suggested by Little and Rubin (1987) and Allison (2002) were conducted. However, these tests showed no significant results. In addition, all returned questionnaires were subject to controls for non-response bias according to Armstrong and Overton (1977). I compared early and late respondents in terms of selected constructs. A t-test showed no significant differences.

### 2.5.2 Measurement

I measured the dependent variable ***equity based market entry mode*** by a dichotomous item following Brouthers and colleagues (Brouthers, 2002; Brouthers and Brouthers, 2003; Brouthers and Nakos, 2004). Companies which chose equity based market entry modes such as wholly-owned subsidiaries, or equity joint ventures (coded “1”) were distinguished from those which chose non-equity market entry modes such as exports or contractual agreements (coded “0”).

Theorising about the informal institutional distance and the formal institutional risk in this chapter, I applied a distance measure and a level measure to display the moderator variables. The first moderator variable ***informal institutional distance*** is related to the differences between the home and host country in terms of culture and ideology. In the study, informal institutional distance is measured by indices from the GLOBE study (House, Hanges, Javidan, Dorfman, and Gupta, 2004; Javidan and House, 2001). I selected the ‘practices’ indices, because the entry mode decision is most likely determined by the existing rather than the ideal foreign market situation (as expressed by ‘values’ in GLOBE). Applying the GLOBE indices to display informal institutional distance has been conducted by other management scholars such as Estrin, Baghdasaryan, and Meyer (2009).

The Hermes Country Risk Rating was used to measure the second moderator variable ***formal institutional risk*** prevalent in the host country. It is the most frequently used country credit risk index in Germany. The Hermes scale divides countries into seven categories. Countries with minimal country risk are coded with 1, and high risk countries with 7. Hermes integrates three groups of indicators, combining quantitative and qualitative factors: The financial situation of the country, based on liquidity indicators, the economic situation of the country, based on indicators for current policy performance, and the payment experiences of the export credit agencies and financial institutions. The risk scores for these three indicator groups are weighted equally and combined to one score. The data is drawn from institutions such as, for example, IMF, World Bank, and OECD, taking the latest available information into account.

I measured the direct variables by multiple-item Likert-scales adapted from previous studies in order to minimise measurement error and to enhance the content coverage for the constructs in the model. ***International experience*** was measured using a six-item scale (Cronbach's alpha: 0.882) adapted from existing literature (Agarwal and Ramaswami, 1992; Brouthers and Nakos, 2004) considering international experience of the management and the firm in general (Burgel and Murray, 2000). For example, respondents were asked whether the management had prior and long standing international experience or whether the firm had prior international joint ventures or wholly-owned foreign subsidiaries.

***Technological intensity*** was measured using a two-item scale (Cronbach's alpha: 0.721) adapted from earlier research (Brouthers and Brouthers, 2003; Erramilli and Rao, 1993). The respondents were asked whether they needed proprietary knowhow for their products or services and whether internal knowhow had to be transferred into the foreign market.

***Strategic importance*** was measured using a three-item scale (Cronbach's alpha: 0.749) adapted from Isobe, Makino, and Montgomery (2000), Kim and Hwang (1992), and Luo (2001). The respondents were asked whether foreign market entry had high strategic importance for the firm or whether important disadvantages were expected in case of failure.

I included ***firm size*** as a control variable, measured by the (log) number of full-time employees of the company. The size of the firm is often used as an indicator of resource availability, which is particularly important for SMEs. I included a dichotomous item differentiating between ***family business*** and non-family business in order to control for the owner status of the company. The owner is a major strategic decision maker in SMEs concerning issues such as entry mode selection. Different motives for foreign market entry in the statistical analyses were also included. The impact and structure of motives is supposed to play a major role in internationalisation (e.g. Tatoglu, Demirbag, and Kaplan, 2003). For that reason, the motives ***learning in the foreign market*** and

***access to market*** are included in the analyses. I also controlled for the ***resource endowment*** at the point of foreign market entry, which is a key issue for SMEs when it comes to internationalisation efforts. I asked how resource endowment hampered the foreign market entry of the firm. Finally, a dummy ***industry*** variable controlling for low-tech (coded as “1”) versus high-tech (coded as “0”) firms was included, as prior research has shown that an industry’s technological level influences an SME’s entry mode decision (Burgel and Murray, 2000).

When applying multi-item measures, the Cronbach’s alpha values for the scales show good internal consistency and reliability in all constructs (Nunnally, 1978). Table 2.1 presents the means and standard deviations of all variables in the model as well as their bivariate correlations.

*Table 2.1: Means, standard deviations, and bivariate correlations (chapter 2)*

| Correlation Matrix | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *Mean* | | .453 | 2.49 | 2.42 | 2.68 | 3.98 | 1.62 | -.001 | .022 | -.003 | .104 | .031 | .156 | 243 | 1.20 | 1.91 | 2.45 | 3.6 | .236 |
| *Standard Deviation* | | .499 | .83 | 1.01 | .80 | .553 | 1.08 | .459 | 1.134 | .549 | 1.326 | .431 | 1.212 | 131 | .403 | .954 | .939 | .702 | .425 |
| 1 | Equity based entry mode (dependent variable) | 1 | | | | | | | | | | | | | | | | | |
| 2 | International experience | .298*** | 1 | | | | | | | | | | | | | | | | |
| 3 | Technological intensity | .229*** | .187** | 1 | | | | | | | | | | | | | | | |
| 4 | Strategic importance | .320*** | .204*** | .328*** | 1 | | | | | | | | | | | | | | |
| 5 | Informal institutional distance | -.051 | -.003 | -.005 | .070 | 1 | | | | | | | | | | | | | |
| 6 | Formal institutional risk | .057 | .020 | .085 | .154* | -.365*** | 1 | | | | | | | | | | | | |
| 7 | International experience X informal institutional distance | .003 | -.055 | -.054 | .092 | -.121 | .234*** | 1 | | | | | | | | | | | |
| 8 | International experience X formal institutional risk | .065 | .093 | .005 | .071 | .217*** | .018 | -.444*** | 1 | | | | | | | | | | |
| 9 | Technological intensity X informal institutional distance | .054 | -.056 | -.025 | .082 | -.060 | .057 | .268*** | -.087 | 1 | | | | | | | | | |
| 10 | Technological intensity X formal institutional risk | .093 | .014 | -.007 | .124 | .058 | .349*** | -.096 | .302*** | -.276*** | 1 | | | | | | | | |
| 11 | Strategic importance X informal institutional distance | -.021 | .100 | .077 | -.032 | -.319 | .054 | -.019 | -.047 | .276*** | -.182** | 1 | | | | | | | |
| 12 | Strategic importance X formal institutional risk | .022 | .075 | .089 | .145* | .042 | .499*** | -.040 | .472*** | -.146* | .571*** | -.358*** | 1 | | | | | | |
| 13 | Firm size | .111 | .047 | .024 | .018 | -.075 | .105 | .131* | .039 | .022 | .071 | -.025 | .194** | 1 | | | | | |
| 14 | Family business | -.065 | -.036 | .042 | .060 | .078 | -.008 | .141* | -.159 | .025 | -.026 | .055 | -.082 | -.104 | 1 | | | | |
| 15 | Resource endowment | -.038 | -.255*** | .069 | -.011 | .155* | -.070 | -.076 | .009 | .071 | -.026 | -.077 | -.037 | -.114 | -.130* | 1 | | | |
| 16 | Motive learning in the foreign market | .253*** | .162* | .260*** | .287*** | -.087 | .034 | .021 | -.077 | -.030 | -.049 | .099 | -.064 | .091 | .069 | .020 | 1 | | |
| 17 | Motive access to market | -.013 | .077 | .178** | .149* | .042 | -.260*** | -.150* | -.072 | -.099 | -.002 | .018 | -.120 | .019 | -.042 | .074 | .093 | 1 | |
| 18 | Industry dummy | .042 | .025 | .074 | .116 | .094 | -.150* | -.010 | -.006 | .029 | -.055 | -.026 | -.046 | -.084 | -.082 | .106 | .004 | .063 | 1 |
| Significance levels: ***: p ≤ .001; **: p ≤ .01; *: p ≤ .05; †: p ≤ .1 | | | | | | | | | | | | | | | | | | | |

The correlation coefficients depicted in table 2.1 show no serious risk for multicollinearity (Anderson, Sweeney, and Williams, 1996). I calculated the variance inflation factor values (VIF) to test the extent to which values of the coefficients increased due to collinearity. The analyses for the relevant variables show several VIF values with the highest value of 2.2 staying below the maximum is 2.5 recommended by Allison (1999). Summing up, there is no serious risk for multicollinearity between the dependent, control, direct, moderator, and interaction variables (Anderson, Sweeney, and Williams, 1996).

### 2.5.3 Empirical Results

To test the hypotheses, I used binary logistic regression analysis. The application of interaction terms in logistic regression models requires explanation. There has been an ongoing debate in the literature about the difficulties in applying this methodology (Li and Meyer, 2009; Powers, 2005; Shaver, 2005). Just recently, Hoetker (2007) commented critically on the use of logit and probit models in strategic management research, stating that interaction effects are complicated to compute and interpret in non-linear models (Norton, Wang and Ai, 2004). Thus, in non-linear models, interaction effects cannot simply be interpreted by looking at the sign, magnitude, or statistical significance of the coefficient on the interaction term. I therefore computed and interpreted the interaction effects in the models according to Ai and Norton (2003) and Jaccard (2001). I computed the correct marginal effect of a change in the interacted variables in the logit model and identified the correct standard errors by applying commands suggested by Norton, Wang, and Ai (2004). Due to the scales of the two moderator variables informal institutional distance and formal institutional risk, subgroup analysis was not applicable (Maxwell and Delaney, 1993; McCallum, Zhang, Preacher, and Rucker, 2002). I set up three models to display the results. In model 1, I entered the control variables. Model 2 implies the control variables, the direct variables, and the moderator variables. In model 3, the interaction terms were added. This way of reporting moderator models is adapted from other management studies (e.g. Coeurderoy and Murray, 2008). I applied a significance level of 10%, as detecting interaction effects with a regression analysis is rather difficult in field studies (McClelland and Judd, 1993). Table 2.2 presents the results of the regression analysis.

*Table 2.2: Results of binary logistic regression (chapter 2)*

| Regression Analysis | Model 1 control variables | Model 2 + direct variables + moderator variables | Model 3 + interaction variables |
|---|---|---|---|
| ***Direct variables*** | | | |
| International experience | | .661*** | .803*** |
| Technological intensity | | .214 | .443* |
| Strategic importance | | .785*** | .594* |
| ***Moderator variables*** | | | |
| Informal institutional distance | | -.319 | -.578 |
| Formal institutional risk | | -.115 | .032 |
| ***Interaction variables*** | | | |
| International experience X informal institutional distance | | | .074 |
| International experience X formal institutional risk | | | .363† |
| Technological intensity X informal institutional distance | | | .635* |
| Technological intensity X formal institutional risk | | | .614* |
| Strategic importance X informal institutional distance | | | -1.125* |
| Strategic importance X formal institutional risk | | | -.600* |
| ***Control variables*** | | | |
| Firm size | .001 | .002 | .002 |
| Family business | -.360 | -.454 | -.443 |
| Resource endowment | -.123 | .045 | .023 |
| Motive learning in the foreign market | .564** | .328* | .484** |
| Motive access to market | .006 | -.298 | -.304 |
| Industry dummy | .267 | .059 | .160 |
| Constant | -1.398 | -.008 | -.295 |
| R2 (Nagelkerke) | .104 | .281 | .344 |
| R2 (Cox & Snell) | .078 | .210 | .257 |
| Chi-Square | 18.412 | 53.503 | 67.300 |
| Correct Classifications | 63.9 | 70.5 | 71.4 |
| Significance | .005 | .000 | .000 |
| N | 227 | 227 | 227 |
| N = sample; R2 = Variance; Significance levels: ***: p ≤ .001; **: p ≤ .01; *: p ≤ .05; †: p ≤ .1 | | | |

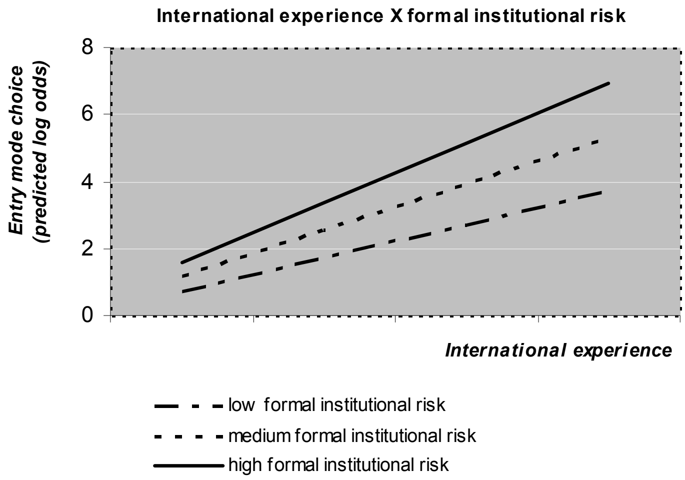
Model 1 illustrates the effect of the control variables on entry mode selection. Results show that only the motive learning in the foreign market is significantly associated with entry mode choice. Thus, the motivation to learn about the foreign market seems to be related to the choice of equity based entry modes.

In Model 2, I included the well-established direct variables of entry mode choice, namely international experience, technological intensity, and strategic importance. I also included the moderator variables informal institutional distance and formal institutional risk. Adding these variables provided for a higher variance explanation. $R^2$ increased from 0.104 to 0.281 (Nagelkerke) and from 0.078 to 0.210 (Cox and Snell), respectively. I found positive and significant relationships between international experience as well as strategic importance and equity based entry mode choice. I did not find a positive association between technological intensity and equity based entry mode choice. To a certain extent, these findings challenge previous literature which builds on transaction cost reasoning and argues that technology intensive firms tend to internalise knowledge while internationalising. I found neither a significant direct effect for informal institutional distance nor for formal institutional risk on entry mode choice. Previous studies have discussed the direct effects of the institutional context quite heterogeneously. The results agree with the inconclusive findings regarding direct effects achieved so far. The results support the argumentation that it is not the direct effects that matter. Instead, the determinants of entry mode choice are contingent on the moderating effect of institutional context on established relationships.

In Model 3, I included the interaction terms and tested the hypotheses. Adding the product variables provided for a higher variance explanation. $R^2$ increased from 0.281 to 0.344 (Nagelkerke) and from 0.210 to 0.257 (Cox and Snell) respectively. In order to better interpret the interaction terms, I followed Jaccard (2001) and Hoetker (2007) and supplemented the numerical information with plots of the predicted log odds. “A graphical presentation provides the reader with the most complete understanding of interaction’s effect” and provides assistance to interpret the complex associations related with interactions in logit models (Hoetker, 2007, p. 337). As suggested by Jaccard (2001), I selected a low, medium, and high score of the moderator variable to illustrate the curves. The low level condition was defined as a standard deviation below the mean of the moderator, the medium level condition was defined as the mean, and the high level condition as a standard deviation above the mean of the moderator (Jaccard, 2001). Figures 2.2 to 2.6 present the plots for the predicted log odds of mode choice (dependent variable) as a function of prior international experience, technological intensity, strategic importance (direct variables), and informal institutional distance and formal institutional risk (moderator variables).

In Hypotheses 1a and 1b, I proposed that informal institutional distance and formal institutional risk strengthen the positive relationship between international experience and equity based entry mode. The results do not support Hypothesis 1a. It appears that when the informal institutional distance between home and host country is high, international experience does not necessarily support SMEs in overcoming prevailing institutional pressures. It may be that informal institutional knowledge is particularly tacit and complex and that international experience does not easily allow the transfer of this tacit knowledge from one country to the next. Hypothesis 1b is supported with a significant and positive interaction effect between international experience and formal institutional risk. The plots in figure 2.2 show that prior international experience is positively linked to the choice of equity based entry modes under conditions of high formal institutional risk.

*Figure 2.2: Interaction effect of formal institutional risk and international experience*




This result expands existing knowledge, primarily showing a positive relationship between international experience and equity based entry mode choice, and the particular importance of international experience under conditions of high formal institutional risk. When formal institutional risk is medium or low, the impact of international experience on entry mode choice decreases. The findings provide more idiosyncratic results for the various relationships between entry mode choice and international experience that have been discussed.

I found empirical support for Hypotheses 2a and 2b which assumed that informal institutional distance and formal institutional risk positively moderate the relationship between technological intensity and entry mode selection. Figure 2.3 illustrates that in environments characterised by high informal institutional distance, firms with high technological intensity tend to prefer equity based market entry modes.

This result supplements previous entry mode studies. The finding shows that firms internalise transactions when they perceive high risk of opportunistic behaviour by foreign market players from different cultural backgrounds. SMEs have to safeguard their knowledge to prevent the loss of competitive advantages through the opportunistic behaviour of other foreign market players.

*Figure 2.3: Interaction effect of informal institutional distance and technological intensity*

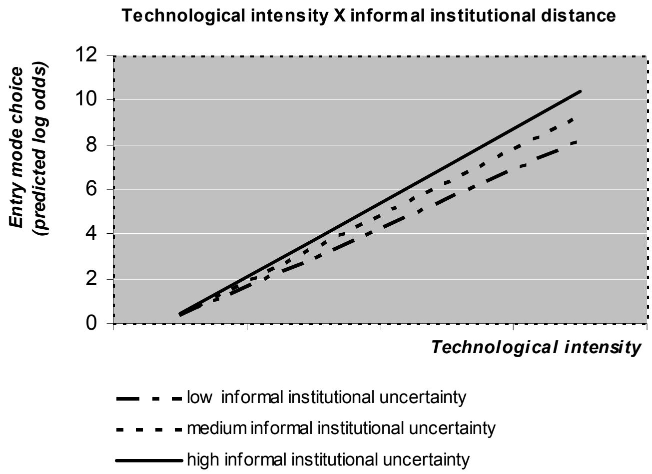
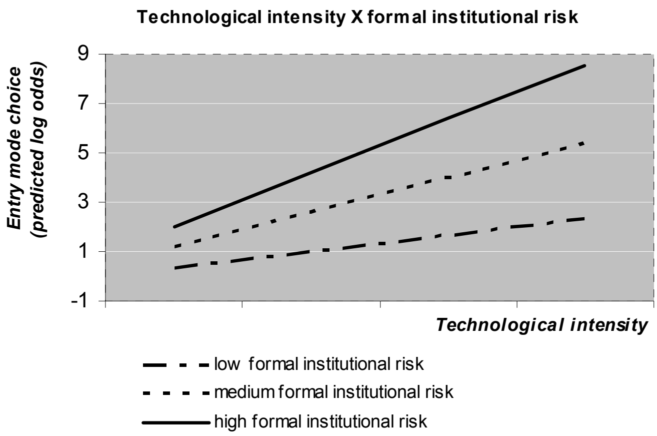


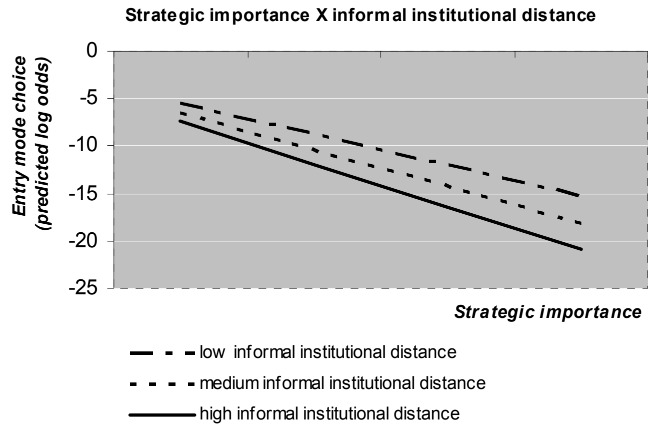

Figure 2.4 supports Hypothesis 2b. When formal institutional risk is high, technologically intensive SMEs tend to internalise transactions in order to secure proprietary knowledge from exploitation. The result shows that the effect becomes significantly weaker when formal institutional risk is lower. Thus, the results add an environmental perspective to the transaction cost discussion in entry mode research.

*Figure 2.4: Interaction effect of formal institutional risk and technological intensity*



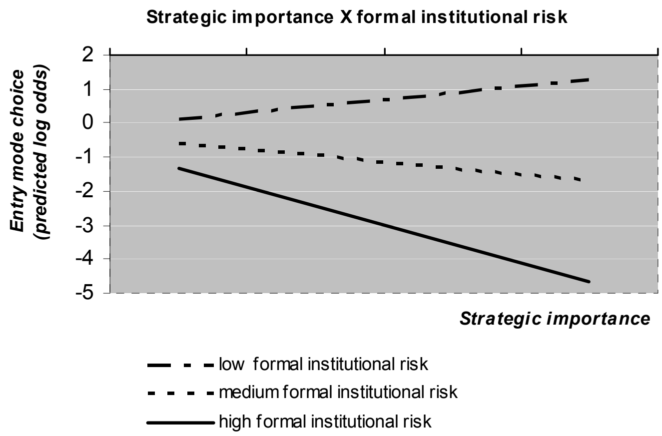

Hypotheses 3a and 3b proposed that informal institutional distance and formal institutional risk negatively impact the relationship between strategic importance and the choice of equity based market entry modes. The results support both hypotheses. Figure 2.5 shows that when informal institutional distance is high, the impact of strategic importance on equity based entry mode choice of SMEs is lowest. The effect weakens under conditions with medium and low levels of informal institutional distance.

*Figure 2.5: Interaction effect of informal institutional distance and strategic importance*




The plots from figure 2.6 provide more detailed results on the moderating role of formal institutional risk on the relationship between strategic importance and equity based entry modes.

*Figure 2.6: Interaction effect of formal institutional risk and strategic importance*




At high levels of formal institutional risk, strategic importance is negatively related to equity based entry modes. However, at low levels of formal institutional risk, the relationship between strategic importance and equity based entry modes is positive. The plots provide results which cannot simply be interpreted from the negative coefficient in Table II. If an investment is strategically important, it is positively related to equity based entry modes when formal institutional risk is low. Formal institutional risk determines the entry mode decision in strategically important issues. The results imply that the influence of strategic importance on equity based entry mode is contingent on formal institutional risk. Whereas previous studies have largely ignored the institutional environment perspective, the findings suggest that this may be of particular importance.

## 2.6 Conclusion, Limitations, and Managerial Implications

The aim of this chapter was to analyse the impact of the institutional context on foreign market entry strategies among SMEs. I proposed that informal institutional distance and formal institutional risk moderate the relationships between international experience, technological intensity, strategic importance, and equity based entry modes. The results contribute to existing knowledge on entry mode research. I found that the relationships between well-established direct effects on entry mode choice, namely international experience, technological intensity, and strategic importance, are contingent on the institutional context. The study permits a more profound understanding of the effect moderators have on SMEs and their entry mode choice. In line with previous findings, the direct effects of informal institutional distance and formal institutional risk did not have a significant impact on entry mode selection. Until now, results had been inconclusive and inconcise with regard to the direct effects, underscoring the importance of the present study and indicating the need for further in-depth research on this topic.

Theoretically, chapter 2 has proven the New Institutionalism to be a valuable theoretical approach in SME entry mode research. It allows incorporating both informal and formal institutional contexts into the research leading to more idiosyncratic results. Until now only a limited number of studies have taken the institutional environment into consideration. The presented study thus makes a valuable contribution to research on the determining factors for foreign market entry mode choice among SMEs.

Methodologically, I applied moderator analysis as suggested by Ai and Norton (2003) and Jaccard (2001). I suggest that this procedure may advance existing management literature. After a review of the economic journals between 1980 and 1999 listed by JSTOR, Ai and Norton (2003) maintained that none of the 72 articles which included non-linear models with explicit interaction terms interpreted the interaction coefficient correctly. Recent studies in management research critically reflect on the complex issue of interaction effects in non-linear models as well (Li and Meyer, 2009; Powers, 2005; Shaver, 2005). The results suggest that a combination of the procedure advanced by Ai and Norton (2003) and supplementing the numerical information with plots as suggested by Jaccard (2001) may be an appropriate means to study interaction terms when the dependent variable is non-linear.

As is the case for most empirical work, the study has some limitations. A concern may be the assumption of homogeneity in the use of indices such as GLOBE (House, Hanges, Javidan, Dorfman, and Gupta, 2004; Javidan and House, 2001). Indices measuring informal institutional distance generally assume that the average of a country is an appropriate measure of the cultural environment of the specific internationalisation project (Shenkar, 2001). However, countries may vary internally to a large extent, which may point out a clear limitation for the application of GLOBE indices (Meyer and Nguyen, 2005). Nonetheless, I consider the assessment of informal institutional distance to be best measured by the GLOBE indices for management and organisation issues. They build on such established indices as the World Value Survey, and provide a very cohesive and integrated picture of cross-cultural issues.

The measurement of formal institutional risk is based on the Hermes Country Risk Rating, a relatively unknown index in IBR. Whereas other indices such as the Euromoney Index are more frequently used to assess the formal institutional setup and are thus easier to compare and relate to other empirical studies, the Hermes Index is unique to Germany. I see the advantages of using internationally established ratings; however, I prefer to use a rating more familiar to the respondents and which they utilise for their market assessment. It may also be argued that the Hermes Country Risk Index puts special emphasis on political, economic, and financial measures in the institutional environment. However, I believe that these dimensions capture the most important issues relevant for the SME entry mode decision-making process. I therefore consider the Hermes Country Risk Index to reflect a robust image of the relevant formal institutional system from a management perspective.

The findings have several implications for SME managers. I propose that in addition to firm-specific determinants, SMEs should take into account the host country's institutional context when entering foreign markets. Managers should recognise that both informal and formal institutional aspects have an impact on their entry mode decision. When considering and bridging the differences between the firm's home and host country, managers are better prepared to decide whether to choose an equity based or non-equity based entry mode. The results suggest that prior international experience helps overcome pressures from formal institutional risk in the host country. Even when the political, governmental, and legal parameters in the host country are challenging, internationally experienced SMEs may prefer to choose equity based market entries.

Furthermore, to safeguard internal knowhow, SMEs with high technological intensity should opt for equity based entry modes even in situations of large informal institutional distance and high formal institutional risk. Finally, when SMEs assign high strategic importance to a foreign market entry, managers should be particularly aware that both, large informal institutional distance and high formal institutional risk, may change the preferred entry mode from equity based to non-equity based modes. For managers of SMEs, a comprehensive assessment of a host country's institutional context is important in order to understand and handle the institutional challenges which can arise when entering into the foreign market.

# 3 Greenfield versus Acquisition: The Moderating Impact of Perceived Institutional Uncertainty on Foreign Establishment Mode Choice of Small and Medium-Sized Enterprises

## 3.1 Abstract

Chapter 3 elaborates on the moderating role of the perceived institutional uncertainty on foreign establishment mode choices of German SMEs. While the decision between Greenfield investments and acquisitions has attracted large academic attention in the past, knowledge about how the perceived institutional uncertainty influences establishment mode choices is limited. However, institutional uncertainty as perceived by the top management might be of particular importance in SMEs being often family businesses with centralised decision making by single persons. The study draws on New Institutionalism to examine the moderating effects of the perceived institutional uncertainty on SME foreign establishment mode choice among German SMEs. Empirical results show that the perceived institutional uncertainty moderates the relationships between international experience, knowhow intensity, investment volume, and market growth and the decision between Greenfield and acquisition.

## 3.2 Introduction

Firms can enter foreign markets differently: entry modes range from direct exports to equity based entry modes. Within the latter, firms have to decide whether to acquire an existing venture (acquisition) or whether to create a new venture from scratch (Greenfield). Although this decision has attracted academic attention in the past, inconsistent findings suggest that we do not yet recognise the whole picture of the decision between acquisition and Greenfield (Slangen and Hennart, 2007).

When examining foreign direct investments (FDI) past studies mostly have focused on firm-level determinants and performance implications (for a review see Slangen and Hennart, 2007). Studies examining country-related institutional factors are limited so far (Peng, Wang, and Jiang, 2008; Slangen and van Tulder, 2009). However, the institutional context – composed of informal and formal institutions (North, 1990) – may significantly challenge multinational enterprises' establishment mode choices. Considering the perceived institutional uncertainty of the decision maker as moderator for the choice between Greenfield and acquisition seems especially relevant for SMEs being often family businesses led by the owners themselves or by managers with a high degree of seniority (Dichtl, Köglmayr, and Müller, 1990; Gomez-Mejia, 1988; Manolova, Brush, Edelman, and Greene, 2002; Simmonds and Smith, 1968; Simpson and Kujawa, 1974). The aim of this chapter therefore is to address the moderating role of the perceived institutional uncertainty on SME foreign establishment mode choice. Hence, this study provides three major research contributions to the stream of literature examining the decision between Greenfield and acquisition.

First, past studies focused mostly on firm level factors, while researchers claim for consideration of a comprehensive set of factors when examining the decision between Greenfield and acquisition. This study therefore considers determinants from firm-, subsidiary-, industry- and country-levels as suggested by Slangen and Hennart (2007).

Second, focusing on SMEs enriches existing research. SMEs do substantially differ from large MNEs due to limited managerial, technological, and financial resources. Consequently, they tend to lack knowledge of the local environment, the legal, social, and political aspects of operating abroad (Buckley, 1989). On the other hand, SMEs are more flexible than MNEs particularly due to a smaller degree of organisational inertia (Criscuolo and Narula, 2007; Hannan, Laszlo, and Carroll, 2002). SMEs therefore interact differently with their environment compared to large MNEs (Brouthers and Nakos, 2004). In addition, they have to overcome higher institutional barriers during their internationalisation due to their special characteristics. Thus, SMEs are likely to be more sensitive to institutional influences than large MNEs.

Third, studying the moderating role of perceived institutional uncertainty on establishment mode choice shows how the decision between Greenfield and acquisition is contingent on the SME decision maker's perception of institutional uncertainty in the host country. This is important, as results of frequently studied determinants of establishment mode choice appear incomplete without considering the challenges arising from the institutional context as perceived by the decision maker (Ruzzier, Antoncic, Hisrich, and Konecnik, 2007). Examining how the perception of institutional uncertainty impacts the choice between Greenfield and acquisition has not been studied in SME research before. This shortcoming may be due to the dominance of transaction cost and resource-based studies, which largely disregard context-related factors (Slangen and Hennart, 2007; see also chapter 1.1.4). To overcome this limitation this study bases on New Institutionalism and examines in depth the role of institutions on the decision between Greenfield and acquisition (Brouthers and Brouthers, 2000; Manolova, Brush, Edelman, and Greene, 2002; Ruzzier, Antoncic, Hisrich, and Konecnik, 2007).

To achieve the aims, the next section reviews prior literature on SME foreign market entry and establishment mode choices. Afterwards, I introduce the theoretical framework based on New Institutionalism and derive hypotheses accordingly. Then, empirical testing of the hypotheses is conducted using a cross-industry sample of 95 German SMEs with foreign direct investments in 28 countries worldwide. The final section of this chapter summarises the results, points out this study's limitations, and provides implications for managerial practice.

## 3.3 Literature Review

International entry mode choice belongs to the critical strategic decisions when venturing abroad (Lu, 2002). Numerous theoretical and empirical studies have been published in the past decades mostly focusing on determinants of entry mode choice of large MNEs (e.g. Brouthers and Brouthers, 2000; Harzing, 2002; Li and Meyer, 2009; Luo, 2001). However, only few studies have elaborated on foreign market entry mode choice among SMEs. Thus, Erramilli and D´Souza (1993) examine foreign market entries of 54 small and 87 large service firms. They argue that market entry behaviour of SMEs differs from large MNEs, as SMEs suffer from severe resource constraints. Consequently, environmental uncertainty leads small firms to minimise resource commitments and to adapt their entry modes accordingly. In line, also Nakos and Brouthers (2002) argue that SMEs and large MNEs pursuit different entry mode strategies. They reason that due to limited resources SMEs may use low control modes of entry. However, when serving niche markets, equity based entry modes may reduce the investment risk. In total, it remains unclear whether large firm mode choice theories can be applied to SMEs. In another study, Brouthers and Nakos (2004) reason, that SMEs are not simply smaller versions of large firms. In fact, SMEs differ in managerial style, ownership, and dependence. In addition, they suffer from limited resources leading them to choose different international strategies than large MNEs. Kirby and Kaiser (2003) examine SME internationalisation suggesting that joint ventures in particular may solve the resource endowment of SMEs. Mutinelli and Piscitello (1998) examine the impact of firm size and international experience on the ownership structure of FDI. They reason that smaller firms with lacking experience in managing foreign operations prefer less control of foreign subsidiaries. Zhao and Hsu (2007) suggest that due to resource scarcity SMEs lack information on investment opportunities and local conditions. Being unfamiliar with the different legal systems and regulations involved SMEs are particularly sensitive to political risk and macroeconomic uncertainties. Thus, when planning FDI, SMEs have to overcome additional liabilities leading to restricted internationalisation advantages. Engaging in an FDI is linked with higher risks and uncertainties for SMEs comparing to large MNEs.

Reflecting prior literature it seems obvious that studying SMEs offers new insights for entry mode research. Most studies argue that internationally operating SMEs differ significantly from large MNEs leading them to pursue different strategies. However little is known about how SMEs decide between Greenfield and acquisition. While there is extensive attention for this strategic decision in the context of large multinational firms (for a review see Slangen and Hennart, 2007), few studies are examining the establishment mode choices among SMEs. In addition, the influence of the institutional context with regard to SME establishment mode choice remains underexamined (Slangen and Hennart, 2007) although SMEs are likely to be more sensitive to the institutional context (Brouthers and Nakos, 2004). They may be less able to surmount challenges arising from the institutional context, because they cannot diversify risk and have fewer financial and personal resources (Brouthers and Nakos, 2004; Erramilli and Rao, 1993). This challenge may significantly depend on the perception of the prevalent institutional uncertainty in the host country (Manolova, Brush, Edelman, and Greene, 2002; Ruzzier, Antoncic, Hisrich, and Konecnik, 2007). The effects of the perceived institutional uncertainty may be more apparent when studying foreign market entry of SMEs. Thus, research on the role of the perception of institutional uncertainty on the decision of SMEs between Greenfield and acquisition is relevant, but largely missing so far.

## 3.4 Theoretical Framework

As illustrated in chapter 1.1.4, recent studies in the field of international business – and also on the choice between Greenfield and acquisition – have been based mainly on Transaction Cost Economics (e.g. Brouthers and Brouthers, 2000; Hennart and Park, 1993; Larimo, 2003), International Process Models (e.g. Buckley and Casson, 1998), and Resource-Based Views (e.g. Anand and Delios, 2002; Meyer, Estrin, Bhaumik, and Peng, 2009). However, most popular theories in IBR fall short of examining the significance of contextual factors and of an integrated institutional approach (Dikova and van Witteloostuijn, 2007; Yiu and Makino, 2002).

In line with the claims of Slangen and Hennart (2007), chapter 3 therefore refers to the New Institutionalism in order to analyse the role of the host country's institutional environment on SMEs' decision between Greenfield and acquisition. Institutional approaches focus on social actors and their ways to control economic activities and resources (Whitley, 1999). Social actors are embedded in the country-specific institutional environment providing the rules of conduct in a country (North, 1990). New institutionalists differentiate between formal and informal institutions. Formal institutions mostly result from historical occurrences (Whitley, 1992) and are embedded in a country's political orientation, judicial decisions, and economic acting (Peng, 2000). Informal institutions, on the other hand, describe patterns of behaviour concerning trust, collaboration, identity, and subordination embedded in culture and ideology (Whitley, 1999). In line with this argumentation, I posit that the institutional context impacts organisational strategies (Henisz, 2002; Henisz and Delios, 2002; Henisz and Zelner, 2003). Organisations have to adapt their decisions and strategies to the institutional context (Estrin, Baghdasarayn, and Meyer, 2009; Peng, 2000; Wright, Filatotchev, Hoskisson, and Peng, 2005). But whereas strong and complete institutions provide support for efficient business transactions (Gelbuda, Meyer, and Delios, 2008), weak institutions imply additional risks and hinders a firm's economic acting as they are characterised by institutional restrictions and constraints (Peng, 2002). Thus, the complexity and opacity of institutional settings in diverse markets lead to uncertainty about the valid rules for economic acting (Khanna and Palepu, 1997; Whitley, 2001a).

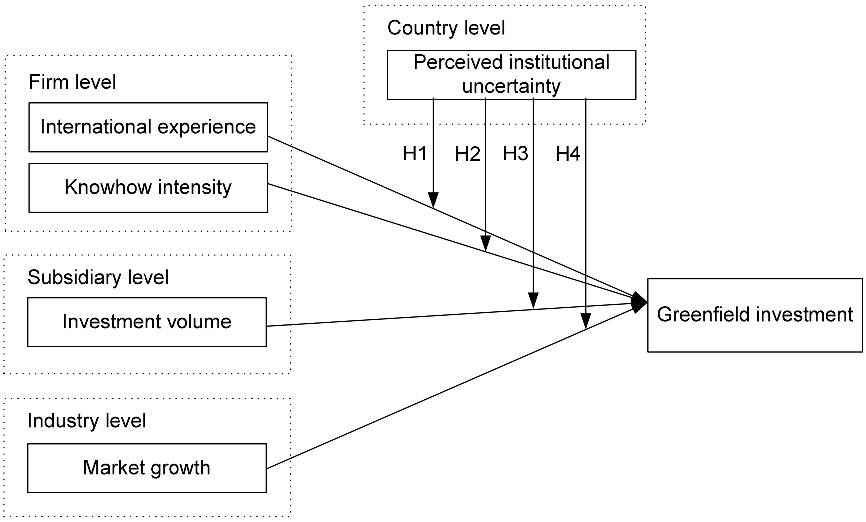
Consequently, a firm's strategic choice depends on the perceived institutional uncertainty in the host country (Delios and Henisz, 2003; Slangen and van Tulder, 2009; Xu and Shenkar, 2002). The higher the perceived institutional uncertainty, the more the management expects insufficiently functioning political, judicial, or economic institutions, and the more it feels challenged to adapt the business to the prevalent institutional environment (Deeg, 2005; Narula and Dunning, 2000; Peng, 2000; Peng, 2003; Wright, Filatotchev, Hoskisson, and Peng, 2005). The extent of the perceived institutional uncertainty limits the scope of individual and organisational action (Ingram and Silverman, 2002) and has implications for the resource commitments to a foreign market (Pedersen and Petersen, 2003). It may therefore influence the strategic choice between Greenfield and acquisition (Ruzzier, Antoncic, Hisrich, and Konecnik, 2007).

The level of perceived institutional uncertainty is contingent upon the manager's perception of hazards and risk (Agarwal and Ramaswami, 1992; Dichtl, Köglmayr, and Müller, 1990; Gomez-Mejia, 1988; Manolova, Brush, Edelman, and Greene, 2002; Simmonds and Smith, 1968; Simpson and Kujawa, 1974). This is of particular importance in SMEs as single owners or senior managers more profoundly and persistently influence a firm's decision making than it is the case in large MNEs. In SMEs, owner dependence is higher than in large MNEs and SME managers generally tend to be strongly connected to the firms with high levels of relatedness and solidarity. In consequence, the perception of the key managers plays a pivotal role in SME decision making. Researchers broadly agree that an SME's exposure to internationalisation is positively related to the decision maker's risk tolerance (Dichtl, Köglmayr, and Müller, 1990; Gomez-Mejia, 1988; Manolova, Brush, Edelman, and Greene, 2002; Simmonds and Smith, 1968; Simpson and Kujawa, 1974). In addition, SMEs are particularly sensitive to the institutional constraints not having the same economic, financial and personal power than large MNEs. Thus, internationalising SMEs tend to consider the manager's perception of chances and risks related to an FDI. This holds true particularly in SMEs where decision making is rather centralised with only few persons being involved. Thus, the key managers' perceptions of institutional uncertainty with regard to the host countries political, economical, legal and cultural institutions influences the way of doing business abroad. The higher the perceived institutional uncertainty, the more managers feel challenged to handle institutional barriers and hurdles. In institutionally uncertain business environments, managers expect higher costs and higher risks. This includes the handling of local institutions, cultural differences as well as costs of communication and generally costs of doing business (Meyer and Estrin, 1997).

In the next section, I elaborate hypotheses examining the moderating impact of perceived institutional uncertainty on a comprehensive set of determinants for the SME's decision in respect to Greenfield versus acquisition. As the corresponding direct effects of determinants on establishment mode choice from firm level (international experience, knowhow intensity), subsidiary level (investment volume) and industry level (market growth) have been discussed in previous studies (e.g. Dikova and van

Witteloostuijn, 2007), I concentrate my reasoning on the moderating impact of perceived institutional uncertainty (country level) as illustrated in figure 3.1.

*Figure 3.1: Research model (chapter 3)*




## 3.5 Hypotheses

Researchers broadly agree that international experience is an important determinant of entry mode selection (Agarwal and Ramaswami, 1992; Erramilli, 1991; Henisz, 2000). Also with regard to the decision between Greenfield and acquisition the level of prior international experience is essential (Slangen and Hennart, 2007). International experience can reduce the cost and risk of foreign market entry, making Greenfield investment more attractive over acquisitions (Dikova and van Witteloostuijn, 2007). Internationally experienced firms face fewer restrictions when entering new markets. They are able to compensate missing local knowledge by prior experiences in foreign countries and overcome more easily the liabilities of foreignness. In contrast, internationally inexperienced firms need complementary inputs that they can access easier and quicker by acquisitions. Firms that are not experienced in running a foreign firm need to acquire a firm together with managers that know how to operate in the local market (Hennart and Park, 1993). Past research shows that firms with greater international experience tend to prefer Greenfield investments, while firms without international experience tend to choose acquisitions when entering markets with equity based entry modes (e.g. Hennart and Park, 1993; Meyer and Estrin, 1997).

When perceiving high institutional uncertainty with unstable business rules and different norms in the target country, managers still profit from their prior international experience with regard to the decision between Greenfield and acquisition. Through their earlier exposure to different local institutional environments, internationally experienced firms are knowledgeable about different cultures and have learned to do business abroad. This applies particularly to SMEs, which suffer less from organisational inertia compared to MNEs (Criscuola and Narula, 2007; Hannan, Laszlo, and Carroll, 2002), increasing learning efficiency and knowledge transfer within the organisation. Thus, SMEs possess some learning advantages over MNEs (Autio, Sapienza, and Almeida, 2000), reducing the risk of improperly applying prior international experience. Internationally experienced firms have developed organisational capabilities enabling them to make greater commitments to a foreign investment (Anderson and Gatignon, 1986; Johanson and Vahlne, 1977) and thus decreasing the need of a local partner. The more a firm knows about doing business abroad, the less these firms need the tacit knowledge of an existing firm in the host country (Meyer and Estrin, 1997). Experienced managers are capable of managing international operations and establishing foreign business contacts even when perceiving high levels of institutional uncertainty. I therefore assume that SMEs with prior international experience still prefer Greenfields over acquisitions when venturing into countries with high levels of perceived institutional uncertainty. Internalised knowledge enables them to build up their investments from scratch even when perceiving high levels of institutional uncertainty. In summary I present the following hypothesis:

*Hypothesis 1: The positive relationship between an SME's international experience and its choice of a Greenfield investment as establishment mode increases with higher perceived institutional uncertainty in the host country.*

The level of a firm's knowhow intensity is considered to be another critical determinant of foreign market establishment mode choice (Meyer and Estrin, 1997). The nature of the key competencies of the investing firm influences the costs of alternative entry strategies (Meyer and Estrin, 1997). If a firm possesses specific intangible assets, such as technology or production knowhow, it has to take extra precautions to protect itself from knowledge diffusion into the hands of competitors (Klein, 1989). Technologically oriented firms strive for implementing their own culture and to protect their technologies. They tend to avoid compatibility problems with the business cultures, business methods, and technologies of existing firms (Meyer and Estrin, 1997). In line with this argumentation previous research has shown that knowhow intensive firms prefer to choose Greenfield investments over acquisitions to safeguard their proprietary knowledge (Andersson and Svensson, 1994; Brouthers and Brouthers, 2003; Dikova and van Wittelsoostuijn, 2007; Gatignon and Anderson, 1988; Kim and Hwang, 1992).

Venturing into host countries with high levels of perceived institutional uncertainty exposes the knowhow intensive firm to additional challenges of knowledge protection. When managers perceive high institutional uncertainty, the need of preservation and exploitation of the firm's intangible assets gets stronger and crucial for survival of the firm (Chen and Zeng, 2004; Larimo, 2003). SMEs are particularly known for targeting niche markets with knowledge intensive and specialised products (Nakos and Brouthers, 2002). Knowledge protection in uncertain environments needs management and control systems that enable SMEs to keep the knowledge in the firm. In a Greenfield investment SMEs may establish well proven mechanisms that allow for protecting product-specific knowledge. Knowhow intensive SMEs can safeguard best their competitive advantages in a foreign country through their own labour management practices (Dunning, 1986) and business structures they are familiar with. When investing abroad, this competitive advantage can be best achieved by new ventures that allow choosing and grouping the employees upon internal knowledge (Hennart and Park, 1993). Without sufficient legal protection, a firm's property rights and tacit knowledge (such as patents, trademarks, brands, knowhow, and copyrights) can be exposed to piracy (Luo, 2001). New ventures allow technologically intensive firms to avoid dissemination of firm-specific advantages (Brouthers and Brouthers, 2000). Following this reasoning, I argue that knowhow intensive SMEs facing high levels of perceived institutional uncertainty tend to prefer Greenfields over acquisitions. The perceived level of the host country's institutional uncertainty has a positive moderating influence on the relationship between knowhow intensity and the selection of a Greenfield investment. I derive the following hypothesis:

*Hypothesis 2: The positive relationship between an SME's knowhow intensity and its choice of a Greenfield investment as establishment mode increases with higher perceived institutional uncertainty in the host country.*

With regard to foreign subsidiaries past research emphasises that in addition to intangible assets also tangible assets may be an important determinant in the decision between Greenfield and acquisition. Subsidiaries requiring specific investments may provoke a shortage in financial and management resources to the investing firm (Brouthers and Brouthers, 2000). Naturally, these shortages get more important, if the size of the investment is relatively large (Hennart and Park, 1993). Acquisitions of existing firms, in contrast, provide new and additional managerial and financial resources. Thus scholars widely agree that the higher the (relative) investment volume the more likely firms choose acquisitions providing new managerial and financial resources easing the burden to the investing firm (Brouthers and Brouthers, 2000).

However, when observing high levels of institutional uncertainty, SME managers are challenged to balance the risks related to high investment volumes with the expected profits. FDIs requiring high investment volumes reach a particular strategic importance in SMEs. When investing in uncertain environments, SMEs need to ensure flexible reactions in order to guarantee sustainable firm development (Oviatt and McDougall, 1994). In those environments, SMEs need to establish structures allowing for minimizing opportunistic behaviour and the diffusion of specific knowledge (Gatignon and Anderson, 1988; Klein, Frazier, and Roth, 1990; Williamson, 1985). Although acquisitions may provide additional resources and help to overcome resource liabilities, they have a higher risk of opportunistic behaviour making it difficult for SMEs to act flexible and manage challenging business transactions. When entering foreign markets characterised by an uncertain institutional context, SMEs may best safeguard their strategically important investments by establishing new ventures. Hence, I assume that SMEs perceiving high levels of institutional uncertainty tend to prefer Greenfields over acquisitions when transferring high investment volumes to the international subsidiary. I derive the following hypothesis:

*Hypothesis 3: The negative relationship between the investment volume and an SME's choice of a Greenfield investment as establishment mode turns positive with higher perceived institutional uncertainty in the host country.*

With regard to the industry level, the impact of market growth on establishment mode choice is discussed controversially in IBR. On the one hand researchers posit that in industries with high market growth, entry by acquisitions allows for reduced opportunity costs for absence (Larimo, 2003). Firms that face high opportunity costs for delaying the time to market therefore choose an acquisition as establishment mode choice (Andersson and Svensson, 1994; Hennart and Park, 1993), as acquisitions allows for gaining market shares and benefiting from short-term profit opportunities (Meyer and Estrin, 1997). On the other hand, scholars have shown that industries with high growth rates offer more scope for new firms by creating additional capacities (Andersson and Svensson, 1994). A fast growing market facilitates the establishment of new productive capacity and therefore encourages new Greenfield investments (Brouthers and Brouthers, 2000; Zejan, 1990). This is of particular importance for SMEs being niche players within defined industries. While in slow growth markets, there is little room for capacity expansion, there may be opportunities to acquire weaker competitors struggled with the market conditions. In slow growth markets, SMEs then prefer acquisitions not increasing the overall capacity in the niche industry and therefore reducing the likelihood of retaliation from competitors (Brouthers and Brouthers, 2000). Thus, I expect that SMEs tend to choose Greenfield investment when entering industries with high market growth providing enough space to increase competition (Brouthers and Brouthers, 2000).

In environments characterised by high perceived institutional uncertainty, future market development can not be foreseen. Managers can hardly trust in market forecasts promising high growth rates. Future market development is randomised and the estimation of expected strategic potentials becomes difficult. When perceiving high levels of institutional uncertainty, managers feel challenged by the prevailing business environment. They expect a higher risk of failure and adapt the firm’s organisational decisions accordingly. Due to limited resources, it is particularly important for SMEs to balance the risks linked to an international investment. In institutionally uncertain contexts, SMEs prefer to have direct access to a functioning business network as well as to the tacit knowledge of how to do business in unstable environments (Meyer and Estrin, 1997) instead of building a new venture from scratch. Acquisitions provide the knowhow of managing international operations facilitating the market entry in difficult markets. In line with this argumentation, I expect that SMEs perceiving high levels of institutional uncertainty tend to prefer acquisitions over Greenfields even when market growth is high. Thus, hypothesis 4 suggests, that the perceived institutional uncertainty has a negative moderating impact on the relationship between market growth and the decision to establish a new venture:

*Hypothesis 4: The positive relationship between the industry's market growth and an SME's choice of a Greenfield investment as establishment mode turns negative with higher perceived institutional uncertainty in the host country.*

## 3.6 Methodology

### 3.6.1 Data

This chapter's empirical analysis is based on dataset 2 (see chapter 1.3.2 for more details) considering German medium-sized firms with up to 500 employees (ifm, 1997) and with a minimum international equity stake of 10% (Brouthers, Brouthers, and Werner, 2002; Meyer, Estrin, Bhaumik, and Peng, 2009). Due to missing data this study includes 95 firms of which 64 firms with a Greenfield investment. The mean size of the firms in the sample is 280 employees. The sample includes a total of 28 foreign countries as destinations for foreign market entries. Consisting of firms investing from one single home country (Germany) in numerous host countries the dataset is convenient to study host country effects (Slangen and Hennart, 2007).

I conducted tests as suggested by Little and Rubin (1987) and Allison (2002) showing no significant results. Tests for common methods variance or outliers did not show any significant problems (Podsakoff, MacKenzie, Lee, and Podsakoff, 2003; Podsakoff and Organ, 1986). Further, I controlled the returned questionnaires for non-response bias according to Armstrong and Overton (1977). Early and late respondents were compared in terms of selected constructs. A *t*-test showed no significant differences.

### 3.6.2 Measurement

I constructed a binary dependent variable on a firm's establishment mode choice differentiating between ***Greenfield investment*** and acquisition. Following Slangen and Hennart (2008) the variable is captured by a dummy variable which takes the value "1" if a firm has chosen a Greenfield investment and "0" in the case of an acquisition.

The direct variables were constructed to link relevant determinants to internationalisation decisions of firms according to this paper's theoretical focus. Thus, SME managers were asked to score the importance assigned to each determinant on a six-point Likert scale from ‘not at all important’ to ‘very important’. All variables were constructed with multiple-item measures in order to minimise measurement error and to enhance the content coverage in the model. The measures have been adapted from previously tested items in the internationalisation and IBR literature. On firm level, ***international experience*** was measured using a three-item scale (Cronbach’s Alpha 0.850) adapted from existing literature (Agarwal and Ramaswami, 1992; Brouthers and Nakos, 2004). In line with established literature, international experience captured levels of the firm, the management, and the company itself (Burgel and Murray, 2000). ***Knowhow intensity*** was measured using a five-item scale (Cronbach’s alpha 0.740) adapted from earlier research (Brouthers and Brouthers, 2003; Erramilli and Rao, 1993) asking the responding firms for example about the uniqueness of their products and technology. On subsidiary level, ***investment volume*** was measured using a two-item scale (Cronbach’s Alpha 0.816) adapted from Scott-Kennel (2007) asking the respondents if the international engagement needed high investment volumes and the transfer of technologies. On industry level, ***market growth*** was measured using a two-item scale (Cronbach’s Alpha 0.886) according to Dikova and van Witteloostuijn (2007) asking the responding firms about the actual and future market growth in the host market.

The moderator variable ***perceived institutional uncertainty*** was measured using a four-item measurement (Cronbach’s Alpha 0.931) adapted from Kim and Hwang (1992). The respondents were asked whether they perceived the political, economical, cultural and legal differences between home and host country as high. Following Harzing (2002), this study is based on managerial perceptions to measure the impact of institutional uncertainty on establishment mode choice. This perceptual measure allows for reflecting complex constructs as strategic decisions on establishment choices (Slangen and Hennart, 2007).

As first control variable, ***firm size*** was included measuring the number of full-time employees of the company at the time of the foreign market entry under investigation. The size of the firm is often used as a proxy for resources availability, which is particularly important for SMEs. Also ***resource endowment*** (two-item scale, Cronbach’s alpha 0.776) at the point of foreign market entry seems to be a key issue for SMEs when it comes to internationalisation efforts. Due to limited resources, SMEs often use network partners in order to gain access to the foreign market and to overcome liabilities of foreignness (Meyer and Skak, 2002). Therefore, the respondents were asked how resource endowment hampered the foreign market entry of the firm. Additionally, I controlled for the ***risk of capital transfer*** (single item scale) in order to build up a restriction very important to SME owners when investing abroad. Slangen and Hennart (2007) suggest controlling additionally for host country effects in order to obtain reliable results in this type of research question. Thus, ***institutional quality*** of the host country was proxied by the Economic Freedom index. The Index of Economic Freedom is a series of 10 economic measurements created by the Heritage Foundation and Wall Street Journal comprising e.g. business freedom, property rights, freedom from corruption, government size, investment freedom and labour freedom. Applying the Economic Freedom index to display institutional quality has been conducted by other management scholars such as Meyer, Estrin, Bhaumik, and Peng (2009). Furthermore, a dichotomous item differentiating between ***family business*** and non-family business was added in order to control for the owner status of the company. The owner is a major strategic decision maker in SMEs in such issues as entry mode selection. On subsidiary level, finally, the relative size of the subsidiary was included as control variable.

When applying multi-item measures, the Cronbach's alpha values for the scales show good internal consistency and reliability in all constructs (Nunnally, 1978). To assess the validity of the scales, each item battery was subject to a principal component analysis showing good construct consistency. Table 3.1 presents the means and standard deviations of all variables in the model as well as their bivariate correlations.

*Table 3.1: Means, standard deviations, and bivariate correlations (chapter 3)*

| Correlation Matrix | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *Mean* | | .66 | 3.55 | 3.46 | 3.06 | 3.75 | 3.47 | .23 | .05 | .24 | .36 | 280.47 | 3.22 | 3.03 | 62.64 | .81 | 51.46 |
| *Standard Deviation* | | .48 | .94 | .73 | 1.37 | 1.14 | 1.13 | 1.05 | .78 | 1.65 | 1.26 | 133.64 | .86 | 1.243 | 10.99 | .397 | 120.34 |
| 1 | Greenfield investment (dependent variable) | 1 | | | | | | | | | | | | | | | |
| 2 | International experience | .031 | 1 | | | | | | | | | | | | | | |
| 3 | Knowhow intensity | .181 | .205* | 1 | | | | | | | | | | | | | |
| 4 | Investment volume | -.169 | .043 | .248* | 1 | | | | | | | | | | | | |
| 5 | Market growth | .263** | .256* | .206* | .021 | 1 | | | | | | | | | | | |
| 6 | Perceived institutional uncertainty | .231* | .221* | .060 | .157 | .279** | 1 | | | | | | | | | | |
| 7 | M_PercInstUnc_IntExp | .061 | .164 | .026 | .006 | .113 | -.108 | 1 | | | | | | | | | |
| 8 | M_PercInstUnc_Knowhow | .215 | -.048 | .152 | .035 | .195* | .272** | .198* | 1 | | | | | | | | |
| 9 | M_PercInstUnc_InvestVolume | .066 | .033 | .009 | -.128 | -.014 | -.139 | .229* | .035 | 1 | | | | | | | |
| 10 | M_PercInstUnc_MarketGrowth | -.062 | .202* | .109 | -.016 | .080 | .086 | .219* | .224* | .037 | 1 | | | | | | |
| 11 | Firm size | .112 | .083 | .130 | -.079 | .171 | .132 | .178 | .132 | .143 | .179 | 1 | | | | | |
| 12 | Limited resources | .139 | .237* | .042 | .185 | .106 | .051 | -.002 | -.131 | .037 | .072 | .046 | 1 | | | | |
| 13 | Risk Capital transfer | .069 | -.045 | -.136 | .215* | -.005 | .277 | -.064 | .028 | -.265 | -.034 | .116 | -.202* | 1 | | | |
| 14 | Institutional quality | -.020 | -.116 | -.037 | -.258** | -.128 | -.551*** | .119 | .023 | .060 | .048 | -.138 | -.125 | -.155 | 1 | | |
| 15 | Family Business | .021 | -.032 | .029 | -.020 | -.184 | .019 | -.100 | -.035 | -.137 | .000 | -.009 | -.097 | .089 | .073 | 1 | |
| 16 | Relative size of subsidiary | -.226* | .037 | .041 | .212* | .051 | .244* | .035 | -.030 | .124 | .164 | .206 | .152 | .085 | -.317 | -.191 | 1 |

Significance levels: ***: p ≤ .001; **: p ≤ .01; *: p ≤ .05

Looking at the correlation coefficients in table 3.1, no serious risk for multicollinearity exists (Anderson, Sweeney, and Williams, 1996). All correlations stay below 0.7.

Additionally, the VIF values amount to at most 1.975 staying below the maximum of 2.5 recommended by Allison (1999). Thus, there is no serious risk for multicollinearity between the dependent, control, direct, moderator, and interaction variables (Anderson, Sweeney, and Williams, 1996).

### 3.6.3 Empirical Results

The tests of the hypotheses are based on binary logistic regression analysis. Interaction effects in the models were computed and interpreted according to Ai and Norton (2003) and Jaccard (2001) as interaction effects cannot simply be interpreted by looking at the sign, magnitude, or statistical significance of the coefficient on the interaction term when the model is non-linear (see chapter 2.5.3). Four models display the results. In model 1, the control variables were entered. Model 2 includes the independent variables. In model 3, the moderator variable was added. In model 4, finally, the interaction terms were included. The applied significance level was again 10% (see chapter 2.5.3). Table 3.2 presents the results of the regression analysis.

*Table 3.2: Results of binary logistic regression (chapter 3)*

| **Regression Analysis** | Model 1 control variables | Model 2 + independent variables | Model 3 + moderator variable | Model 4 + interaction effects |
|---|---|---|---|---|
| Direct variables | | | | |
| International experience | | -.427 | -.543 | .824† |
| Knowhow intensity | | .928* | .945* | .496 |
| Investment volume | | -.561* | -.576* | .370† |
| Market growth | | .461* | .383 | -.950* |
| Moderator variable | | | | |
| Perceived institutional uncertainty | | | .820* | .961* |
| Interaction effect | | | | |
| M_PercInstUnc_IntExp | | | | .824† |
| M_PercInstUnc_Knowhow | | | | .496 |
| M_PercInstUnc_Investment volume | | | | .370† |
| M_PercInstUnc_MarketGrowth | | | | -.950* |
| Control variables | | | | |
| Firm size | .003 | .001 | .001 | .002 |
| Limited resources | .534 | .930* | 1.028** | 1.085** |
| Risk Capital transfer | .184 | .508 | .348 | .678 |
| Institutional quality | -.019 | -.029 | -.011 | -.008 |
| Family Business | .045 | .276 | .001 | .366 |
| Relative size of subsidiary | -.012** | -.010* | -.011** | -.016** |
| Constant / Threshold | -.595 | -3.535 | -7.664 | -9.319 |
| Chi Square | 15.357 | 28.215 | 35.768 | 44.125 |
| R2 (Nagelkerke) | .208 | .358 | .437 | .518 |
| R2 (Cox & Snell) | .149 | .257 | .314 | .372 |
| Correct Classifications | 74.7 | 72.6 | 77.9 | 78.9 |
| Significance | .018 | .002 | .000 | .000 |
| N | 95 | 95 | 95 | 95 |

N = sample; R2 = Variance; dependent variable: binary (Greenfield vs. Acquisition); Significance levels: ***: p ≤ .001; **: p ≤ .01; *: p ≤ .05; †: p ≤ .1

Model 1 reports the effect of the control variables on entry mode selection. Results show that the relative size of the subsidiary has a significantly negative influence on the establishment mode choice. Thus, for relatively large investments, SMEs seem to prefer acquisitions over Greenfields.

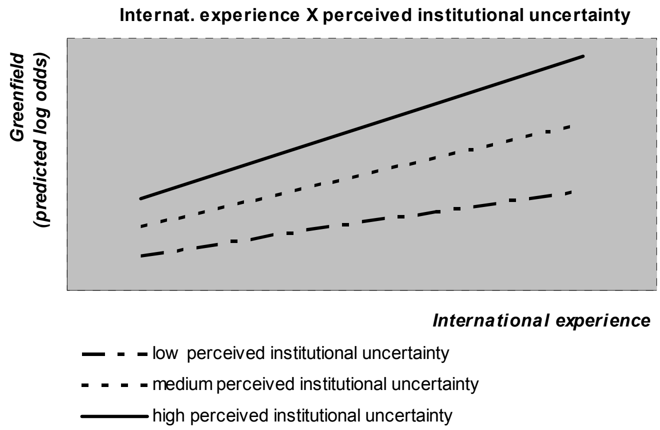
Model 2 relates to the well-established direct variables of establishment mode choice namely international experience and knowhow intensity (firm level), technology transfer (subsidiary level), and market growth (industry level) on the likelihood of choosing a Greenfield investment in contrast to an acquisition. Adding the direct variables provided for a higher variance explanation. $R^2$ increased from 0.208 to 0.358 (Nagelkerke) and from 0.149 to 0.257 (Cox and Snell) respectively. As expected, I found positive and significant relationships between knowhow intensity as well as market growth and the choice of Greenfield investments. Additionally, I found a negative and significant relationship between technology transfer and the likelihood to choose Greenfield investments. I did not find a significant association between international experience and Greenfield investments, challenging previous studies which have been arguing that experienced firms tend to prefer new ventures for their FDI as they may compensate missing local knowledge by prior experiences.

Model 3 includes the moderator variable. Adding the moderator variable provided for a higher variance explanation, with $R^2$ increasing from 0.358 to 0.437 (Nagelkerke) and from 0.257 to 0.314 (Cox and Snell). I found a significant positive relationship between the perceived institutional uncertainty and the choice of Greenfield investments. Thus, the perception of the institutional environment in the host country seems to directly influence the establishment mode choice.

Model 4 includes the interaction terms and tested the hypotheses. Adding the product variables provided for a higher variance explanation: $R^2$ increased from 0.437 to 0.518 (Nagelkerke) and from 0.314 to 0.372 (Cox and Snell). For better interpretation of the interaction terms, this study also followed Jaccard (2001) and Hoetker (2007) supplementing the numerical information with plots of the predicted log odds in order to interpret the complex associations related with interactions in logit models (Hoetker, 2007). As described in chapter 2.5.3, I selected again a low, medium, and high score on the moderator variable to illustrate the curves (Jaccard, 2001). Figures 3.2 to 3.4 present the plots for the predicted log odds of establishment mode choice (dependent variable) as a function of international experience, investment volume, and market growth and perceived institutional uncertainty (moderator variable).

Hypothesis 1 expected that higher levels of perceived institutional uncertainty have a positive moderating influence on the relationship between international experience and the selection of a Greenfield investment. The regression results support this hypothesis with a significant and positive interaction effect between international experience and perceived institutional uncertainty. The plots in figure 3.2 show that high levels of international experience increase the likelihood of choosing a Greenfield investment when the perceived institutional uncertainty is high. This result expands existing knowledge, showing that prior international experience enables SMEs to manage international operations in new ventures even when perceiving high levels of institutional uncertainty. Thus, as expected, internationally experienced firms are less reliant on the tacit knowledge and business contacts of acquisition targets. Internalised knowledge enables those firms to build up their investments from scratch even when perceiving high levels of institutional uncertainty.

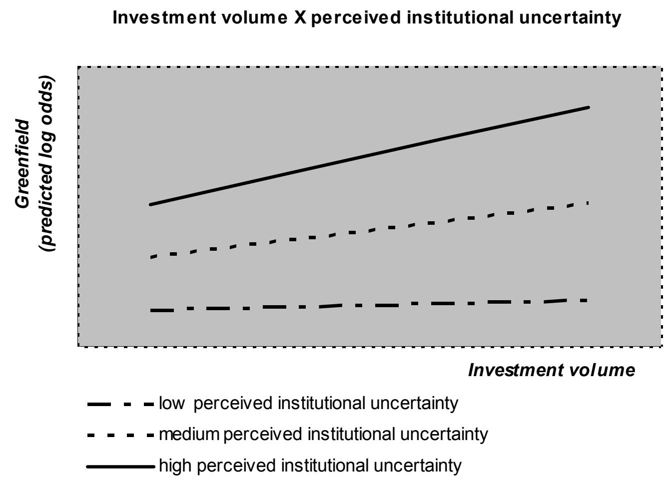
*Figure 3.2: Interaction effect of perceived institutional uncertainty and international experience*




Hypothesis 2 proposed that greater perceived institutional uncertainty has a positive moderating effect on the relationship between knowhow intensity and the likelihood that SMEs choose Greenfield investments. The results do not support Hypothesis 2. Surprisingly, it appears that in environments with high perceived institutional uncertainty, the knowhow intensity of an investing SME does not necessarily influence the decision between Greenfield and acquisition. An explanation might be that knowhow intensive SMEs need to safeguard their knowledge independently of the institutional context in the host country. In order to be successful in foreign markets, SMEs need to ensure that the intangible knowledge is protected being the most important competitive advantage in their niche industry. In any case, this result would be of interest for further studies.

Hypothesis 3 expected that SMEs tend to prefer Greenfields over acquisitions for foreign investments with high investment volumes when perceiving high institutional uncertainty. The regression results support this hypothesis with a significant and positive interaction effect. Thus, it seems that SMEs entering foreign markets with a challenging institutional context may best safeguard their strategically important FDIs by establishing new ventures. Figure 3.3 illustrates this relationship showing that in conditions of high perceived uncertainty, SMEs tend to choose Greenfield investments for their high volume investments. This effect weakens when the perceived institutional uncertainty (defined as a standard deviation below the mean of the moderator variable) is medium and low, and turns negative when institutional uncertainty is not considered at all (see the direct effect of investment volume and Greenfield investment in table 3.2).

*Figure 3.3: Interaction effect of perceived institutional uncertainty and investment volume*




Finally, Hypothesis 4 proposed that greater perceived institutional uncertainty has a negative moderating impact on the relationship between market growth and Greenfield investments. The results support Hypothesis 4 with a significant and negative interaction effect. Thus, managers seem to feel challenged by the prevailing business environment expecting a higher risk of failure. In those situations, SMEs prefer to have access to a functioning business network provided by acquisitions of existing firms in order to preserve their limited resources. Figure 3.4 illustrates this relationship.

*Figure 3.4: Interaction effect of perceived institutional uncertainty and market growth*

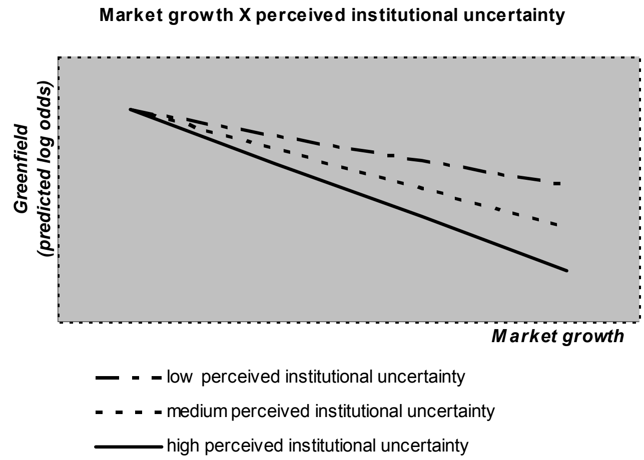



Figure 3.4 shows that high levels of market growth in the target country decrease the likelihood of choosing a Greenfield investment, in case the SME managers perceive a high, medium, or low level of institutional uncertainty. Thus, SME managers prefer acquisitions over Greenfields when perceiving institutional uncertainty in the host country even when market growth is high.

## 3.7 Conclusion, Limitations, and Managerial Implications

The aim of this chapter was to examine the impact of perceived institutional uncertainty in the host country on the decision between Greenfield and acquisition among SMEs. While scholars have intensively discussed and studied the research field of foreign entry mode selection, the establishment mode choices of SMEs (decision between Greenfield investment and acquisition) have received scarce academic attention so far. In response to recent calls for more integration of the institutional context into international establishment mode strategies, I proposed that the perceived institutional uncertainty moderates the relationships between international experience, knowhow intensity, investment volume, market growth and the choice of a new venture as establishment mode choice.

Chapter 3 makes the following theoretical, empirical, and methodological contributions. Theoretically, the study suggests that the New Institutionalism is an appropriate theoretical approach in SME establishment mode research. It allows incorporating the institutional context of the host country into the research leading to more idiosyncratic results. Until now, only a limited number of studies have taken into consideration the perceived institutional environment and none as a moderator with regard to SMEs

(Slangen and Hennart, 2007). This chapter therefore makes a valuable contribution to research foreign market entry mode choice among SMEs.

Empirically, through a sample of German SMEs operating in 28 foreign countries, the results indicate that decisions between Greenfields and acquisitions of SMEs are contingent on the institutional context. Existing research has so far completely neglected the impact of perceived institutional uncertainty on SME establishment choice. The results therefore contribute to existing knowledge and permit a more profound understanding of the effect of perceived institutional uncertainty as moderator for the establishment mode choice of SMEs. Moreover, I show how variables from firm-, subsidiary-, industry-, and country-level complement and interact to predict establishment mode strategies. Hence, previous studies on establishment mode choice not pursuing such a comprehensive approach should not be generalised.

Methodologically, I applied moderator analysis as suggested by Ai and Norton (2003) and Jaccard (2001). Recent studies in management research critically reflect on the complex issue of interaction effects in non-linear models (Li and Meyer, 2009; Powers, 2005; Shaver, 2005). To advance existing research, the technique applied in this study may be an option for researchers studying interaction terms in models with categorical dependent variables.

The findings have several implications for SME managers. I propose that in addition to firm-, subsidiary- and industry-specific determinants, managers should consider their perception of host country's institutional environment when deciding between Greenfield and acquisition. When considering the host country's institutional environment, managers are better prepared to decide whether to choose acquisitions or Greenfield investments. The results confirm that the perceived institutional uncertainty moderates effects of firm-, subsidiary- and industry-level factors on establishment mode choice. In detail, the results suggest that prior international experience aids in overcoming pressures from high perceived institutional uncertainty. Thus, even when the political, governmental, and legal situation in the host country is perceived as being challenging, internationally experienced SMEs may prefer to establish Greenfield investments rather than to acquire existing companies. Furthermore, to safeguard internal knowhow, SMEs are more likely to choose Greenfield investments in countries characterised by high perceived institutional uncertainty when the subsidiary needs investment volume. Finally, when market growth in the host country is high, SME managers perceiving high institutional uncertainty are less likely to choose Greenfield investments due to the challenges resulting from randomised market forecasts implying higher risks for new ventures. To summarise, SME managers should comprehensively assess a host country's institutional context and in particular their personal perception to fully grasp the range of challenges that arise when investing in foreign markets.

As in case of most empirical studies the underlying dataset has limitations. Collecting retrospective data may cause recall and memory biases. In order to achieve higher response accuracy, scholars claim for surveying solely firms that have made their relevant investments within a limited time frame (Dikova and van Witteloostuijn, 2007). Thus, in order to reduce recall and memory biases, the underlying dataset refers to the latest foreign market entry (Meyer, Estrin, Bhaumik, and Peng, 2009). The reference FDI of the sample firms is in average about 7 years ago. In addition, some questionnaires were not entirely completed, some of the respondents have exceeded the maximum SME size of 500 employees, and other responding firms have not made relevant foreign direct investments. Because of these omissions, the number of included SMEs was reduced to 95 compared to 119 total responses. The limited number of respondents prevents me from investigating further variables like in-depth industry-specific determinants of establishment mode choices. Future studies basing on larger samples may examine in-depth industry-level factors that may determine the decision between Greenfield and acquisition. Furthermore, the study is limited to establishment mode choices by German firms into 28 countries worldwide. Further work is needed to find out to what extent the results are valuable to SMEs headquartered in other parts of the world. Finally, future studies may wish to use or develop other measures with regard to the institutional context. Consistent with past studies, I used a multi-item measure to represent institutional uncertainty. However, basing on different measures may allow examining additional facets of the institutional environment not included in this study. It might be of interest to use indices from EBRD, the Corruption Perception Index, or the World Bank's institutional measures.

To summarize, this study differs from past research on establishment modes that has typically examined firm-specific determinants of large MNEs: I was able to show that SMEs are particularly sensitive to influences from the institutional setup in the host country. The study provides initial empirical support for the notion that the level of institutional uncertainty in the host country – as perceived by managers – influence the establishment mode strategy of SMEs. The implications of this study are clear: Managers can improve the quality and performance of the foreign direct investments by considering the host country's institutional environment.

# 4 FDI Location Choice of Small and Medium-Sized Enterprises: Not Just Driven by Motives but Moderated by Knowledge Intensity and International Experience

## 4.1 Abstract

Chapter 4 examines the location choice of foreign direct investments of small and medium-sized enterprises. I argue that location choice is contingent upon firm-specific moderators in addition to commonly acknowledged internationalisation motives (new market seeking, resource seeking, strategic asset seeking). Furthermore, I refrain from distinguishing only between developed countries and less developed countries, but consider more comprehensively the country-specific institutional setup in the dependent variable. Results show that the association between motives of internationalisation and FDI location is moderated by knowledge intensity and international experience.

## 4.2 Introduction

With regard to foreign location choices, a large body of research agrees that they are among the key decisions in corporate development with implications for a firm's growth and expansion paths (Bevan, Estrin, and Meyer, 2004). The global competitive landscape requires managers to locate their FDI on the most advisable destinations in order to fulfil the firms' strategic aims. Location decisions are generally driven by three motives: a) new market seeking, b) resources seeking, and c) strategic asset seeking (Dunning, 1998). In addition, scholars have started to examine the role of other firm-specific factors for location choices (Makino, Lau, and Yeh, 2002). But in spite of the large body of research on determinants of location choices, empirical evidence remains to some extent conflicting and inconsistent and only partially explains FDI destinations.

Existing location studies predominantely distinguish two groups of host countries: Developed countries (DC), represented by countries such as Japan, West Europe, and North America, and less developed countries (LDC), including countries from Latin America, Central and Eastern Europe or the so called BRIC countries, namely Brazil, Russia, India, and China (Galan, González-Benito, and Zuniga-Vincente, 2007; Makino, Lau, and Yeh, 2002; Chen and Chen, 1998). However, clustering countries upon regional neighbourhood (e.g. EU) or economical similarities (e.g. BRIC) has evoked converse positions in international business literature as those clusters often represent inhomogeneous institutional settings (Hitt, Ahlstrom, Dacin, Levitas, and Svobodina, 2004). Germany and Romania, for instance, both represent members of EU and are not comparable in their institutional development. Depending on their institutions, countries are characterised by individual strengths and weaknesses, and the firms' motives to choose a certain host country vary accordingly. Institutional barriers and restrictions may induce investors not to invest in a given location, even if firm-specific location factors might exist. Consequently, firms have to adapt their location strategy to the formal and informal institutions in the host country (Disdier and Mayer, 2004; Henisz, 2000). Therefore, when analyzing location decisions, a dichotomous classification in developed and less developed countries – as it is often the case in prior research – needs to be surpassed by a more sharpened measurement of institutional development.

The aim of this chapter is to examine the FDI destination choices of SMEs. I analyse in detail the determinants of SME location decisions elaborating on the three motives new market seeking, resource seeking, and strategic asset seeking as well as the firm-specific knowhow intensity and international experience. In addition, I consider the institutional development of each target country in the dependent variable. In summary, this study makes three major contributions to the mixed results so far. First, focusing on SMEs expands existing research. At present, studies on location decisions of SMEs are mostly missing. Suffering from limited resources and differing in terms of ownership, dependence and global business goals, foreign location decisions may not be the same for SMEs than for large MNEs. Lacking the financial and managerial power compared to large MNEs, location decisions may – at worst – determine the survival of an SME when investing in unfavourable or inappropriate locations. Second, studying the moderating impact of knowhow intensity and international experience shows how SME location choice is contingent upon firm-specific characteristics in addition to their motivations. This is important, as existing studies on underlying motives of location choices arrive at inconsistent conclusions although these factors have been central in determining the location decisions of the firm (Dunning, 1998). I therefore expect new insights from including the firm's knowhow intensity and international experience as moderators in SME location decisions. Third, I surpass existing research considering the institutional development in the dependent variable. A country's institutional context manifests the rules of the game in a society shaping all economic actions (Whitley, 1999). The development stage of the institutional context determines the attractiveness of a country and the volume of the country-related FDI-inflows (Bevan, Estrin, and Meyer, 2004; Globerman and Shapiro, 2003). Existing studies fall short in considering a country's institutional framework simply distinguishing DC and LDC (Henisz and Delios, 2002). To overcome this constraint, I draw on New Institutionalism to consider the institutional development of each target country. I therefore constructed an index adapted from institutional indicators of the database of the Institute for Management Development (IMD) allowing for a higher variance in the dependent variable.

This chapter is structured as follows. The next section gives an overview on the relevant literature with regard to the factors determining FDI location decisions. I then set the theoretical basis and derive a set of hypotheses. Afterwards, hypotheses are tested on a cross-industry sample of German SMEs. The sample is of particular value, as it allows distinguishing SMEs investing into countries with varying institutional development. Finally in the last section, I discuss the results, indicate managerial implications and point out the limitations of this study.

## 4.3 Literature Review

Location selection is an important research field in international business (Dunning, 2009). One of the key issues in research on destination choice is the question, why firms favour a certain destination over another. Scholars broadly agree that three main motives tend to initiate foreign investments (Narula and Dunning, 2000). First, firms may seek new markets in order to increase their actual and/or future sales. Second, firms may seek new resources (e.g. labour, land, capital) at lower cost levels. Third, firms may seek strategic assets such as specific knowledge and competences not available in present locations. In general, firms tend to choose those destinations for their FDI assigning best for their firm-specific motives.

However, empirical results with regard to the underlying motives remain conflicting to a certain extent. Some scholars show that new market seeking firms tend to invest in developed economies in order to profit of higher income levels and purchase power while others posit that new market opportunities may be achieved best in LDC where firms profit of higher growth rates and greater unsatisfied needs (Galan, González-Benito, and Zuniga-Vincente, 2007). Also with regard to strategic asset seeking FDI, scholars propose conflicting results: Firms seeking strategic assets are primarily interested in exploiting firm-specific advantages in order to access specific knowledge and competences. On the one hand, researchers argue that firms seeking strategic assets prefer locating in more developed economies that hold considerable stocks of strategic assets in terms of technologies, organisational capabilities and human capital (Narula and Dunning, 2000). On the other hand, scholars show that LDC tend to catch up and tend to be strategic locations of the future providing high prospective stocks of strategic assets (Galan, González-Benito, and Zuniga-Vincente, 2007).

A reason for those conflicting results might be that existing studies primarily have focused on internationalisation motives in their studies on location decisions (Agarwal and Ramaswami, 1992, Grosse and Trevino, 2005; Chen and Chen, 1998; Makino, Lau, and Yeh, 2002; Galan, González-Benito, and Zuniga-Vincente, 2007). However, explaining FDI locations only by motivations might not capture the broad spectrum of factors determining this decision. Thus, Li and Meyer (2009) elaborate on the role of international experience on subsidiary ownership in developed, opposed to emerging economies. Makino, Lau, and Yeh (2002) have elaborated on the influence of firm-specific capabilities (labour intensive production, technology-based assets, and prior technology seeking experience) on location decision in LDC versus DC. They argue that firms should incorporate motivations and capabilities in their location decision and consider dynamic links. But although these studies have made first substantial contributions to location choice literature, results appear still incomplete. In addition, existing studies tend to examine location decisions in DC opposed to LDC. However, clustering countries only into few groups limits the variance in the dependent variable. Scholars therefore have claimed for a deeper consideration of a country's institutional framework in studies on the determinants of international location strategy (Pajunen, 2008; Dunning, 2005).

From the literature review, I conclude that research on location choice of SMEs can add new insights to the IBR field. Scholars broadly agree that internationally operating SMEs differ significantly from large MNEs, leading them to pursue different strategies compared to their bigger counterparts. However, studies examining why SME locate their FDI in different locations are for the most part lacking. Concentrating solely on motivations as determinants for location decisions seems to be a limiting factor. Only recently scholars have started to shed light on the role of firm-specific determinants for location choice (Pajunen, 2008; Buckley, Devinney, and Louviere, 2007). Hence, research on the moderating impact of firm characteristics on the relationships between motives and FDI destinations seems to be of particular interest.

## 4.4 Theory and Hypotheses

### 4.4.1 Determinants on Location Decision

International location decision issues have been discussed in economics, economic geography, international business, organisation, as well as sociology. Scholars broadly agree that an FDI location decision is mainly initiated by three key motivations (Dunning 1988; 1998): First, firms seeking new markets aim at increasing their sales in order to survive in an increasingly competitive environment. In addition to escaping from competition pressures in the home market, new markets may help firms in overcoming economical barriers of action. Important aspects might be the size of a country, the expected (future) growth of the host market, the prevalent level of competition, proximity to demand, population trends, nature and variance of demand as well as the purchasing power of the potential clients (MacCarthy and Atthirawong, 2003; Cheng and Kwan, 2000). In order to successfully develop new markets, firms and their management respectively need to understand the mechanism of the host market. They have to understand and to build up on the rules of the game of the focal market. Second, resource seeking firms aim at achieving advantages in cost and availability of raw materials, labour force, land and building (MacCarthy and Atthirawong, 2003). Those firms often are confronted with high cost pressures in their domestic markets. Choosing a specific location can lead to lower costs of operation. Finally, firms may be motivated by seeking for strategic assets in their FDI. Strategic assets may include strategic resources such as market intelligence, technological knowhow, management expertise, or reputation for being established in a prestigious market not available in the current environmental set up of the firm (Chen and Chen, 1998).

However, I believe that whether and why firms opt for certain locations may also be moderated by other firm-specific determinants. In the following, I argue that location decisions of firms may depend upon the moderating effect of knowhow intensity and international experience – in addition to the underlying motives. Both, knowhow intensity and international experience constitute special sources and/or advantages of the investing firm and seem to influence the setup and the development of the FDI (Li and Meyer, 2009; Makino, Lau, and Yeh, 2002).

### 4.4.2 Institutional Development of FDI Destinations

When examining determinants on location choice, most scholars cluster FDI destinations into few groups often simply distinguishing DC from LDC. However, such a classification implicates shortcomings as countries within these groups are inhomogeneous and characterised by a large institutional variance. Institutions may facilitate or inhibit the investor's business activities in the host country and therefore influence a firm's success. The institutional framework in the host country – and in particular its level of development – is of major importance in location decisions of firms. To address this issue, the present study bases on New Institutionalism to consider the institutional development of each target country. The New Institutionalism assumes that all social actors (enterprises or private persons) are embedded in the institutional environment prevalent in a certain country. Institutions define and limit the scope of individual and organisational acting (Ingram and Silverman, 2002). Firms therefore have to adapt their strategic decisions and organisational strategies to the institutional context in the target country (Wright, Filatotchev, Hoskisson, and Peng, 2005; Deeg, 2005).

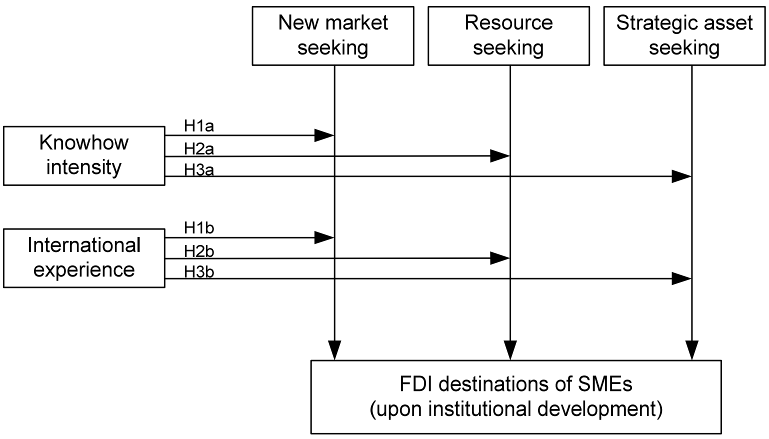
Institutions may determine the volume of the country-related FDI-inflows defining the strengths and weaknesses and the attractiveness of a country (Bevan, Estrin, and Meyer, 2004; Globerman and Shapiro, 2003). High institutional development implies that all institutions of a nation-state are powerful, robust, and stable. Institutional stability ensures that the democratic institutions are accepted and supported by the relevant actors and that the market economy is competitive. Contrarily, economies with low institutional development tend to be characterised by weak, unstable and incomplete institutional environments not able to ensure a functioning market economy. When structures and economic mechanisms break down and institutions loose their function, enterprises face uncertainty about the present and future rules for economic acting (Whitley, 2001b). Consequently, country-specific institutional advantages and weaknesses differ upon the degree of institutional development. Institutionally developed economies tend to provide qualified educational systems, political stability, functioning finance markets, good infrastructure, as well as established legal systems and little corruption. They often are technology leaders with regard to good education systems. In return, this implies also higher costs of labour, land and resources, and regularly lower GDP growth rates. In contrast, economies characterised by low institutional development show worse infrastructure, lower living standards with limited purchase power but often also higher market growth, lower cost structures, and excellent future development opportunities.

Hence, I remove my argumentation from existing literature trying to cluster all countries worldwide into few groups. Instead, I follow the claims of Henisz and Delios (2002) and construct a new index from institutional indicators of the IMD database indicating a country's institutional development. Introducing this index and thus removing from a dichotomous dependent variable adds further insights to existing research.

### 4.4.3 Research Model

The hypotheses explore the moderating impact of knowhow intensity and international experience on the relationships between new market seeking, resource seeking and strategic asset seeking firms and the location choice. The underlying direct effects have been discussed in numerous previous studies with inconclusive results. This indicates that the direct effects may be conditional on other determinants. Hence, I concentrate the reasoning on the moderating impact of knowhow intensity and international experience as illustrated in figure 4.1. In the dependent variable I refrain from clustering countries into categories and consider instead the institutional development of each country.

*Figure 4.1: Research model (chapter 4)*




## 4.5 Hypotheses

Firms seeking new markets aim at increasing their sales – at least in a mid-term view (MacCarthy and Atthirawong, 2003; Cheng and Kwan, 2000). Thus, new market seeking firms generally choose those locations that are promising best to achieve actual and future growth goals (Dunning, 1998). Existing studies show inconclusive results with regard to the location choices of market seeking firms voting for DC or LDC or both of it (e.g. Galan, González-Benito, and Zuniga-Vincente, 2007). On the one hand, researchers argue that in order to successfully expand into new markets, firms and their management need to understand the host market. When institutional development is low, SME decision makers will have difficulties to find reliable forecasts on market and economic development, as in addition to changing market contexts also the business rules are unpredictable and untrustworthy. Consequently, market seeking firms would prefer institutionally developed target countries. On the other hand, economical growth rates as well as product market growth often are higher in institutionally less developed economies. Although those countries might show only limited current market volumes, both in consumer and industrial goods, future development might be positive with growing purchasing power of firms and individuals. The four BRIC states confirm this argumentation: currently they are characterised by incomplete weak institutional settings, but show in average 5 to 8% GDP growth rates per year and are expected to determine the worldwide trade within the next 20 years. Consequently researchers argue that new market seeking firms would tend to select institutionally less developed countries for their FDI.

However, SMEs with high knowhow intensity mostly have differentiated products with unique product or process technology why they tend to invest in high income countries. To gain high returns in the host country, knowhow intensive SMEs need to possess superior technological capabilities to produce unique products, use unique technologies, and have unique production processes. They tend to have a labour intensive production not focusing on low cost standard products. In addition, knowhow intensive firms need to protect firm-specific knowledge. In institutionally underdeveloped countries, the political and legal frameworks do not support efficient and functioning intellectual property rights, and knowledge protection is generally weak. Without sufficient legal protection, a firm’s knowledge (patents, trademarks, brands, knowhow, and copyrights) can be exposed to piracy (Luo, 2001). I therefore assume that new market seeking SMEs would invest more likely in institutionally developed economies when having high knowhow intensity. In summary, I derive the following hypothesis:

*Hypothesis 1a: New market seeking SMEs are more likely to invest in foreign locations with high institutional development when their knowhow intensity is high.*

SMEs investing abroad need to improve their position in the future markets. Being limited in financial and managerial resources, SMEs have to carefully allocate their resources. International experience may help SMEs to overcome restrictions in institutionally less developed economies. SMEs with prior FDI experiences in countries characterised by different institutional setups may be able to accept an actual loss caused by low purchase power or underdeveloped demand in order to gain and ensure a certain market position and to profit from expected future market growth. Firms have to balance the additional risks caused by underdevelopment of institutions and the additional chances related to high growth markets. Internationally experienced SMEs may handle additional business barriers caused by underdeveloped institutions. They might be able to manage those considerable risks better than inexperienced firms. In line with this argumentation, I expect that new market seeking firms invest more likely in less developed economies when they possess prior international experiences. I derive the following hypothesis:

*Hypothesis 1b: New market seeking SMEs are more likely to invest in foreign locations with low institutional development when prior international experience is high.*

Resource seeking firms typically aim to access specific resources in the host country at lower cost levels as they achieve at present in their home countries (e.g. Galan, González-Benito, and Zuniga-Vincente, 2007). They strive for achieving cost advantages in the host country environment, for instance through lower labour cost or advantages in cost and availability of raw materials (Dunning, 1998). Less developed economies normally are characterised by lower cost structures and often offer high investment incentives to attract foreign investors. Past research confirms that in less developed economies, SMEs can achieve cost advantages more easily than in developed and highly industrial economies. Thus, resource seeking firms would tend to choose less developed countries.

Knowhow intensive firms, however, need to ensure their product, technology and quality standards in any location worldwide. In general, knowhow intensive firms would opt for a resource seeking FDI when they are able to combine their superior product or process knowhow with low-cost resources. In this case, the cost advantages shall overpass additional risks related to foreign FDI. Highly developed industrial economies mostly offer well developed infrastructures, high technological standards, functioning financial systems, and successful education systems with highly skilled people. However it is rather difficult to find resources at acceptable quality levels in order to ensure product standards in less developed economies. In accordance with this argumentation I assume that resource seeking SMEs characterised by high knowhow intensity would nevertheless prefer to place their FDI in institutionally more developed economies in order to ensure the product standards related to technology and quality. I derive the following hypothesis:

*Hypothesis 2a: Resource seeking SMEs are more likely to invest in foreign locations with high institutional development when knowhow intensity is high.*

As argued earlier, firms seeking resources often are confronted with high cost pressures in their domestic markets. In particular SMEs often are acting in cost-competitive environments with low negotiating power and small economies of scale. Being obliged to offer competitive prices resource-seeking is an important motive for SME investments abroad. Choosing a specific location can lead to lower costs of operation. MacCarthy and Atthirawong (2003) argue that land costs, wage rates, system costs and integration costs, as well as utility and energy costs are of major importance for firms seeking cost advantages in their internationalisation. In addition, cost motives may also include costs of transportation and raw materials (Dunning, 1988; 1998; Buckley and Casson, 1998). If investing firms are able to produce the required product standards at cheaper costs, they would gain higher returns and achieve competitive advantages worldwide. This is easier for SMEs with prior international experience, allowing them to transfer knowledge from earlier investments in current FDI projects. They have learned to handle business in countries with different institutional contexts and levels of development. I therefore would expect that internationally experienced firms tend even more to invest in less developed economies than SMEs without international experience. According to this argumentation I hypothesise as follows:

*Hypothesis 2b: Resource seeking SMEs are more likely to invest in foreign locations with low institutional development when international experience is high.*

Firms seeking strategic assets choose locations with access to specific knowledge and competences not available for the firm in the current organisational setup. Strategic assets may include resources such as market intelligence, technological knowhow, management expertise, or reputation for being established in a prestigious market (Chen and Chen, 1998). Firms driven by strategic motives are primarily interested in exploiting additional advantages that they cannot or only limited access in their present organisational structure. The more stable and homogenous the rules of the game in the focal market, the easier it is to adjust to the host environment. Business, demand and country developments are quite predictable and forecasts quite reliable. Institutional underdevelopment often results from changes in economic conditions and instability of the political and economical context in the target country. Thus, uncertainties stemming from the institutional environments reduce the flow of FDI remarkably (e.g. Grosse and Trevino, 2005). Past research shows that SMEs seeking strategic assets would be more likely to locate their international activity in developed economies holding considerable stocks of strategic assets (Narula and Dunning, 2000; Makino, Lau, and Yeh, 2002). On the other hand, some scholars argue that less developed economies provide high prospective stocks of strategic assets making them attractive for strategic asset seeking firms in a mid- or long-term view (Galan, González-Benito, and Zuniga-Vincente, 2007).

With regard to knowhow intensive SMEs, I suggest that those firms are even more risk averse than large MNEs due to limited financial and managerial resources. SMEs seeking for strategic assets aim at achieving firm-specific advantages at a certain point in time. In economies characterised by low degrees of institutional development, SMEs may delay important investments while learning about local contexts. In consequence, they would not at all or to a later point in time internalise the strategic assets they are seeking for. Following this argumentation I expect that knowhow intensive SMEs seeking strategic assets would be more likely to locate their international activity in developed economies in order to secure strategic assets. I therefore hypothesise as follows:

*Hypothesis 3a: Strategic asset seeking SMEs are more likely to invest in foreign locations with high institutional development when knowhow intensity is high.*

Firms with prior international activities can benefit from the associated learning and experience as well as their networks (Gaba, Pan, and Ungson, 2002). The institutional setting (infrastructure, governmental and political factors, labour characteristics as well as the legal and regulatory framework) is among the most important factors when dealing with international location decision (MacCarthy and Atthirawong, 2003). Prior international experience may help firms to evaluate prevailing risks and opportunities in the host country. In case of lower levels of institutional development in the host countries, firms anticipate higher levels of investment risks generally increasing the transaction costs of foreign investments (Paul and Wooster, 2008). This applies especially for SMEs being rather conservative actors because of restrictions in their resources. In line with this argumentation, I assume that internationally experienced SMEs seeking strategic assets tend even more to locate their international activity in developed economies than SMEs without international experience. I therefore derive the following hypothesis:

*Hypothesis 3b: Strategic asset seeking SMEs are more likely to invest in foreign locations with high institutional development when international experience is high.*

## 4.6 Methodology

### 4.6.1 Data

While most studies about location decisions are based on secondary data (for a review see Buckley, Devinney, and Louviere, 2007), this study uses survey data for empirical analysis (dataset 2, see chapter 1.3.2 for more details). The sample includes German SMEs with up to 500 employees and with a minimum international equity stake of 10%. As mentioned before, a total sample of 961 medium-sized German firms was identified. After following up the sample firms, 119 questionnaires were completed and returned (response rate of 12.4%). Due to missing data this study’s final dataset includes 96 firms.

In turn, tests as suggested by Little and Rubin (1987) were conducted. These tests did not show any significant problems due to missing variables. Tests for common methods variance or outliers did not show any significant problems (Podsakoff, MacKenzie, and Lee, 2003). Further, I controlled the returned questionnaires for non-response bias according to Armstrong and Overton (1977) and I compared early and late respondents in terms of selected constructs. A t-test showed no significant differences.

### 4.6.2 Measurement

The dependent variable ***FDI destination upon institutional development*** is a composite measure of a country's institutional development. Using the database of the Institute for Management Development, I aggregated numerous indicators into an index evaluating the country-individual degree of institutional development in this study. This index – compiled in line with the New Institutionalism – represents key institutions and their features from all four institutional areas: the state, the financial system, the education system, and the cultural system (Whitley, 1999). The index considers the institutional development of 47 nations worldwide since 1998 (see appendix II). In contrast to existing indices, this measurement approach is of particular interest in this study as it reflects primarily a country's institutional development instead of its competitiveness, country risk, or political risk.

I applied two firm-level moderator variables in the study using five-point Likert-scaled items. They are based on multiple-item measures adapted from previously tested scales in the international business literature in order to minimise measurement error and to enhance the content coverage for the constructs in the model. The first moderator variable ***knowhow intensity*** is measured using a three-item scale (Cronbach's alpha: 0.718) adapted from earlier research (Brouthers and Brouthers, 2003; Erramilli and Rao, 1993). The respondents were asked whether the design, quality and technology of the products were unique. Prior ***international experience*** is the second moderator variable considering the international experience of the firm in the target region (Burgel and Murray, 2000). I measured international experience using a two-item scale (Cronbach's alpha: 0.872) adapted from prior research (Agarwal and Ramaswami, 1992; Brouthers and Nakos, 2004).

Three direct variables were considered in this chapter's research model constructed to link relevant firm-specific motives to the choice of different FDI destinations of firms.

Also these direct variables were collected using five-point Likert-scaled items. ***New market seeking*** motives were measured using a three-item scale (Cronbach's alpha: 0.797), asking the SME managers whether the actual and future market growth and the availability of existing customers had an impact on the location decision (Chen and Chen, 1998; Dunning, 2009). I measured ***resource seeking*** motivation using a two-item scale (Cronbach's alpha: 0.788). The respondents were asked whether they were looking for cost advantages and intended to outsource the production (MacCarthy and Attirawong, 2003; Galan, González-Benito, and Zuniga-Vincente, 2007). ***Strategic asset seeking*** was measured using a three-item scale (Cronbach's alpha: 0.855) adapted from Dunning (2009) as well as Chen and Chen (1998). The respondents were asked whether the SMEs had benefits through the transfer of product and production technology or research and development from the international FDI.

To proxy resources availability, I controlled for the ***firm size*** as control variable measuring the number of full-time employees of the company. Then, I included the presence of ***networks***, as prior research has shown that networks may have a positive influence on location choice of SMEs. I used a two-item scale (Cronbach's alpha: 0.842) and asked if the firm had prior business relations or customers in the target country. Additionally, the volume of ***future investments*** was included in order to build up a strategic issue important to SME owners when investing abroad, asking the respondents about the planned investment volume in the next three years (single item). Finally, I included the FDI's ***activity*** asking the respondents if the products were comparable (single item).

The Cronbach's alpha for all used scales are above the acceptable cut-off point of 0.70 (Nunnally, 1978) showing good internal consistency and, consequently, reliability in all constructs. Also the factor analysis confirmed this consistency illustrating high factor loadings above 0.714. To exclude the risk for multicollinearity, I conducted a bivariate correlation analysis. The pair wise correlation matrix shows that all correlation coefficients stay below the recommended maximum of 0.70 (Anderson, Sweeney, and Williams, 1996). Additionally, the VIF values do not exceed the maximum of 2.5 recommended by Allison (1999). Thus, there is no serious risk for multicollinearity between the dependent, direct, moderator and control variables. Table 4.1 presents the means and standard deviations of all variables in the model as well as their bivariate correlations.

*Table 4.1: Means, standard deviations and bivariate correlations (chapter 4)*

| Correlation Matrix | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *Mean* | | 4.182 | 3.673 | 2.437 | 1.874 | 3.421 | 2.885 | .129 | .338 | .047 | -.2167 | .293 | -.013 | 280.47 | 3.120 | 2.340 | 4.230 |
| *Standard Deviation* | | 48.668 | 1.019 | 1.212 | .981 | .839 | 1.022 | .785 | 1.209 | 1.029 | 1.340 | .803 | 1.039 | 133.64 | 1.069 | 1.058 | 1.121 |
| 1 | FDI destinations of SMEs (dep. variable) | 1 | | | | | | | | | | | | | | | |
| 2 | New market seeking | -.185 | 1 | | | | | | | | | | | | | | |
| 3 | Resource seeking | -.178 | -.245* | 1 | | | | | | | | | | | | | |
| 4 | Strategic asset seeking | .027 | -.081 | .390*** | 1 | | | | | | | | | | | | |
| 5 | Knowhow intensity | -.017 | .150 | .047 | .358*** | 1 | | | | | | | | | | | |
| 6 | International experience | .059 | .327*** | -.177 | -.013 | .068 | 1 | | | | | | | | | | |
| 7 | New market seeking X Knowhow intensity | .176 | -.154 | .078 | .123 | .125 | .179 | 1 | | | | | | | | | |
| 8 | New market seeking X International experience | .036 | -.262** | .159 | .102 | .137 | -.119 | -.196* | 1 | | | | | | | | |
| 9 | Resource seeking X Knowhow intensity | .052 | .071 | -.046 | .185 | -.190 | -.056 | -.401*** | .129 | 1 | | | | | | | |
| 10 | Resource seeking X International experience | .004 | .170 | -.208* | .014 | -.053 | .159 | .196* | -.231* | -.028 | 1 | | | | | | |
| 11 | Strategic asset seeking X Knowhow intensity | .000 | .120 | .191 | .415*** | -.104 | .077 | -.003 | -.090 | .546*** | .048 | 1 | | | | | |
| 12 | Strategic asset seeking X International experience | .142 | .119 | .014 | -.032 | .072 | -.046 | .016 | .080 | -.014 | .168 | .033 | 1 | | | | |
| 13 | Firm size | -.246* | .092 | .039 | .131 | .142 | .009 | .065 | .105 | .093 | -.105 | -.035 | -.034 | 1 | | | |
| 14 | Networks | -.038 | .388*** | -.012 | -.030 | .028 | .504*** | -.121 | .004 | .061 | -.002 | .200* | -.028 | -.056 | 1 | | |
| 15 | Future investments | -.018 | .217* | .085 | .141 | .234* | .036 | -.037 | .019 | -.051 | .194 | -.008 | .051 | .108 | .020 | 1 | |
| 16 | Activity | -.140 | .140 | -.058 | -.071 | .111 | .055 | .018 | -.090 | .177 | -.001 | .058 | .066 | -.007 | .011 | .118 | 1 |
| Significance levels: ***: p ≤ .001; **: p ≤ .01; *: p ≤ .05 | | | | | | | | | | | | | | | | | |

## 4.6.3 Empirical Results

For testing the hypotheses, I used linear regression analysis and set up four models to display the results. In model 1, the control variables were entered. Model 2 further includes the direct variables. Model 3 incorporates additionally the moderator variables. In model 4, the interaction terms were added. As stated previously, I applied a significance level of 10% as detecting interaction effects with a regression analysis is rather difficult in field studies (McClelland and Judd, 1993). I reported both the regression coefficient B as well as the standardised coefficient Beta. Table 4.2 presents the results of the regression analysis.

*Table 4.2: Results of linear regression analysis (chapter 4)*

| **Linear Regression Analysis** (dependent variable: FDI destinations of SMEs) | Model 1 control variables | | Model 2 + direct variables | | Model 3 + moderator variables | | Model 4 + interaction variables | |
|---|---|---|---|---|---|---|---|---|
| | B | Beta | B | Beta | B | Beta | B | Beta |
| ***Direct variables*** | | | | | | | | |
| New market seeking | | | -10.294* | -.226* | -11.138* | -.245* | -9.194 | -.202 |
| Resource seeking | | | -10.898* | -.283* | -9.731* | -.253* | -10.626* | -.276* |
| Strategic asset seeking | | | 4.255 | .089 | 3.248 | .068 | 2.006 | .042 |
| ***Moderator variables*** | | | | | | | | |
| Knowhow intensity | | | | | .421 | .008 | -.706 | -.013 |
| International experience | | | | | 7.858 | .172 | 6.172 | .135 |
| ***Interaction variables*** | | | | | | | | |
| New market seeking X Knowhow intensity | | | | | | | 20.601** | .347** |
| New market seeking X International experience | | | | | | | .304 | .008 |
| Resource seeking X Knowhow intensity | | | | | | | 15.501* | .336* |
| Resource seeking X International experience | | | | | | | -6.981* | -.203* |
| Strategic asset seeking X Knowhow intensity | | | | | | | -6.092 | -.104 |
| Strategic asset seeking X International experience | | | | | | | 8.680* | .194* |
| ***Control variables*** | | | | | | | | |
| Firm size | -.098** | -.274** | -.090* | -.251* | -.091* | -.254* | -.123*** | -.344*** |
| Networks | -3.323 | -.075 | .864 | .020 | -2.646 | -.060 | -.279 | -.006 |
| Future investments | .881 | .020 | 3.393 | .077 | 3.301 | .075 | 7.113 | .161 |
| Activity | -5.580 | -.134 | -5.005 | -.121 | -5.241 | -.126 | -8.996* | -.217* |
| ***Constant*** | | 66.620* | | 99.352*** | | 90.149** | | 101.058*** |
| R | | .306 | | .415 | | .439 | | .567 |
| R2 | | .094 | | .172 | | .193 | | .321 |
| Corrected R2 | | .055 | | .107 | | .110 | | .197 |
| Significance | | .050 | | .015 | | .021 | | .003 |
| N | | 96 | | 96 | | 96 | | 96 |
| N = sample; R2 = Variance; Significance levels: ***: p ≤ .001; **: p ≤ .01; *: p ≤ .05; †: p ≤ .1 | | | | | | | | |

Model 1 presents the effects of the control variables on FDI destination of SMEs. Results show that the firm size has a significant impact on destination choice. Thus the size of the firm influences the location decision in the sample.

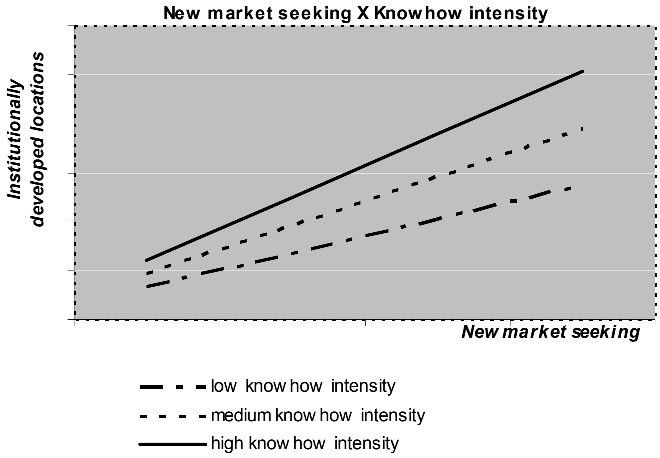
In Model 2, I included the well-established direct variables of location choice, namely the motivations new market seeking, resource seeking, and strategic asset seeking. Adding the direct variables provided for a higher variance explanation. $R^2$ increased from 0.094 to 0.172. I found negative and significant relationships between resource seeking as well as market seeking and FDI destinations with higher institutional development. Thus, resource and market seeking SMEs tend to locate their FDI in institutionally less developed countries. However I did not find significant relationships between strategic asset seeking and the choice of FDI destinations. Thus, the results reflect the inconclusive findings regarding direct effects achieved so far.

In Model 3, I included the moderator variables knowhow intensity and international experience. Adding these variables provided for a slightly higher variance explanation. $R^2$ increased from 0.172 to 0.193. Both moderator variables show insignificant results. Thus – as expected – knowhow intensity and international experience seem not to have direct effects on destination choice of SMEs.

In model 4, finally, I included the interaction terms and tested the hypotheses. Adding the interaction variables provided for a considerably higher variance explanation. $R^2$ increased from 0.193 to 0.321. In order to better interpret the interaction effects, I supplemented the numerical information with plots of the predicted log odds (Hoetker, 2007; Jaccard, 2001) selecting a low, medium, and high score of the moderator variable to illustrate the curves. Also in this study, the low level condition was defined as a standard deviation below the mean of the moderator, the medium level condition was defined as the mean, and the high level condition as a standard deviation above the mean of the moderator (Jaccard, 2001). Figures 4.2 to 4.5 present the plots for the predicted log odds of destination choice (dependent variable) as a function of new market seeking, resource seeking, and strategic asset seeking (direct variables) as well as knowhow intensity and prior international experience (moderator variables).

In Hypothesis 1a, I proposed that new market seeking SMEs are more likely to invest in foreign locations with high institutional development when their knowhow intensity is high. The results support Hypothesis 1a showing a positive and significant effect between knowhow intensity and new market seeking firms. Figure 4.2 illustrates that new market seeking firms tend to select institutionally developed locations under conditions of knowhow intensity. This tendency gets stronger with higher levels of knowhow intensity.

*Figure 4.2: Interaction effect of knowhow intensity and new market seeking*

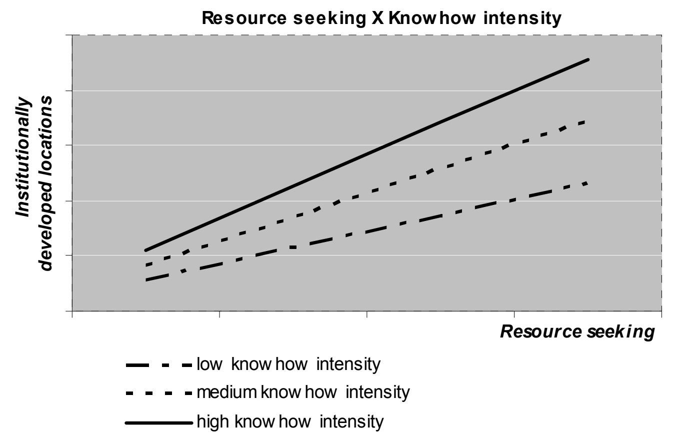



This result expands existing knowledge allowing for a more differentiated analysis of location choice of market seeking firms. Existing studies came to rather inconsistent results with regard to the locations chosen by market seeking firms: scholars argued for both LDC and/or DC. The results show, that the knowhow intensity of the investing firm plays a crucial role in locating market seeking FDI. Thus, existing studies appear incomplete without considering the moderating impact of knowhow intensity.

Hypothesis 1b expected that new market seeking SMEs are more likely to invest in foreign locations with low institutional development when prior international experience is high. Results do not support Hypothesis 1b. It seems that prior international experience does not help new market seeking SMEs to overcome institutional barriers in less developed economies. It may be that knowledge about market opportunities is particularly tacit and complex and that international experience does not easily allow the transfer of this tacit knowledge from one country to the next.

I found empirical support for Hypothesis 2a assuming that resource seeking SMEs are more likely to invest in foreign locations with high institutional development when their knowhow intensity is high. Results show a significant and positive effect. Figure 4.3 illustrates that resource seeking firms that are characterised by high levels of knowhow intensity tend to prefer institutionally developed locations for their FDI over less developed economies. This result expands existing research positing that resource seeking firms always opt for less developed economies due to the lower cost structures for people, resources, land and technology. However the results rather suggest that knowhow intensive firms seem to have a more differentiated approach when evaluating the locations for their FDI. In order to ensure the product standards related to technology and quality, resource seeking SMEs with high knowhow intensity prefer to place their FDI in institutionally more developed economies.

*Figure 4.3: Interaction effect of knowhow intensity and resource seeking*




Hypothesis 2b proposed that resource seeking SMEs are more likely to invest in foreign locations with low institutional development when international experience is high. The results support Hypothesis 2b with a significant and negative effect. Figure 4.4 shows that with growing levels of international experience SMEs tend to choose institutionally underdeveloped economies for their resource seeking FDI.

*Figure 4.4: Interaction effect of international experience and resource seeking*


Thus, it seems that prior international experiences help SMEs to overcome institutional barriers when looking for cost advantages. They have learned to handle business in countries characterised by different institutional development and are able to transfer this knowledge in actual FDI projects.

In hypothesis 3a, I proposed that strategic asset seeking SMEs are more likely to invest in foreign locations with high institutional development when their knowhow intensity is high. Results do not support hypothesis 3a. It appears that knowhow intensity has no impact on location choice of strategic asset seeking SMEs.

Hypothesis 3b, finally, proposed that strategic asset seeking SMEs are more likely to invest in foreign locations with high institutional development when international experience is high. Hypothesis 3b is supported. The results show a significant and positive effect. Thus, as expected, international experience does impact location decisions of strategic asset seeking firms. Figure 4.5 provides more detailed results on the moderating role of international experience on the relationship between strategic asset seeking and location choice. The more internationally experienced firms are seeking for strategic assets, the more they invest in institutionally mature locations.

*Figure 4.5: Interaction effect of international experience and strategic asset seeking*


## 4.7 Conclusion, Limitations, and Managerial Implications

Chapter 4 investigated and identified critical factors in FDI location decisions of SMEs. The aim was to show that in addition to firm-specific motivations also an SME's knowhow intensity and international experience influence location choice. The results contribute to existing research on location choice. I found that the relationships between well-established direct effects on location choice, namely the motives new market seeking, resource seeking, and strategic asset seeking are contingent on the firm-specific knowhow intensity and international experience. The study permits a more profound understanding of the effect moderators have on SMEs and location choices in more or less developed target countries. Until now, results had been inconclusive with regard to the direct effects. This underlines the contribution of this study and indicates the need for further in-depth research on this topic.

Theoretically, the study has proven the New Institutionalism to be a valuable theoretical approach in SME location choice research. It allows incorporating institutional contexts into the research leading to more idiosyncratic results. Until now, numerous studies tended to focus on an approach differentiating only between DC and LDC. This binary classification is less suited to reflect the various institutional setups and stages of development of the different nation-states. Unlike, a new index of a country's institutional development – utilised in this study – allows for a comprehensive consideration of the individual degree of institutional development. This chapter thus makes a valuable contribution to research on the location choice among SMEs.

Empirically, the study bases on a sample of German medium-sized firms with foreign direct investments in numerous destinations. With one home and 28 host countries on different continents, I surpassed the variation in earlier studies. The host countries represent all levels of institutional development from very low (e.g. Russia, Brazil, South Africa) to very high (e.g. Denmark, Switzerland, and USA) in line with the claims of Estrin, Baghdasaryan, and Meyer (2009). Results confirm that FDI location decisions are not only depending on firm-specific motivations, but also on the firm's knowhow intensity and experience. The literature has so far – for the most part – neglected the impact of knowhow intensity and prior international experiences on SME location choices. The results therefore contribute to existing knowledge and permit a more profound understanding of the moderating effects on location selection.

Methodologically, I applied linear regression analysis. Further, I added moderator analysis and supplemented the numerical information with graphical plots as suggested by Jaccard (2001). The plots allowed for a more detailed understanding of the moderating effects, as I included low, medium and high levels of the moderator variables for more precise interpretation.

The findings have implications for management practice in SMEs investing in foreign economies. Basically, I showed that FDI destinations shall be evaluated upon their institutional development. Executives need to understand the importance of a careful and objective review of all pertinent facts relating to the targeted countries before making decisions. Recent years have brought considerable improvement in the investment climate of certain countries thanks to far reaching stabilisation, privatisation, and liberalisation programs. The political stability of a country, its openness to foreign investors, the prevalence of corruption and organised crime, the degree of red tape and bureaucracy, the protection of intellectual property and ownership rights as well as other legal issues are among the major issues defining the investment climate of a country. In addition, the approach helps to explain how firm-specific motivations, knowhow intensity, and international experience relate to each other with regard to location decisions of SMEs. Location decisions therefore base to a large extent on the levels of knowhow intensity in the firm and prior international experiences. These characteristics moderate the underlying common investment motives.

In detail, the results suggest that new market seeking SMEs shall invest in countries characterised by higher institutional development in particular when their knowhow intensity is high. Resource seeking FDIs are contingent on both knowhow intensity and international experience. But whereas knowledge gained in prior international experiences favours less developed locations, knowhow intensive firms shall consider rather institutionally developed economies in order to fulfil strategic goals. This result is of major interest as it offers a more detailed view on location choice of resource seeking firms. Strategic asset seeking firms, finally, may concentrate on more developed economies, the more when they have high levels of prior international experiences. SME managers shall analyse in addition to the motivations related to a certain FDI also the knowhow intensity and international experience that may vary from one FDI to another.

The dataset has many advantages, yet also some limitations. First, collecting retrospective data may cause recall and memory biases. In order to achieve higher response accuracy, scholars claim for surveying solely firms that have made their relevant investments within a limited time frame (Dikova and van Witteloostuijn, 2007). To reduce recall and memory biases, the underlying dataset referred to the latest foreign direct investment as reference (Meyer, Estrin, Bhaumik, and Peng, 2009). In this study, the reference FDI of the sample firms was in average about 7 years ago. I therefore think that in the study recall and memory biases can be neglected. An additional concern may be the variance of industries in the study. Each business sector has specific factors that firms have to take into account when considering location choices and the importance of each factor may vary between industries. However the limited number of respondents prevents me from investigating further variables like industry-specific determinants of location choices. Future studies basing on larger samples may examine if and how industry-level factors determine FDI location choices of SMEs. Furthermore, the study is limited to location choices of German firms. More research is needed to find out to what extent the results are valuable to SMEs headquartered in other parts of the world. Finally, another concern may be the assumption of homogeneity in the use of indices generally assuming that the average of a country is an appropriate measure of the whole country (Shenkar, 2001). However, countries may vary internally to a large extent, which may point out a clear limitation for the application of indices (Meyer and Nguyen, 2005). Nevertheless, I consider the new measurement system to be an adequate index for evaluating the institutional development of a country. The underlying database of IMD is internationally established and provides cohesive and comprehensive information.

# 5 Timing of Foreign Market Entry: How does Institutional Uncertainty affect Early Internationalisation?

## 5.1 Abstract

Chapter 5 analyses the impact of institutional uncertainty on foreign market entry timing following claims for a more integrated view on the role of country-related factors in this research field. Hypotheses drawing from New Institutionalism suggest that the institutional context in the host country moderates the relationships between international experience, network ties, learning capabilities and entry timing among German SMEs. Hypotheses are tested on a sample of 160 German firms. The empirical results enlarge existing knowledge and permit a more profound understanding of the moderating effect institutional uncertainty has on entry timing.

## 5.2 Introduction

The seminal work of Oviatt and McDougall (1994) has stimulated and directed the research on international entrepreneurship in the past decade introducing a conceptual framework on "[…] a business organisation that, from inception, seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries" (Oviatt and McDougall, 1994, p. 49). Those international new ventures are particularly characterised by their international origins (Oviatt and McDougall, 2005a). While established firms generally internationalise following a slow, evolutionary path of international development (Johanson and Vahlne, 1977; 2006) early internationalising firms pursuit a proactive international approach starting their internationalisation right after their foundation (Oviatt and McDougall, 2005b). For those dynamic and newly established firms, internationalisation represents an important part of their operational capacities allowing them to capitalise their unique resources and capabilities and to achieve growth and positive returns (Zahra, Ireland, and Hitt, 2000). To do so, early internationalising firms need to quickly address and determine the key aspects of their internationalisation strategy regarding entry mode, timing, and location (Coeurderoy and Murray, 2008).

So far, studies examining the determinants of entry timing of early internationalising firms depicted especially the importance of firm and industry factors (Fan and Phan, 2007; Oviatt and McDougall, 1994). However, also country-specific characteristics are determining the speed of internationalisation (Oviatt and McDougall, 2005a; Shrader, Oviatt, and McDougall, 2000) why researchers claim for greater research efforts in this field (Zahra and George, 2002). The few studies emphasizing country-related determinants of early internationalisation mostly focus on single aspects, such as country risk (e.g. Hauser, 2005), regulatory hazards (e.g. Coeurderoy and Murray, 2008) or cultural distance (e.g. Fan and Phan, 2007). However, studies covering a more integrated view on country-related factors are for the most part lacking (Paul and Wooster, 2008).

Drawing on New Institutionalism allows for an integrated examination of how the institutional context influences business strategies. New institutionalists underline the importance of formal and informal institutions for business strategies being the rules of the game in a country. In developed institutional contexts, these rules of the game are well known and established, as institutions are robust, longstanding and trustful allowing for efficient business transactions. However, in weak institutional contexts, firms have to handle additional restrictions, costs and hazards resulting from incomplete institutions. In those contexts, firms face uncertainty about the valid rules for economic acting (Whitley, 2001b). Researchers broadly agree that institutions influence entry timing, however, the remaining question still is how they matter.

Addressing this request this chapter's aim is to examine the influence of the country-specific institutional context on the timing of rapidly internationalising firms. The contribution to the existing literature in the field of IBR is twofold.

First, I examine the moderating role of institutional uncertainty on entry timing of early internationalising firms and show how entry timing is contingent on the institutional context in the host country. This aspect is of considerable importance, as results of frequently studied determinants of entry timing appear incomplete without considering the challenges arising from the institutional setup. Previous studies do not sufficiently consider the importance of national institutions for entry timing and there is still scant research on the impact of country factors on the timing of market entrants. This shortcoming may be due to the dominance of transaction costs, organisational capabilities, and resource-based studies, which largely disregard context-related factors (Moen and Servais, 2002; Autio, Sapienza, and Almeida, 2000; Burgel and Murray, 2000). To overcome this limitation this study bases on New Institutionalism in order to examine the role of institutions on the early entry timing.

Second, hypotheses are tested on a sample of German medium-sized enterprises enabling me to provide results from a country that so far has not found intensive research attention in international entrepreneurship compared to other countries such as USA, UK, or Scandinavia. In addition, the sample shows a great variance in the host countries allowing for further consideration regarding differences in the countries' institutional contexts (Slangen and Hennart, 2007). Further, I apply a new procedure to study interaction terms in logistic regression models that may advance management research studying categorical dependent variables. As these interaction effects are more complex to compute and interpret in non-linear models (Hoetker, 2007), I follow the procedure by Ai and Norton (2003) and Jaccard (2001) to provide a more detailed interpretation of interaction terms at low, medium, and high levels of the moderator.

The remaining chapter is organised as follows. The next section summarises relevant prior literature. Afterwards, I present the theoretical model and suggest hypotheses. Subsequently, the research methodology and the empirical results are presented. Empirical testing of the hypotheses is conducted on a cross-industry sample of 160 German firms operating internationally. In the final section, I discuss the implications of the findings as well as the limitations of this study.

## 5.3 Literature Review

Earlier studies on market entry timing mostly focus on traditional internationalisation behaviour not on international entrepreneurship or accelerated internationalisation. Several studies have examined the order of entry (Pan and Chi, 1999) and the optimal time to change entry modes (Buckley and Casson, 1981). Only recently, researchers have started to differentiate between internationalisation patterns, usually distinguishing between late and early internationalising firms and their respective strategic approaches (Oviatt and McDougall, 1994; McDougall, Shane, and Oviatt, 1994; Autio, Sapienza, and Almeida, 2000; Schwens and Kabst, 2009). In this context, researchers have especially examined the antecedents (Oviatt and McDougall, 1997), processes (Oviatt and McDougall, 1995), performance (Autio, Sapienza, and Almeida, 2000; Zahra, Ireland, and Hitt, 2000) as well as the survival (Mudambi and Zahra, 2007) of both early and late internationalising firms.

In general, pioneers, early followers and late entrants seem to have varying strategic profiles and different performance tendencies (Lambkin, 1998; Lieberman and

Montgomery, 1998). In this respect, Kogut and Chang (1996) and Tan and Vertinsky (1996) have examined the timing of entry of Japanese electronic firms into the USA. They found that particularly firm factors such as the size of the multinational firm, a high research and development intensity as well as strategic considerations led to earlier entry of the considered firms. Paul and Wooster (2008) have investigated the timing of investments from USA in transition economies. They showed that "[…] firms with higher advertising intensity and higher sales growth enter the region earlier in time […]" (Paul and Wooster, 2008, p. 261). In addition, they posit that American firms are more likely to enter transition economies sooner, if the market liberalisation increases.

However, the literature specialising on 'international new ventures' (Moen, 2002), 'born globals' (Rialp, Rialp, and Knight, 2005; Zhou, Wu, and Luo, 2007; Bengtsson, 2004) or 'early internationalising firms' (Fan and Phan, 2007) differs from traditional international business literature (Johanson and Vahlne, 1977; 2006; Dunning, 1988; 1998): Early internationalisers seek from inception to enter foreign markets in order to achieve competitive advantages from sales and resources in different countries (Oviatt and McDougall, 1994). Contrary to later internationalising firms, they do not necessarily internationalise gradually, but pursuit a rather proactive approach (Oviatt and McDougall, 2005a). They are able to learn differently and may therefore create and also exploit knowledge faster (Zahra, Ireland, Gutierrez, and Hitt, 2000) allowing them to achieve rapid growth and positive returns from their international activities. According to Oviatt and McDougall (2005a), current theories of MNE do not explain this phenomenon of international entrepreneurship well.

Regarding the determinants of early internationalisation, researchers have examined the influence of firm factors, such as managerial foreign experience, industry factors, such as product market growth and competitor's behaviour, as well as country-specific factors, such as country risk, on the speed of internationalisation (Oviatt and McDougall, 2005c; Shrader, Oviatt, and McDougall, 2000; Gaba, Pan, and Ungson, 2002). But whereas numerous studies have underlined the importance of firm-specific and industry-related determinants, studies examining how environmental factors influence entry timing are still rather limited. The few existing studies mostly have focused on single aspects of a country's environmental framework: Hauser (2005) has examined the timing of investments with respect to the prevalent country risk in Central and Eastern Europe and the Commonwealth of Independent States by describing the investment opportunities as a real option. He finds that high country-specific risk decreases the likelihood for early investment. Also, progress in reforms is positively linked to earlier market entries in transition economies. Coeurderoy and Murray (2008) have examined the influence of regularly protection on the decision, the ordered choice and the speed at which successive foreign markets are entered by German and British new technology based firms. They argue that technology based firms choose to enter countries with better regulatory protection for their intellectual property. Furthermore, they find that the speed of entry depends more on firm-specific characteristics than on country-specific characteristics. Gaba, Pan, and Ungson (2002) have analysed the entry timing of firms from USA in China between 1979 and 1996 positing that higher market uncertainties are related to later entries. In addition, further studies have shown that also the cultural distance between home and host country may influence the entry timing: Li, Lam, and Qian (2001), have examined the influence of informal institutional constraints on joint venture timing in China. They found that firms tend to expand later into countries that are culturally distant.

From the literature review I conclude, that prior studies on international entrepreneurship greatly contribute to the understanding of entry timing however make only shortened and partial reference to the role of host country institutional determinants for entry timing. Although researchers agree that in addition to firm-specific and industry-related factors also country-specific characteristics determine early market entries (Zahra, Ireland, and Hitt, 2000; Fan and Phan, 2007), most popular theories in the field of international business fall short in pursuing an integrated institutional approach. This may be due to the fact that prior research on entry timing mainly based on established and well-known frameworks, such as the Process Theory of Internationalisation, the Transaction Cost Economics, Knowledge-based Views, Organisational Capabilities or Resource-based Views (Moen and Servais, 2002; Autio, Sapienza, and Almeida, 2000; Burgel and Murray, 2000; Shrader, Oviatt, and McDougall, 2000; Zahra, Matherne, and Carleton, 2003).

Besides, the literature review shows that empirical studies incorporating institutions are still limited in entry timing research and studies elaborating in-depth how early internationalisers adapt their entry strategies to the institutional context are largely missing. Researchers so far seem to have disregarded the impact of institutional variety on timing issues in internationalisation processes (Rialp, Rialp, and Knight, 2005).

## 5.4 Theoretical Framework

### 5.4.1 Institutional Uncertainty and Entry Timing

Institutional approaches centre social actors and the ways they control economic activities and resources (Whitley, 1999). The New Institutionalism argues that all social actors are embedded in the institutional environment prevalent in a certain country (see also chapters 1.1.3 and 1.1.4). Institutions thereby define and limit the scope of individual and organisational acting (Ingram and Silverman, 2002). They are the fundament for social life and ensure stability in the society (Campbell, 2004). Organisations have to adapt their strategies to the institutional context as they constitute the rules of the game of a nation state (Wright, Filatotchev, Hoskisson, and Peng, 2005; Narula and Dunning, 2000; Peng, 2003; Deeg, 2005).

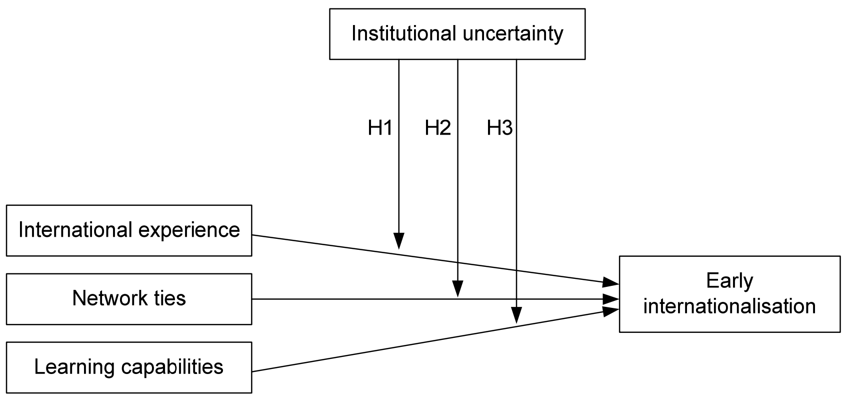
In mature and developed institutional contexts, institutional rules of the game are predictable. According to Richard Whitley (2001c, p. 32) institutional stability can be defined as “the degree to which key societal institutions and agencies such as the state, private property rights and the legal system are firmly established and follow predictable procedures and priorities […]”. In those robust environments, enterprises are able to follow long-term strategic plans in line with the institutional framework. Firms tend to develop their internationalisation strategies upon organisational matters, as functioning institutions reduce the uncertainty of economic acting. Firms entering institutionally stable host environments tend to base their entry timing decisions on intra-organisational factors. In those environments, they are able to rely on the given institutional factors as institutions are robust, longstanding and trustful.

In immature institutional environments, in contrast, firms have to handle constraints resulting from less advanced and incomplete institutions. Those underdeveloped institutions and the complexity and opacity of institutional transformation processes lead to uncertainty about the valid rules for economic acting and the future institutional development (Whitley, 2001a; Khanna and Palepu, 1997). When the institutional rules of the game in the host country are not predictable and the prevailing democratic institutions do not work properly, the political and legal structures as well as economic mechanisms are not always ensured. Not acting autonomously but being embedded in and determined by their institutional environment, organisations have to adapt their economic behaviour to the prevailing institutional parameters (Ingram and Silverman, 2002; Wright, Filatotchev, Hoskisson, and Peng, 2005; Narula and Dunning, 2000; Peng, 2003; Deeg, 2005). If the institutional framework of the host country is erratic and inadequate, enterprises may meet obstacles with regard to the legal, political and regulatory context (Keefer and Knack, 1997, Gaba, Pan, and Ungson, 2002). In those environments, country-specific characteristics may particularly influence the entry timing of firms as enterprises considering a market entry cannot rely on a stable planning scenario with known institutional variables. Instead, they have to base their decisions on uncertainty and therefore tend to put their internationalisation strategies not only on intra-organisational determinants, but also on the local institutions.

In line, I argue that institutional uncertainty affects the entry timing of firms. I expect institutional uncertainty to interact with firm-related factors of entry timing. Institutional uncertainty in the host country may influence entry timing and – depending on its prevailing level – be a driver of organisational strategies. Following this line of arguments, I elaborate hypotheses in the next section with regard to the moderating effects of institutional uncertainty.

Figure 5.1 summarises this chapter's research model which examines the moderating role of institutional uncertainty on the relationships between international experience, network ties and learning capabilities and early internationalisation.

*Figure 5.1: Research model (chapter 5)*




### 5.4.2 Hypotheses

International experience, network ties, and learning capabilities are among the most studied determinants of early internationalising firms.

International experience refers to the degree of prior involvement of a firm and its managers in international markets (Tan and Vertinsky, 1996; Coeurderoy and Murray, 2008; Gaba, Pan, and Ungson, 2002). While early internationalisers generally and by definition do not have much firm experience (Shrader, Oviatt, and McDougall, 2000), they face lower barriers of internationalisation with a management that has already experienced multiple foreign market entries. Managers with prior international activities can benefit from the associated learning and experience as well as their networks (Gaba, Pan, and Ungson, 2002). Managerial experience therefore may compensate the lack of prior organisational international experience and may lead respective managers to earlier identify international opportunities. During their hitherto careers, managers might have experienced different local institutional environments and they have learned to act in different countries with altered business rules. They have internalised knowledge about foreign institutional setups and are able – at least to a certain extent – to reduce the uncertainty faced by their firms (Delios, Gaur, and Makino, 2008). If companies manage to internalise prior managerial experiences, the probability of success in international markets increases (Tan and Vertinsky, 1996): Internationally experienced managers may cross-support an entry in a new market with prior market entries. Even though those cross-supports may not ensure the success of the new entry, firms with high international experience tend to overcome barriers and obstacles related to the international expansion much easier (Gaba, Pan, and Ungson, 2002). In line with this argumentation and with past research, I expect firms with high international experience to start their international expansion earlier.

In countries characterised by institutional uncertainty, the political, legal, economical and cultural environments are incomplete. The current and future development of the institutional context can hardly be foreseen. Thus, international experience may provide a certain support for early internationalisers. However, in contexts with high levels of institutional uncertainty, firms may face situations where the internalised knowledge on institutional environments from earlier experiences cannot be transferred into the host country. In those countries, the rules of the game may be unknown, the firms face higher risks and institutional knowhow resulting from managerial experiences in other countries does not help to reduce uncertainty. Thus, I expect that in countries characterised by high levels of institutional uncertainty firms tend to enter a market later even if they feature high levels of prior international experience. In line with this argumentation I derive the following hypothesis:

*Hypothesis 1: High institutional uncertainty is weakening the positive relationship between a firm's international experience and early internationalisation.*

Business network ties refer to the access to business partners such as customers and suppliers in the target country. Networking is considered to be an important instrument for international entrepreneurship (Oviatt and McDougall, 2005c). Firms with established business network ties in the target country may highly profit from the availability and expertise of suppliers and workforce. Business network ties tend to provide new entrants with a certain safety regarding their economic acting. Usually, firms tend to seek the proximity to other companies from the same home country, the same industry, or to other FDI companies as network ties imply earlier identification of business opportunities. Basing on this argumentation I follow past research arguing that firms with strong business network ties tend to internationalise earlier than firms without network ties (Tan and Vertinsky, 1996).

In uncertain institutional environments, network mechanisms seem to be particularly important to early internationalising firms, especially when entering foreign markets with high institutional uncertainties (Zhou, Wu, and Luo, 2007). In those environments, network ties ease doing business and understanding economic transactions (Luo, 2000). In countries with high institutional uncertainty, network ties help to deal with the unpredictability of government action and control as well as with the decisions concerning the change and dissolution of institutions. The absence of institutional trust combined with a shortage of reliable market and business information leads to the importance of trust-based personal connections as a mean for business transactions (Zhou, Wu, and Luo, 2007). Under these circumstances, I expect that firms with important network ties tend to enter institutionally uncertain countries earlier than firms without network ties. Institutional uncertainty therefore is strengthening the positive relationship between network ties and early internationalisation. I derive the following hypothesis:

*Hypothesis 2: High institutional uncertainty is strengthening the positive relationship between a firm's network ties and early internationalisation.*

Learning capabilities refer to the ability of firms to internalise information. In the context of foreign market entry timing, Oviatt and McDougall (2005b) posit that market and product knowledge are prime factors for early internationalisation. Foreign market entries put entrant firms at risks as they are facing different cultural, political, economic, legal and linguistic circumstances in the host country (Johansson and Vahlne, 1977). In order to reduce this risk, the entrant firm needs to gain knowledge about the foreign market. However, knowledge building differs between early and late internationalisers (Levitt and March, 1988; Cohen and Levinthal, 1990). Whereas late internationalising firms primarily learn from their own direct experiences, early internationalisers rather gain knowledge by learning from experience of others and by learning from paradigms of interpretation (Schwens and Kabst, 2009). Early internationalising firms therefore need to utilise substitutes to own learning in order to accelerate international market entry. The higher the absorptive capacity, the better and faster early internationalisers are able to learn by identifying, valuing, selecting and assimilating new knowledge (Zahra, 2005; Cohen and Levinthal, 1990). Thus, and in line with past research I expect that a firm's ability to learn favours early internationalisation.

In contexts with high institutional uncertainty, foreign entrants face additional barriers. High institutional uncertainty is characterised by institutions that are not in function such as inefficient legal framework, changing governmental decisions, or weak intellectual property rights. In those markets, institutions often are vague and changing or even liquidated putting foreign entrants at great troubles in adapting their behaviour to the institutional environments (Hitt, Li, and Worthington, 2005). Institutional uncertainty therefore requires significant learning abilities regarding the unstable political and legal systems, as well as different and changing cultures (Xu and Shenkar, 2002). This poses a challenge especially for early internationalising firms that cannot directly profit from their own experiences when entering a country. Early internationalisers therefore need to overcome additional difficulties compared to late internationalising firms. Thus, they need to learn very quickly about these markets requiring special learning capabilities. In line with this argumentation, I expect that in environments characterised by high institutional uncertainty, learning capabilities get even more important for early entry timing. Thus, institutional uncertainty is strengthening the relation between learning capabilities and early entry timing. I therefore derive the following hypothesis:

*Hypothesis 3: High institutional uncertainty is strengthening the positive relationship between a firm's learning capabilities and early internationalisation.*

## 5.5 Methodology

### 5.5.1 Data

The empirical analysis is based on dataset 1 (see chapter 1.3.1 for more details) considering German firms with international activities. In this study, all enterprises with 100 to 1000 employees were considered. Altogether 160 usable cases resulted from the survey providing sufficient information to test the research model. The sample includes 41 early and 119 late internationalising firms. In average, the sampled firms had an age of 19 years at the time of their first internationalisation.

I conducted tests as suggested by Little and Rubin (1987) and Allison (2002) for the final datasets showing no noticeable problems. Further, I controlled the returned questionnaires for non-response bias according to Armstrong and Overton (1977). I compared early and late respondents in terms of selected constructs. A *t*-test showed no significant differences. Tests for common methods variance or outliers did not show any significant problems (Podsakoff and Organ, 1986; Podsakoff, MacKenzie, Lee, and Podsakoff 2003).

### 5.5.2 Measurement

Early internationalising firms may be defined as young firms that are engaged in international activities from inception. Although scholars are consent in this definition, there is less agreement about the meaning of the term 'from inception'. While some scholars argue that only companies that start international business in the year of foundation are early internationalising firms, empirical studies mostly consider all companies with the first internationalisation up to ten years after foundation. Considering these different approaches and in accordance with Burgel and Murray (2000), I applied a rather rigid definition of early internationalising firms and included all companies that have started their internationalisation within the first 2 years after their establishment. I measured ***early internationalisation*** by a dichotomous item. Early internationalising firms were coded "1", whereas firms that achieved sales from foreign business later than 2 years after their foundation (late internationalising firms) were coded “0”.

Direct and moderator variables were measured by multiple Likert-scaled items adapted from established scales in order to minimise measurement error and to enhance the content coverage for the constructs in the model. ***International experience*** was measured using a two-item scale (Cronbach’s alpha: 0.761) adapted from existing literature (Mudambi and Zahra, 2007; Coeurderoy and Murray, 2008). The respondents were asked whether the management had prior and long standing international experience, or whether the firm’s first internationalisation also was the management’s first internationalisation. ***Network ties*** were calculated using a three-item measurement (Cronbach’s alpha: 0.881) adapted from Mudambi and Zahra (2007). The responding firms were asked whether the international activity was founded on existent business relations in the host country. ***Learning capabilities*** were measured using a three-item scale (Cronbach’s alpha: 0.736) adapted from Pedersen and Petersen (2003). The respondents were asked, whether the focal engagement was possible only because of prior learning in this market, or whether gathered information had increased familiarity with the host country or whether stepwise learning processes were responsible for the choice of the market entry. Finally, ***institutional uncertainty*** was measured using a three-item scale (Cronbach’s alpha: 0.740) adapted from existing literature (Agarwal and Ramaswami, 1992; Brouthers, 2002). The responding firms were asked, whether cultural, political/legal or economical uncertainties were identified in the target country.

I also included a set of control variables. Scholars widely agree that in addition to firm factors, also industry-related factors may influence foreign entrants’ entry timing. I therefore considered the control variables ‘market growth’ and ‘competitive intensity’ in the target country. High product ***market growth*** may attract investments from foreign firms (Tan and Vertinsky, 1996; Hauser, 2005). I measured product market growth using a Likert-scaled single item measurement adapted from Gaba, Pan, and Ungson (2002). I further included ***competitive intensity*** because the timing of entry into foreign markets may be viewed as answer to rivalry in a firm’s industry (Paul and Wooster, 2008). Competitive intensity was also measured using a single item measurement (Likert-scaled) adapted from Gaba, Pan, and Ungson (2002). In addition, different motives for foreign market entry were included as control variables as their impact and structure are supposed to play a major role in internationalisation (Tatoglu, Demirbag, and Kaplan, 2003). I therefore considered the motives ***market access*** and ***cost reduction*** commonly recognised as important drivers for international business strategies. Both motive variables were measured using a single item based on Likert scales. Finally, I included firm size as a control variable, measured by the (log) number of full-time employees of the company.

When applying multi-item measures the Cronbach's alphas are above the acceptable cut-off point of 0.70 (Nunnally, 1978) showing good internal consistency and reliability in all constructs. Table 5.1 presents the mean values, standard deviations of all variables in the research model as well as their bivariate correlations.

*Table 5.1: Means, standard deviations, and bivariate correlations (chapter 5)*

| | Correlation Matrix | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *Mean* | .25 | 2.96 | 2.33 | 2.69 | 2.06 | .023 | -.169 | -.039 | 2.66 | 2.25 | 3.56 | 1.97 | 5.73 |
| | *Standard Deviation* | .437 | .946 | .876 | .758 | .798 | .813 | .683 | .593 | .903 | .994 | .775 | 1.079 | .814 |
| 1 | Early internationalization (dependent variable) | 1 | | | | | | | | | | | | |
| 2 | International experience | .349*** | 1 | | | | | | | | | | | |
| 3 | Network Ties | .060 | .281*** | 1 | | | | | | | | | | |
| 4 | Learning Capabilities | -.134 | .083 | .403*** | 1 | | | | | | | | | |
| 5 | Institutional uncertainty | .066 | .031 | -.242*** | -.064 | 1 | | | | | | | | |
| 6 | M_InstUnc_IntEx | -.077 | .073 | -.016 | -.032 | -.067 | 1 | | | | | | | |
| 7 | M_InstUnc_NetTies | -.187* | -.018 | -.060 | -.071 | -.205*** | .298*** | 1 | | | | | | |
| 8 | M_InstUnc_LearnCapa | .175* | -.035 | -.071 | -.137* | -.036 | .031 | .181** | 1 | | | | | |
| 9 | Market growth | -.227** | -.069 | .248*** | .209*** | -.026 | .067 | .074 | -.042 | 1 | | | | |
| 10 | Competitive intensity | .031 | .178 | .193*** | .282*** | .035 | .042 | -.127* | -.085 | .106 | 1 | | | |
| 11 | Motive market access | .098 | -.017 | .329*** | .131* | -.130 | .078 | -.091 | .002 | .177** | -.032 | 1 | | |
| 12 | Motive cost reduction | .104 | .263*** | .103 | .014 | .061 | .047 | .112 | -.103 | .051 | .248*** | -.235*** | 1 | |
| 13 | Firm Size (log) | -.242** | .219*** | .146* | .092 | .104 | -.020 | .174** | -.026 | -.004 | .049 | -.141* | .209*** | 1 |

Significance levels: ***: p ≤ .001; **: p ≤ .01; *: p ≤ .05

The correlation coefficients in Table 5.1 show no significant risk for multicollinearity between the dependent, independent, moderating and control variables, since no correlation exceeds 0.7 (Anderson, Sweeney and Williams, 1996). In addition, I calculated the VIF values to test the extent to which values of the coefficients increased due to collinearity. All VIF values stay below 4.0 (Neter, Wassermann and Kutner, 1983) and even below 2.5 (Allison, 1999). Thus, no serious risk for multicollinearity between the dependent, control, direct, moderator, and interaction variables can be identified (Anderson, Sweeney, and Williams, 1996).

### 5.5.3 Empirical Results

The hypotheses were tested using a binary logistic regression analysis combined with moderator analysis. However, interaction effects are complicated to compute and interpret in non-linear models (Hoetker, 2007; Norton, Wang and Ai, 2004), as they cannot simply be interpreted by looking at the sign, magnitude, or statistical significance of the coefficient of the interaction term (see chapter 2.5.3). I therefore followed again Jaccard (2001) and Hoetker (2007) and supplemented the numerical information with plots of the predicted log odds in order to better interpret the interaction terms.

I set up four models to display the results. In model 1, I entered the control variables. Model 2 implies the control variables, and the direct variables. In model 3, I further included the moderator variables. In model 4, the interaction terms were added. As mentioned before, I applied a significance level of 10%, as detecting interaction effects with a regression analysis is rather difficult in field studies (McClelland and Judd, 1993). Table 5.2 presents the results of the regression analysis.

*Table 5.2: Results of binary logistic regression (chapter 5)*

| **Regression Analysis** | Model 1 control variables | Model 2 + direct variables | Model 3 + moderator variable | Model 4 + interaction variables |
|---|---|---|---|---|
| ***Direct variables*** | | | | |
| International experience | | 2.096*** | 2.278*** | 2.678*** |
| Network Ties | | .073 | .168 | .004 |
| Learning Capabilities | | -.917* | -.851* | -.658 |
| ***Moderator variable*** | | | | |
| Institutional uncertainty | | | .641 | 1.113* |
| ***Interaction variables*** | | | | |
| M_InstUnc_IntEx | | | | -1.173† |
| M_InstUnc_NetTies | | | | -1.353* |
| M_InstUnc_LearnCapa | | | | 2.659** |
| ***Control variables*** | | | | |
| Market growth | -.819*** | -.947** | -.947** | -.911* |
| Competitive intensity | .110 | .126 | .033 | -.288 |
| Motive market access | .640* | .787* | .855* | 1.353* |
| Motive cost reduction | .492* | .430 | .406 | 1.099** |
| Firm Size (log) | -.746** | -1.387*** | -1.498*** | -1.630*** |
| Constant | 1.546 | 4.498 | 5.031 | 2.729 |
| R2 (Nagelkerke) | .233 | .492 | .516 | .626 |
| R2 (Cox & Snell) | .159 | .334 | .350 | .426 |
| Chi-Square | 27.643 | 65.097 | 69.008 | 88.712 |
| Correct Classifications | 76.9 | 83.8 | 84.4 | 86.9 |
| Significance | .000 | .000 | .000 | .000 |
| N | 160 | 160 | 160 | 160 |
| N = sample; R2 = Variance; Significance levels: ***: p ≤ .001; **: p ≤ .01; *: p ≤ .05; †: p ≤ .1 | | | | |

Model 1 illustrates the effect of the control variables on early internationalisation. Results show that market growth and firm size are significant and negatively associated with early internationalisation, whereas the motives market access and cost reduction show significant positive relations. Thus, young firms tend to start their internationalisation later when market growth in the target country is high. This may be due to the fact that high market growth attracts numerous international firms, whereas early internationalisers tend to avoid rivalry and related costs. Also, when having a high number of employees firms tend to internationalise later. A possible explanation could be that larger firms have more organisational inertia hindering early internationalisation. In contrast, firms tend to internationalise earlier when they are seeking for market access or have high needs to reduce costs.

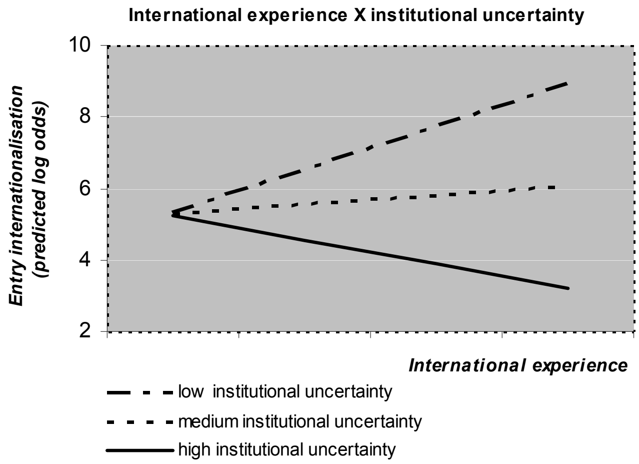
In model 2, I included the well-established direct variables of early internationalisation, namely international experience, network ties, and learning capabilities. Adding these variables provided for a higher variance explanation. $R^2$ increased from 0.233 to 0.492 (Nagelkerke) and from 0.159 to 0.334 (Cox and Snell), respectively. In line with prior literature, I found a positive and significant relationship between international experience and early internationalisation. In contrast, I could not confirm a positive relationship between network ties and early internationalisation, as the results show a positive but not significant effect. Surprisingly, I found a significant but negative association between learning capabilities and early internationalisation. This result indicates that firms with high learning capabilities tend to internationalise later. This finding challenges previous literature to a certain extent which generally argues that a firms ability to learn favours early internationalisation (Zahra, 2005; Cohen and Levinthal, 1990).

In model 3, the moderating variable was added. Including institutional uncertainty provided for a higher variance explanation. $R^2$ increased from 0.492 to 0.516 (Nagelkerke) and from 0.334 to 0.350 (Cox and Snell), respectively. I did not find a significant direct effect of institutional uncertainty on early internationalisation. Thus, the results support the argumentation that it is not the direct effect of the institutional context that matters, but the moderating effect on established relationships of early internationalisation.

In model 4, finally, I included the interaction terms and tested the hypotheses. Adding the product variables provided for a considerably higher variance explanation. $R^2$ increased from 0.516 to 0.626 (Nagelkerke) and from 0.350 to 0.426 (Cox and Snell) respectively. In order to better interpret the complex associations related with interactions in logit models and to draw comprehensive conclusions, I supplemented the numerical information with plots of the predicted log odds. Figures 5.2 to 5.4 present the plots for the predicted log odds of early internationalisation (dependent variable) as a function of prior international experience, network ties, and learning capabilities (direct variables), and institutional uncertainty (moderator variable).

In Hypothesis 1, I proposed that institutional uncertainty is weakening the positive relationship between international experience and early internationalisation. Hypothesis 1 is supported with a significant and negative interaction effect on a ten-percent level. The plots in figure 5.2 show that prior international experience is negatively linked to early internationalisation under conditions of high institutional uncertainty whereas it favours early market entries when institutional uncertainty is low.

*Figure 5.2: Interaction effect of institutional uncertainty and international experience*




This result expands existing knowledge showing different relationships between international experience and early internationalisation in dependence of the prevailing level of institutional uncertainty. When institutional uncertainty is low, internationally experienced firms tend to enter foreign markets earlier. Only with higher levels of institutional uncertainty this effect turns negative, so that international experience does not necessarily support firms anymore in overcoming prevailing institutional pressures. Consequently, in contexts characterised by high institutional uncertainty internationally experienced firms tend to internationalise later. Thus, the plots provide detailed results on the moderating role of institutional uncertainty on the relationship between international experience and early internationalisation which cannot simply be interpreted from the negative coefficient in table 5.2.

Hypothesis 2 proposed that institutional uncertainty is strengthening the positive relationship between network ties and early internationalisation. The findings do not support this hypothesis showing a significant but negative effect. The plots in figure 5.3 show that network ties are negatively linked to early internationalisation under conditions of institutional uncertainty.

*Figure 5.3: Interaction effect of institutional uncertainty and network ties*

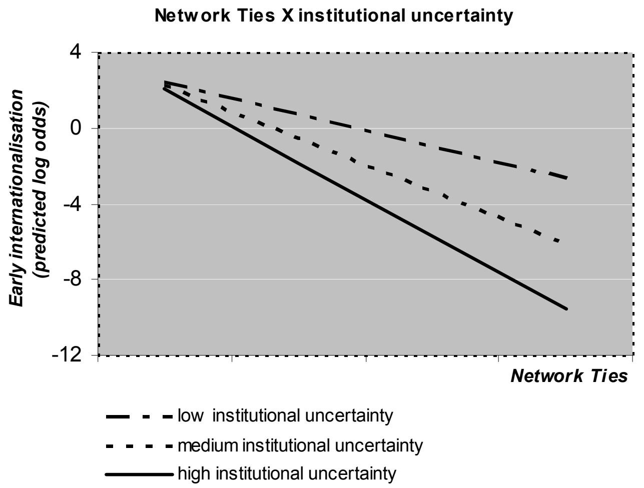
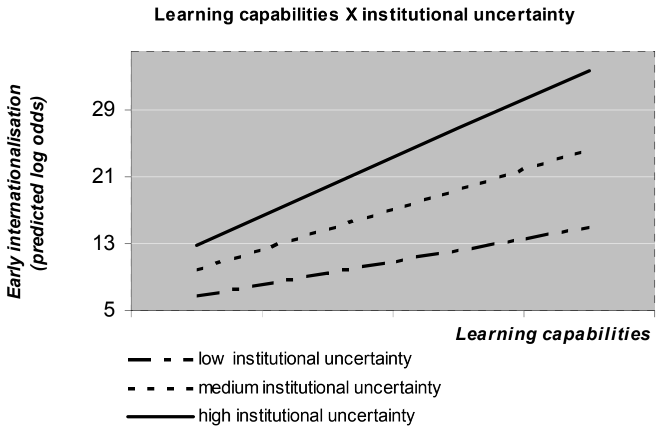



Figure 5.3 shows that firms with important network ties even seem to internationalise later when perceiving high institutional uncertainty than firms with weaker network ties. Thus, in contexts characterised by an absence of institutional trust combined with a shortage of reliable market and business information, network ties seem to further constrain firms leading to later internationalisation. A possible explanation for this surprising result might be that the identification of trustful relationships in uncertain environments might be difficult for new market entrants. Maybe early internationalisers are anxious that supposed partner firms in those environments may behave in rather opportunistic ways focusing on the own survival. Then, under conditions of institutional uncertainty, firms would not be able to identify and base on trustful personal connections and therefore internationalise later. This result would be of interest for further studies.

Hypothesis 3 proposed that institutional uncertainty is strengthening the relationship between learning capabilities and early internationalisation. The results support this hypothesis showing a significant and positive interaction effect. The plots in figure 5.4 show that a firm's ability to learn is positively linked to early internationalisation, when the institutional environment is characterised by uncertainty. The finding therefore supplements previous studies on early internationalisation showing that firms with high learning capabilities tend to start their internationalisation earlier even when they perceive high institutional uncertainty in the target country. It seems that firms with high learning capabilities may compensate the risks resulting from institutional uncertainty by their ability to learn. They are able to enter institutionally uncertain markets earlier and profit from first mover advantages. Thus, the results add an environmental perspective to the discussion in early internationalisation research.

*Figure 5.4: Interaction effect of institutional uncertainty and learning capabilities*




## 5.6 Conclusion, Limitations, and Managerial Implications

The aim of this chapter was to analyse the impact of institutional uncertainty on foreign market entry timing. While scholars have intensively studied the research field of international entrepreneurship, studies taking a more integrated view on the role of country-related factors on entry timing have received scarce academic attention so far (Paul and Wooster, 2008). I proposed that the prevalent institutional uncertainty in the host country moderates the relationships between international experience, network ties, learning capabilities and early internationalisation. Hypotheses were tested using logistic regression analysis. The findings confirm that entry timing is contingent on the institutional context. The results contribute to existing knowledge on international entrepreneurship research permitting a more profound understanding of the moderating effect institutional uncertainty has on entry timing.

Theoretically, chapter 5 shows that the New Institutionalism is an appropriate theoretical approach in international entrepreneurship research. It allows incorporating the host country's institutional context leading to more idiosyncratic results. Until now only a limited number of studies have taken these aspects of the institutional environment into consideration. So, this study adds a valuable contribution to research on the determining factors of entry timing.

Methodologically, I applied moderator analysis as suggested by Ai and Norton (2003) and Jaccard (2001). Recent studies in management research critically reflect on the complex issue of interaction effects in non-linear models (Li and Meyer, 2009; Powers, 2005; Shaver, 2005). The results, on the other hand, suggest that the procedure advanced by Ai and Norton (2003) supplemented by the numerical information with plots as suggested by Jaccard (2001) may be an appropriate mean to study interaction terms when the dependent variable is non-linear. Thus, the technique applied in this study may be an option for future research studying interaction terms in models with categorical dependent variables.

As in the case of most empirical studies, the underlying dataset has limitations. With regard to the data used in this study, the time range implies a methodological weakness, as there could be a problem of recollection due to the retrospective character of the dataset. While retrospective reports have been used extensively to study strategic decision making processes (Bourgeois and Eisenhardt, 1988; Mintzberg, Raisinghani and Théorêt, 1976) their primary problem lies in the fact that key informants may not be able to accurately recall the past. As Golden (1992), Huber and Power (1985), Wolfe and Jackson (1987), and many others have suggested, inaccurate recall in retrospective reporting can result from inappropriate rationalisation, oversimplifications, faulty post hoc attributions, and simple lapses of memory. Thus, remembering the first internationalisation might be a problem due to the age of some companies in the sample. However, the data includes a significant number of family businesses (>70%) where the CEO is often closely related to the founder of the firm or established the company himself. As the questionnaires addressed the top management, the likelihood that the CEO was involved in the first internationalisation decision making processes was estimated to be high. Addressing the CEO may therefore significantly reduce the risk of informant fallibility (Golden, 1992) and leads to higher retrospective accuracy. Miller, Cardinal, and Glick (1997, p. 197) suggest in their analysis of both retrospective and nonretrospective strategy data that "[…] CEO reliability is no lower in retrospective than in nonretrospective reports". Thus, aware of the disadvantages of retrospective recalls, I agree with Miller, Cardinal, and Glick (1997, p. 194) that the "[…] reliability of any methodology is not perfect. […] even if retrospective recall of strategic actions is perfect, a questionnaire assessment will not yield a perfect retrospective accuracy coefficient." Nevertheless, the lack of longitudinal data limits this study. Developments over time particularly with regard to the role of changing institutional establishments need powerful longitudinal data to be analysed in depth. Future research may address this limitation promising deeper insights into the role of institutional uncertainty on entry timing.

The empirical results enable me to draw some managerial implications. I propose that firms should consider the level of institutional uncertainty when venturing into new markets as institutional aspects were proven to have an impact on the entry timing. When considering the challenges from the institutional context in the host country, managers are better prepared to decide when to enter a foreign country. This is of special interest for international new ventures that need to quickly address and determine the key aspects of their internationalisation strategy regarding entry mode, timing, and location (Coeurderoy and Murray, 2008). Fundamentally, the results of this study show that the entry timing is contingent on the institutional uncertainty in the host country. Thus, firms may postpone or push their internationalisation when institutional uncertainty in the host country is high. In detail, the findings show that prior international experience is only of limited help for early internationalisers. Thus, in contexts with low institutional uncertainty, internationally experienced firms tend to internationalise early. However, when institutional uncertainty is increasing, when the political, governmental, and legal context in the host country are challenging, internationally experienced firms tend to postpone their internationalisation to a later point in time. Also network ties do not help to overcome these pressures arising from high institutional uncertainty. When the institutional context is opaque and intransparent, firms prefer to internationalise later even if they possess strong network ties. Thus, in those contexts, early internationalisers seem to hardly find trustful and longstanding relationships that are easing business transactions in foreign countries. Finally, a company’s ability to learn is of major importance for entry timing in institutionally uncertain countries. Thus, high learning capabilities help to overcome institutional constraints and allow firms to internationalise early. Firms therefore should consider their learning capabilities as an important driver for early internationalisation when planning to enter into countries characterised by high institutional uncertainty.

# 6 Conclusion

## 6.1 Summary

In this final chapter, first the overall results of the thesis are summarised, then, the theoretical, methodological, and empirical contributions are highlighted. Afterwards, I will present the managerial implications. The chapter closes by showing the possible limitations of the empirical studies and by deducing implications for future research.

The overall aim of this dissertation was to contribute to a deeper understanding of how institutions impact the internationalisation of small and medium-sized firms. As SMEs do substantially differ from large MNEs due to limited managerial, technological, and financial resources, they tend to lack knowledge of the local environment, as well as the legal, social, and political aspects of operating abroad (Buckley, 1989). SMEs therefore may have to interact differently with their environment compared to large MNEs (Brouthers and Nakos, 2004) and face higher institutional barriers during their internationalisation. Thus, SMEs are likely to be more sensitive to institutional influences than large MNEs.

In order to examine in detail the role of institutions during SME internationalisation, I emphasised four different aspects in this research field: the entry mode choice, the establishment mode choice, the location choice, as well as the entry timing. These topics were subject to four studies in chapters 2 to 5 using different theoretical, empirical and methodological concepts in order to examine the role of the institutional setup in the host country from different perspectives.

Chapter 2 examined the moderating effects of informal institutional distance and formal institutional risk on entry mode choice among German SMEs. Informal institutional distance represents the cultural and ideological differences between a firm's home country and the host country. Firms are challenged to bridge those differences when entering foreign markets (Estrin, Baghdasaryan, and Meyer, 2009; Shenkar, 2001). The formal institutional risk refers to the constraints resulting from insufficiently developed market support institutions in the host country. Firms have to handle additional hazards, restrictions, and costs in case of high formal institutional risk (Dikova and van Witteloostuijn, 2007; Henisz, 2000; Meyer, Estrin, Bhaumik, and Peng, 2009). In this context, chapter 2 contributed to existing knowledge on entry mode research: I found that the relationships between well-established direct effects on entry mode choice, namely international experience, technological intensity, and strategic importance, are moderated by the informal institutional distance and formal institutional risk in the host country.

Chapter 3 addressed the moderating role of the perceived institutional uncertainty on SME foreign establishment mode choice. Arguing that the level of institutional uncertainty is contingent upon the manager's perception of hazards and risk (Manolova, Brush, Edelman, and Greene, 2002; Simmonds and Smith, 1968), I showed that this is of particular importance in SMEs. In SMEs, single owners or senior managers influence a firm's decision making more than it is the case in large MNEs. The owner dependence is higher in SMEs, and SME managers generally tend to be strongly connected to the firms with high levels of relatedness and solidarity. In consequence, the perceptions of the key managers play a pivotal role in SME decision making. The higher the perceived institutional uncertainty, the more the management expects insufficiently functioning political, judicial, or economic institutions, and the more it feels challenged to adapt the business to the prevalent institutional environment (Deeg, 2005; Wright, Filatotchev, Hoskisson, and Peng, 2005). Furthermore, the extent of the perceived institutional uncertainty limits the scope of individual and organisational action (Ingram and Silverman, 2002) and has implications for the resource commitments to a foreign market (Pedersen and Petersen, 2003). The level of perceived institutional uncertainty therefore influences the strategic choice between Greenfield and acquisition. The study differs from past research on establishment modes that typically examined firm-specific determinants of large MNEs. Yet, results from this study confirm that SMEs are particularly sensitive to influences from the institutional setup in the host country. So, the study provides initial empirical support for the notion that the level of institutional uncertainty in the host country – as perceived by managers – influence the establishment mode strategy of SMEs.

Chapter 4 examined the role of firm-specific knowledge intensity and international experience on SME location choice. Until now, numerous studies in the field of location selection tended to focus on an approach differentiating only between developed and less developed countries. This binary classification is less suited to reflect the various institutional setups and stages of development of the different nation-states. I therefore refrained from a binary distinction, and considered the country-specific institutional setup in the dependent variable. Using the database of the Institute of Management Development, I built an index to measure the institutional development of the target countries. This new index allows for a comprehensive and differentiated consideration of the individual country-specific degree of institutional development. The study thus makes a valuable contribution to research on the location choice among SMEs and leads to more idiosyncratic results. The chapter developed and tested a model analyzing determinants of the location decision of small and medium-sized enterprises. I suggested that in addition to firm-specific motivations also an SME's knowhow intensity and international experience influence location choice. The results confirm these expectations showing that the relationships between well-established direct effects (the motives new market seeking, resource seeking, and strategic asset seeking) and location choice are contingent on the firm-specific knowhow intensity and international experience. Thus, the study permits a more profound understanding of the effect moderators have on SMEs and location choices considering the institutional development of the target country.

Chapter 5 examined the moderating role of institutional uncertainty on entry timing of early internationalising firms showing how entry timing is contingent on the institutional context in the host country. In immature institutional environments, firms have to handle additional institutional constraints leading to uncertainty about the valid rules for economic acting and the future institutional development (Whitley, 2001a; Khanna and Palepu, 1997). Due to institutional voids, enterprises generally have only limited knowledge about their surrounding. Thus, institutionally uncertain environments may particularly impact the entry timing of firms as enterprises need to put their internationalisation strategies on the local institutions. My hypotheses suggested that the institutional uncertainty in the host country moderates the relationships between international experience, network ties, learning capabilities and early internationalisation. The study's empirical results confirm that entry timing is contingent on the institutional context permitting a more profound understanding of the moderating effect institutional uncertainty has on entry timing.

## 6.2 Theoretical, Methodological, and Empirical Contributions

Theoretically, the thesis has proven the New Institutionalism to be a valuable theoretical approach in SME internationalisation research. NI allows incorporating the host country's institutional context into IBR leading to more idiosyncratic results. But until now only a limited number of studies even considered the institutional environment as prior studies mainly based on established theories such as International Process Model, Transaction Cost Economics, and Resource-Based View (see chapter 1.1.4) not considering sufficiently contextual determinants. Basing on New Institutionalism allowed for taking into account formal and informal institutions representing an added value in context-related studies. In addition, this theoretical approach permits a macro view distinguishing it from earlier studies. The dissertation therefore makes a valuable contribution to research on the determining factors for internationalisation of SMEs.

Methodologically, the thesis bases on two different datasets as described in chapter 1.3 allowing for quantitative analyses in all four studies. Chapters 2, 3, and 5 used binary logistic regression analysis to test hypotheses, whereas linear regression analysis was applied in chapter 4. In all chapters, I applied moderator analyses as suggested by Ai and Norton (2003) and Jaccard (2001). This procedure may advance existing management literature as recent studies in management research critically reflect on the issue of interaction effects in non-linear models as well (e.g. Li and Meyer, 2009). Linking the numerical information to graphical plots as suggested by Jaccard (2001) and applied in this thesis may be an appropriate mean to study interaction terms when the dependent variable is non-linear. Thus, this technique may advance empirical research studying interaction terms in models with categorical dependent variables.

The measurement of the institutional context still remains inconclusive in IBR. Studies generally neglect the complexity of the institutional environment consisting in formal and informal institutions. I therefore presented various approaches to proxy the institutional setup of a country, including secondary indices measuring the informal institutional distance and the formal institutional risk (chapter 2), a multi-item measure reflecting the level of perceived institutional uncertainty (chapter 3), a new index of the target countries' institutional development (chapter 4) and an established multi-item scale measuring the level of institutional uncertainty in the host country (chapter 5).

Empirically, I confirmed that internationalisation of SMEs is contingent upon the institutional context. My results therefore contribute to existing knowledge in IBR and permit a more profound understanding of the effects of institutions on internationalisation of SMEs. Chapter 2 complements prior research on SME entry mode selection, showing that the influence of established variables such as international experience, technological intensity, and strategic importance is contingent on the informal institutional distance and formal institutional risk of the host country. In chapter 3, the empirical results confirm that an SME's decision between Greenfield and acquisition depends on the level of perceived institutional uncertainty. I illustrated how variables from firm, subsidiary, industry, and country level complement and interact to predict establishment mode strategies. Chapter 4 bases on a sample of firms with one home and a total of 28 host countries. The host countries represent different levels of institutional development surpassing the variation in earlier studies. Results confirm that FDI location decisions are not only depending on firm-specific motivations but also on the firm's knowhow intensity and experience – particularly when considering the institutional development of the target countries in the dependent variable. The empirical results in chapter 5 reflect that the entry timing is contingent on the institutional uncertainty in the host country. Thus, firms may postpone or push their internationalisation when institutional uncertainty in the host country is high.

To summarise, the results of all four studies show that SMEs are particularly sensitive to influences from the institutional setup in the host country. The studies provide empirical support for the notion that SME internationalisation is contingent upon the institutional setup in the host country.

## 6.3 Managerial Implications

In addition to theoretical, methodological, and empirical contributions to the research field, this dissertation offers also several practical implications. Basically, firms should take the host country's institutional context into account when planning to enter foreign markets. Considering the institutional challenges that may arise from uncertain conditions in a host country do allow managers a notably better preparation for their internationalisation. In detail, the studies incorporate the following practical implications:

1) Informal institutional distance and formal institutional risk in the host country may determine the market entry mode. Thus, prior international experience may help to overcome pressures from institutions in the host country, as internationally experienced SMEs and their managers may have advantages over non-experienced. In addition, firms and their management teams have to be aware of their core competencies and strategic importance of internationalisation projects. Thus, firms with substantial technological assets have to adapt their degree of internationalisation to the institutional

context in the host country. Finally, in case of high strategic importance of a foreign market entry, managers should be aware that large informal institutional distance and high formal institutional risk may change the preferred entry mode from equity based to non-equity based modes.

2) SMEs should recognise that the key decision maker's perception of institutional uncertainty is of particular importance for establishment mode choice. Thus, when considering the host country's institutional environment in addition to firm- and industry-specific factors, firms are better prepared for the decision whether to choose acquisition or Greenfield. But even when the institutional context in the host country is challenging, internationally experienced SMEs may prefer to establish Greenfield investments as their international experience allows them to handle these institutional pressures. Additionally, in case a subsidiary requires high investment volumes, SMEs shall opt for Greenfield investments in countries characterised by high perceived institutional uncertainty. This option then allows a better protection of intellectual property. Finally, when market growth and institutional uncertainty are high in the host country, SME managers shall choose acquisitions over Greenfields to enter a new market preventing them from randomised market forecasts implying higher risks for new ventures.

3) Executives shall review all pertinent facts with regard to the host country before making location decisions. In particular, they shall evaluate the institutional development in the target country as the level of institutional development may determine the FDI destination. In detail, knowhow intensive SMEs seeking for new markets shall locate in countries characterised by a high institutional development. Resource seeking firms shall choose their locations in dependence of their knowhow intensity and international experience: Firms with international experience shall favour less developed locations, whereas knowhow intensive firms shall consider rather institutionally developed economies. Finally, strategic asset seeking firms shall rather select more developed economies for their FDIs when having prior international experience.

4) Firms should be aware that institutions also may impact foreign market entry timing. This is of special interest for international new ventures that need to address the key aspects of their internationalisation strategy within a short time frame. Thus, depending on the level of institutional uncertainty, firms may postpone or push their

internationalisation. Prior international experience is only of limited help for early market entry: In contexts with high institutional uncertainty internationally experienced firms tend to postpone their internationalisation. Also network ties do not help to overcome constraints resulting from institutional uncertainty: When perceiving institutional voids, SMEs tend to delay their internationalisation even if they possess strong network ties. Finally, the ability to learn is of major importance for entry timing in institutionally uncertain countries, as high learning capabilities allow for early entry timing even if institutional uncertainty is high. Firms therefore should evaluate their learning capabilities particularly when planning early internationalisation into countries characterised by high institutional uncertainty.

## 6.4 Limitations of the Study and Suggestions for Future Research

Like most conceptual and empirical work, also this thesis has some limitations. First, all four studies base on survey data which comprise information about the respondent's past internationalisation activities. However, collecting retrospective data may cause recall and memory biases. Dataset 1 – applied in chapters 2 and 5 – referred to a firm's first market entry. But asking for the first internationalisation could cause problems in remembering due to the age of some companies in the sample. In order to reduce related recall and memory biases the questionnaire was sent to the CEOs and firm owners assuming that they know best about the firm's international activities. This may significantly reduce the risk of informant fallibility (Golden, 1992) and lead to higher retrospective accuracy. Dataset 2 – applied in chapters 3 and 4 – aimed to achieve high response accuracy referring to their latest foreign direct investment. In this dataset, the reference FDI was in average about 7 years ago. I therefore believe that recall and memory biases can be neglected. As further limitation it may be mentioned that both datasets focus on German medium-sized firms. Further work is needed to find out to what extent the results are valuable to SMEs headquartered in other parts of the world. Also a comparison between SMEs and large MNEs could be of interest for further research.

A second concern relates to the use of indices in empirical studies. The choice of the indices represents a crucial decision in IBR. In chapter 2, I base on the Hermes Country Risk Rating – an index unique to Germany and therefore relatively unknown in IBR – to measure formal institutional risk. This might be seen as a limitation, although I preferred this rating being familiar to the German respondents and utilised in daily business activities. However, using different and internationally known measures may add further insights in IBR. Thus, it might be of interest to base on indices from EBRD, the Corruption Perception Index, or the World Bank's institutional measures. Another aspect with regard to the use of secondary indices concerns the assumption of homogeneity in the use of indices. I based on the GLOBE indices to measure informal institutional distance. Those cultural indices generally assume that the average of a country is an appropriate measure of the country-wide cultural environment. However, countries may vary internally leading scholars to claim for more regional examinations. Although I consider the assessment of informal institutional distance to be best measured by the GLOBE indices for management and organisation issues, future research could address these claims and examine regional differences in cultural distance measures.

In general, researchers claim for the development of measures focused on the institutional context. In compliance with these claims, I constructed a new index – based on institutional indicators from IMD database – assessing the institutional development of 48 countries. This index was applied in chapter 4 allowing for a high variance in the dependent variable. As the underlying database of IMD is internationally established and provides cohesive and comprehensive information, I consider the new measurement system to be an adequate index for evaluating the institutional development of a country. However, it could be of interest to apply this new index in studies focusing on other aspects of internationalisation in order to deeply examine the role of institutions.

To summarize, this dissertation adds further insights to IBR in particular with regard to the role institutions play among SME internationalisation. Firms therefore comprehensively assess a host country's institutional context to fully cover the range of challenges that may arise when entering foreign markets.

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# Appendix

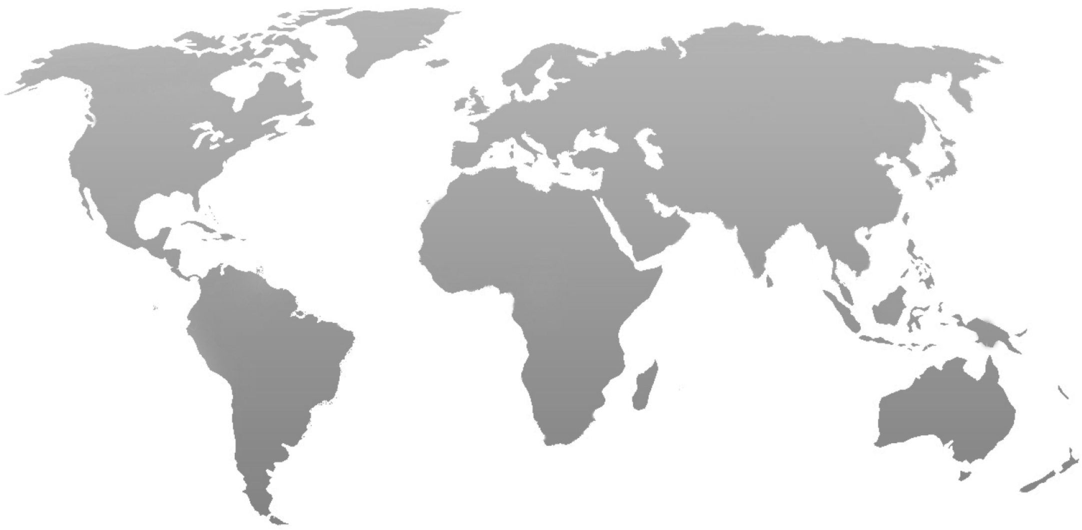
*Appendix I: Questionnaire Internationalisation of Medium-sized Enterprises*

JUSTUS-LIEBIG-
UNIVERSITÄT
GIESSEN

Prof. Dr. Rüdiger Kabst

Lehrstuhl für BWL VIII
Fakultät für Wirtschaftswissenschaften

# FRAGEBOGEN ZUR INTERNATIONALISIERUNG MITTELSTÄNDISCHER UNTERNEHMEN



Dipl.-Kffr. Julia Eiche

Justus-Liebig-Universität Gießen
Fakultät für Wirtschaftswissenschaften
Lehrstuhl für BWL VIII
Licher Str. 66
D-35394 Giessen

Tel: 089/12292358; Mobil: 0179/5246510
eMail: internationalisierung@wirtschaft.uni-giessen.de

## Teil 1 Allgemeine Fragen zum Unternehmen

**1. In welchem Jahr wurde Ihr Unternehmen gegründet?**

Gründungsjahr: ...............

**2. Ist der größte Anteilseigner Ihres Unternehmens ein Unternehmer bzw. eine Unternehmerfamilie?**

☐ $_{2.01}$ ja ☐ $_{2.02}$ nein

**3. In welcher Branche ist Ihr Unternehmen tätig?**

☐ $_{3.01}$ Nahrungsmittelindustrie
☐ $_{3.02}$ Textil- und Bekleidungsgewerbe
☐ $_{3.03}$ Papier-, Verlags- und Druckgewerbe
☐ $_{3.04}$ Maschinenbau
☐ $_{3.05}$ Herstellung von Gummi- und Kunststoffwaren
☐ $_{3.06}$ Metallerzeugung/ -bearbeitung, Metallerzeugnisherstellung
☐ $_{3.07}$ Fahrzeugbau
☐ $_{3.08}$ Elektrotechnik, Feinmechanik, Optik
☐ $_{3.09}$ Chemische Industrie
☐ $_{3.10}$ Glasgewerbe, Keramik, Verarbeitung von Steinen
☐ $_{3.11}$ Holzindustrie
☐ $_{3.12}$ Sonstiges, und zwar: ..........................................................

**4. Welche Rechtsform hat Ihr Unternehmen?**

☐ $_{4.01}$ Kapitalgesellschaft (nicht börsennotiert)
☐ $_{4.02}$ Börsennotierte Kapitalgesellschaft
☐ $_{4.03}$ Personengesellschaft
☐ $_{4.04}$ Sonstiges, und zwar: ..........................................................

**5. Wie viele Mitarbeiter sind in Ihrem Unternehmen beschäftigt?**

Anzahl der Mitarbeiter in Ihrem Unternehmen $_{5.01}$ : ...............
Anzahl der Mitarbeiter insgesamt (weltweit) in der Unternehmensgruppe $_{5.02}$ : ...............

**6. Wie hoch war der Umsatz Ihres Unternehmens im letzten Geschäftsjahr?**

Umsatz Ihres Unternehmens $_{6.01}$ : ............... Mio. €
(Weltweiter) Gesamtumsatz der Unternehmensgruppe $_{6.02}$: ............... Mio. €

**7. Welche Position haben Sie persönlich innerhalb Ihres Unternehmens?**

☐ $_{7.01}$ Geschäftsführender Gesellschafter
☐ $_{7.02}$ Leiter Unternehmensentwicklung
☐ $_{7.03}$ Geschäftsführer
☐ $_{7.04}$ Sonstiges, und zwar: ........................................................

**8. Wie hoch sind die Ausgaben für Forschung und Entwicklung in Ihrem Unternehmen im Verhältnis zum Umsatz?**

Anteil am Umsatz im letzten Geschäftsjahr: ............%

| **9. Inwieweit stimmen Sie den folgenden Aussagen zu Ihrer Branche zu?** | Stimme gar nicht zu | Stimme eher nicht zu | Teils teils | Stimme eher zu | Stimme voll zu |
|---|---|---|---|---|---|
| Mit einem Lieferantenwechsel sind in unserer Branche hohe Investitionen verbunden $_{9.01}$ | 1 | 2 | 3 | 4 | 5 |
| Der Anteil an Fixkosten ist in unserer Branche sehr hoch $_{9.02}$ | 1 | 2 | 3 | 4 | 5 |

| **10. Inwieweit stimmen Sie den folgenden Aussagen zu den Produkten Ihres Unternehmens zu?** | Stimme gar nicht zu | Stimme eher nicht zu | Teils teils | Stimme eher zu | Stimme voll zu |
|---|---|---|---|---|---|
| Das Design unserer Produkte ist einzigartig $_{10.01}$ | 1 | 2 | 3 | 4 | 5 |
| Die Qualität unserer Produkte ist einzigartig $_{10.02}$ | 1 | 2 | 3 | 4 | 5 |
| Unsere Produkte sind technologisch einzigartig $_{10.03}$ | 1 | 2 | 3 | 4 | 5 |
| Unsere Marke ist international bekannt $_{10.04}$ | 1 | 2 | 3 | 4 | 5 |
| Unsere Produkte bedürfen einer intensiven und spezifischen Beratung $_{10.05}$ | 1 | 2 | 3 | 4 | 5 |
| Unsere Produkte sind schwer zu imitieren $_{10.06}$ | 1 | 2 | 3 | 4 | 5 |

| **11. Inwieweit stimmen Sie den folgenden Aussagen zum Wissen Ihres Unternehmens zu?** | Stimme gar nicht zu | Stimme eher nicht zu | Teils teils | Stimme eher zu | Stimme voll zu |
|---|---|---|---|---|---|
| Eine starke (Fach)Wissensbasis ist charakteristisch für unser Unternehmen $_{11.01}$ | 1 | 2 | 3 | 4 | 5 |
| Unser unternehmerisches Fachwissen ist schwierig zu verstehen $_{11.02}$ | 1 | 2 | 3 | 4 | 5 |
| Unsere firmenspezifischen Ressourcen, Technologien und Wissen müssen geschützt werden $_{11.03}$ | 1 | 2 | 3 | 4 | 5 |
| Unsere Produkte benötigen ein hohes Vermarktungsbudget $_{11.04}$ | 1 | 2 | 3 | 4 | 5 |

**12. Erwirtschaftet Ihr Unternehmen Umsätze in ausländischen Märkten?**

☐ $_{12.01}$ **ja**
In welchem Jahr hat Ihr Unternehmen erstmals Auslandsumsätze erwirtschaftet? Jahr $_{12.011}$ : ...............
Wie hoch ist der derzeitige Anteil der Auslandsumsätze am Gesamtumsatz? Anteil $_{12.012}$ : ............... %
Aus wie vielen unterschiedlichen Ländern erzielt Ihr Unternehmen Auslandsumsätze? Anzahl $_{12.013}$ : ...............

☐ $_{12.02}$ **nein** Falls nein: beabsichtigt Ihr Unternehmen in Zukunft, Auslandsumsätze zu erzielen?
☐ $_{12.021}$ ja, kurzfristig (<1 Jahr) ☐ $_{12.022}$ ja, mittelfristig (1-3 Jahre) ☐ $_{12.023}$ ja, langfristig (>3 Jahre) ☐ $_{12.024}$ nein

## Teil 2 Fragen zur internationalen Ausrichtung

**13. Inwieweit stimmen Sie den folgenden Aussagen zur Internationalisierungsstrategie Ihres Unternehmens zu?**

| | Stimme gar nicht zu | Stimme eher nicht zu | Teils teils | Stimme eher zu | Stimme voll zu |
|---|---|---|---|---|---|
| Auf Wachstum ausgerichtete Unternehmensstrategie 13.01 | ① | ② | ③ | ④ | ⑤ |
| Unser zukünftiges Wachstum kann hauptsächlich durch Internationalisierung erreicht werden 13.02 | ① | ② | ③ | ④ | ⑤ |
| Unsere Internationalisierungsstrategie beruht auf externem Wachstum (z.B. Zukäufe) 13.03 | ① | ② | ③ | ④ | ⑤ |
| Unsere Internationalisierungsstrategie beruht auf internem Wachstum (z.B. Eigengründungen) 13.04 | ① | ② | ③ | ④ | ⑤ |
| Kein Ausbau, eher Reduktion des internationalen Engagements 13.05 | ① | ② | ③ | ④ | ⑤ |

**14. Inwieweit stimmen Sie den folgenden Aussagen zu?**

| | Stimme gar nicht zu | Stimme eher nicht zu | Teils teils | Stimme eher zu | Stimme voll zu |
|---|---|---|---|---|---|
| Wir haben ausreichend personelle Ressourcen um zu internationalisieren 14.01 | ① | ② | ③ | ④ | ⑤ |
| Wir haben ausreichend finanzielle Ressourcen um zu internationalisieren 14.02 | ① | ② | ③ | ④ | ⑤ |
| Wir haben ausreichend Managementressourcen um zu internationalisieren 14.03 | ① | ② | ③ | ④ | ⑤ |
| Wir brauchen Partner um internationalisieren zu können 14.04 | ① | ② | ③ | ④ | ⑤ |

**15. Bitte geben Sie an, in welchen Regionen Ihr Unternehmen bislang international tätig war.**
(z.B. durch Export, Lizenz, Repräsentanz, Lohnfertigung, Kooperation, Beteiligung, Tochtergesellschaft oder Ähnlichem)

- ☐ 15.01 Westeuropa – erstmalig seit Jahr: ..............
- ☐ 15.02 Osteuropa – erstmalig seit Jahr: ..............
- ☐ 15.03 Asien – erstmalig seit Jahr: ..............
- ☐ 15.04 Nordamerika – erstmalig seit Jahr: ..............
- ☐ 15.05 Sonstige – erstmalig seit Jahr: ..............
- ☐ 15.06 Keine internationale Erfahrung

**16. Hat Ihr Unternehmen bislang Unternehmensbeteiligungen oder Tochtergesellschaften im Ausland?**

☐ 16.01 **ja** Welcher Art sind Ihre ausländischen Unternehmensbeteiligungen / Tochtergesellschaften?

- ☐ 16.11 Neugründung mit einem Partner (Joint Venture Unternehmen)
- ☐ 16.12 Beteiligung (1-49%) an bestehenden Unternehmen
- ☐ 16.13 Beteiligung (50-99%) an bestehenden Unternehmen
- ☐ 16.14 Komplettübernahme eines bestehenden Unternehmens (100%ige Beteiligung)
- ☐ 16.15 Gründung einer eigenen Tochtergesellschaft ohne Produktion (z.B. reine Vertriebsgesellschaft)
- ☐ 16.16 Gründung einer eigenen Tochtergesellschaft mit Produktion
- ☐ 16.17 Sonstiges, und zwar: ....................................................................

In welchen Regionen war Ihr Unternehmen bislang über diese Beteiligungen / Tochtergesellschaften vertreten?

- ☐ 16.21 Westeuropa Erstmalig seit Jahr: ..............
  Länder: ....................................................................
- ☐ 16.22 Osteuropa Erstmalig seit Jahr: ..............
  Länder: ....................................................................
- ☐ 16.23 Asien Erstmalig seit Jahr: ..............
  Länder: ....................................................................
- ☐ 16.24 Nordamerika Erstmalig seit Jahr: ..............
  Länder: ....................................................................
- ☐ 16.25 Sonstige Erstmalig seit Jahr: ..............
  Länder: ....................................................................

☐ 16.02 **nein** Falls nein: Beabsichtigt Ihr Unternehmen in Zukunft ausländische Beteiligungen oder Tochtergesellschaften?
☐ 16.021 ja, kurzfristig (<1 Jahr) ☐ 16.022 ja, mittelfristig (1-3 Jahre) ☐ 16.023 ja, langfristig (>3 Jahre) ☐ 16.024 nein

**Wenn Ihr Unternehmen bislang KEINE ausländischen Beteiligungen oder Tochtergesellschaften hat, beenden Sie den Fragebogen bitte an dieser Stelle und senden Sie ihn uns zurück. Ansonsten bitten wir Sie, auch die folgenden Fragen zu beantworten.**

## Teil 3 Fragen zu dem zuletzt getätigten Auslandsengagement Ihres Unternehmens

**Bitte wählen Sie für die Beantwortung der folgenden Fragen diejenige Auslandsbeteiligung oder ausländische Tochtergesellschaft Ihres Unternehmens, die als letztes übernommen bzw. gegründet wurde.**

**17. In welchem Land befindet sich Ihre zuletzt gegründete bzw. übernommene Auslandsgesellschaft?**

Land: ......................................................................

**18. Welcher Art war das gewählte Auslandsengagement zum Zeitpunkt der Gründung bzw. Übernahme?**

- ☐ 18.01 Neugründung zusammen mit einem Partner (Joint Venture Unternehmen). ............... % der Gesellschaftsanteile
- ☐ 18.02 Beteiligung (1-99%) an einem bestehenden Unternehmen. Erwerb von ............... % der Gesellschaftsanteile
- ☐ 18.03 Komplettübernahme eines bestehenden Unternehmens (100%ige Beteiligung)
- ☐ 18.04 Gründung einer eigenen Tochtergesellschaft ohne Produktion (z.B. reine Vertriebsgesellschaft)
- ☐ 18.05 Gründung einer eigenen Tochtergesellschaft mit Produktion
- ☐ 18.06 Sonstiges, und zwar: ......................................................................

**19. In welchem Jahr wurde das gewählte Auslandsengagement gegründet bzw. übernommen?**

Jahr: ...............

**20. Welche Rechtsform hatte das gewählte Auslandsengagement zum Zeitpunkt der Gründung bzw. Übernahme?**

- ☐ 20.01 Kapitalgesellschaft (nicht börsennotiert)
- ☐ 20.02 Börsennotierte Kapitalgesellschaft
- ☐ 20.03 Personengesellschaft
- ☐ 20.04 Sonstiges, und zwar: ......................................................................

**21. Was war die Haupttätigkeit des gewählten Auslandsengagements zum Zeitpunkt der Gründung bzw. Übernahme?**

- ☐ 21.01 Vertriebsgesellschaft
- ☐ 21.02 Herstellendes Unternehmen
- ☐ 21.03 Sonstiges, und zwar: ......................................................................

| **22. Inwieweit stimmen Sie den folgenden Aussagen zu dem gewählten Auslandsengagement zu?** | Stimme gar nicht zu | Stimme eher nicht zu | Teils teils | Stimme eher zu | Stimme voll zu |
|---|---|---|---|---|---|
| Die Anfangsinvestition in das Auslandsengagement war sehr hoch 22.01 | 1 | 2 | 3 | 4 | 5 |
| Die Folgeinvestitionen in das Auslandsengagement waren sehr hoch 22.02 | 1 | 2 | 3 | 4 | 5 |
| In den nächsten drei Jahren planen wir sehr hohe Investitionen in das Auslandsengagement 22.03 | 1 | 2 | 3 | 4 | 5 |

**23. Wie hoch war die Anfangsinvestitionssumme für das gewählte Auslandsengagement im Verhältnis zum damaligen Jahresumsatz Ihres Unternehmens?**

Anteil am Umsatz im Jahr der Gründung bzw. Übernahme: ............... %

**24. Wie viele Mitarbeiter beschäftigt das gewählte Auslandsengagement?**

Im Jahr des Entstehens? Anzahl 24.01 ...............

Heute? Anzahl 24.02 ...............

| **25. Inwieweit stimmen Sie den folgenden Aussagen zu dem gewählten Auslandsengagement zu?** | Stimme gar nicht zu | Stimme eher nicht zu | Teils teils | Stimme eher zu | Stimme voll zu |
|---|---|---|---|---|---|
| Das Auslandsengagement ist in derselben Branche wie unser Unternehmen tätig 25.01 | 1 | 2 | 3 | 4 | 5 |
| Die Produktspektren des Auslandsengagements und unseres Unternehmens sind vergleichbar 25.02 | 1 | 2 | 3 | 4 | 5 |
| Das Auslandsengagement und unser Unternehmen erzeugen hohe Synergien 25.03 | 1 | 2 | 3 | 4 | 5 |
| Die Investitionen für das Auslandsengagement sind anderweitig nur noch bedingt verwendbar 25.04 | 1 | 2 | 3 | 4 | 5 |

| **26. Inwieweit stimmen Sie den folgenden Aussagen zum Erfolg des Auslandsengagements zu?** | Stimme gar nicht zu | Stimme eher nicht zu | Teils teils | Stimme eher zu | Stimme voll zu |
|---|---|---|---|---|---|
| Grundsätzlich sind wir zufrieden mit dem Erfolg unseres Auslandsengagements 26.01 | 1 | 2 | 3 | 4 | 5 |
| Wir haben die für unser Auslandsengagement gesetzten Umsatzziele erreicht 26.02 | 1 | 2 | 3 | 4 | 5 |
| Unser Auslandsengagement hat den Gesamtgewinn unseres Unternehmens positiv beeinflusst 26.03 | 1 | 2 | 3 | 4 | 5 |
| Die Investitionen für unser Auslandsengagement haben sich ausgezahlt 26.04 | 1 | 2 | 3 | 4 | 5 |

**Die folgenden Fragen beziehen sich auf den Zeitpunkt der Gründung bzw. Übernahme des gewählten Auslandsengagements.**

| 27. Inwieweit stimmen Sie den folgenden Aussagen zum Technologietransfer zu? | Stimme gar nicht zu | Stimme eher nicht zu | Teils teils | Stimme eher zu | Stimme voll zu |
|---|---|---|---|---|---|
| Das Auslandsengagement erforderte einen Transfer der Produkttechnologie 27.01 | 1 | 2 | 3 | 4 | 5 |
| Das Auslandsengagement erforderte einen Transfer der Produktionstechnologie 27.02 | 1 | 2 | 3 | 4 | 5 |
| Das Auslandsengagement erforderte einen Transfer der Forschung und Entwicklung 27.03 | 1 | 2 | 3 | 4 | 5 |
| Unser Unternehmen profitierte von der Produkttechnologie des Auslandsengagements 27.04 | 1 | 2 | 3 | 4 | 5 |
| Unser Unternehmen profitierte von der Produktionstechnologie des Auslandsengagements 27.05 | 1 | 2 | 3 | 4 | 5 |
| Unser Unternehmen profitierte von der Forschung und Entwicklung des Auslandsengagements 27.06 | 1 | 2 | 3 | 4 | 5 |

| 28. Inwieweit stimmen Sie den folgenden Aussagen zu Ihren Wettbewerbern zu? | Stimme gar nicht zu | Stimme eher nicht zu | Teils teils | Stimme eher zu | Stimme voll zu |
|---|---|---|---|---|---|
| Die Anzahl der lokalen Wettbewerber im Zielland war sehr hoch 28.01 | 1 | 2 | 3 | 4 | 5 |
| Die Anzahl der internationalen Wettbewerber im Zielland war sehr hoch 28.02 | 1 | 2 | 3 | 4 | 5 |
| Das zukünftige Marktwachstum im Zielland wurde als sehr hoch eingeschätzt 28.03 | 1 | 2 | 3 | 4 | 5 |

| 29. Inwieweit stimmen Sie den folgenden Aussagen zu Netzwerken zu? | Stimme gar nicht zu | Stimme eher nicht zu | Teils teils | Stimme eher zu | Stimme voll zu |
|---|---|---|---|---|---|
| Es bestand bereits ein umfangreiches Netzwerk von Geschäftsbeziehungen im Auslandsmarkt 29.01 | 1 | 2 | 3 | 4 | 5 |
| Der Kontakt zu Kunden im jeweiligen Ausland war sehr weit entwickelt 29.02 | 1 | 2 | 3 | 4 | 5 |
| Der Kontakt zu Distributoren im jeweiligen Ausland war sehr weit entwickelt 29.03 | 1 | 2 | 3 | 4 | 5 |
| Der Kontakt zu Lieferanten im jeweiligen Ausland war sehr weit entwickelt 29.04 | 1 | 2 | 3 | 4 | 5 |

| 30. Inwieweit stimmen Sie den folgenden Aussagen zur internationalen Erfahrung zu? | Stimme gar nicht zu | Stimme eher nicht zu | Teils teils | Stimme eher zu | Stimme voll zu |
|---|---|---|---|---|---|
| Die Eigentümer unseres Unternehmens hatten bereits große internationale Erfahrung 30.01 | 1 | 2 | 3 | 4 | 5 |
| Die (sonstigen) Führungskräfte hatten bereits große internationale Erfahrung 30.02 | 1 | 2 | 3 | 4 | 5 |
| Unser Unternehmen hatte bereits große internationale Erfahrung 30.03 | 1 | 2 | 3 | 4 | 5 |
| Unser Unternehmen hatte bereits große Erfahrung im Zielland 30.04 | 1 | 2 | 3 | 4 | 5 |
| Unser Unternehmen hatte bereits große Erfahrung in der Zielregion 30.05 | 1 | 2 | 3 | 4 | 5 |
| Unser Unternehmen hatte bereits große Erfahrung mit dem Aufbau von Tochtergesellschaften 30.06 | 1 | 2 | 3 | 4 | 5 |
| Unser Unternehmen hatte bereits große Erfahrung mit Unternehmensübernahmen 30.07 | 1 | 2 | 3 | 4 | 5 |
| Unser Unternehmen hatte bereits große Erfahrung mit Unternehmensbeteiligungen 30.08 | 1 | 2 | 3 | 4 | 5 |

| 31. Wie bedeutend waren die folgenden Motive für das Auslandsengagement? | Gar nicht bedeutend | Eher nicht bedeutend | Teils teils | Eher bedeutend | Sehr bedeutend |
|---|---|---|---|---|---|
| Nutzen von Kostenvorteilen im Ausland 31.01 | 1 | 2 | 3 | 4 | 5 |
| Erschließung von neuen Absatzmärkten für die eigenen Produkte 31.02 | 1 | 2 | 3 | 4 | 5 |
| Sicherung von bestehenden Absatzmärkten 31.03 | 1 | 2 | 3 | 4 | 5 |
| Engagement eines / mehrerer Kunden im Ausland 31.04 | 1 | 2 | 3 | 4 | 5 |
| Engagement der Konkurrenz im Ausland 31.05 | 1 | 2 | 3 | 4 | 5 |
| Zugang zu Wissen 31.06 | 1 | 2 | 3 | 4 | 5 |
| Zugang zu Rohstoffen 31.07 | 1 | 2 | 3 | 4 | 5 |
| Erschließung eines neuen Beschaffungsmarktes 31.08 | 1 | 2 | 3 | 4 | 5 |
| Outsourcing von Produktionsteilen 31.09 | 1 | 2 | 3 | 4 | 5 |
| Auslastung von Betriebsstätten in Deutschland 31.10 | 1 | 2 | 3 | 4 | 5 |
| Risikostreuung 31.11 | 1 | 2 | 3 | 4 | 5 |

| 32. Inwieweit stimmen Sie den folgenden Aussagen zu? | Stimme gar nicht zu | Stimme eher nicht zu | Teils teils | Stimme eher zu | Stimme voll zu |
|---|---|---|---|---|---|
| Das Auslandsengagement besaß hohe strategische Bedeutung für Ihr Unternehmen 32.01 | 1 | 2 | 3 | 4 | 5 |
| Im Falle eines Scheiterns des Auslandsengagements wären Ihrem Unternehmen ernsthafte Nachteile entstanden 32.02 | 1 | 2 | 3 | 4 | 5 |
| Das Auslandsengagement hatte unternehmerisches Wissen, das für Ihr Unternehmen von erheblichen Nutzen war 32.03 | 1 | 2 | 3 | 4 | 5 |

| 33. Inwieweit stimmen Sie den folgenden Aussagen zum Umfeld Ihres Auslandsengagements zu? | Stimme gar nicht zu | Stimme eher nicht zu | Teils teils | Stimme eher zu | Stimme voll zu |
|---|---|---|---|---|---|
| Die politischen Unterschiede zwischen Heimatland und Zielland waren sehr groß 33.01 | 1 | 2 | 3 | 4 | 5 |
| Die rechtlichen Unterschiede zwischen Heimatland und Zielland waren sehr groß 33.02 | 1 | 2 | 3 | 4 | 5 |
| Die kulturellen Unterschiede zwischen Heimatland und Zielland waren sehr groß 33.03 | 1 | 2 | 3 | 4 | 5 |
| Die wirtschaftlichen Unterschiede zwischen Heimatland und Zielland waren sehr groß 33.04 | 1 | 2 | 3 | 4 | 5 |

## Teil 4 Fragen zu Standortfaktoren

**34. Welchen Einfluss hatten die nachfolgenden Faktoren auf die Entscheidung für den Standort (Land) Ihres oben gewählten Auslandsengagements?**

| | Keinen Einfluss | Wenig Einfluss | Mittleren Einfluss | Viel Einfluss | Sehr starken Einfluss |
|---|---|---|---|---|---|
| Niedrige Lohnkosten 34.01 | ① | ② | ③ | ④ | ⑤ |
| Niedrige Rohstoffkosten 34.02 | ① | ② | ③ | ④ | ⑤ |
| Niedrige Energiekosten 34.03 | ① | ② | ③ | ④ | ⑤ |
| Niedrige Transport- und Logistikkosten 34.04 | ① | ② | ③ | ④ | ⑤ |
| Verfügbarkeit von qualifizierten Arbeitnehmern 34.05 | ① | ② | ③ | ④ | ⑤ |
| Verfügbarkeit von natürlichen Rohstoffen 34.06 | ① | ② | ③ | ④ | ⑤ |
| Verfügbarkeit von Hochschulen 34.07 | ① | ② | ③ | ④ | ⑤ |
| Grad der technologischen Entwicklung im Land 34.08 | ① | ② | ③ | ④ | ⑤ |

| | Keinen Einfluss | Wenig Einfluss | Mittleren Einfluss | Viel Einfluss | Sehr starken Einfluss |
|---|---|---|---|---|---|
| Größe des Ziellandes (Einwohnerzahl) 34.09 | ① | ② | ③ | ④ | ⑤ |
| Aktuelles Marktwachstum im Zielland 34.10 | ① | ② | ③ | ④ | ⑤ |
| Zukünftiges Marktpotenzial am Standort 34.11 | ① | ② | ③ | ④ | ⑤ |
| Gute Erreichbarkeit (z.B. Anzahl tägliche Flüge) 34.12 | ① | ② | ③ | ④ | ⑤ |
| Schnelle Erreichbarkeit (Dauer der Reise) 34.13 | ① | ② | ③ | ④ | ⑤ |
| Nähe zu anderen Absatzmärkten 34.14 | ① | ② | ③ | ④ | ⑤ |
| Verfügbarkeit von qualifizierten lokalen Lieferanten 34.15 | ① | ② | ③ | ④ | ⑤ |
| Präsenz bestehender Kunden 34.16 | ① | ② | ③ | ④ | ⑤ |
| Verfügbarkeit von (sonstigen) lokalen Geschäftspartnern 34.17 | ① | ② | ③ | ④ | ⑤ |
| Anzahl von Unternehmen der eigenen Branche aus Deutschland 34.18 | ① | ② | ③ | ④ | ⑤ |
| Anzahl von Unternehmen verschiedener Branchen aus Deutschland 34.19 | ① | ② | ③ | ④ | ⑤ |
| Anzahl der lokalen Wettbewerber vor Ort 34.20 | ① | ② | ③ | ④ | ⑤ |
| Sicherung von Bürgerrechten und Menschenrechten im Zielland 34.21 | ① | ② | ③ | ④ | ⑤ |
| Ausmaß an Rechtssicherheit in Bezug auf physisches Eigentum 34.22 | ① | ② | ③ | ④ | ⑤ |
| Ausmaß an Rechtssicherheit in Bezug auf geistiges Eigentum 34.23 | ① | ② | ③ | ④ | ⑤ |
| Ausgestaltung des Arbeitsrechts 34.24 | ① | ② | ③ | ④ | ⑤ |
| Präsenz eines funktionierenden Bankensystems 34.25 | ① | ② | ③ | ④ | ⑤ |
| Präsenz eines funktionierenden Aktienmarktes 34.26 | ① | ② | ③ | ④ | ⑤ |
| Qualität der lokalen Infrastruktur (Straßen-, Bahn-, Flugnetz) 34.27 | ① | ② | ③ | ④ | ⑤ |
| Qualität der Energie- und Wasserversorgung 34.28 | ① | ② | ③ | ④ | ⑤ |
| Verfügbarkeit von Telefon- (und Internet-) Anschlüssen 34.29 | ① | ② | ③ | ④ | ⑤ |

| | Keinen Einfluss | Wenig Einfluss | Mittleren Einfluss | Viel Einfluss | Sehr starken Einfluss |
|---|---|---|---|---|---|
| Politische Stabilität 34.30 | ① | ② | ③ | ④ | ⑤ |
| Risiko eines Kriegsausbruchs 34.31 | ① | ② | ③ | ④ | ⑤ |
| Wirtschaftliche Stabilität 34.32 | ① | ② | ③ | ④ | ⑤ |
| Niedrige Inflationsrate 34.33 | ① | ② | ③ | ④ | ⑤ |
| Wechselkursschwankungen 34.34 | ① | ② | ③ | ④ | ⑤ |
| Niedriges Zinsniveau 34.35 | ① | ② | ③ | ④ | ⑤ |
| Risiko hinsichtlich Kapitalrückführung vom Ziel- ins Heimatland 34.36 | ① | ② | ③ | ④ | ⑤ |
| Existenz von Handelsabkommen zwischen Ziel- und Heimatland 34.37 | ① | ② | ③ | ④ | ⑤ |
| Hohe Investitionsanreize 34.38 | ① | ② | ③ | ④ | ⑤ |
| Hohe Steueranreize 34.39 | ① | ② | ③ | ④ | ⑤ |
| Hoher Lebensstandard 34.40 | ① | ② | ③ | ④ | ⑤ |
| Offenheit gegenüber ausländischen Investoren vor Ort 34.41 | ① | ② | ③ | ④ | ⑤ |
| Mentalitätsunterschiede zwischen Ziel- und Heimatland 34.42 | ① | ② | ③ | ④ | ⑤ |
| Ausmaß an Korruption vor Ort 34.43 | ① | ② | ③ | ④ | ⑤ |

**Herzlichen Dank für Ihre Teilnahme!**

*Appendix II: Institutional development of target countries*

| Institutional Development | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
| Argentina | 2,46 | -7,23 | -15,92 | -24,23 | -66,86 | -75,04 | -79,88 | -78,93 | -81,01 | -94,14 |
| Australia | 52,64 | 57,92 | 62,50 | 64,64 | 64,58 | 72,21 | 76,09 | 64,83 | 68,82 | 69,96 |
| Austria | 45,04 | 53,43 | 53,71 | 71,44 | 68,21 | 60,92 | 71,12 | 65,10 | 86,29 | 95,08 |
| Belgium | 34,36 | 39,53 | 44,99 | 36,42 | 36,95 | 40,21 | 38,18 | 28,76 | 26,72 | 18,36 |
| Brazil | 1,26 | -1,47 | 2,37 | -10,39 | -14,21 | -28,58 | -43,44 | -41,06 | -57,79 | -72,73 |
| Bulgaria | 0,00 | -0,04 | -1,50 | -2,68 | -3,24 | -5,63 | -2,74 | -3,82 | -49,35 | -82,01 |
| Canada | 67,26 | 61,02 | 64,50 | 63,18 | 66,98 | 63,30 | 76,43 | 68,43 | 63,88 | 62,50 |
| Chile | 18,07 | 34,99 | 29,49 | 25,61 | 41,11 | 39,83 | 50,92 | 58,82 | 52,38 | 33,53 |
| China Mainland | 9,21 | 2,56 | -10,37 | -16,66 | -10,09 | -14,90 | -17,43 | -29,23 | -15,06 | -5,29 |
| Colombia | -32,61 | -38,73 | -38,70 | -39,91 | -33,31 | -12,58 | -5,95 | -20,36 | -8,83 | -20,42 |
| Croatia | 0,00 | -0,72 | -1,34 | -3,92 | -2,87 | -5,23 | -5,11 | -5,73 | -70,18 | -86,30 |
| Czech Republic | 9,49 | -1,00 | -16,19 | -4,27 | 10,27 | 18,64 | 2,25 | 22,51 | 27,72 | -3,58 |
| Denmark | 78,37 | 79,77 | 67,13 | 68,19 | 81,63 | 80,70 | 93,41 | 95,74 | 104,71 | 115,61 |
| Estonia | -2,77 | -4,95 | -1,58 | 24,67 | 23,87 | 26,86 | 30,23 | 29,50 | 31,84 | 28,05 |
| Finland | 83,98 | 84,83 | 89,27 | 92,43 | 96,67 | 104,29 | 84,83 | 88,83 | 86,81 | 44,71 |
| France | 33,95 | 32,65 | 34,78 | 17,25 | 19,37 | 31,67 | 29,23 | 19,59 | 9,17 | 3,37 |
| Germany | 48,51 | 54,46 | 50,40 | 57,29 | 40,96 | 27,31 | 29,37 | 33,57 | 32,10 | 44,32 |
| Greece | 5,66 | 12,76 | 13,87 | 12,14 | -1,75 | -2,38 | -8,68 | -10,65 | -6,85 | -10,60 |
| Hong Kong | 78,13 | 75,23 | 84,17 | 86,08 | 79,11 | 74,95 | 66,78 | 90,72 | 105,77 | 98,22 |
| Hungary | 29,79 | 44,14 | 39,22 | 29,75 | 22,94 | 12,81 | 13,79 | 24,49 | 8,93 | 18,34 |
| Iceland | 47,53 | 44,51 | 57,28 | 60,22 | 51,32 | 73,99 | 78,60 | 81,61 | 92,89 | 98,88 |
| India | -14,37 | -20,27 | -18,16 | -24,82 | -27,95 | -31,53 | -6,78 | -18,23 | -12,95 | -23,66 |
| Indonesia | -19,98 | -39,50 | -27,26 | -40,70 | -55,18 | -80,65 | -76,20 | -72,88 | -73,37 | -87,35 |
| Ireland | 70,76 | 59,34 | 62,97 | 60,68 | 56,65 | 48,91 | 43,50 | 51,55 | 70,03 | 69,01 |
| Israel | 35,26 | 28,79 | 33,29 | 38,74 | 23,89 | 14,65 | 14,50 | 27,40 | 24,13 | 30,60 |
| Italy | 3,93 | 0,39 | -5,63 | -8,41 | -7,11 | -11,86 | -28,72 | -29,21 | -43,77 | -57,23 |
| Japan | 9,91 | 21,91 | 26,20 | 14,86 | 13,06 | 14,82 | 21,27 | 24,73 | 37,04 | 21,09 |
| Jordan | -2,02 | -1,97 | -4,13 | -3,82 | -2,93 | 5,43 | 1,95 | 8,85 | 3,94 | -1,43 |
| Korea | -29,66 | -33,12 | -6,84 | -13,15 | 3,48 | -22,18 | -13,69 | 6,14 | -26,20 | -23,01 |
| Lithuania | 0,00 | -0,71 | -0,75 | -0,23 | 0,29 | -1,03 | -0,63 | -4,46 | -4,73 | -35,14 |
| Luxembourg | 59,46 | 63,21 | 61,44 | 65,39 | 72,73 | 78,14 | 64,59 | 48,69 | 52,10 | 75,48 |
| Malaysia | 32,29 | 24,12 | 19,30 | -1,30 | 36,81 | 48,42 | 48,30 | 13,48 | 28,53 | 41,65 |
| Mexico | -8,54 | -13,07 | -2,41 | -11,26 | -23,20 | -37,23 | -54,70 | -49,31 | -59,44 | -75,88 |
| Netherlands | 76,04 | 66,03 | 76,24 | 74,00 | 76,65 | 50,57 | 53,12 | 65,99 | 55,43 | 69,87 |
| New Zealand | 56,35 | 54,70 | 49,12 | 35,82 | 44,18 | 47,30 | 35,65 | 40,84 | 32,84 | 48,12 |
| Norway | 60,46 | 49,00 | 52,92 | 29,94 | 41,93 | 49,40 | 47,87 | 49,44 | 63,41 | 51,61 |
| Philippines | 7,11 | 2,94 | -11,28 | -21,39 | -29,14 | -40,25 | -53,92 | -46,13 | -63,50 | -88,18 |
| Poland | -19,26 | -13,12 | -4,44 | -32,33 | -48,36 | -53,94 | -60,53 | -62,25 | -78,74 | -85,78 |
| Portugal | 24,65 | 29,56 | 16,76 | 2,60 | -0,05 | -3,56 | 3,85 | -5,67 | -11,08 | -10,91 |
| Romania | -0,46 | -2,21 | -3,14 | 0,55 | -2,51 | -43,33 | -49,22 | -54,10 | -68,32 | -72,82 |
| Russia | -26,79 | -57,68 | -60,81 | -40,29 | -39,15 | -56,09 | -34,83 | -53,63 | -71,41 | -79,42 |
| Singapore | 99,97 | 106,48 | 100,85 | 101,14 | 103,93 | 102,05 | 105,18 | 104,96 | 107,04 | 150,45 |
| Slovak Republic | 3,14 | 1,13 | -0,31 | -6,05 | -7,83 | -12,71 | 2,67 | 20,51 | -1,24 | -37,60 |
| Slovenia | 0,43 | -28,23 | -16,21 | -25,46 | -15,87 | -17,54 | -21,39 | -34,18 | -37,73 | -42,91 |
| South Africa | -5,87 | -3,47 | -2,21 | -10,06 | -9,89 | -18,23 | -7,64 | -17,60 | -21,59 | -54,09 |
| Spain | 33,55 | 46,56 | 33,44 | 29,62 | 28,11 | 20,49 | 27,93 | 10,78 | -8,26 | -22,08 |
| Sweden | 54,18 | 52,16 | 59,50 | 68,10 | 65,92 | 58,96 | 54,50 | 48,24 | 50,55 | 62,29 |
| Switzerland | 67,54 | 73,24 | 70,44 | 73,42 | 71,96 | 74,88 | 67,74 | 72,37 | 73,21 | 103,25 |
| Taiwan | 41,02 | 52,61 | 32,70 | 23,98 | 28,19 | 24,90 | 42,64 | 39,48 | 10,62 | 14,84 |
| Thailand | -15,53 | -2,11 | -0,48 | -9,92 | 10,36 | 10,25 | 14,54 | 13,27 | -8,00 | -45,71 |
| Turkey | 1,10 | 4,34 | 8,72 | -15,60 | -21,11 | -20,00 | -19,69 | 4,34 | -14,13 | -23,58 |
| Ukraine | 1,36 | 2,86 | 5,62 | -5,04 | -1,63 | -4,20 | -5,69 | -6,60 | -9,24 | -93,75 |
| United Kingdom | 52,22 | 46,55 | 45,91 | 36,42 | 38,15 | 33,90 | 25,48 | 25,08 | 21,92 | 29,66 |
| USA | 84,59 | 67,32 | 90,63 | 93,63 | 107,67 | 92,44 | 87,72 | 83,63 | 83,95 | 73,83 |
| Venezuela | -34,93 | -34,60 | -45,16 | -44,27 | -63,49 | -88,85 | -97,05 | -97,64 | -120,11 | -164,35 |

## Eidesstattliche Erklärung

Ich erkläre an Eides statt:

Ich habe die vorgelegte Dissertation selbstständig nur mit den Hilfen angefertigt, die ich in der Dissertation angegeben habe, und ohne unerlaubte fremde Hilfe. Alle Textstellen, die wörtlich oder sinngemäß aus veröffentlichten oder nicht veröffentlichten Schriften entnommen sind, und alle Angaben, die auf mündlichen Auskünften beruhen, sind als solche kenntlich gemacht. Bei den von mir durchgeführten und in der Dissertation erwähnten Untersuchungen habe ich die Grundsätze guter wissenschaftlicher Praxis, wie sie in der Satzung der Justus-Liebig-Universität Gießen zur Sicherung guter wissenschaftlicher Praxis niedergelegt sind, eingehalten.

Gießen, …………………………………        ……………………………………………

Julia Eiche